



PRESS RELEASE

S&P Global Ratings Reaffirms Malaysia's Rating

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S&P Global Ratings ("S&P") has reaffirmed Malaysia's A- rating with a revision to the outlook to negative from stable. The outlook revision was driven by the negative impact of the COVID-19 pandemic on Malaysia's economic growth and fiscal position. The Government believes that its current fiscal policy response is the right course of action as there has been an urgent need to ensure substantial stimulus measures and economic recovery plans are implemented expeditiously to protect the Rakyat, support businesses and strengthen the economy. This is further supported by the optimistic outlook on the economy in S&P's report which projects Malaysia's strong GDP growth recovery of 7.5% in 2021.

The current crisis has, in fact, impacted many countries' sovereign ratings, reflecting the significant challenges in the global economy like weaker growth prospects, larger fiscal deficits and higher debt levels. These countries with open economies, like Malaysia, have responded with substantial macroeconomic and fiscal measures to reduce the adverse health and economic impact of the COVID- 19 pandemic. This, in turn, has also led to the lower sovereign ratings outlook for several economies, both advance and emerging.

While the outlook revision by S&P has been lowered, the Malaysian Government believes that its proactive response to the crisis is both timely and appropriate. Initiatives and measures under the RM295-billion stimulus and recovery packages – PRIHATIN, PRIHATIN SME Plus and PENJANA – are aimed at protecting lives, supporting businesses, saving and creating jobs, as well as stimulating the economy. In fact, through PRIHATIN measures like wage subsidy programmes and soft loans for SMEs and businesses, more than 2.4 million jobs have been saved, while 800,000

businesses and micro SMEs have been supported. Furthermore, under PENJANA, the Government expects to empower over 2.6 million people through upskilling and reskilling opportunities as well as wage and hiring incentives; and support over 300,000 businesses. Collectively, the PRIHATIN and PENJANA economic stimulus packages worth RM295 billion are expected to contribute more than 3% to Malaysia's GDP growth in 2020.

Most of the measures introduced under the PRIHATIN and PENJANA packages are either one-off or temporary, which will not have a permanent impact on government finances in the medium term. Furthermore, Malaysia has sufficient liquidity in the domestic market for the Government to raise additional financing. The Government is also focused on preserving fiscal discipline to maintain the systemic strength and integrity of the economy, and to ensure Malaysia has the ability and capacity to quickly rebound when the economy recovers. This optimistic outlook on the Malaysian economy is also shared by S&P.

In the medium and longer term, the Government remains committed to its fiscal reform agenda and will resume its fiscal consolidation effort once the global economy recovers. Malaysia has a good track record of fiscal management. During the Global Financial Crisis in 2008/09, Malaysia's fiscal deficit widened to 6.7% of GDP in 2009. Since then, the Government had successfully reduced the fiscal deficit to 3.4% of GDP in 2019. Going forward, the Government is committed to a medium-term consolidation of the fiscal deficit to below 4% of GDP.

Malaysia's external position remains resilient, supported by a current account surplus, an adequate level of international reserves and large external assets held by banks and corporations. Malaysia's foreign currency external assets continue to exceed its foreign currency liabilities. As at end-March 2020, Malaysia's net foreign currency external asset position stood at a sizeable RM923.3 billion, as 94.9% of external assets are denominated in foreign currency compared to 45.3% of total external liabilities. Together with the flexible exchange rate, the Malaysian economy remains resilient in the face of potential external shock. Malaysia's highly liquid and deep domestic Government bond market would also reduce the reliance on external funding, both in terms of foreign currency issuances and foreign holdings of Government bonds.

The Malaysian banking system entered this challenging episode from a position of strength. The banking system's capital buffer, at RM121 billion, is more than three times the level during the Global Financial Crisis. Ample liquidity, coupled with sound asset quality and a robust risk management framework, will continue to support lending activities and the overall economy.

Over the last few decades, Malaysia has remained resilient despite various challenges, including the Asian Financial Crisis and the Global Financial Crisis, due to its sound economic fundamentals and well-developed institutional framework, as well as deep and well-regulated financial markets. The Government is also committed towards ensuring effective delivery of public services, better governance, good management of public finance and structural reforms for the long-term sustainability and resiliency of the Malaysian economy.

YB Tengku Dato' Sri Zafrul Tengku Abdul Aziz

Minister of Finance Putrajaya

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