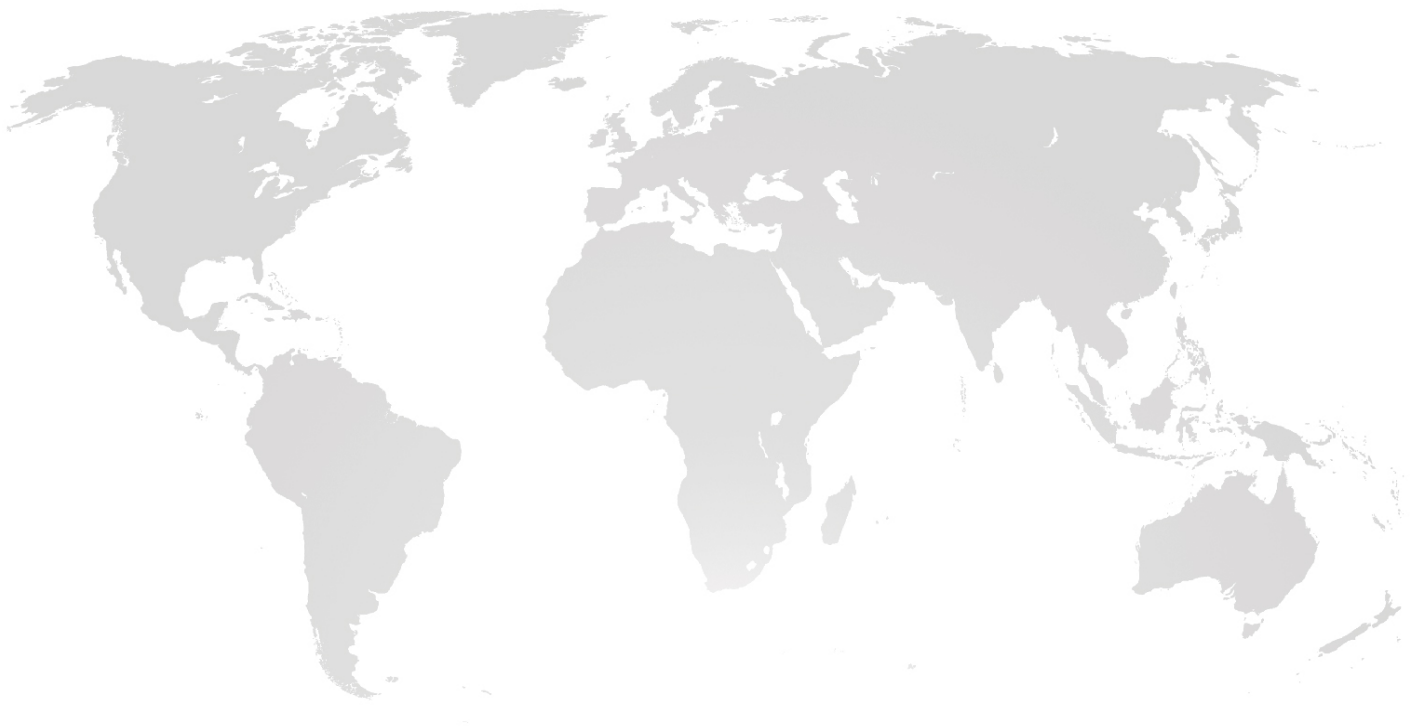dun&bradstreet

Country Insight Snapshot
Malaysia
April 2016

OVERVIEW

OVERALL COUNTRY RISK RATING: DB3B

Slight risk : Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

A

Rating Outlook: Deteriorating

CORE OUTLOOK

+ Demographics will remain highly favourable for several decades at least.

+ The government has introduced legislation aimed at transforming Malaysia into a regional hub for energy-efficient auto makers.

- Oil reserves will only last around another ten years, after which Malaysia will be forced to find alternative energy sources.

- The key electronics sector will face increasing competition from lower-cost factories in Vietnam in the medium term.

KEY DEVELOPMENT

The ringgit recovers some losses but global uncertainties as well as domestic factors will lead to high volatility in 2016 as well.

CREDIT ENVIRONMENT OUTLOOK   **A**

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK   **G**

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK   **A**

Key Development has had a neutral impact on the outlook.
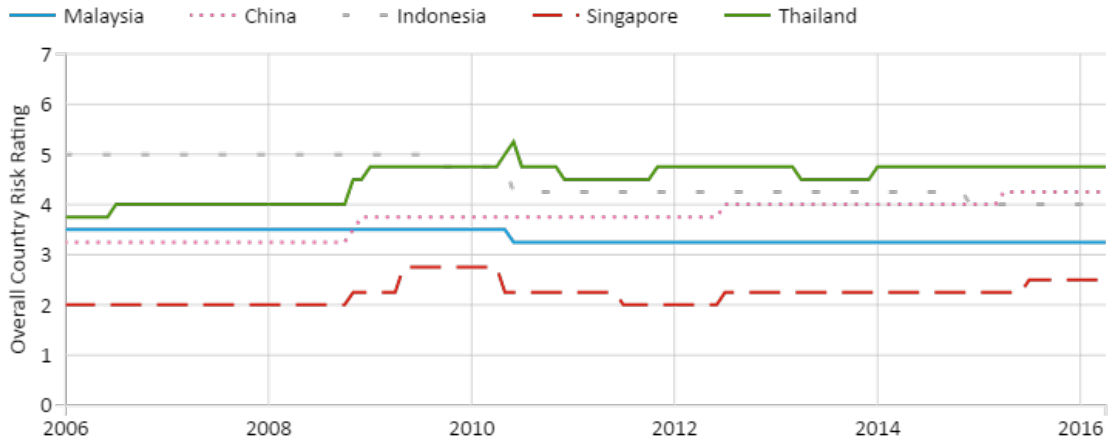
POLITICAL ENVIRONMENT OUTLOOK   **A**

Key Development has had a neutral impact on the outlook.
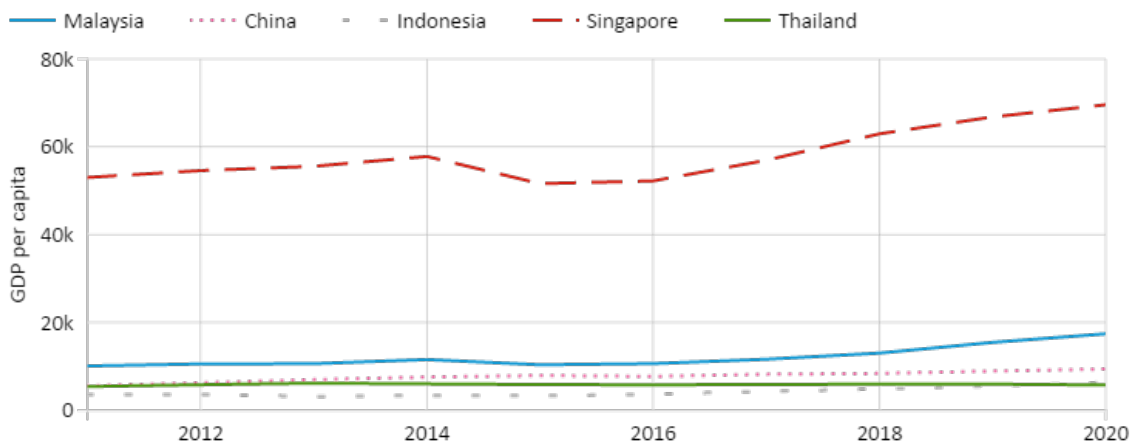
KEY INDICATORS

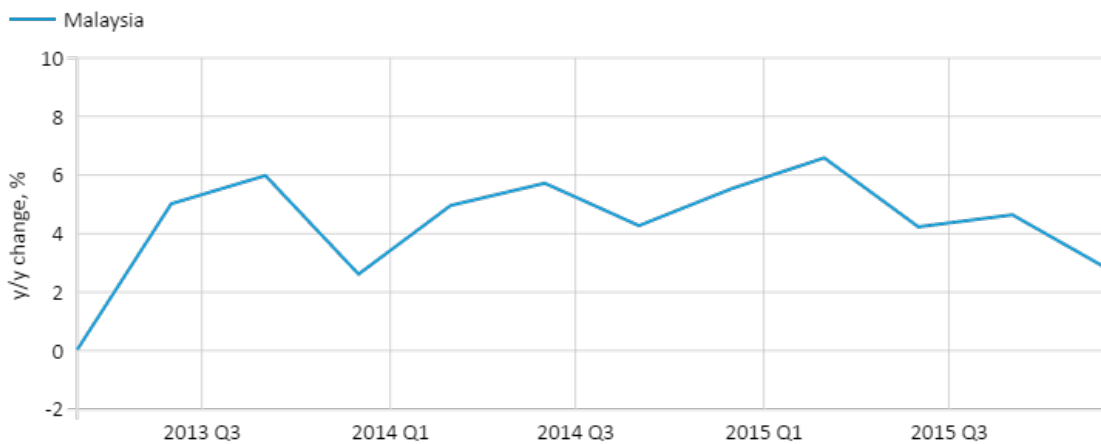### Rating History and Comparison

Source : Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons

Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Quarterly)

Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	3.6	4.2	2.2	2.6	2.2	2.0	1.7	1.5
Debt Service Ratio, %	10.0	9.5	9.1	8.9	8.7	8.6	8.6	8.6
Govt balance, % GDP	-3.8	-3.4	-3.2	-3.2	-3.0	-3.0	-2.8	-2.5
Inflation, annual avge %	2.1	3.1	2.1	2.9	2.5	2.3	2.2	2.0
Real GDP Growth, %	4.7	6.0	5.0	4.2	5.0	5.2	5.2	5.4

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

As of end-March 2016, Malaysia had international reserves of USD97bn (sufficient to cover 8.0 months of imports and 1.1 times the level of short-term external debt). The level of reserves is not reassuring but nor does it warrant alarm. Banking sector stability is good, with a Tier 1 capital ratio of 13.8%, and non-performing loans at 1.2% of net loans. Positively, the fiscal deficit in 2015 was less of a drag on the economy than expected. Meanwhile, Malaysia's largest bank announced that Shariah-compliant loans overtook conventional loans in 2015 for the first time. The government aims that 40% of the banking system is Shariah-compliant by 2020 (currently the figure stands at 26%).

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.
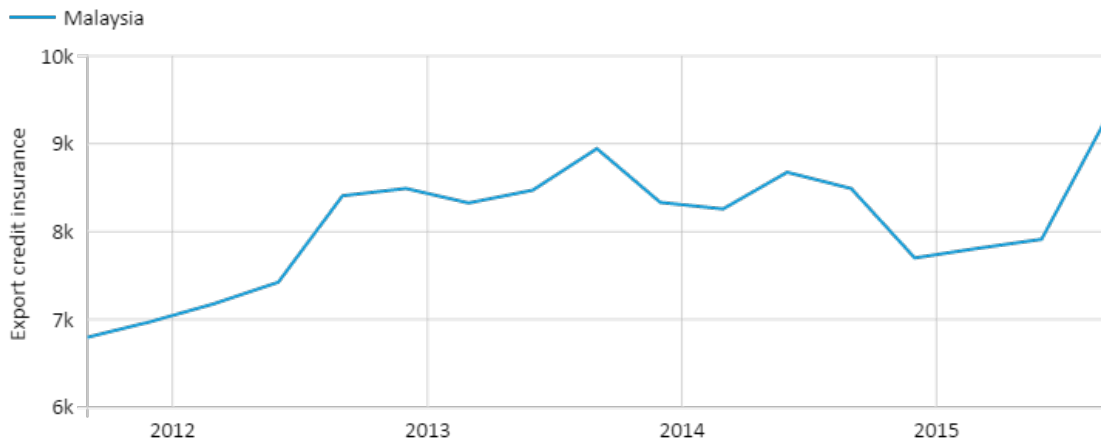
Exchange Rate
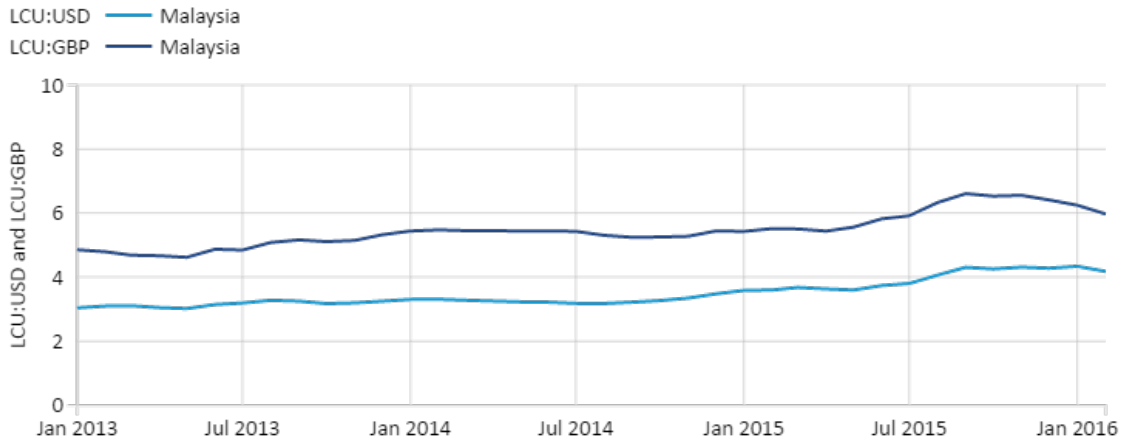
Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Malaysian ringgit

Credit Conditions

Source : Export Credit Agencies

Insured export credit exposures, USDm

RISKS AND OPPORTUNITIES

FX Risk

Ringgit recovers losses

After a disastrous year, the Malaysian currency is one of Asia's best performing currencies in 2016 to date. The ringgit has been supported by the slight recovery in oil price, by the reduced expectations of higher interest rates in the US and the EU, and by an improved fiscal situation (the budget deficit declined from 3.4% in 2014 to 3.2% last year). While some of the underlying causes behind the ringgit's previous weakness remain (most notably the high level of foreign debt, the corruption scandals and the low oil price), there is a near-consensus in the market that the ringgit had depreciated too far and that it has sound fundamentals. Moreover, the economy has clearly withstood the pressure last year very well, and has recorded robust growth even against the background of regional weakness; this is the more impressive, as Malaysia is a highly export-dependent economy (exports increased by 6.0% y/y in February). The cost of protecting against sovereign debt default in Malaysia has fallen substantially in recent months. However, given the volatile global environment, the country's high financial openness, and the fact that there are still substantial unresolved domestic issues, we expect the ringgit to remain vulnerable to shifting investor sentiment in 2016 as well. The country's corporate and household debt levels are among the highest in the region, and far above regional averages, and a study by Societe Generale names Malaysia as one of only two major emerging markets (alongside South Africa) to have foreign reserves below the IMF-recommended minimum.

Political/Insecurity Risk

1MDB investigation widens

The scandal surrounding the Prime Minister Najib and the troubled investment fund 1MDB is not receding. On the contrary, the international investigation against the Malaysian investment fund 1MDB is widening, as Swiss authorities have said they are investigating former officials at an Abu Dhabi sovereign fund in relation to suspected crimes linked to 1MDB. Swiss authorities say they have reasons to believe as much as USD4.0bn has been misappropriated from Malaysian state companies. Meanwhile, Saudi Arabian officials have stepped in to say that the initial amount that the Wall Street Journal revealed was in prime minister Najib's bank account (USD681), and was suspected to have come from the fund, was a political donation 'with no strings attached'. In Malaysia, the prime minister has been cleared legally of any wrong-doing in relation to the money, but he has been damaged politically. The opposition in Malaysia is in disarray but, as we have cautioned before, if his position is threatened, the prime minister may resort to less liberal policies to bolster his domestic support.

COUNTRY PROFILE AND STATISTICS

Overview

Malaysia is located in Southeast Asia and is separated into two regions, the Malay peninsula (between Singapore and Thailand), and Borneo, which adjoins Indonesia. The population is a mix of around 60% ethnic-Malay, 30% Chinese and 8% Indian. Since independence from the British Empire in 1957 (and a messy separation from Chinese-majority Singapore in 1963), Malaysia has maintained both a democracy and a market economy (although both have reserved key roles for ethnic-Malays since 1970).

Malaysia has maintained an impressive rate of economic growth in recent decades via the development of FDI-led export industries, notably in the electronics/IT sector. It has also established a reputation for being something of a maverick from its controversial affirmative-action programmes for ethnic-Malays (which discriminate against 40% of its own citizens), to its vocal rejection of IMF policy advice during the 1997 Asian crisis (a stance that has since largely been vindicated).

Key Facts

Key Fact	Detail
Head of state	ABDUL HALIM Muadzam Shah
Capital	Kuala Lumpur
Timezone	GMT +08-00
Official language	Malay
Population (millions)	30.3
GDP (USD billions)	313.8
GDP per capita (USD)	10,346
Life expectancy (years)	74
Literacy (% of adult pop.)	93.1
Surface area (sq km)	329,740

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	5.1	5.6	4.7	6.0	5.0
Nominal GDP in USDbn	288	306	312	345	314
Nominal GDP in local currency (bn)	881	945	984	1,129	1,226
GDP per Capita in USD	10,077	10,538	10,604	11,541	10,346
Population (year-end, m)	28.6	29.0	29.5	29.9	30.3
Exchange rate (yr avge, USD-LCU)	3.06	3.09	3.15	3.27	3.91
Current Account in USDbn	32.5	16.3	11.2	14.5	7.0
Current Account (% of GDP)	11.3	5.3	3.6	4.2	2.2
FX reserves (year-end, USDbn)	131.8	137.8	133.4	114.6	94.0
Import Cover (months)	7.0	7.2	7.8	8.0	8.0
Inflation (annual avge, %)	3.2	1.7	2.1	3.1	2.1
Govt Balance (% GDP)	-4.7	-4.3	-3.8	-3.4	-3.2

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	4.2	5.0	5.2	5.2	5.4
Nominal GDP in USDbn	327	363	413	497	569
Nominal GDP in local currency (bn)	1,340	1,451	1,568	1,690	1,820
GDP per Capita in USD	10,619	11,608	13,007	15,444	17,402
Population (year-end, m)	30.8	31.2	31.7	32.2	32.7
Exchange rate (yr avge, USD-LCU)	4.1	4.0	3.8	3.4	3.2
Current Account in USDbn	8.5	8.1	8.3	8.3	8.5
Current Account (% of GDP)	2.6	2.2	2.0	1.7	1.5
FX reserves (year-end, USDbn)	95.0	100.0	110.0	115.0	118.0
Import Cover (months)	7.5	7.0	7.0	7.0	7.0
Inflation (annual avge, %)	2.9	2.5	2.3	2.2	2.0
Govt Balance (% GDP)	-3.2	-3.0	-3.0	-2.8	-2.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Malaysia	China	Indonesia	Singapore	Thailand
Income per Capita (USD)	10,346	7,902	3,248	51,613	5,843
Country Population (m)	30.3	1,376	257.6	5.6	68
Internet users (% of population)	67.5	49.3	17.1	82	34.9
Real GDP Growth (% p.a., 2016 - 2025)	3.5 - 4.5	3.5 - 6.5	5 - 8	3.2 - 5.7	1 - 4

Source : Various sources/Dun & Bradstreet

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