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MEDIA STATEMENT

MINISTER OF FINANCE
MINISTRY OF FINANCE MALAYSIA

FITCH SOVEREIGN RATING REVISION

As the world navigates COVID-19, one of history's worst pandemics, we have seen policymakers take urgent and vital measures to protect lives and livelihood. Governments globally have committed approximately USD11.7 trillion in economic stimulus packages, leading to an increase in fiscal deficits by an average of 9% of GDP, with global public debt projected to approach 100% of GDP by end-2020. Consequently, credit rating agencies have taken over 220 negative rating actions since early March, with more than 100 sovereign downgrades. On the back of these external shocks, Fitch has announced a downgrade of Malaysia's sovereign rating from A- to BBB+, with an improved outlook from negative to stable.

The revision of the ratings was primarily driven by the negative impact of the COVID-19 pandemic on Malaysia's fiscal position and the ongoing political situation in the country. In this regard, the Government is disappointed with Fitch's rating outcome, particularly during these exceptional times as the COVID-19 pandemic is still unfolding. Moreover, we have already started to see the green shoots of economic recovery, attributed to the various stimulus packages implemented by the Government since March 2020. By honing in on Malaysia's fiscal position and political situation, Fitch's decision does not give due justice and credit to our crisis response efforts and our strong economic fundamentals.

The Government of Malaysia has responded swiftly and consistently in addressing the COVID-19 crisis as demonstrated by no less than four stimulus packages worth RM305 billion (USD75 billion) or approximately 20% of GDP to help our people and businesses. These packages are expected to contribute over four percentage points to GDP growth in 2020. The targeted and temporary nature of the stimulus measures have helped limit the impact on the fiscal deficit. Structured and transparent monitoring through the National Inter-Agency Economic Stimulus Coordination and Implementation Agency (LAKSANA) set up specifically for this purpose, has ensured effective and timely delivery of the stimulus measures. Furthermore, prudent COVID-19 containment measures have allowed Malaysia to achieve a case-fatality ratio which is within the lowest 10% globally, according to Johns Hopkins University.

Malaysia's third quarter GDP growth declined by 2.7% compared to a deep contraction of 17.1% during the second quarter of 2020. Additionally, our unemployment figures also improved to 4.6% in September, compared to a previous high of 5.3% in May. Better GDP figures are also supported by encouraging recovery in our trade and export numbers.

After nearly a decade on the fiscal consolidation path, we have successfully halved our fiscal deficit from 6.7% of GDP in 2009 to 3.4% in 2019. However, due to the unprecedented COVID-19 crisis, the fiscal deficit is expected to reach 6.0% in 2020 and 5.4% in 2021. As a result of the Government's efforts and prudent approach, Malaysia's fiscal deficit is still expected to remain amongst the lowest within the A category in 2020. In the medium to longer term, the Government remains committed to fiscal consolidation and sustainability, guided by our Medium-Term Fiscal Framework. The achievability of the Government's medium-term fiscal target is also acknowledged by Fitch. It is worth noting that the previous rating downgrade by Fitch was during the 1997/98 Asian Financial Crisis (from BBB- to BB), after which Malaysia was subsequently upgraded to A- in 2004.

Going forward, Malaysia is set for a sharp recovery path in 2021. Building on the recovery momentum of the stimulus packages implemented this year, Budget 2021 announced on 6 November, is expected to contribute to the 6.5% - 7.5% projected growth in 2021. Further reinforcing this is our excellent track record of economic resiliency supported by a well-diversified economy, favourable export dynamics and a solid pipeline of infrastructure projects with strong growth multipliers. These strengths have enabled Malaysia's average GDP growth to rank amongst the top 20% globally between 2015 and 2019.

Malaysia's credit standing is also supported by its robust external position, underpinned by 22 years of consistent current account surplus and substantial external assets held by banks and corporates. Malaysia holds a sizeable net foreign currency external asset position of RM1 trillion or 71.8% of GDP. Together with the flexible exchange rate and adequate international reserves at USD104.9 billion or 8.6 months of retained imports, Malaysia's ability to absorb external shocks is reinforced. In terms of liquidity, we are supported by deep and well-diversified capital markets. Government issuances remain attractive with a year-to-date average bid-to-cover ratio exceeding 2 times.

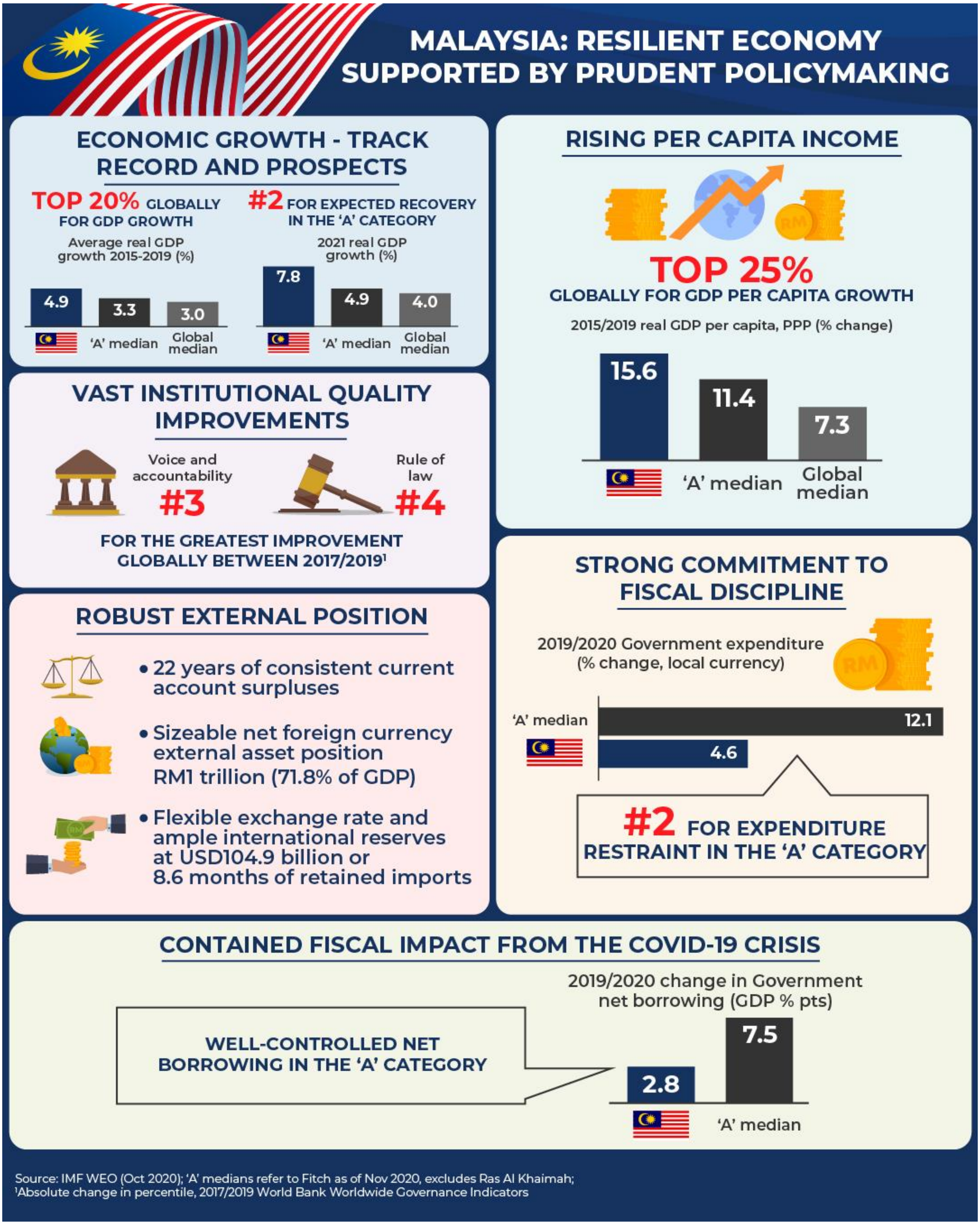
Malaysian banks are now significantly more resilient to shocks compared to previous crises. In particular, the strong banking system buffers built over the years and sound risk management practices are expected to mitigate the impact of a potential deterioration on credit quality and continue to support lending by banks to the economy. Notably, banks' excess capital buffers currently stand at RM123.7 billion, more than three times the levels seen during the 2008/09 Global Financial Crisis.

Malaysia remains committed to good governance. Its strong institutional setup will ensure the effective implementation of public policies focused on enabling sustainable economic recovery and preventing permanent economic scarring from COVID-19. The Government takes note of Fitch's concern regarding the domestic political situation. Yet, it is worth noting that key legislations have been passed in relation with the financing of COVID-19 measures, as well as for the protection of affected businesses and individuals until 2022. Budget 2021 was also recently passed at the policy stage on the back of continuous Government engagement with numerous stakeholders.

Collectively, sound economic fundamentals and decisive fiscal measures have enabled Malaysia to respond swiftly, effectively and strategically to the challenging environment, whilst maintaining economic growth and resilience for the future.

YB Tengku Dato' Sri Zafrul Tengku Abdul Aziz
Minister of Finance
4 December 2020

Appendix 1


MALAYSIA: RESILIENT ECONOMY SUPPORTED BY PRUDENT POLICYMAKING
ECONOMIC GROWTH - TRACK RECORD AND PROSPECTS
TOP 20% GLOBALLY FOR GDP GROWTH
Average real GDP growth 2015-2019 (%)
4.9
3.3
3.0
'A' median
Global median
#2 FOR EXPECTED RECOVERY IN THE 'A' CATEGORY
2021 real GDP growth (%)
7.8
4.9
4.0
'A' median
Global median
RISING PER CAPITA INCOME
TOP 25%
GLOBALLY FOR GDP PER CAPITA GROWTH
2015/2019 real GDP per capita, PPP (% change)
15.6
11.4
7.3
'A' median
Global median
VAST INSTITUTIONAL QUALITY IMPROVEMENTS
Voice and accountability
#3
Rule of law
#4
FOR THE GREATEST IMPROVEMENT GLOBALLY BETWEEN 2017/2019[1]
ROBUST EXTERNAL POSITION
• 22 years of consistent current account surpluses
• Sizeable net foreign currency external asset position RM1 trillion (71.8% of GDP)
• Flexible exchange rate and ample international reserves at USD104.9 billion or 8.6 months of retained imports
STRONG COMMITMENT TO FISCAL DISCIPLINE
2019/2020 Government expenditure (% change, local currency)
'A' median
12.1
4.6
#2 FOR EXPENDITURE RESTRAINT IN THE 'A' CATEGORY
CONTAINED FISCAL IMPACT FROM THE COVID-19 CRISIS
2019/2020 change in Government net borrowing (GDP % pts)
WELL-CONTROLLED NET BORROWING IN THE 'A' CATEGORY
2.8
7.5
'A' median
Source: IMF WEO (Oct 2020); 'A' medians refer to Fitch as of Nov 2020, excludes Ras Al Khaimah;
[1]Absolute change in percentile, 2017/2019 World Bank Worldwide Governance Indicators