RAM RATINGS

Media Release

RAM Ratings reaffirms Malaysia's $_gA_2$ rating

RAM Ratings has reaffirmed Malaysia's respective global, ASEAN and domestic-scale sovereign ratings of $_gA_2$/stable/$_g$P1, $_{sea}$AAA/stable/$_{sea}$P1 and AAA/stable/P1. The ratings reflect the country's resilient economic growth and the Government's target of long-term fiscal consolidation. Malaysia's high government debt level and immediate fiscal exposure to volatile oil and gas prices remain concerns.

Malaysia's growth is expected to remain resilient at 4.6% in 2019 (2018 estimate: 4.7%) following an orderly political transition in May 2018. The country's economic resilience is backed by its underlying fundamentals – a diversified economic structure, favourable business conditions and young demographics – and targeted fiscal support measures. That said, near-term economic growth will be constrained by uncertain external conditions and slower construction sector activity.

Concurrently, Malaysia's fiscal deficit is projected to narrow to 3.3% of GDP in 2019 from 3.6% in 2018, mainly reflecting rigorous cost rationalisation initiatives and the implementation of new revenue measures. Although the higher reliance on oil and gas related earnings (estimated to account for 30.8% of total revenues in 2019; 2016: 14.7%) is a concern, ongoing efforts to diversify the country's revenue structure will strengthen its fiscal position over the long term.

Effective debt, which is estimated at 65.7% of GDP by end-2018, is high. This constrains Malaysia's ratings as it imposes a significant debt service cost (estimated at 14.2% of total revenues in 2019) and limits available fiscal space. That said, the Government's intention to optimise Private Public Partnership (PPP) terms and reduce development project costs would help contain the debt level. However, the trajectory of this ratio is still unclear, given the unresolved status of sizeable projects that have been temporarily suspended.

Elsewhere, budgetary targets under the Medium-Term Fiscal Framework (MTFF) are indicative of the Government's plans for fiscal consolidation, primarily through reform efforts. Reforms include the recent operationalisation of the Tax Reform Committee, which will propose measures to reduce the country's tax gap and reduce tax leakages, and the establishment of the Debt Management Office in 2019 which would be tasked with streamlining the use of public sector debt and financial resources. These will be complemented by supporting legislature – the Government Procurement Act and the

RAM Rating Services Berhad
(763588-T)

Suite 20.01, Level 20
The Gardens South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur

T +603 7628 1000
+603 2299 1000
F +603 7620 8251
E ramratings@ram.com.my
W www.ram.com.my

Fiscal Responsibility Act – in the future to limit excessive expenditure. In view of these efforts and a conservative oil production assumption, we see some upside to the MTFF's average fiscal deficit target of 3.1% of GDP over the 2019-2022 period.

While the Government's reform intentions are commendable given the potential to improve fiscal sustainability and the growth outlook, the risks of policy reversals or delayed and less than optimal policy implementation are viewed as having increased due to greater public scrutiny and pressures. Related to this is a higher risk of the materialisation of fiscally onerous political commitments which can have an impact on Malaysia's growth or fiscal outlook.

Analytical contact
Jason Fong
(603) 7628 1103
jason@ram.com.my

Media contact
Padthma Subbiah
(603) 7628 1162
padthma@ram.com.my

Date of release: 15 January 2019

Published by RAM Rating Services Berhad