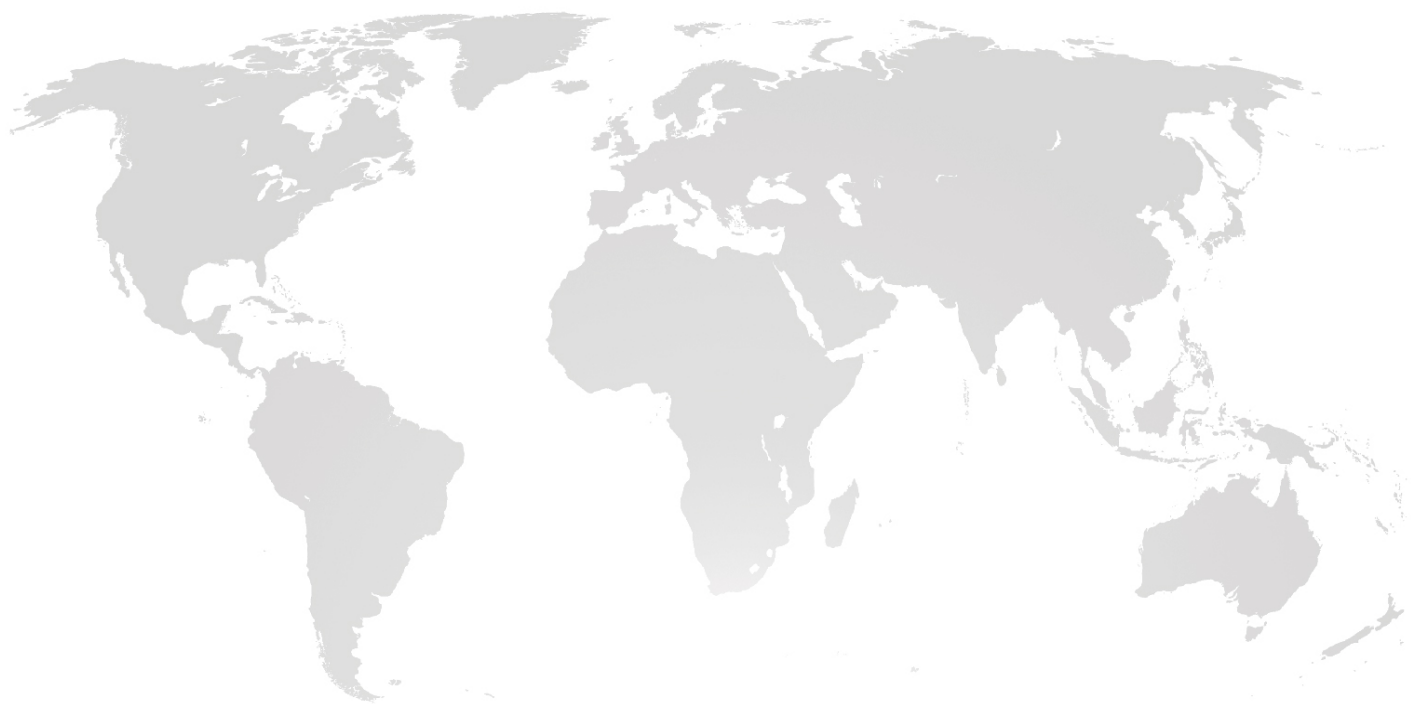




D&B Country Insight Snapshot: Malaysia

July 2015



Written 17 July 2015



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.

Rating Outlook: Stable →

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

Key Development

Increasing FX-denominated debt, alongside higher foreign debt, poses a threat to financial stability in the medium term.

Credit Environment Outlook

Key Development has had a negative impact on the outlook.

Supply Environment Outlook

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

Key Development has had a neutral impact on the outlook.

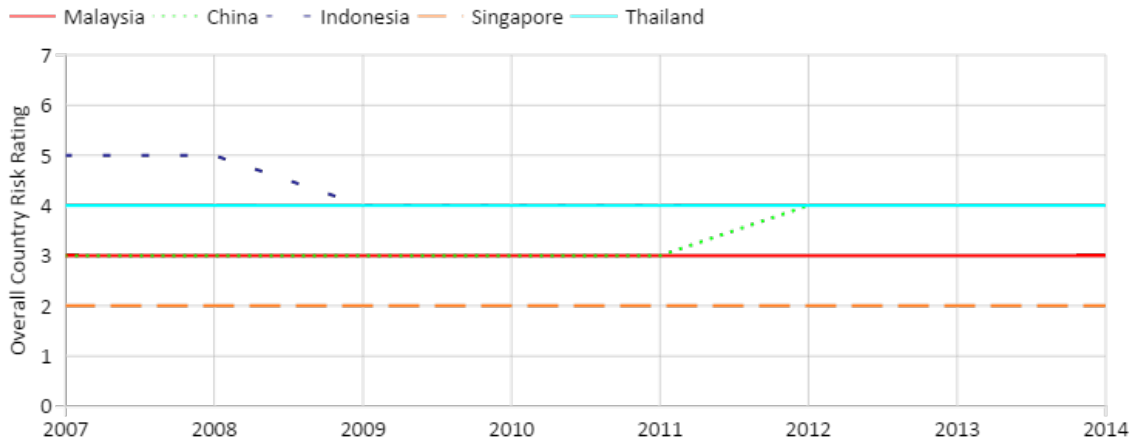
Political Environment Outlook

Key Development has had a neutral impact on the outlook.



Key Indicators

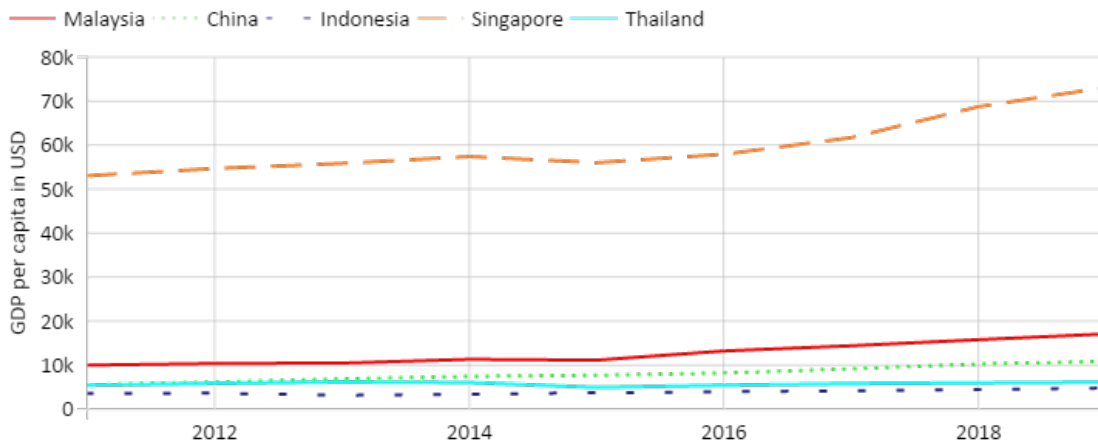
Rating History and Comparison



Source : D&B

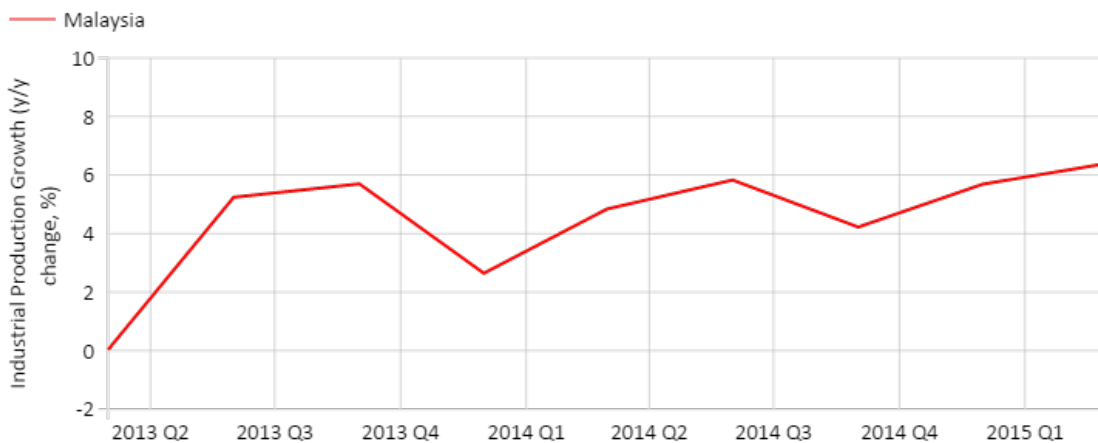
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : D&B

Industrial Production Growth (Quarterly)



Source : National Statistical Offices / Haver Analytics

Economic Indicators

Indicator	2012	2013	2014	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	5.8	3.9	4.6	3.0	3.5	3.0	3.0	2.7
Debt Service Ratio, %	10.4	10.0	9.5	9.1	8.9	8.7	8.6	8.6
Govt balance, % GDP	-4.8	-3.9	-3.5	-3.8	-3.2	-3.0	-3.0	-2.8
Inflation, annual avge %	1.3	3.2	2.7	1.8	2.9	2.5	2.3	2.2
Real GDP Growth, %	5.6	4.7	6.1	4.8	6.1	5.9	6.0	5.8

Source : Haver Analytics/D&B

Trade and Commercial Environment

As of end-June 2015, Malaysia had FX reserves of USD105.5bn (sufficient to cover 8.2 months of imports and 1.1 times the level of short-term external debt). While down relative to end-2014 (due to the bank's FX interventions and exchange rate re-evaluations), at current levels the reserves are well above the IMF-recommended 3.0-month minimum import cover, and Malaysia's external position is also supported by a current account surplus and investment flows. Meanwhile, Malaysia's crucial exporting sector continues to underperform. Goods exports contracted for the second consecutive month in May, by 6.7% y/y, following a 9.2% y/y decline in April. Low energy prices are by far the main culprit (Malaysia is a major oil and LNG exporter), but other categories such as electronics were weak as well (0.6% y/y contraction in May).

Trade Terms and Transfer Situation

Minimum Terms: SD

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

Recommended Terms: LC

D&B'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

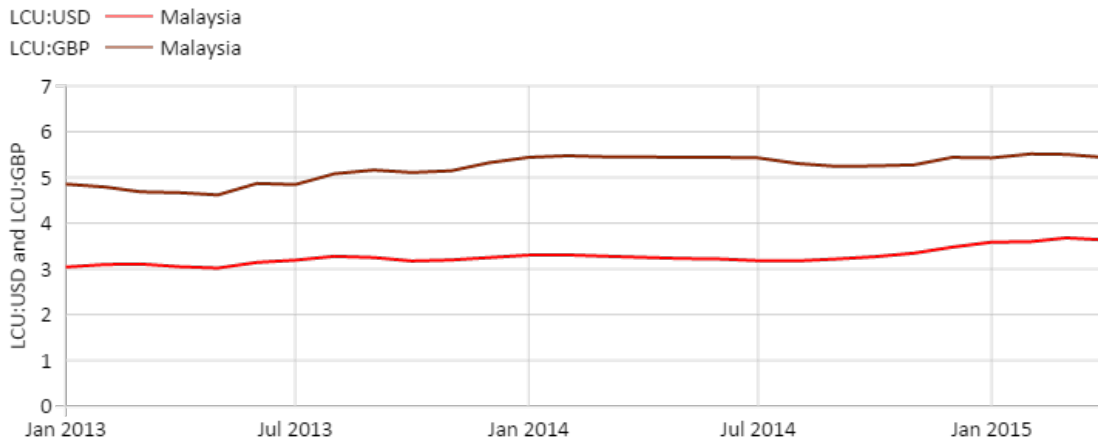
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



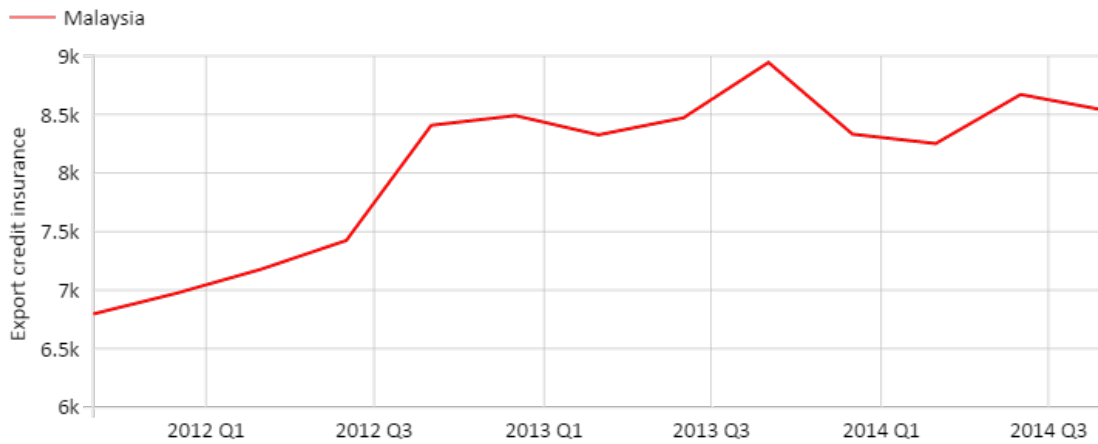
Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

LCU = Local Currency Unit

Credit Conditions



Source : Haver

Insured export credit exposures, USDm

Risks and Opportunities

FX Risk

Debt profile deteriorates

In late June, Malaysia avoided being downgraded by Fitch; the country had been on a downgrade alert since 2013, mostly on account of fiscal risks. The rating agency assessed that credible measures had been taken to improve public finance sustainability. However, in an unrelated report on emerging markets' foreign indebtedness, researchers at Bank of America Merrill Lynch highlighted Malaysia's sharply deteriorating debt profile. A high share of FX-denominated debt results in a currency mismatch that can cause financial crises; this kind of debt build-up was, for instance, one of the factors behind the 1997-98 Asian crisis. Because the depreciating ringgit sends bond yields higher and makes domestic currency bonds less attractive for foreign lenders, the Malaysian government and companies have already borrowed more in 2015 than in all of 2014. The problem with this is that, as the US interest rate will rise, servicing foreign currency denominated debt will become more difficult. According to an index that takes into account how much of the debt build-up is in foreign currency and how much is domestic (a country that borrows entirely in domestic currency would get a zero, and one that borrows entirely in FX would get a 1), Malaysia's value has increased from an average of 0.1 during 2009-14 to 0.37 by mid-July 2015.

While Malaysia is in a far better situation than prior to the Asian crisis (by having a freely floating exchange rate, among other criteria), the cost of insuring the country's debt is already increasing as some indicators single it out as the financially most vulnerable country in the region: external debt has jumped from 48.1% in 2007 to 68.7% in 2015, while FX reserve coverage is down to 1.1 times the short-term external debt. The current scandal and potential irregularities uncovered at the 1MDB investment fund also raise concerns about off-balance-sheet public sector liabilities (the government is likely to step in and offer financial support should the fund need it). We do not anticipate an FX crisis, but investors should monitor Malaysia's debt profile, and expect continued ringgit weakness.

Business Environment Quality

Preliminary investigation clears the prime minister

Meanwhile, the country's prime minister, Najib Razak, was offered a reprieve from his recent political troubles: the task force investigating the approximately USD700m allegedly funnelled from the ailing investment fund 1MDB into his personal accounts concluded in a preliminary report that it had not uncovered any incriminating evidence. However, auditors are seeking to obtain more documents; the investigation will continue. For the business environment, the development is broadly positive, as under his mandate Najib has mostly fostered a stable business environment and growth.

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 of 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)	30.4
GDP (USD billions)	343.8
GDP per capita (USD)	11,314
Life expectancy (years)	75
Literacy (% of adult pop.)	88.7
Surface area (sq km)	329,740

Source : UN / Haver Analytics / D&B

Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	7.4	5.08	5.65	4.7	6.07
Nominal GDP in USDbn	246.82	287.93	304.08	312.52	343.79
Nominal GDP in local currency (bn)	795	881	940	984	1,135
GDP per Capita in USD	8,691	9,977	10,360	10,440	11,314
Population (year-end, m)	28.4	28.86	29.35	29.94	30.39
Exchange rate (yr avge, USD-LCU)	3.22	3.06	3.09	3.15	3.3
Current Account in USDbn	27.07	33.47	17.64	12.33	15.74
Current Account (% of GDP)	10.97	11.63	5.8	3.94	4.58
FX reserves (year-end, USDbn)	104.88	131.78	137.78	133.44	114.57
Import Cover (months)	6.39	7.02	7.24	7.8	8
Inflation (annual avge, %)	2.1	3	1.3	3.2	2.7
Govt Balance (% GDP)	-5.4	-4.5	-4.8	-3.9	-3.5

Source : D&B

Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	4.8	6.1	5.9	6	5.8
Nominal GDP in USDbn	342.9	413.3	457.4	508.6	559.1
Nominal GDP in local currency (bn)	1,234.4	1,351.5	1,463.6	1,581.9	1,705.3
GDP per Capita in USD	11,118	13,202	14,395	15,772	17,080
Population (year-end, m)	30.8	31.3	31.8	32.3	32.7
Exchange rate (yr avge, USD-LCU)	3.6	3.3	3.2	3.1	3.1
Current Account in USDbn	10.4	14.6	13.6	15.1	15.1
Current Account (% of GDP)	3.03	3.54	2.98	2.97	2.7
FX reserves (year-end, USDbn)	102.6	111.1	120.3	125.1	132.8
Import Cover (months)	7.5	7.5	7	7	7
Inflation (annual avge, %)	1.8	2.9	2.5	2.3	2.2
Govt Balance (% GDP)	-3.8	-3.2	-3	-3	-2.8

Source : D&B

Comparative Market Indicators

Indicator	Malaysia	China	Indonesia	Singapore	Thailand
Income per Capita (USD)	11,314	7,434	3,388	57,395	6,031
Country Population (m)	30.4	1,393.8	252.8	5.5	67.2
Internet users (% of population)	67	45.8	15.8	73	28.9
Real GDP Growth (% p.a., 2015 - 2024)	3.5 - 4.5	5.5 - 7	5.3 - 6	4 - 5.5	3.5 - 4

Source : D&B

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Sales

Email: countryinsight@dnb.com

Telephone

UK: +44 (0)1628 492700

US: +1 800 234 3867

Rest of World

contact your local office
or call +44 1628 492700

Publisher

D&B

Marlow International

Parkway

Marlow

Bucks SL7 1AJ

United Kingdom

Tel: 01628 492000

Fax: 01628 492929

Email: countryinsight@dnb.com

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