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Curbing West's influence on our rating agencies

PRIME Minister Datuk Seri Dr Mahathir Mohamad said the Government is looking at ways to improve the effectiveness of the local rating agencies to ensure they are not easily influenced by Western rating agencies.

He said this was important to expedite the revitalisation of the Malaysian economy.

"We do not want local agencies to blindly follow the ratings made by foreign agencies...we have noticed that this trend exists," he said, adding that amendments to that effect would be tabled in Parliament soon.

Dr Mahathir, who is also First Finance Minister, was winding up points raised on the amendments to the Securities Industries (Amendment) Bill 1998. (Details on Page 21)

Western rating agencies such as Moody's Investors Service and Standard and Poor's had caused problems to the economies of many countries, especially the developing economies due to inaccurate ratings.

"When these rating agencies bring down the rating of the ringgit, we will have to pay higher interest rates on loans.

"But these rating agencies do the ratings based on their own understanding. Due to this, they become arrogant as they feel they can determine the destiny of any economy.

"When a country needs a loan, these rating agencies will bring down the value of its currency and this will make it very difficult for the borrower to take the loan," he said adding that Malaysia was facing such difficulties as it had decided to take loans to purchase NPLs.

That was why the Malaysian Government had secured the services of US-based Salomon, Smith and Barney Inc for the purpose.

"Even Salomon, Smith and Barney are of the opinion that the ratings made by Standard and Poor's and Moody's are incorrect," he said.

Dr Mahathir said the activities of hedge funds had affected several economies and the people of these countries should not blame their governments for their misfortune.

Citing South Korea as an example, Dr Mahathir said the incessant currency trading and speculation activities by speculators caused the country's economy to go bankrupt.

"South Korea was so close to becoming a developed nation but currency traders and speculators have left the country's economy in tatters.

"The South Korean economy went bankrupt not because of the government but currency traders," he said.

Dr Mahathir said even if a country had large reserves, it could not neutralise the adverse effects of hedge funds.

"Hedge funds can leverage their assets up to 20 times. Say, if they have US\$180 billion (RM684 billion), they can seek borrowings for up to US\$3.6 trillion," he said.

He said as Malaysia had only US\$20 billion in reserves, it was difficult for it to counter the hedge funds.

"We can use our reserves to buy the ringgit but when we do so, they (hedge funds) will sell their ringgit stock. They will continue do so until we run out of US dollars.

"That will defeat our efforts to stabilise the ringgit," he said.

Dr Mahathir said the US Federal Reserve had to ask 16 banks to bail out hedge fund Long-Term Capital Management (LTCM) which had accrued losses amounting to US\$1 trillion.

"That problem has not been solved yet but another hedge fund there has gone bankrupt. Even the banks in the US are now having problems," he said.

Describing hedge funds as "blood suckers", Dr Mahathir said the International Monetary Fund had also realised that the activities of hedge funds were detrimental to any economy.

Second Finance Minister Datuk Mustapa Mohamed, elaborating later, said Malaysia had always been the darling of the international community as it was prompt in paying its loans.

"But due to speculative activities by currency traders, the value of the ringgit fell which has made it difficult for us to take loans due to the high interest rates we will have to pay," he said.

Mustapa said the capital control measures announced by Bank Negara on Sept 1 and the suspension on the trading of Malaysian stocks on CLOB have also strengthened the Malaysian economy and lessened the financial burden on Danaharta to buy NPLs.

He said he was confident that the Securities Commission had the necessary expertise to carry out enforcement activities on the measures announced by the Government to strengthen the economy.

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