managing risk, enabling trade

Atradius Country Report

Malaysia – January 2010

Overview

General information

Capital:	Kuala Lumpur
Government type:	Constitutional monarchy
Currency:	Ringgit (MYR)
Population:	25.7 million
Status:	Upper middle income country (GDP/capita: US-$ 7,193 in 2009)

Most important sectors (% of GDP, 2008)

Services:	44 %
Industry:	48 %
Agriculture:	8 %

Main import sources (2008)

China:	12.8 %
Japan	12 .5 %
Singapore:	11.0 %
USA:	10.8 %

Main export markets (2008)

Singapore:	14.7 %
USA:	12.5 %
Japan:	10.8 %
China:	9.5 %

Main expenses of foreign exchange

Capital goods (12 %), metal products (4 %), food (3 %)

Main sources of foreign exchange

Electronics & electrical machinery (37 % of exports), chemicals (6 %), palm oil (3 %), petroleum, natural gas, rubber, timber

Key indicators

	2006	2007	2008	2009*	2010**
GDP (US-$ million)	156,601	186,113	221,606	203,647	220,014
Real GDP growth (%)	5.8	6.2	4.6	-2.4	3.9
GDP per capita (US-$)	5,878	6,850	7,992	7,193	7,626
Inflation p.a. (%)	3.6	2.0	5.4	0.4	0.8
Fiscal balance (% of GDP)	-3.3	-3.2	-4.8	-7.9	-8.1
Total foreign debt (US-$ million)	56,491	53,717	55,481	48,263	48,477
Foreign debt/GDP (%)	36	29	25	24	22
Foreign debt/XGS (%)	30	25	23	25	24
Short-term debt/inter. reserves (%)	16	15	18	12	13
Debt service ratio (%)	4	5	4	5	5
Current account balance (US-$ m.)	25,489	28,932	33,762	27,758	26,151
Current account/GDP (%)	16.0	16.0	15.2	13.6	11.9
Nom. exchange rate to US-$ (average)	3.67	3.44	3.33	3.55	3.45
International reserves (US-$ million)	82,123	101,019	91,149	97,950	106,961
In months of merchandise imports	7.6	8.3	6.7	9.4	9.2

* estimate **forecast

Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Stable

Head of state:	Sultan Mizan Zainal Abidin (since December 2006)
Head of government:	Prime Minister Mohamed Najib bin Abdul Razak (since April 2009)
Form of government:	Last general election in March 2008. The United Malays National Organization (UMNO) is the leading party in a 13-party coalition-government of National Front (Barisan Nasional, BN)

Internal political situation

The Malaysian population is an ethnic and religious mix of Muslim Malay (50 %), Buddhist Chinese (24 %), Hindu Indians (7 %) and indigenous people (11 %). Despite its majority, the Malay population possesses only about 19 % of the wealth. Racial tensions have always simmered under the surface, but have not so far erupted, due mainly to a massive affirmative action policy favouring ethnic Malays.

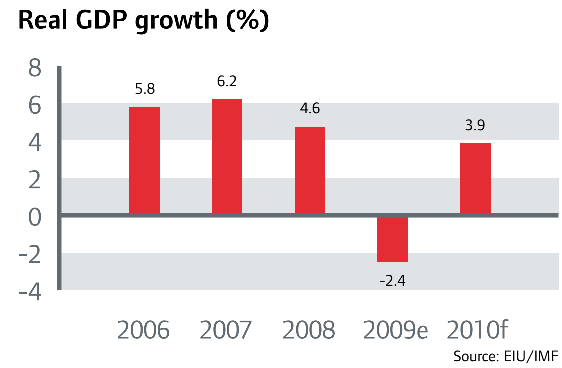
The Barisan National (BN) coalition has been in power since independence in 1957. But in the March 2008 parliamentary elections the BN suffered a severe setback by winning only 63.5 % (140 out of 222) of the parliamentary seats, thus failing to obtain the crucial two-thirds majority in parliament. This was the result of a backlash from ethnic Chinese and Indian voters, worried about rising inflation and ethnic tensions. At the same time, 5 out of 12 state legislatures were won by the opposition parties.

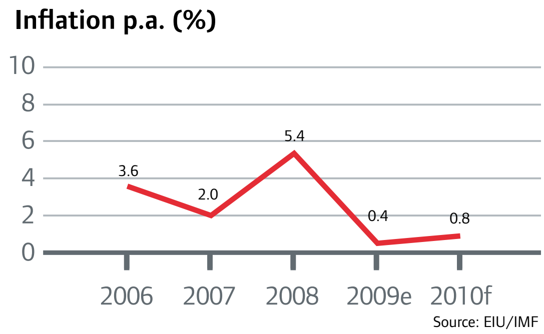
The opposition, led by former deputy prime minister Anwar Ibrahim, tries to persuade BN parliamentarians to defect to his People's Alliance (Pakatan Rakyat) opposition coalition. Anwar faces trial on a serious criminal offense and, while this may provide an opportunity for the government to rid itself of Anwar and weaken the opposition, it may also trigger social unrest were he to be found guilty.

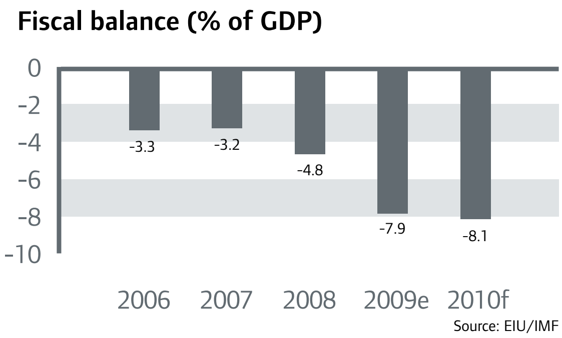
External political situation

Relations with neighbouring Singapore have improved significantly over the last few years. However, as Malaysia's affirmative action policy disadvantages - or even excludes - foreign companies from government tenders, it is regularly criticised by the US and Australia.

Internal economic situation: Recession bottoming out







General situation

The export-oriented Malaysian economy (commodities and electronics) has been hard hit by the global economic crisis; in particular by the sharp fall in foreign demand for electronics. Real GDP is therefore expected to contract by 2.4 % in 2009. However, there are signs of a recovery since the last quarter of 2009, as oil and palm oil prices have again started to rise, manufacturing industry inventories are exhausted and the government has launched a massive stimulus package to boost activity - especially in the construction sector. Inflation decreased sharply in 2009 to a very low level (0.4 %).

Equity prices deteriorated sharply in late 2008 and early 2009, but have recovered since summer 2009. The financial sector is sound, with non-performing loans down to only 2.2 %. Many banks have large foreign currency exposures.

Economic policy

The government announced two stimulus packages in March and November 2009. At US-$ 16.2 billion, the second package accounts for almost 9 % of GDP. This includes fiscal injections, equity investments, guarantee funds to help companies gain access to capital, and tax cuts in 2009 and 2010. The package is complemented by the spending foreseen in the Ninth Malaysia Plan (9MP), which was launched in 2006 and comprises investments of US-$ 54 billion in areas such as education, rural development, technology and infrastructure, and was aimed at improving competitiveness against other, cheap labour, Asian markets.

The weak fiscal discipline and huge expenditure on fuel subsidies (7% of GDP) have led to structurally large budget deficits. Due to the stimulus packages, the deficit in 2009/10 will increase to 8 % of GDP. The ringgit is pegged to a basket of currencies, and a ban on offshore ringgit trade remains in place.

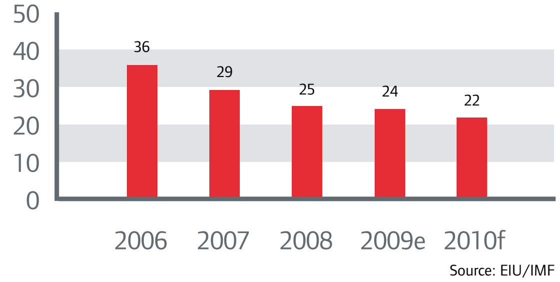
Some domestic sectors (car industry, services) are still protected by high tariffs. Despite quite a favourable business climate in Malaysia, foreign direct investment (FDI) is discouraged by the affirmative action policy, which has also triggered emigration of highly skilled non-Malay Malaysians (Chinese and Indians). However, the government has started to relax the affirmative action rules: in April 2009 it announced the abolition of the 30% bumiputera (indigenous Malay) equity requirement in 27 trade sectors.

Energy situation

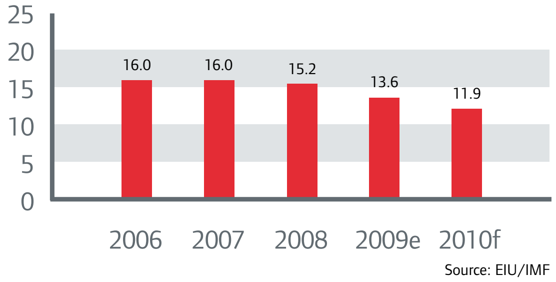
Excellent. Malaysia is a net oil-exporter, and also exports liquid natural gas. Oil production of 727,000 barrels per day (bbl/d). Proven reserves: 4.0 billion bbl (15 years production).

External economic aituation: Decreasing external demand

Foreign debt/GDP (%)



Current account/GDP (%)



Foreign debt

Level:	Low (22 % of GDP; 24 % of exports of goods and services in 2010)
Structure:	Reasonable (30 % short-term debt, 6 times covered by reserves)
Debt service ratio:	Very low (5 %, including short-term debts 11 % in 2010)

Remarks:
Malaysia's solvability is quite good with a foreign debt level of 22 % of GDP and 24 % of exports. Moreover Malaysia has never defaulted on its foreign debt.

Balance of payments

Trade balance:	Very large surplus (18 % of GDP)
Current account:	Structural surpluses (12 % of GDP)
Capital account:	Volatile
Total account:	Positive

Remarks:
While electronics exports have collapsed since late 2008, imports have declined at a similar pace.

International reserves

In months of imports (cif): Good, at 9.2 months of import cover in 2010

Outlook: Economic recovery

Internal political situation

Relatively stable, but racial tensions remain an issue. There is also a tendency towards a greater Islamic influence on society, and Anwar's potential conviction could trigger protests from his supporters.

Economic situation

It appears that Malaysia's economy has hit bottom and, while oil and palm oil prices are back on normal levels, exports of electronics still face a difficult times. GDP growth is expected to rebound by 3.9 % in 2010. In the medium-term, further diversification of the economy towards higher value added sectors like technology, tourism, and Islamic banking is necessary to cope with increased competition from other countries. This should include a structural improvement of the education system and further reforms to the affirmative action policy towards a liberalization of rules and quotas.