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Moody's gives Malaysia A1 rating for sound economy

KUALA LUMPUR, Fri. - A United States rating agency has, in its 1996 annual report, given Malaysia an A1 rating for the country's sound economic fundamentals and rapid growth over the past few years.

Moody's sovereign risk analysts in a statement faxed to the New Straits Times today said Malaysia has benefited from its prudent monetary and fiscal policies, strong export prospects, a "very high" savings rate, low inflation, a relatively low level of external debt and a relatively stable political environment.

The analysts said structural changes taking place in the economy should improve its global competitiveness.

Moody's, which is one of the world's most respected rating agencies, said Malaysia was also taking steps to develop its labour, technical and scientific resources to compete in world markets.

They also cited Vision 2020, an initiative to transform the country into a "first world" nation.

They however warned that failure to improve skills would result in Malaysia losing investments to countries with lower wages or higher skill levels.

"This drive to first world status is being aided by the deepening and diversification of Malaysia's industrial base, the result of the investment cycle driving the current account deficit.

"In future, this will also generate higher export receipts," the analysts said.

The analysts also observed that these changes were occurring against the backdrop of a moderate external debt burden.

Malaysia's foreign currency debt/exports ratio (31.8 per cent in 1995, estimated at 31.4 per cent in 1996 and forecast to be 29.5 per cent this year) and its debt service ratio (6.1 per cent in 1995, estimated at 5.3 per cent in 1996 and forecast to be 5.1 per cent this year) are "very low" by world standards.

The analysts expect these figures to remain modest on the back of continued export growth.

"Foreign direct investment will continue to play a major role in funding the gap between domestic savings and investment but we do not expect an increasing recourse to debt financing."

Moody's said political stability was illustrated by the April 1995 general elections which saw a sweeping victory for the Barisan Nasional and Prime Minister Datuk Seri Dr Mahathir Mohamad.

"In addition, we believe that the generational change in leadership that will eventually occur in Malaysia should be orderly," the analysts said.

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