

Fitch affirms M'sia's credit rating at A-, outlook to 'stable'

KINIBIZ ONLINE

July 1, 2015

By REUTERS

Fitch maintained Malaysia's long-term foreign currency issuer default rating (IDR) at A- and local currency at A, with the outlook revised to stable from negative previously.

Fitch said in a statement that Malaysia's fiscal finances have improved and views progress on the Goods and Services Tax (GST) and fuel subsidy reform as supportive of the fiscal finances.

The Southeast Asian net energy exporter has been navigating through a tricky economic environment where oil prices have softened and its ringgit currency weakened to 10-year lows against the US dollar. A controversy surrounding debt-laden state fund 1MDB has also weighed on Malaysia's currency and credit rating.

Fitch attached a "negative" outlook to Malaysia in July 2013, and suggested earlier this year that there was a 50% chance of a downgrade in the rating.

"The depth of Malaysia's local capital markets supports the sovereign's domestic financing needs," Fitch said.

It added that while the share of non-resident holdings of government securities was high and the sovereign's debt profile was weak, "local agencies such as (the) Employee Provident Fund (state pension fund) can provide funding to support the sovereign in the event of a sell-off by non-residents".

The deficit was forecast to narrow further this year despite lower oil prices, Fitch said. Nevertheless, it said Malaysia's fiscal position remained weak.

"Federal government debt and explicit guarantees continue to increase," Fitch said, adding that it believed the Malaysian sovereign was incurring additional contingent liabilities beyond explicit guarantees because of quasi-fiscal operations of 1MDB.

"Fitch thinks there is a high probability that sovereign support for 1MDB would be forthcoming if needed," it said.

Malaysian Prime Minister Najib Abdul Razak has come under pressure from former premier Mahathir Mohamad to step down over alleged mismanagement of the economy and the performance of 1MDB, whose advisory board is chaired by Najib.

This has also weighed on the ringgit, which is the worst performing currency in emerging Asia so far this year. The ringgit closed slightly stronger at 3.77 against the dollar on Tuesday.

Central Bank governor Zeti Akhtar Aziz has said the weakness in the ringgit was expected to be temporary.

Standard & Poors and Moody's had assigned Malaysia ratings equivalent to Fitch's A-. Fitch had been the only one opting for a "negative" outlook previously.

Standard and Poor's has a "stable" outlook on Malaysia, while Moody's outlook is "positive".

— by **Yantoultra Ngui & Trinna Leong**

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Source: <http://www.kinibiz.com/story/corporate/175953/fitch-affirms-msias-credit-rating-at-a-outlook-to-stable.html>