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# ECONOMICS

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**AmBank Research**

**Monday, 07 December 2020**

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## Malaysia

### Fitch downgrades Malaysia

Foreign rating agency Fitch has downgraded the country's rating to 'BBB+' with a stable outlook from 'A-'. The last time Malaysia was rated 'BBB+' with a stable outlook was in April 2004. The downgrade highlights the need to further strengthen our reforms, transparency and inclusiveness. Also, the downgrade would raise our borrowing cost. However, it now remains unclear if S&P and Moody's will follow suit.

- Foreign rating agency Fitch has downgraded the country's rating to 'BBB+' with a stable outlook from 'A-'. The last time Malaysia was rated 'BBB+' with a stable outlook was in April 2004.
- Fitch cited the following reasons for the downgrade:
  1. The depth and duration of the Covid-19 crisis have weakened several of Malaysia's key credit metrics. The pandemic virus has added to the country's fiscal burden that is already high compared to its peers. The current political uncertainty and prospects for further improvement in governance standards were other contributory factors.
  2. Fiscal deficit is expected to remain higher than pre-pandemic levels given the continued support measures and political pressure for higher spending. Budget 2021's deficit targets of 5.4% of GDP — from an estimated 6% in 2020 — and an average of 4.5% of GDP from 2021 through 2023 are achievable.
  3. Public debt should reach 76% of GDP in 2020 from 65.2% of GDP in 2019 due to the pandemic. This is much higher than the medians of 59.2% and 52.7% for the 'A' and 'BBB' rating categories respectively. However, the debt/GDP ratio should remain stable after the pandemic recedes as the fiscal deficit would reduce, thus lowering debt service costs.
  4. In Fitch's debt computation, it took into account of "committed government guarantees" on loans (12.6% of GDP), which are serviced by the government budget, as well as 1MDB's net debt (1.3% of GDP). Direct government debt stood at RM874.27 billion or 60.7% of GDP as at end-September, according to the *Fiscal Outlook 2021* report — slightly above Putrajaya's self-imposed ceiling of 60% of GDP, which was just raised from 55% in August.
  5. Current account surplus is poised to narrow to 3.4% of GDP in 2021 from 4.2% in 2020 following higher imports as the government revived infrastructure development to support growth.

6. Uncertainty about the continued inclusion of Malaysia in a key bond index remains. An exclusion in 2021 could potentially generate capital outflows. In September, FTSE World Government Bond Index retained us on its watch list with the risk of exclusion still remains. The next assessment will take place in March 2021.
  7. It is worth noting that the share of the government's foreign currency-denominated debt is low, at just 2% of total debt. And foreign holdings of domestic debt are around 24% of the total, down from a high of 34% in 2016. Fitch found our external liquidity at 95%, as measured by the ratio of the country's liquid external assets to its liquid external liabilities, is weaker than the 'BBB' median of 182%.
  8. Additionally, the GDP should contract by 6.1% in 2020 and grow by 6.7% in 2021 supported by base effects, a revival of infrastructure projects and an ongoing recovery of exports of manufactured goods and commodities. However, these forecasts remain subject to uncertainty, depending on the near-term evolution of the pandemic, especially with the rising number of daily cases since early October.
- The downgrade serves to highlight the need to further strengthen our reforms, transparency and inclusiveness. The downgrade would raise our borrowing cost. However, it now remains unclear if S&P and Moody's will follow suit.

**Table 1: Malaysia Long term Foreign Currency Rating and Sovereign Outlook**

	Moody's	S&P	Fitch
4-Dec-20			BBB+ (Stable)
26-Jun-20		A- (Negative)	
9-Apr-20			A- (Negative)
7-Dec-18	A3 (Stable)		
14-Aug-18			A- (Stable)
7-Dec-17	A3 (Stable)		
23-Feb-16			A- (Stable)
11-Jan-16	A3 (Stable)		
30-Jun-15			A-
30-Jan-15	A3 (Positive)		
23-Sep-14			A- (Negative)
22-Nov-13	A3 (Positive)		
30-Jul-13			A- (Negative)
15-Jul-13			A- (Stable)
9-Nov-08			A- (Stable)
15-May-08		A- (Stable)	
22-Jan-08			A- (Positive)
16-Dec-04	A3 (Stable)		
15-Dec-04	(Stable)		
8-Nov-04			A- (Stable)
29-Sep-04	(Under Review)		
6-Apr-04			BBB+ (Positive)



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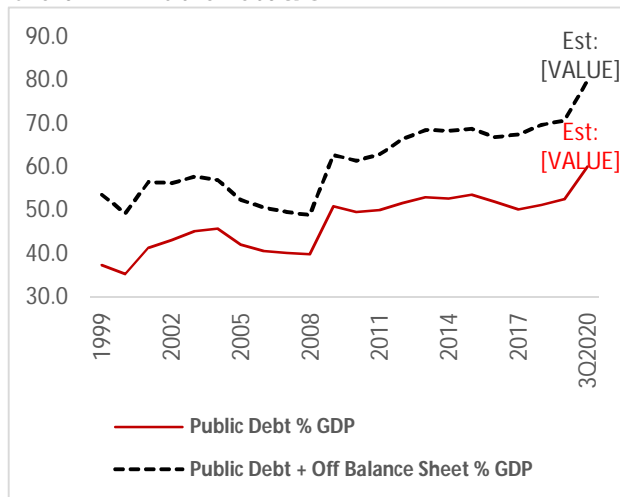
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5-Feb-04	(Positive)		
15-Nov-03	(Stable)		
7-Oct-03		A-	
24-Dec-02	Baa1		
7-Aug-02			BBB+ (Stable)
9-Apr-02			BBB (Positive)
12-Sep-01			BBB (Stable)
17-Oct-00	Baa2		
12-Sep-00			BBB (Positive)
7-Dec-99			BBB
9-Sep-99			BBB- (Positive)
26-Apr-99			BBB-
14-Sep-98	Baa3		
9-Sep-98			BB
13-Aug-98			BBB-
23-Jul-98	Baa2		
29-Dec-97	A2		
15-Mar-95	A1		
11-Mar-90	A3		
18-Jan-86	Baa1		

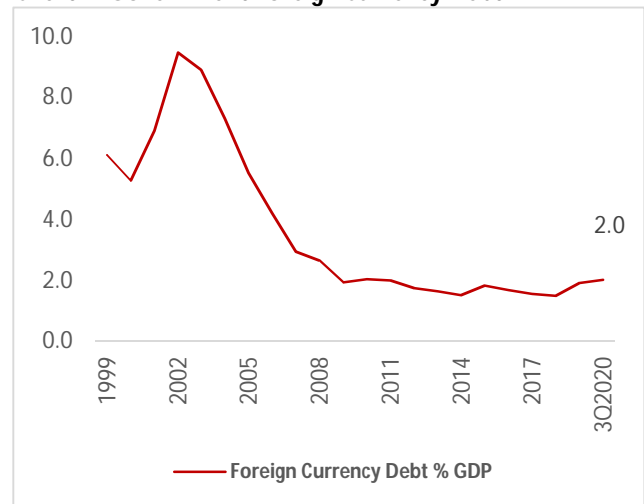
Source: CEIC/DOSM/AmBank Research

**Chart 1: MY Public Debt & GDP**



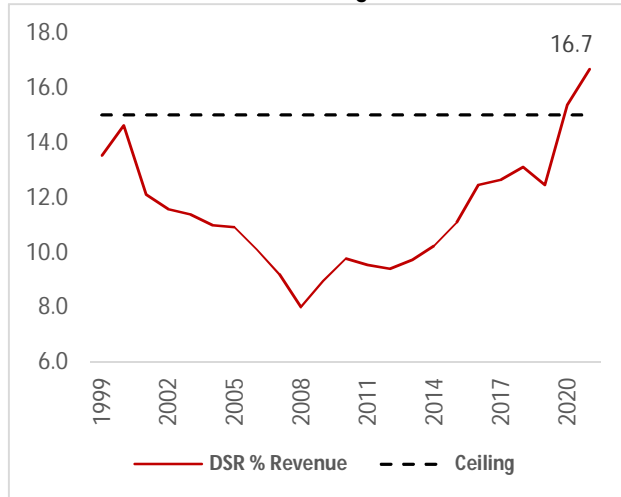
Source: CEIC/AmBank Research

**Chart 2: Government Foreign Currency Debt**



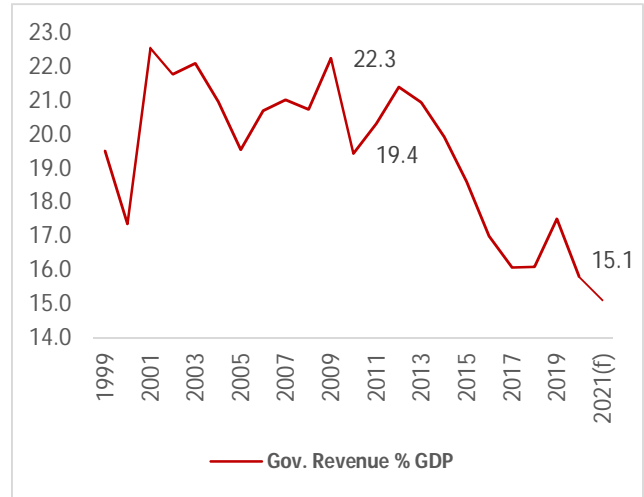
Source: CEIC/AmBank Research

**Chart 3: Gov. Debt Service Charges % of Revenue**



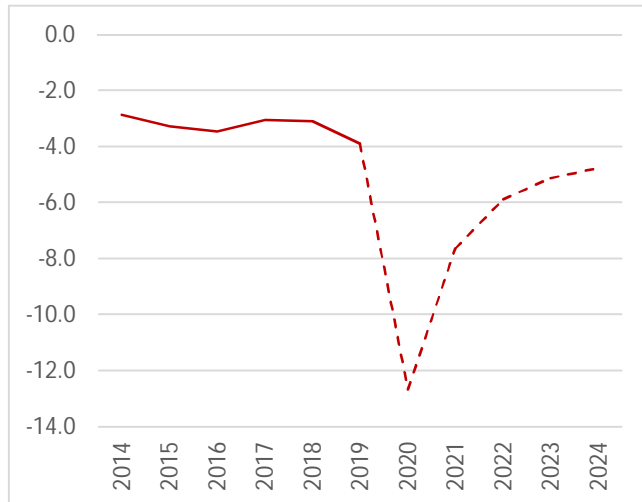
Source: CEIC/AmBank Research

**Chart 4: Government Revenue % GDP**



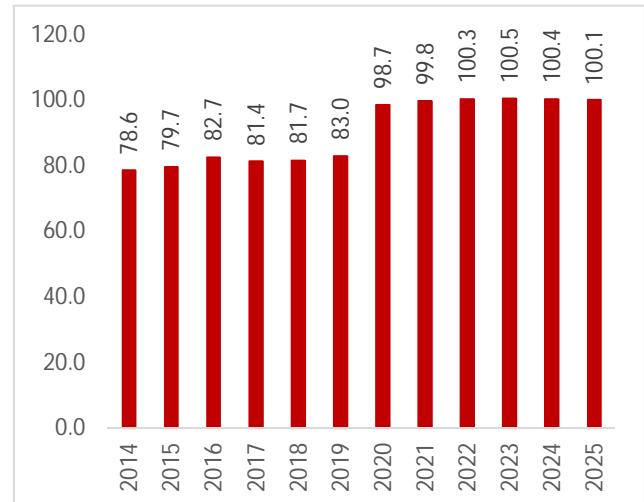
Source: CEIC/AmBank Research

**Chart 5: Global Fiscal Deficit % GDP**



Source: CEIC/AmBank Research

**Chart 6: Global Gov. Debt % GDP**



Source: CEIC/AmBank Research



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