

CareEdge Global reaffirms Malaysia's rating at 'CareEdge A-/Stable'

Issuer rating (Long Term Foreign Currency)

CareEdge A-/Stable (Unsolicited)

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Malaysia at **'CareEdge A-/ Stable'** (Unsolicited).

Rationale

The reaffirmation reflects Malaysia's diversified economic base and relatively strong medium-term growth prospects compared with similar-rated peers. A sound external position continues to support the credit profile despite tariff-related global headwinds. Following years of frequent government changes, the current phase of relative stability has supported a steadier policy environment and is expected to be sustained. However, progress on structural reforms has been slow, especially towards subsidy rationalisation and broadening of the revenue base. Further, high GGG debt (at 70.1% of GDP in 2024), rising interest costs, and a narrow revenue base remain key fiscal constraints and continue to weigh on the credit profile.

Malaysia's macroeconomic performance is supported by firm domestic demand and steady investment momentum. The economy grew by 4.7% in the first three quarters of 2025, with full-year growth expected at around 4.5%. Over the medium term, growth is projected to moderate to 4.1% amid trade uncertainty and tariff-related disruptions, but is expected to remain above that of peers' growth. While exposure to potential sector-specific tariffs persists, continued strength in tourism and sustained demand for electrical and electronics products could provide some offset.

Malaysia's sound external position, anchored by a consistent current account surplus, strong FDI inflows, and adequate foreign exchange reserves, continues to support its credit profile. However, the economy's high trade openness leaves it vulnerable to trade and tariff-related uncertainties.

The banking sector profile is supported by low non-performing loan ratios and capital and liquidity buffers that are comfortably above regulatory requirements. However, household debt is relatively high at around 84.8% of GDP and remains a close monitorable.

Malaysia's fiscal position remains a relative weakness in its overall credit profile. Gross general government debt levels remained elevated at 70.1% of GDP in 2024. Federal government debt stood at around 64.7% of GDP in June 2025, exceeding the medium-term ceiling of 60% under the Fiscal Responsibility Act. Rising interest costs continue to weigh on debt affordability, with the interest-to-revenue ratio expected to reach 16.2% in 2025, compared

with about 12.5% in 2019. The revenue base remains narrow at 19.9% of GDP in 2024 (compared with 25.8% for emerging market and developing economies), constrained by reliance on petroleum-related income and limited tax diversification. In addition, high contingent liabilities from public sector enterprises and government guarantees pose a structural fiscal risk. In parallel, the government is pursuing fiscal consolidation, supported by subsidy rationalisation measures, the rollout of e-invoicing, and the expansion of the service tax base. Sustained progress in subsidy reform, broadening the tax base, and adherence to the Fiscal Responsibility Act targets will be important for strengthening fiscal resilience and improving debt affordability over the medium term.

The current administration has provided stability and continuity in governance, although the coalition remains structurally fragile given the country's history of frequent government changes. Malaysia's multi-party system reflects a complex coalition landscape, shaping policymaking and adding to political complexity.

Outlook: Stable

The stable outlook reflects our expectation that Malaysia will maintain a steady growth rate of around 4.1% over the medium term (2025-29), supported by resilient domestic demand and steady investment momentum. The country's external position is expected to remain comfortable, with strong integration in global value chains expected to maintain the current account surplus despite global headwinds. Further, fiscal consolidation is expected to progress, albeit at a slow pace.

Upside Scenario

The rating could be upgraded if fiscal metrics strengthen on a sustained basis, supported by a broader revenue base and credible institutional policies that anchor fiscal consolidation, leading to a lower debt-to-GDP ratio and reduced interest burden. Further, a material decline in contingent liabilities would also support the rating upgrade. Maintaining growth while improving the fiscal position would be positive for the credit profile. Advancing reforms to strengthen the revenue framework and rationalise subsidies would be another positive factor for the rating.

Downside Scenario

The rating could be revised to negative if fiscal consolidation efforts stall, leading to a deviation from the medium-term consolidation path and weaker fiscal metrics. A sustained slowdown in economic activity or renewed global uncertainty could lead to broad based deterioration in external position, posing downside risks to the rating.

Key Rating Drivers

Economic Structure & Resilience

Malaysia's economic profile reflects its moderate size, relatively healthy medium-term growth prospects and an adequately diversified structure spanning manufacturing, resource-based industries, financial services and tourism. The GDP per capita stood at USD36,255 on PPP

basis at constant prices in 2024. The well-developed infrastructure and favourable demographics support Malaysia's competitiveness and medium-term growth prospects. However, gross fixed capital formation remains relatively low at about 20.5% (2024) of GDP compared with similarly rated peers.

In the first three quarters of 2025, the economy grew by 4.7%, supported by resilient domestic demand, underpinned by strong household spending and investment, along with improving exports, partly lifted by front-loading activity. Full-year growth for 2025 is projected at around 4.5%, compared with 5.1% in 2024. Domestic demand, which accounts for around 95.2% of GDP (2024), remains the key driver of growth and is expected to sustain robust economic performance despite global headwinds. Looking ahead, Malaysia's medium-term growth is projected to remain favourable relative to similarly rated peers, with real GDP expected to expand at an average rate of about 4.1% over the next five years (2025–30), broadly in line with its long-term average of 4.0% (2015–2024).

However, growth remains sensitive to external conditions given Malaysia's high trade openness, while potential US sector-specific measures on semiconductors could make exports vulnerable.

Fiscal Strength

Malaysia's fiscal assessment remains constrained by elevated gross general government debt levels and a narrow revenue base. Malaysia's GGG debt has risen from 55.6% of GDP in 2018 to 70.1% in 2024, while the high interest-to-revenue ratio (average 15.1% from 2020 to 2024), relative to A-rated peers, further exacerbates fiscal pressures. The abolition of the progressive Goods and Services Tax in 2018 and its replacement with the Sales and Services Tax led to a decline in revenue mobilisation, with revenue declining to 19.9% of GDP in 2024, below the pre-pandemic level of 21.6% in 2019. Additionally, the federal government's reliance on petroleum-related revenues (~19.3% of revenue in 2024) increases vulnerability to commodity price volatility.

Fiscal consolidation is progressing gradually, with the general government deficit expected to narrow to 3.6% of GDP in 2025 from 4.0% in 2024. Subsidy spending remains sizeable despite rationalisation steps. Subsidies and social assistance declined from 3.9% of GDP in 2023 to 3.1% in 2024. On the revenue side, the government have introduced measures to broaden the tax base, including the expansion of the Sales and Services Tax from May 2025 and a 2% tax on dividend income above MYR 100,000. The rollout of the targeted subsidy programme for RON95 petrol (the most widely used petrol grade) in September 2025 represents a shift away from blanket fuel subsidies toward a more targeted structure. The government's ability to sustain effective implementation of these measures will be critical to achieving fiscal consolidation and maintaining policy credibility.

Furthermore, sizable, committed guarantees and high non-financial public sector debt (85.8% of GDP, June 2025) pose contingent liability risks. The government's committed guarantees stood at 11.8% of GDP as of June 2025. However, the favourable federal government debt structure, with a high share of domestic currency debt (~98%) and a long maturity debt profile, remains a key mitigating factor.

External Position & Linkages

Malaysia's external position remains an anchor for its credit strength, supported by a structural current account surplus, steady foreign direct investment inflows, and adequate reserve buffers.

The current account surplus stood at 1.4% of GDP in 2024 and is projected to average around 1.9% of GDP over 2025 to 2029. Manufactured exports, particularly in electrical and electronics, are expected to remain the main driver. At the same time, the gradual recovery in tourism should help improve the services balance and offset softer commodity exports. FDI net inflows averaged 3.2% of GDP from 2020 to 2024. Foreign exchange reserves provide a moderate cushion, with coverage of over five months of imports in 2024.

Malaysia's high trade openness makes the economy more vulnerable to shifts in global demand. Exports of goods and services were about 71.4% of GDP in 2024, leaving the external outlook exposed to disruptions in global supply chains, commodity markets and the ongoing international tariff environment.

External debt is moderately high at 69.7% of GDP in 2024, with about 42.8% in short-term liabilities. However, risks are partly mitigated by the composition of these obligations. Nearly half of short-term external debt reflects intragroup borrowings within banks and corporates, which tend to be more stable. About one-third of external debt is denominated in ringgit, limiting exposure to currency valuation effects. Even so, a moderately high exposure to foreign portfolio flows further adds to external sector vulnerabilities.

Monetary & Financial Stability

Malaysia's exchange rate regime is classified as floating, with occasional central bank interventions in the foreign exchange market to stabilise the currency. Inflation has been low and largely under control (~1.8% during 2020-24), supported by government subsidies for essential items. CPI inflation stood at 1.3% in Q3 2025. Monetary policy in 2025 has taken a more supportive stance to safeguard growth, amid low inflation and softer external conditions.

The country's financial system remains healthy and diversified, with a well-capitalised banking sector and deep capital markets. Asset quality is low, with a non-performing loan ratio steady at around 1.4% as of Aug 2025. However, the elevated household debt level, at 84.8% of GDP in H1 2025, warrants monitoring. Nevertheless, household repayment capacity remains sound, with the median debt-service ratio (DSR) for outstanding loans at 33%.

Institutions & Quality of Governance

Malaysia's institutions demonstrate considerable efficacy in policymaking, and the rule of law is well established. It ranks highly in ease of doing business and as a destination for investment. The formation of a unity government in 2022 has overseen a period of stability. However, this environment may be fragile given Malaysia's medium-term history of political volatility, leadership churn, and unresolved underlying tensions, including ethnic and regional divisions.

Furthermore, high-profile corruption incidents have undermined the long-term credibility of governance. In response, the government outlined a commitment to addressing corruption through the National Anti-Corruption Strategy, which is currently being implemented.

Continued anti-corruption efforts and governance improvements are critical for sustaining institutional strength. However, the government's stance of not reinstating the GST and instead strengthening the SST framework reflects policy trade-offs shaped by political and socio-political considerations, despite broad recognition of its importance for revenue reform, signalling constraints to advancing fiscal measures.

Malaysia – Select Indicators									
	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic Indicators									
Nominal GDP	USD Billion	365.2	337.5	373.8	407.8	399.9	422.2	470.6	505.4
GDP Per Capita (Constant-PPP)	USD	32184	30499	31385	34140	34912	36255	37448	38512
Real GDP Growth	%	4.4	-5.5	3.3	9.0	3.5	5.1	4.5	4.0
GFCF/GDP	%	22.9	20.9	19.3	18.2	19.2	20.5	-	-
Gross Domestic Savings/GDP	%	28.6	26.0	29.4	30.8	27.6	27.2	-	-
Exports (G&S)/GDP	%	65.3	61.6	70.6	76.9	68.6	71.4	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.0	69.3	69.6	70.0	70.3	70.5	70.7	70.8
Old-Age (65+) Population (% Share in Total)	%	6.5	6.7	7.0	7.2	7.5	7.7	8.0	8.3
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.0	-4.9	-6.0	-4.6	-4.0	-4.0	-3.6	-3.6
Revenue/GDP	%	21.6	20.1	18.4	20.1	20.9	19.9	19.8	19.1
Expenditure/GDP	%	23.6	25.0	24.5	24.6	24.9	23.9	23.4	22.7
GG Gross Debt/GDP	%	57.1	67.7	69.2	65.5	69.7	70.1	70.4	70.5
GG External Debt (by Creditor)/GG Gross Debt	%	24.3	25.1	24.6	21.9	22.0	21.4	-	-
Interest/Revenue	%	12.5	15.3	16.3	14.0	14.7	15.6	16.2	17.0
External Indicators									
Current Account Balance/GDP	%	3.5	4.2	3.9	3.2	1.1	1.4	1.5	1.8
FDI, Net Inflows/GDP	%	2.5	1.2	5.4	3.7	2.0	3.7	-	-
Outstanding FII Liabilities/GDP	%	41.1	46.6	44.2	36.4	36.5	38.4	-	-
NIIP/GDP	%	-2.6	5.9	5.8	3.0	6.7	-0.6	-	-
Foreign Exchange Reserves	USD Billions	103.6	107.7	116.6	114.1	113.4	116.3	-	-
Import Cover	Months	5.9	6.9	5.9	4.8	5.4	5.0	-	-
External Debt/GDP	%	63.3	70.8	69.2	63.6	67.7	69.7	-	-
Monetary and Financial Indicators									
CPI Inflation	%	0.7	-1.1	2.5	3.4	2.5	1.8	1.6	2.2
Exchange Rate (Average)	LC per USD	4.1	4.2	4.1	4.4	4.6	4.6	-	-
Non-Performing Loans/Total Gross Loans	%	1.5	1.6	1.7	1.7	1.7	1.4	-	-
Private debt, loans and debt securities/GDP	%	164.2	181.7	174.6	154.2	159.1	157.0	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2024

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A-/ Stable	November 27, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A-/ Stable	November 29, 2024
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A-	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

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