D&B Country RiskLine Report

Decide with Confidence

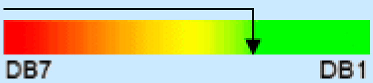
MALAYSIA

Region : Asia Pacific

Edition : February 2014

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:	ABDUL HALIM Muadzam Shah
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

As of mid-January, ample FX reserves of USD135.0bn (which are sufficient to cover around 9.6 months of imports and almost four times the level of short-term external debt) at the central bank and a relatively stable growth outlook are contributory factors to D&B's decision to maintain SD as minimum terms for Malaysia. However, we expect Malaysian-based companies to face some difficulties in the short term as they may see their profits squeezed by increasing inflation (at an annual 3.2% in December 2013) and higher energy prices. Positively, the Malaysian government recently eased the requirements for environmentally-friendly auto makers, as it seeks to attract more foreign investment in the industrial sector.

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

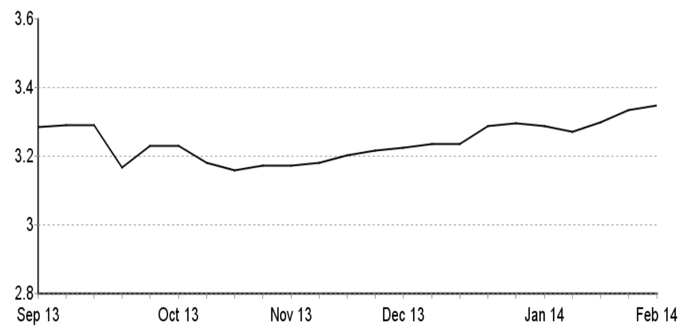
	2011	2012	2013	2014f	2015f
Real GDP growth, %	5.1	5.6	4.5	5.5	5.6
Inflation, annual ave, %	3.2	1.6	2.6	3.1	2.9
Govt balance, % GDP	-4.8	-4.9	-4.4	-3.8	-3.5
Debt service ratio, %	10.3	10.4	10.6	9.5	9.1
C/A balance, % GDP	8.3	8.2	6.4	6.8	7.8

Currency Information

Exchange Rates (London, 03 Feb 14)	
EUR	4.5129
GBP	5.4998
JPY*	3.2814
USD	3.3465
*(x 100)	

Local Currency

(Ringgit [MYR]: USD)



Local Currency

(Ringgit [MYR]: USD)

	Sep 13	Oct 13	Nov 13	Dec 13	Jan 14	Feb 14
Week 1	3.285	3.228	3.172	3.223	3.286	3.346
Week 2	3.290	3.180	3.180	3.234	3.268	
Week 3	3.290	3.156	3.202	3.236	3.297	
Week 4	3.164	3.172	3.216	3.286	3.332	
Week 5	3.228			3.294		

Palm Oil Prices (Europe)

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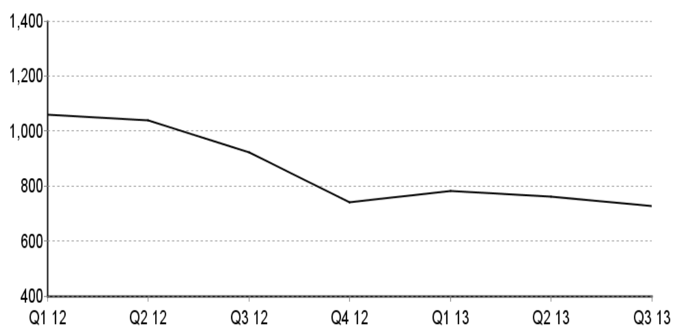
(USD/tonne)



Data Table

Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13
1058.0	1038.7	920.9	741.7	780.3	761.0	726.2

Risk Factor

Malaysia's ringgit was among those emerging-market currencies that depreciated in January as fears about a Chinese slowdown and the impact of the Fed's tapering caused another emerging-market rout. A late January report suggesting that China's manufacturing had declined for the first time in six months sent the ringgit to its lowest level since mid-2010. Borrowing costs for the government increased as well, as did the cost of insuring Malaysia's public debt against a sovereign default. While Malaysia's fundamentals are on the whole sound, the country has had a disproportionate share of global capital inflows in recent years, which have fuelled very high credit and asset-price growth. Moreover, the share of Malaysian sovereign debt held by foreign investors is almost 30% (it stands at 45% if one looks at all ringgit-denominated debt; one of the highest shares among developing countries). All of these aspects render the country vulnerable to an abrupt reversal of capital flows. However, we believe that while the currency may experience volatility in the near term, the risk of a financial crisis is small. The country has a solid external position, with a high current account surplus and ample FX reserves. That said, we advise companies exposed to the ringgit to hedge against extreme exchange rate fluctuations.

Meanwhile, inflation accelerated to a two-year high in December. Boosted by the recent fuel and energy price increases, overall consumer prices grew by an annual 3.2%. Despite this, the Malaysian Central Bank decided in January to hold the policy rate at 3.0% for the 16th straight meeting. The central bank is wary of tightening, as the government recently reversed its expansionary fiscal policies and has introduced a series of measures that may well curb private consumption in the near term. We do not expect inflation to spiral out of control, but with price pressures accumulating and a weaker ringgit (as well as with the perspective of a new consumption tax in 2015), the central Bank may have no choice but to increase the policy rate within the next six months.

The IMF concluded its annual review of Malaysia's economy in December with a largely positive evaluation, noting Malaysia's resilience to turmoil in financial markets. The Fund underlined that while austerity measures are expected to dent domestic demand in 2014, this will be compensated by rebounding exports. Indeed, Malaysia's exports increased by 6.7% year on year in November; they will receive an additional boost from the weaker currency. We maintain our broadly positive outlook for Malaysia. Malaysia had previously been in the midst of a credit-and-consumption boom, and we believe that a slower private consumption growth rate is more sustainable and decreases the risk of a hard landing.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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Recommended Terms:

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Usual Terms:

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

Local Delays:

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

F/X Bank Delays:

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.

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

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Email: CustomerHelp@dnb.com

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

Rest of World
You can contact your local D&B Customer Services departments by clicking here.

Whilst D&B attempts to ensure that the information provided is accurate and complete, by reason of the immense quantity of