D&B
Decide with Confidence

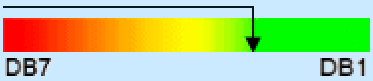
D&B Country RiskLine Report

MALAYSIA

Region : Asia Pacific
Edition : March 2013

D&B Country Risk Indicator

DB3b



This "DB" Rating Indicates:

Slight risk

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

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	29.3m
Surface area (sq km):	329,740
Capital:	Kuala Lumpur
Timezone:	GMT +08:00
Official language:	Malay
Head of state:	Paramount Ruler Sultan MIZAN Zainal Abidin
GDP (USD):	309.2bn
GDP per capita (USD):	10,534
Life expectancy (years):	74
Literacy (% of adult pop.):	88.7

Country 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 maintained 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).

Trade & Commercial Environment

Trade Terms

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.

Transfer Situation

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.

Trade & Commercial Environment

Malaysia will gradually phase out tariffs imposed on automobile imports from Japan and Australia by 2016. Import duties on all types of new vehicles from the two countries, currently at the level of 30%, are expected to be cut to 22% effective this year. This is good news to auto exporters selling into the country's booming car market. Overall, given ample FX reserves (as of February 15, reserves at the central bank stood at USD140.3bn, enough to cover more than nine months of imports) and a relatively stable growth outlook, D&B is maintaining SD as the minimum terms. However, considering the country's unstable and deteriorating trade performance, we advise caution when dealing with exporters in general and exporters of electronic products in particular.

Export Credit Agencies

US Eximbank	Full cover available, restrictions apply
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

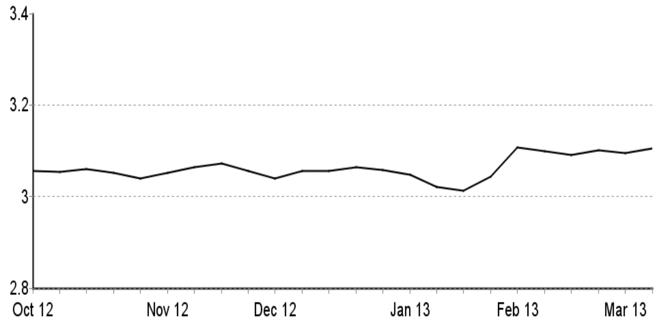
	2010	2011	2012	2013f	2014f
Real GDP growth, %	7.2	5.1	5.6	5.0	5.4
Inflation, annual ave, %	1.7	3.2	1.6	2.6	3.1
Govt balance, % GDP	-5.4	-4.8	-4.9	-5.2	-5.1
Debt service ratio, %	7.6	10.3	10.4	10.6	9.5
C/A balance, % GDP	8.0	8.3	8.2	6.8	4.6

Currency Information

Exchange Rates (London, 11 Mar 13)	
EUR	4.0321
GBP	4.6367
JPY*	3.2292
USD	3.106
*(x 100)	

Local Currency

(Ringgit [MYR]: USD)

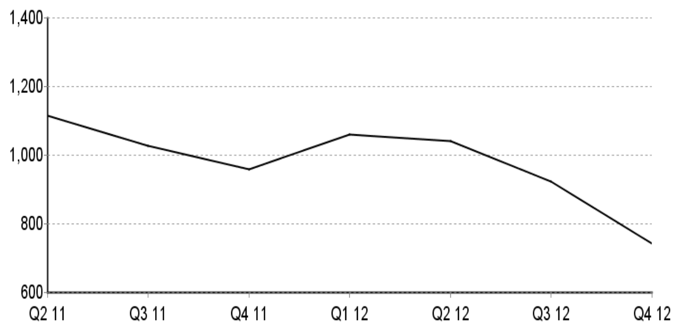


Local Currency (Ringgit [MYR]: USD)						
	Oct 12	**Nov 12**	**Dec 12**	**Jan 13**	**Feb 13**	**Mar 13**
Week 1	3.056	3.052	3.040	3.049	3.107	3.094
Week 2	3.054	3.064	3.056	3.020	3.098	3.106
Week 3	3.060	3.072	3.056	3.013	3.090	
Week 4	3.052	3.055	3.065	3.044	3.102	
Week 5	3.040		3.058			

Palm Oil Prices (Europe)

Palm Oil Prices (Europe)

(USD/tonne)



Data Table						
Q2 11	**Q3 11**	**Q4 11**	**Q1 12**	**Q2 12**	**Q3 12**	**Q4 12**
1114.38	1025.42	956.43	1057.99	1038.73	920.89	741.72

Risk Factor

The Malaysian economy expanded 6.4% year on year (y/y) in the final quarter of 2012, the fastest in ten consecutive quarters, after growing 5.3% in Q3. That brought 2012 full- year growth to 5.6% y/y, up from 5.1% in 2011. Private consumption (which accounts for 49.6% of total output) grew 6.1% y/y in Q4 after expanding 8.5% the previous quarter. Investment also decelerated to 14.9% y/y in Q4 from 22.7% in Q3. Meanwhile, external trade remained a net drag on growth: exports contracted 1.5% y/y in Q4, improving slightly from a 3.0% fall in the previous quarter; while imports also slipped by 0.9% in the final quarter after growing 4.4% in Q3.

Going forward, domestic demand will continue to be the key engine for growth as the external sector remains under pressure due to sluggish global demand. Exports fell 5.8% y/y in nominal terms in December, the largest on-year drop since September 2009; meanwhile, imports also contracted for the first time since November 2009, by 6.5% y/y. Shipments to all key markets shrank: exports to the EU, the US and China fell by 18.5%, 7.3% and 1.6% y/y, respectively. Worse, industrial output, a lead indicator for exports, grew just 3.7% from a year earlier in December, sharply below November's reading of 7.1% and market expectation of 6.2%. Fortunately, the picture still looks much rosier on the domestic side. According to the Retail Group Malaysia (RGM), the country's retail sector grew 5.5% last year, partly helped by government incentive schemes such as 1Malaysia People's Aid, and retailers are expecting a higher growth of around 6% this year. Meanwhile, according to the Malaysian Automotive Association, auto sales surged 34.5% on year (albeit from a low base) to 55,066 units in January, after soaring 26.1% in December. For full year 2012, new car sales expanded a decent 6.2% y/y to a record high of 627,573 units. Given robust growth and manageable inflation (headline CPI rose to 1.3% y/y in January, up slightly from 1.2% in December) Bank Negara, the central bank, kept their policy interest rate on hold at 3.0% in March.

Elsewhere, the volatility of the ringgit has risen to the highest among the world's commonly traded currencies amid fears that the ruling coalition, Barisan Nasional (BN) might lose the general election which must be called by end of June. Recent polls showed that the overall approval rate for BN fell to 45% in February from 47% in December; even among ethnic Malays, the bedrock of support for the coalition, the rate slid to 73% from 77% previously. Meanwhile, Anwar Ibrahim, the opposition leader, has stated that contracts awarded by the current federal government will be honoured if the opposition wins, but will be managed differently, which may increase contract/project risks.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

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Local Delays:

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F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

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