



Media Release

RAM Ratings reaffirms Malaysia's **gA₂** rating

RAM Ratings has reaffirmed Malaysia's respective global, ASEAN and domestic-scale sovereign ratings of **gA₂/stable/gP1**, **seaAAA/stable/seaP1** 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

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

The credit rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment on the security’s market price or its suitability for a particular investor, nor does it involve any audit by RAM Ratings. The credit rating also does not reflect the legality and enforceability of financial obligations.

RAM Ratings receives compensation for its rating services, normally paid by the issuers of such securities or the rated entity, and sometimes third parties participating in marketing the securities, insurers, guarantors, other obligors, underwriters, etc. The receipt of this compensation has no influence on RAM Ratings’ credit opinions or other analytical processes. In all instances, RAM Ratings is committed to preserving the objectivity, integrity and independence of its ratings. Rating fees are communicated to clients prior to the issuance of rating opinions. While RAM Ratings reserves the right to disseminate the ratings, it receives no payment for doing so, except for subscriptions to its publications.

Similarly, the disclaimers above also apply to RAM Ratings’ credit-related analyses and commentaries, where relevant.

Published by RAM Rating Services Berhad
© Copyright 2019 by RAM Rating Services Berhad