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Moody's affirmation testament to govt's strong fiscal discipline, growth prospects, says Tengku Zafrul

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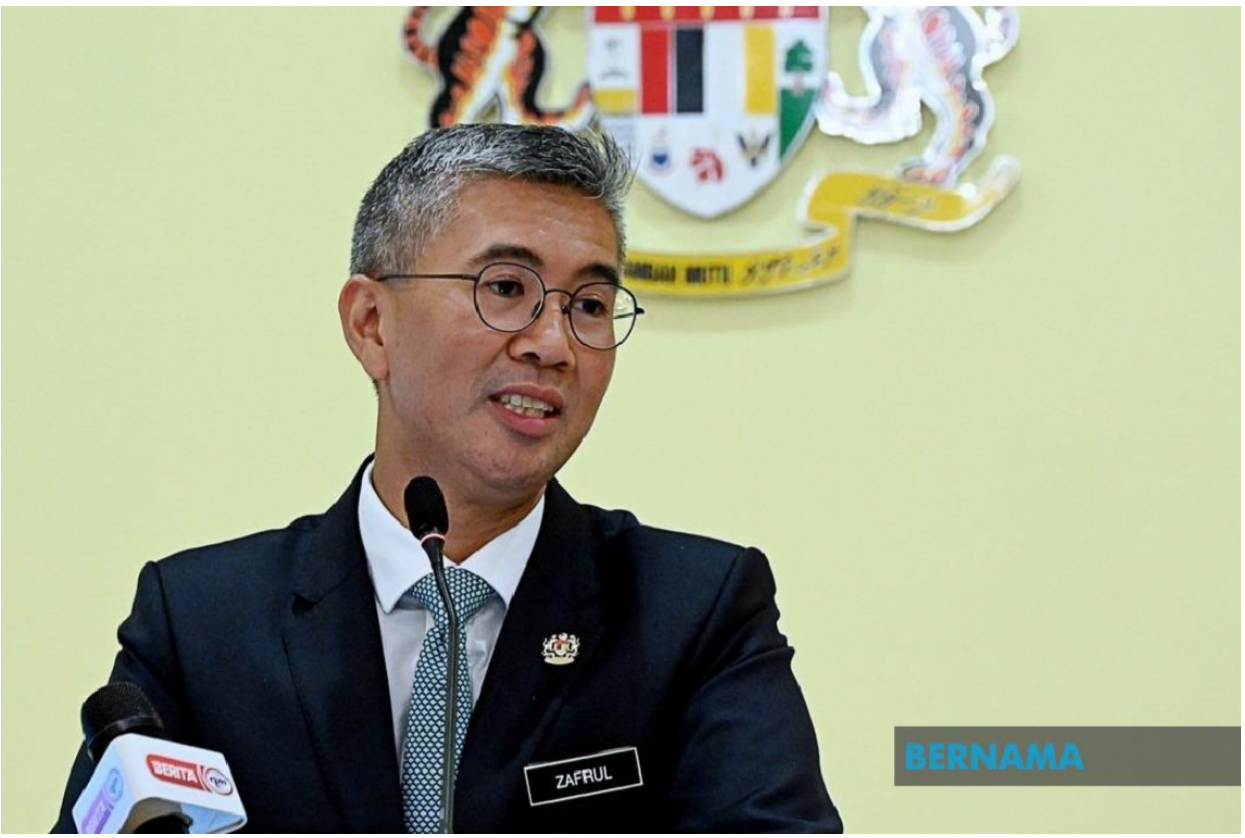

PUTRAJAYA, 28 Jan – Moody's affirmation of Malaysia's local and foreign currency long-term issuer ratings at A3, with a stable outlook is testament to the government's strong fiscal discipline and robust medium-term growth prospects, on the back of earnest COVID-19 containment measures.

"It also demonstrates Moody's confidence in Malaysia amidst an unprecedented credit rating adjustments globally, with Credit Rating Agencies (CRAs) taking more than 220 negative rating actions since the onset of the pandemic," Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz said.

The government remains committed towards medium-term consolidation, as well as ensuring fiscal sustainability in the country.

"Over the past decade, we have successfully reduced our fiscal deficit from 6.7 per cent of Gross Domestic Product (GDP) to 3.4 per cent. Through judicious expenditure re-prioritisation efforts, Malaysia's fiscal deficit in 2020 is expected to be amongst the lowest within the A-category, an exceptional achievement in the current, extremely challenging environment," he said in a statement here, today.

The Government aims to reduce its deficit target from 6.0 per cent of GDP in 2020 to 5.4 per cent of GDP in 2021 to an average of 4.5 per cent over the medium term, he reiterated.

"This will be guided by our Medium-Term Fiscal Framework and the formulation of the Fiscal Responsibility Act – one key reform initiative – to improve fiscal prudence, governance and transparency based on global best practices."

Malaysia's credit standing remains strong, supported by resilient external position and a well-developed domestic bond market.

Malaysia has consistently registered a current account surplus over the past two decades, with adequate international reserves, large external assets held by banks and corporates, as well as sizeable net foreign currency external position of RM1 trillion or 71.8 per cent of GDP.

Together with the flexible exchange rate, these underpin Malaysia's ability to withstand external shocks. Reinforcing Malaysia's external resilience is our highly liquid and deep domestic Government bond market, with healthy demands for sovereign issuances.

In terms of financial intermediation, Malaysian banks are more resilient today due to the capital buffers built over the years and sound risk management practices, placing banks in a good position to support lending activities and the overall economy, said Tengku Zafrul.

Moody's notably highlighted the credibility and effectiveness of the country's institutional framework, particularly in the implementation of macroeconomic policies. This is evidenced by the structured and systematic policy measures' implementation by 53 ministries and agencies since March 2020.

The implementation has also been diligently monitored, with updates shared weekly by the National Inter- Agency Economic Stimulus Coordination and Implementation Agency (LAKSANA) to promote transparency in public spending.

The Government's commitment towards effective execution of policy measures is also exemplified by the formulation of the country's largest national budget at RM322.5 billion for 2021, and further boosted by the recently announced RM15-billion PERMAI Assistance Package that saw the introduction of fresh measures and improvement of existing initiatives either through additional allocations, speedier implementation or expansion of scope. PERMAI is also aimed at bridging the gap between deploying immediate support to those affected by the floods and Movement Control Oorder (MCO), and the implementation of the country's Budget 2021.

Moving forward, Malaysia's economic recovery will be driven by the efficacy of its public healthcare system, which has been further reinforced through the PERMAI Assistance Package.

Apart from managing COVID-19, which has enabled Malaysia to achieve a case-fatality ratio of less than 0.4 per cent, or within the lowest 5.0 per cent globally, economic recovery will also be driven by the country's COVID-19 national vaccination programme.

Set to begin in early March, the programme will be implemented in phases over a period of 12 to 18 months, with 80 per cent of the population or close to 27 million people expected to be inoculated by the first quarter of 2022.

Improving external demand from major trading partners, along with our diversified economy and existing infrastructure projects with high growth multipliers, will further support economic growth and resiliency. These have enabled Malaysia's average real GDP growth to rank amongst the top 20 per cent globally between 2015 and 2019.

The Government's policy in encouraging digitalisation and technologies, along with tax and investment incentives, is also set to sustain Malaysia's attractiveness as an investment destination of choice, further boosting our longer-term economic prospects and resilience.

Additionally, the 12th Malaysian Plan will provide a blueprint for sustainable growth, aimed at strengthening socio-economic inclusively, and better environmental sustainability.

"The Government is confident that Malaysia's sound economic fundamentals, strong fiscal discipline and decisive policy measures will help us respond strategically and proactively under this challenging COVID-19 environment, while minimising permanent economic scarring from the pandemic, to place the nation firmly on its path towards recovery."

To recap, the COVID-19 pandemic was the definitive global theme in 2020, causing most governments to grapple with both a public health and economic crisis.

According to the International Monetary Fund (IMF), the global economy contracted by 3.5 per cent in 2020, while facing an estimated cost of US$22 trillion from 2020 to 2025.

Thus far, US$12 trillion has been deployed by governments through economic stimulus packages, with global public debt estimated to reach 100 per cent of GDP in 2020.

Malaysia itself implemented four comprehensive economic stimulus packages valued at RM305 billion, approximately 20 per cent of GDP in 2020.

These four economic stimulus packages announced throughout 2020 are expected to have contributed up to four percentage points to the country's 2020 GDP, setting the country firmly on its recovery path, and projected growth target of 6.5 per cent to 7.5 per cent in 2021.

This growth forecast is in line with projections by agencies such as the IMF and World Bank at 7.0 per cent and 6.7 per cent, respectively.

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