



IIRA Maintains Sovereign Ratings of Malaysia

Manama, December 05, 2025 – The Islamic International Rating Agency (IIRA) has reaffirmed the long term and short term foreign currency ratings of Malaysia at 'A / A1' (Single A / Single A One) and local currency ratings at 'A+/ A1' (Single A Plus/ Single A One), on the international scale, and 'AAA (my)/ A1+ (my)' (Triple A/ Single A One Plus) on the national scale. The outlook on the ratings remains 'Stable'.

Sustained GDP growth, persistent current account surpluses, declining budget deficit along with expected continuation of fiscal consolidation, and muted inflationary pressures underpin Malaysia's ratings. On the other hand, elevated federal government debt to GDP, which neared statutory limits, and decreasing trend in coverage of short-term external debt by foreign currency reserves, stand out as vulnerabilities.

Real GDP expanded by 5.1% in 2024 (up from 3.5% in 2023) mainly driven by strong domestic demand. In the first nine months of 2025, GDP grew 4.7%, supported by resilient private consumption (up 5.1%) on the back of favorable labor conditions, higher government spending (up 5.9%), and a 9.7% increase in capital formation driven by capacity expansion, construction activity, and ongoing public-sector investment. For 2025, the Ministry of Finance expects growth of 4.0–4.8%, noting elevated uncertainties on the global trade front; however, steady household spending, investment project implementation, strong E&E demand, and robust tourism would likely cushion weaker external demand. For 2026, the Ministry of Finance projects growth of 4.0–4.5%, supported primarily by domestic demand amid continued expectation of relative weakness in net export contribution, due to slower global trade.

Meanwhile, the efforts for the implementation of the green agenda will also serve to kickstart projects that will contribute to balanced economic growth and at the same time, address external vulnerabilities arising from environmental risks. Malaysia's commitment to the green agenda and achieving net-zero emissions by 2050, is backed by a policy framework including the New Industrial Master Plan (NIMP) 2030 and the National Energy Transition Roadmap (NETR). In the near term, the tabling of Climate Change Bill which aims to establish a legal framework for addressing climate change issues in the country, would be a key development on the environment front. This would be supplemented by the development of the first National Adaptation Plan to outline strategies and initiatives with the objective of mitigating and managing the impact of climate change.

Headline CPI fell from an average of 2.5% in 2023 to 1.8% in 2024, reflecting broad moderation across most CPI components. This easing was partially offset by policy-driven price increases, including higher water tariffs, a higher service tax rate, and targeted diesel subsidy reforms. In 9M'25, inflation averaged 1.4%, with most categories noting slower price gains except food and beverages (2.2%) and certain services such as education, hospitality and financial services. For 2025, the Ministry of Finance expects headline inflation to average 1.0–2.0% amid a more moderate demand and cost environment, followed

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by 1.3–2.0% in 2026. Upside risks include higher oil prices from geopolitical tensions, rising import costs due to supply disruptions, and domestic policy spillovers such as SST expansion; downside potential stems from weaker global growth, lower commodity prices, a stronger Ringgit reducing input costs, and softer domestic demand.

BNM delivered a pre-emptive 25bps rate cut in July 2025 - its first since May 2023 - to support growth amid moderate inflation and rising external risks from global trade tensions. Barring any unforeseen deterioration in global conditions or a significant tariff escalation, IIRA expects policy rates to remain unchanged over the next 12–18 months.

The fiscal deficit narrowed in 2024, falling 13.3% to RM79.2bn as revenues grew 3.1% and expenditures declined 0.5% due to lower development spending. Consequently, the deficit-to-GDP ratio improved from 5.0% to 4.1%. For 2025 and 2026, the Government projects further consolidation to 3.8% and 3.5% of GDP, supported by higher excise duties on select items, the expansion of the scope of Sales and Service Tax (SST) from July 2025 onwards, rationalization of subsidies, full implementation of e-invoicing, and ongoing fiscal reforms aimed at strengthening revenue efficiency. So far in the current year, fiscal realizations have been better than government estimates with 9M'25 fiscal deficit being 14.3% lower than 9M'24, on account of 6.7% revenue growth vis-à-vis only 2.4% increase in expenditures, and a fiscal deficit of 3.3%, likely falling below budget for the full year, in IIRA's opinion.

At the end of September 2025, Federal Government debt amounted to RM1,315.5bn or 65.3% of GDP (YE'24: 64.6%) vis-a-vis a medium-term target of 60% as stipulated by Public Finance and Fiscal Responsibility Act's. Meanwhile, outstanding debt was below the statutory limits stipulated under each respective debt-related act as outstanding MGS, MGII and MITB¹ was at 64.0% as of September 2025 against the statutory limit of 65.0%). Domestic debt constituted 98.3% of Federal Government Debt whereas offshore borrowing constituted only 1.7%, having declined following the redemption of USD1bn sukuk in April 2025. A low proportion of foreign-denominated debt minimizes the Government's exposure to foreign exchange risks. In addition, the weighted maturity of outstanding debt securities is expected to increase to 9.6 years by end-2025 (2024: 9.3 years) indicating prudent debt management, in line with the Government's long-term fiscal sustainability targets.

Malaysia's current account posted a surplus of 1.4% to GDP in 2024, up from 1.1% for the preceding year, mainly due to an improvement in the services account deficit backed by superior tourism performance, and even though the goods surplus declined and primary income deficit widened. Overall, BNM expects the current account to post 1.5%-2.5% in surplus to GDP in 2025, with improvement in goods surplus and

¹ Malaysian Government Securities, Malaysian Government Investment Issues, and Malaysia Islamic Treasury Bills

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a lower services deficit. Further escalation of geopolitical risks and trade restrictions, as well as unexpected supply disruptions to domestic commodities production, pose downside risks to Malaysia's export growth projections. On the other hand, exports could potentially be higher from stronger-than-expected spillover from the global technology upcycle and more robust tourism activities leading up to Visit Malaysia 2026.

Malaysia's gross external debt rose from 68.2% of GDP in 2023 to 69.7% at YE2024 and further to 71.4% as of September 2025 with 32.3% of total external debt being ringgit denominated. Short-term external debt remained stable at 43.1% of total debt, broadly within its 42.1–43.1% range since YE2022. Foreign-currency reserves increased to USD123.6bn in September 2025 (Dec-2024: USD116.2bn), though reserve coverage of short-term external debt fell to 87.5% (Dec-2024: 90.6%). Even so, external buffers remain largely adequate given that roughly one-third of FCY-denominated short-term debt is backed by export earnings; 59.5% of FCY external debt is subject to BNM's prudential requirements, and 18.4% reflects intercompany loans. External fundamentals are further supported by Malaysia's uninterrupted current account surplus since 1998, sizable non-reserve FCY assets held by banks and corporates (RM1,949bn, of which RM1,044bn is liquid), and a positive Net International Investment Position of RM77bn (3.9% of GDP).

The financial sector remained resilient despite having sustained a period of uncertainty and high policy rates over the last two years. Total banking assets grew 4.1% in 2024 and a further 3.7% year-to-date as of September 2025. The gross impairment ratio - steady at around 1.7% from 2021–2023, declined to 1.4% at end-2024 and remained unchanged through September 2025. Stage-2 financing also improved to 6.6% (30 bps lower than September 2024), while newly restructured loans stood at a low 0.09%, signalling limited asset-quality risks. The loan-loss coverage ratio rose to 130.1% (Sep-2024: 125.1%), reflecting prudently held provisions. Liquidity conditions remain robust, with the LCR and NSFR well above regulatory minima at 160.5% and 115.7% respectively as of June 2025 (Dec-2024: 160.7% and 116.3%). Despite a mild decline in recent years, capital buffers remain adequate; total capital adequacy stood at 17.9% (Dec-2024: 18.6%) and the CET1 ratio at 14.2% (Dec-2024: 15.1%) as of September 2025. On the whole, the banking sector's performance has remained steady with growth in assets and earnings holding pace, and risks largely held in check.

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Indicators for Future Change in Ratings

Ratings may be viewed to be under downward pressure in case of:

- Federal government debt notably exceeding the current statutory limit of 65% of GDP.
- There is notable impact on external account, caused by any potential deterioration of terms with significant trade partners.

Ratings may be upgraded if:

- Faster convergence towards medium-term target of reducing the fiscal deficit to 3% and keeping the debt-to-GDP ratio below 60%.
- There is notable improvement in reserves coverage of short-term external debt from Sep'25 of 87.3%, towards 15-year average of around 129%.

For further information on this rating announcement, please contact IIRA at iira@iirating.com.

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