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Fitch sovereign rating revision due to COVID-19, political developments

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KUALA LUMPUR, Dec 4 – The revision of Malaysia's rating by Fitch Ratings is primarily driven by the negative impact of the COVID-19 pandemic on the country's fiscal position and the ongoing domestic political situation, Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz said.

He expressed the government's disappointment with the rating outcome, particularly in light of the current exceptional circumstances when the COVID-19 pandemic is still unfolding.

He said Malaysia has 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," he said in a statement.

Fitch today said it has downgraded Malaysia's sovereign rating from 'A-' to 'BBB+', with an improved outlook from negative to stable.

According to Tengku Zafrul, credit rating agencies have taken over 220 negative rating actions since early March, with more than 100 sovereign downgrades as policymakers take urgent and vital measures to protect lives and livelihood.

Governments globally have committed US$11.7 trillion (US$1=RM4.05) in economic stimulus packages, leading to an increase in fiscal deficits by an average of nine per cent of gross domestic product (GDP), with global public debt projected to approach 100 per cent of GDP by end 2020, he said.

Back home, he said 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.

The government has responded swiftly and consistently in addressing the COVID-19 crisis with four stimulus packages worth RM305 billion or US$75 billion about 20 per cent of GDP to help 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," he said.

He said the government had also halved its fiscal deficit from 6.7 per cent of GDP in 2009 to 3.4 per cent in 2019, and is still expected to remain amongst the lowest within the A category in 2020.

Tengku Zafrul said Malaysia is set for a sharp recovery path in 2021 driven by the stimulus packages implemented this year, while Budget 2021 which is expected to contribute to the 6.5 per cent to 7.5 per cent projected growth next year.

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.

"In terms of liquidity, we are supported by deep and well-diversified capital markets.. Malaysian banks are now significantly more resilient to shocks compared to previous crises," he said.

Meanwhile, Tengku Zafrul said 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," he said.

Bernama Fitch

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