

**Malaysia's Debt Structure Favourable, Says Moody's
Bernama
31 Mar, 2014**

KUALA LUMPUR, March 31 (Bernama) -- Debt instruments and securities credit ratings and research provider, Moody's Investors Service, considers Malaysia's debt structure as "favourable", saying the country's strong external position and large pool of domestic savings limit vulnerability to external financial shocks.

Moody's said the nation's vulnerability to a sudden stop or reversal of inflows is mitigated by ample onshore liquidity conditions that, in turn, reflect a large pool of domestic savings equivalent to around 34 per cent of GDP.

"indeed, Malaysia experienced a net outflow of portfolio investments in 2013 with only a limited impact on domestic funding conditions," it said in the "Moody's Sovereign Monitor-Focus on Asean" report Monday.

Moody's said Malaysia's capital market depth, the large buffer of foreign exchange reserves, and favourable debt structure guard the nation's economy against a disruptive reversal of the non-resident accumulation of Malaysian government debt.

"Malaysia has amassed a substantial foreign exchange reserve buffer over the past decade totalling US\$130.6 billion (about RM427.38 billion) in February 2014, which has seen the External Vulnerability Indicator (EVI) decline to around 50 per cent, far lower than nearly 100 per cent at end-1998," it said.

Moody's said the government's debt stock features a relatively long average term to maturity and is consequently less susceptible to refinancing risks.

It said nearly two-thirds of the debt stock has residual maturities of three years or more.

Moreover, it said the low proportion of government foreign currency debt relative to the total debt stock at just 3.1 per cent at end-2013 implies a very low exposure to exchange-rate risk, and the fixed rate and long tenor of the debt ensure stability against fluctuations in government bond yields.

Moody's said while Malaysian Government Securities (MGS) held by foreigners rose to 42.8 per cent at end-September last year from 13.5 per cent at end-2008, the government, over this time, has shifted its financing towards more shariah-compliant instruments called Government Investment Issues (GII).

It said non-residents hold only 1.6 per cent of GII, and only 25.5 per cent of the total local currency-denominated debt stock.

In addition, it said the enduring current account surplus, although narrower than historical trends, and large domestic institutional investor base suggest that the increased absorption of MGS by foreign investors does not necessarily represent a heavy reliance on external funding.

Moody's said Malaysia's fiscal deficits continue to be wider than A-rated peers, while the debt burden at 54.8 per cent of GDP as of last year constrains policy space.

It said the reliance of government revenue on oil and gas receipts renders Malaysia vulnerable to adverse changes in emerging market energy demand and commodity prices.

"Direct petroleum-related receipts equate to nearly one-third of total federal government revenue," it added.

-- BERNAMA

Copyright © 2014 BERNAMA

Source: <http://www.bernama.com/bernama/v7/newsindex.php?id=1026459>