Malaysia's rating reaffirmed at 'CareEdge A-/Stable'

Long-term foreign currency issuer rating	**CareEdge A-/Stable**

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

Rationale
The rating reaffirmation is supported by Malaysia's strong growth momentum, sound external position, and credible monetary policy framework. Real GDP growth exceeded market expectations, up 5.7% in the first half of 2026, driven by resilient domestic demand, high AI-related investment and strong electronics exports, despite high energy prices due to the West Asia crisis and evolving tariff risks. A diversified economic base should retain Malaysia's position among Southeast Asia's faster-growing economies in 2026. Full year growth is expected to surpass the potential, although the pace of growth is likely to moderate in the second half because of the high base from H2 2025.

Malaysia's external position remains a major credit strength, supported by structural factors such as sustained current account surplus, strong foreign direct investment (FDI) inflows, sufficient foreign exchange reserves despite external pressures, as well as cyclical drivers such as robust global demand for AI-related goods, continued supply-chain diversification, and the services account's move into surplus.

Bank Negara Malaysia (BNM) continues to uphold an independent and credible monetary policy framework, keeping inflation contained while supporting economic activity. The banking sector is well-capitalised and highly liquid, with non-performing loans (NPLs) quite low.

However, Malaysia's fiscal position constrains its credit profile. Gross general government (GGG) debt is expected to stay elevated at about 67.8% of GDP over the next five years, while debt affordability is likely to stay weak as reflected by an interest-to-revenue ratio of 17.1% over the same period. Progress on structural reforms, particularly subsidy rationalisation and revenue-base broadening, has been gradual. Contingent liabilities, at around 21.1% of GDP as of June 2025, add to fiscal risks. However, these pressures are partly mitigated by a favourable debt profile, including a high share of local-currency debt, long maturities, a liquid domestic debt market, and a large domestic institutional investor base.

Deeper fiscal reforms, including reintroducing the Goods and Services Tax (GST), fully removing blanket fuel subsidies, and undertaking broad pension reforms look difficult amid a fragmented parliament and tensions within the governing coalition. Although the Unity

Government has strengthened political stability and policy continuity, it remains structurally fragile given Malaysia's recent history of frequent government changes. Rivalry between Pakatan Harapan (PH) and Barisan Nasional (BN) has intensified despite their federal partnership. Alongside the political and social challenges of subsidy and revenue reforms, PH's limited support among Malay voters and shifting electoral alliances could continue to slow fiscal consolidation.

Outlook: Stable

The stable outlook reflects our expectation that Malaysia will sustain healthy economic growth of around 4.4% over 2026-2030, supported by resilient domestic demand and expanding AI-related exports. Its external position is expected to remain comfortable, underpinned by deep integration into global value chains and a services surplus, which should support continued current account surplus despite global headwinds. Fiscal consolidation is also expected to continue, although progress may be slower than expected due to political and social constraints.

Upside scenario

The rating outlook could be revised to positive if sustained fiscal reforms strengthen revenue mobilisation and advance subsidy rationalisation, resulting in a reduction in the debt-to-GDP ratio to around 55% and the interest burden to about 14% of revenue. A meaningful decline in contingent liabilities, steady economic growth of around 4.5%, and further fiscal consolidation would also support a stronger credit profile.

Downside scenario

The rating outlook could be revised to negative if fiscal consolidation loses momentum, leading to weaker fiscal metrics and a departure from the medium-term consolidation path. Downward pressure could also arise from a prolonged economic slowdown, renewed global uncertainty that significantly weakens the external position, or heightened political instability that undermines policy predictability.

Key rating drivers

Economic structure & resilience

Malaysia's economic profile is supported by its moderate size, strong medium-term growth prospects, and diversified economic base. In 2025, GDP-per-capita was USD 37,688 on a constant PPP basis. Resilient domestic demand and strong AI-related exports and investments are expected to support medium-term growth, while well-developed infrastructure and favourable demographics enhance competitiveness and long-term economic potential. However, gross fixed capital formation (GFCF) was low at 21.3% of GDP in 2025 compared with similarly rated peers.

Malaysia's economy outperformed market expectations in the first half of 2026, with average real GDP growth at 5.7%, driven by robust export growth of 11.2% and resilient domestic demand. Export performance was supported by strong demand for AI-related goods, especially semiconductors, with monthly semiconductor exports reaching a record USD 19 billion in May 2026 from USD 8.4 billion a year earlier. Petroleum and gas exports also rebounded sharply, rising by 70% in June. Meanwhile, domestic demand was supported by steady income growth and continued policy support.

Over the medium term, growth is expected to remain favourable relative to similarly rated peers, with real GDP expanding at an average 4.4% during 2026-2030, compared with its long-term average of 4.0% over 2016-2025. Malaysia is emerging as a key beneficiary of the global AI infrastructure boom, supported by its established industrial base, relatively stable business environment, net energy exporter status, skilled English-speaking workforce, competitive cost structure, and growing role in supply chain diversification amid rising trade tensions and geopolitical uncertainty. This strong investment momentum has strengthened Malaysia's position as a major AI manufacturing hub and one of the world's leading net exporters of AI-related hardware, alongside economies such as South Korea, Taiwan, Singapore, and Thailand.

However, Malaysia's growth outlook is exposed to external developments due to high trade openness. In particular, potential US sector-specific measures targeting semiconductors could pose risks to export performance.

Fiscal strength

Malaysia's fiscal profile is constrained by elevated government debt and a narrow revenue base. GGG debt increased from 55.6% of GDP in 2018 to 70.7% in 2025, while a relatively high interest-to-revenue ratio, averaging 15.4% during 2021-2025, compares unfavourably with A-rated peers and continues to weigh on fiscal flexibility. Revenue mobilisation weakened following the replacement of the GST with the Sales and Services Tax (SST) in 2018, with government revenue averaging 20.2% of GDP during 2018-2025, below the long-term average of 22.7%. In addition, the federal government's reliance on petroleum-related revenue, which accounted for around 17% of total revenue in 2025, exposes fiscal performance to commodity price volatility.

Fiscal consolidation is progressing gradually, with general government deficit expected to narrow to 3.3% of GDP in 2026 from 3.5% in 2025. While subsidy rationalisation measures reduced subsidies and social assistance spending from 3.5% of GDP in 2024 to 2.7% in 2025, such expenditure remains substantial. Moreover, spending on subsidies and social assistance is expected to rise in 2026, with allocations potentially increasing by up to Ringgit 30 billion in response to rising inflationary pressure. The introduction of the targeted RON95 petrol subsidy programme in September 2025 marks an important shift from blanket fuel subsidies towards a more targeted and fiscally sustainable framework.

On the revenue side, the government has implemented a range of measures to strengthen revenue mobilisation, including tax rate revisions, measures to broaden the tax base, improvements in tax administration, and digital initiatives to reduce revenue leakages. Key measures include raising the Service Tax rate from 6% to 8%, expanding the coverage of the SST, introducing a 10% Capital Gains Tax on disposals of unlisted shares, implementing the 15% Global Minimum Tax for large multinational enterprises, and imposing tax on low-value imported goods purchased online. The rollout of mandatory e-invoicing has also enhanced tax compliance and reduced leakages. The government's ability to sustain and effectively implement these measures will be critical to advancing fiscal consolidation and maintaining policy credibility.

Furthermore, sizable, committed guarantees and high non-financial public sector debt (85.8% of GDP in June 2025) pose contingent liability risks. The government's committed guarantees stood at 11.8% of GDP in June 2025. This is mitigated by the favourable federal government debt structure, with a high share of domestic currency debt of around 98% and a long maturity debt profile.

External position & linkages

Malaysia's external position remains a key credit strength, supported by persistent current account surplus, steady FDI inflows, and adequate foreign exchange reserves. The country has maintained current account surplus for nearly three decades and is projected to record an average surplus of 1.7% of GDP over the next five years, following a surplus of 1.6% of GDP in 2025. Strong demand for manufacturing exports, particularly electrical and electronic (E&E) products (around 40% of total exports), should continue to support the external balance. The services account has also strengthened significantly, recording a surplus of Ringgit 5.4 billion in 2025 (0.3% of GDP), its first annual surplus since 2011, driven by robust tourism receipts and growth in digital, ICT, and professional business services. This has helped offset weaker good surplus performance and diversify sources of external earnings.

Malaysia is also well-positioned to benefit from global supply chain diversification and sustained technology-related investment, although potential semiconductor-specific tariffs and trade restrictions remain a downside risk. In addition, a more pronounced slowdown in China could weaken external demand, since it accounts for around 12% of Malaysia's exports. Net FDI inflows averaged 3.9% of GDP during 2021-2025, reflecting continued investor confidence in the manufacturing and services sectors. Foreign exchange reserves provide a moderate external buffer, equivalent to around five months of import cover in 2025.

At the same time, Malaysia's high trade openness leaves the economy vulnerable to shifts in global demand and trade conditions. Exports of goods and services accounted for about 72% of GDP in 2025, exposing the external sector to disruptions in global supply chains, commodity markets, and the evolving international tariff environment.

External debt was moderately high at 68.9% of GDP in 2025, with short-term liabilities accounting for 42.7% of the total. However, associated risks are partly mitigated by the debt structure, as nearly half of short-term obligations consists of relatively stable intragroup borrowings, while around one-third of external debt is denominated in ringgit, limiting exchange risks. Nevertheless, reliance on foreign portfolio flows continues to be an external vulnerability.

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 well-controlled, averaging 2.3% during 2021-2025, supported by government subsidies on essential goods. Headline inflation rose to a nearly two-year high of 2.0% in May 2026 before easing to 1.9% in June, driven by lower retail fuel prices and stable food and core inflation. Compared with many Asian economies facing energy and commodity supply pressures, Malaysia has maintained relatively subdued inflation, with subsidies helping shield households from global price shocks and keep inflation among the lowest in the region.

The Overnight Policy Rate (OPR) is unchanged at 2.75%. Bank Negara Malaysia's monetary policy stance is consistent with its objective of maintaining price stability while supporting sustainable economic growth. Current policy settings appear appropriate given the low and stable inflation, and strong growth outlook. However, stronger-than-expected economic momentum and potential inflationary pressures stemming from developments in West Asia could warrant a gradual tightening of monetary policy over time.

Malaysia's financial system is healthy and diversified, supported by a well-capitalised banking sector and deep capital markets. Asset quality is strong, with the NPL ratio low at 1.4% in Q2 2026.

Household debt is still elevated at 84.8% of GDP at end-2025. However, risks are mitigated by healthy repayment capacity, as indicated by a median debt-service ratio of 33%, substantial household financial asset holdings, favourable labour market conditions, and moderate house price growth. Household leverage risks have been easing, with slower growth in unsecured borrowing and improving credit card repayment behaviour. Credit card debt and personal financing loans account for only around 15% of total household debt, indicating limited signs of household financial stress and supporting financial stability.

Institutions & quality of governance

Malaysia's institutional framework is moderately strong relative to regional peers and broadly in line with similarly rated sovereigns, supported by effective public administration, sound regulatory institutions, and a well-developed legal and financial system. The country performs relatively well on measures of government effectiveness and regulatory quality, reflecting its ability to formulate and implement policies that support economic development, macroeconomic stability, and investment.

Since taking office in 2022, Prime Minister Anwar Ibrahim has advanced a reform agenda under the Madani Economy framework, aimed at strengthening competitiveness, improving governance, enhancing fiscal sustainability, increasing female labour force participation, and attracting higher-value investments. The government has also pursued measures to improve public sector efficiency, strengthen anti-corruption efforts, rationalise subsidies, and broaden the revenue base, supporting policy credibility and long-term fiscal resilience.

Governance indicators are constrained by weaknesses in political stability, accountability, and corruption perceptions. Nevertheless, the current government has continued to strengthen institutional governance through anti-corruption initiatives and broader reform measures.

Political conditions have improved under the unity government and supporting greater policy continuity. However, political fragmentation, tensions between Pakatan Harapan (PH) and Barisan Nasional (BN), and shifting electoral alliances continue to constrain politically-sensitive reforms. These challenges are particularly relevant to fiscal consolidation: the decision to strengthen the SST rather than reinstate GST, alongside delays to full fuel-subsidy removal and pension reform, highlights the trade-offs between fiscal objectives and political considerations. Continued progress on governance, anti-corruption, and fiscal modernisation will be important for strengthening institutional quality over the medium term.

Select indicators								
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	337	374	408	400	422	472	516	553
GDP per capita (constant-PPP)	USD	30499	31385	34140	34912	36255	37688	39020	40260
Real GDP growth	%	-5.5	3.3	9.0	3.5	5.2	5.2	4.7	4.3
GFCF/GDP	%	20.9	19.3	18.2	19.2	20.5	21.3	-	-
Gross domestic savings/GDP	%	23.8	26.0	26.8	23.9	23.4	22.0	22.5	22.7
Exports (G&S)/GDP	%	61.6	70.6	76.8	68.6	71.5	72.2	-	-
Working age (15-64) population (% share in total)	%	69.3	69.6	70.0	70.3	70.5	70.7	70.8	71.0
Old age (65+) population (% share in total)	%	6.7	7.0	7.2	7.5	7.7	8.0	8.3	8.6
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.9	-6.0	-4.6	-4.1	-3.4	-3.5	-3.3	-3.0
Revenue/GDP	%	20.1	18.4	20.1	20.9	20.6	19.9	19.2	19.0
Expenditure/GDP	%	25.0	24.5	24.6	25.0	24.0	23.4	22.5	22.1
GG gross debt/GDP	%	67.7	69.2	65.5	69.7	69.8	70.7	69.5	68.7
GG external debt (by creditor)/GG gross debt	%	25.1	24.6	21.9	22.0	21.5	21.9	-	-
Interest/Revenue	%	15.3	16.3	14.0	14.7	15.6	16.3	16.9	17.0
External indicators									
Current account balance/GDP	%	4.2	3.9	3.2	1.1	1.4	1.6	1.4	1.6
FDI, net inflows/GDP	%	1.2	5.4	3.7	2.0	3.7	4.7	-	-
Outstanding FII liabilities/GDP	%	46.6	44.2	36.4	36.5	38.1	37.5	-	-
NIIP/GDP	%	5.9	5.8	3.0	5.4	-0.6	-1.4	-	-
Foreign exchange reserves	USD billion	107.7	116.6	114.1	113.4	116.3	125.6	-	-
Import cover	Months	6.9	5.9	4.8	5.4	5.0	4.9	-	-
External debt/GDP	%	67.6	70.0	63.9	68.2	69.9	68.9	-	-
Monetary and financial indicators									
CPI inflation	%	-1.1	2.5	3.4	2.5	1.8	1.4	1.9	2.0
Exchange rate (average)	LC per USD	4.2	4.1	4.4	4.6	4.6	4.3	-	-
Non-performing loans/total gross loans	%	1.6	1.7	1.7	1.7	1.4	1.4	-	-
Private debt, loans and debt securities/GDP	%	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 2025

Solicitation status
The rating is unsolicited

Rating history

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge A-/Stable	August 28, 2026
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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