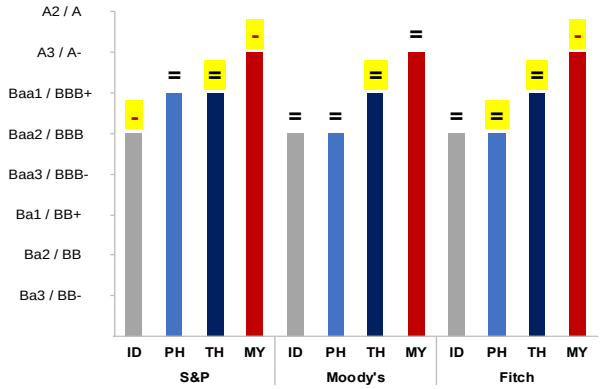
Malaysia Sovereign Credit Rating

S&P retains Malaysia's A- credit rating, but slashes outlook to "negative"

- **On 26 June, S&P Global Ratings reaffirmed Malaysia's A- credit rating, but revised the outlook from "stable" to "negative"**
  - The downshift was attributable to heightened downside risks to the fiscal position amid the COVID-19 pandemic and elevated political uncertainty.
  - The move was not surprising, as Fitch has led the way earlier in April, with Moody's expected to follow suit. Other major ASEAN economies (ID, TH, PH) have also faced downgrades in their credit rating outlook, as extraordinary fiscal policy measures were deployed to rehabilitate the economy which has been hamstrung by the health crisis.

Graph 1: Sovereign Credit Rating and Outlook



Outlook: positive (+), stable (=), negative (-)
Yellow highlight indicates a downgrade has occurred in 2020
Source: S&P, Moody's, Fitch, Kenanga Research

- **S&P projects a growth contraction of 2.0% (KIBB: -2.9%; 2019: 4.3%), with fiscal deficit widening to 6.0% of GDP this year (KIBB: 6.5%; 2019: 3.4%)**
  - Deep contraction is reflective of adverse pandemic impacts on trade, investment and private consumption. It sees GDP growth to rebound to 7.5% in 2020 (KIBB: 4.1%), largely on a low base effect.
  - Larger fiscal deficit is due to the recent stimulus packages (RM295b or 20.2% of GDP) and weaker revenue generation amid depressed oil prices and various tax exemptions.
  - Consequently, S&P foresees the government debt level to rise to 66.1% of GDP (KIBB: 60.1%; 2019: 52.5%), consistent with our view that it will exceed the debt ceiling of 55.0% of GDP, compelling the government to raise the debt limit in the near term. Of note, the previous revision was made during the Global Financial Crisis in 2009 (45% → 55% of GDP).
- **The revised credit rating outlook is relatively less alarming, as it was triggered by justifiable policy actions amidst an unprecedented economic slump. However, several actions are critical to ensure a sustained or an improved rating going forward**
  - **Managing political stability:** the domestic political tussle has been cited by S&P as a factor that worsens policy predictability and continuity. We concur with this view, as constant change in policy priorities disrupts concrete progress in structural reform and fiscal consolidation initiatives.
  - **Resuming fiscal reform**: as already stated by the Finance Minister, the government remains committed to a medium-term fiscal deficit target of below 4.0% of GDP. A timely resumption of fiscal consolidation, coupled with steadfast revenue diversification efforts would be positive for sovereign ratings decision.
  - **Ensuring fiscal efficiency**: though sizeable fiscal expenditures are justified in the current environment, it is important to improve on policy targeting and execution, to ensure that all announced measures are properly and efficiently channelled to those in need.

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