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KEMENTERIAN KEWANGAN MALAYSIA

MINISTRY OF FINANCE MALAYSIA

**Statement by YBhg. Tan Sri Dr. Mohd Irwan Serigar Abdullah
Secretary General of Treasury**

CDS Spread Does Not Reflect the Strong Long Term Fundamentals of the Malaysian Economy

The Malaysian economy remains strong, growing by 5.3% in the first half of 2015, amid modest global growth. The resilience of the Malaysian economy to weather external risks has strengthened over the years largely due to the more balanced and diversified economic structure. Growth was driven by resilient domestic demand and supported by strong fundamentals of the economy as well as an accommodative monetary policy. The strategies, programmes and projects under the 11th Malaysia Plan will further strengthen the growth trajectory towards becoming a developed and high-income nation by 2020.

Malaysia's fundamentals and growth prospects have been acknowledged by the credit rating agencies. Fitch reaffirmed Malaysia's sovereign rating at A- and revised the outlook from negative to stable in June 2015, while in July 2015 S&P reaffirmed the rating at A- and kept the outlook stable. Moody's currently rates Malaysia at A3 with a positive outlook. The reaffirmation of Malaysia's credit rating reflects a fair and balanced view of the Government's commitment to implement sound macroeconomic policies and fiscal reform initiatives.

The Government is aware that Malaysia's credit default swap (CDS) spreads have been volatile and widened recently. CDS spreads respond to immediate market news and reflect the views of market players. Thus, the recent movements do not reflect Malaysia's underlying economic strength. Whereas, credit rating agencies take a more balanced and longer term view of economy and public finances. As such, sovereign ratings are much more stable and based on economic fundamentals. The strong headwinds due to potential interest rate increase in the US, impact of policy divergence in the advanced countries, China's slower than expected growth, coupled with prolonged low commodity prices are expected to affect emerging markets, including Malaysia. The Government is realistic in assessing the impact of these developments and is focused on strengthening the resilience of the economy. In this regard, the Government established the Special Economic Committee on 1 September 2015 to seek diverse and expert views for immediate and medium term recommendations to further strengthen Malaysia's fundamentals. While pragmatic measures will feature prominently, the Government will continue to monitor external developments, brace itself for any eventualities by ensuring that it has sufficient policy options to mitigate adverse impacts.

**Ministry of Finance Malaysia
Putrajaya
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