04/11/1998

World's rating agencies should be regulated, says PM

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INTERNATIONAL rating agencies should be regulated considering the "horrendous" harm they could do to economies, Prime Minister Datuk Seri Dr Mahathir Mohamad says.

"It is about time that rating agencies are regulated... the damage they cause is horrendous... whenever they downgrade a country, it becomes poor," he said.

He was responding to a question at a dialogue session at the close of the International Conference on Managing the Asian Financial Crisis in Kuala Lumpur yesterday.

Dr Mahathir, who has also called for the regulation of currency trading, said while the actions of rating agencies may not amount to a conspiracy, it certainly "looks as if there is collusion".

He cited as example the difficulty faced by the Government to raise funds for the operations of Pengurusan Dananharta Nasional Bhd and Danamodal Nasional Bhd following the downgrading of Malaysia by a number of rating agencies.

"The moment we set up these two bodies (Danaharta and Danamodal), they on their own went out to rate us and reduced our credit-rating to a level just above junk status.

"Why do this, if not to prevent us from borrowing money... to rehabilitate our companies? It looks like they are bent on preventing us from recovering," he said.

The way it appears to work is that a poor rating issued by a particular agency will be followed in quick succession by similar ratings from others.

Rating agencies should not rate a country or company unless they are requested to do so. This was the case at when rating agencies were first established, Dr Mahathir said.

They would be asked by prospective buyers to rate a target company, or by banks to rate countries or companies seeking loans, he said.

However, over time these agencies stopped waiting for a request before conducting their assessments of companies or countries, which also gives rise to the issue of transparency of their operations, especially when major banks might be holding stakes in them.

Therefore a rating should only be conducted on request and the reports made available only to those who requested the rating, not the media, Dr Mahathir said.

The chairman of the dialogue session, Asian Startegy and Leadership Institute chief executive officer Datuk Michael Yeoh, then asked the representative of Moody's Asia Pacific at the conference for his comment. He declined.

The Prime Minister was also asked via the Internet about the selected currency exchange rate controls imposed by Bank Negara and when they can be expected to be lifted.

He said the term "capital control" is not fully understood as perceptions have ranged from "total stoppage of capital movement in and out of the country to some minor restrictions, as is the case in Malaysia".

"What we have done is to stop our money from getting into the hands of currency traders, for them to trade and push down or push up the value of the ringgit.

"That is about all, otherwise capital can come in and out of Malaysia freely," he said.

Dr Mahathir pointed out that before the introduction of the controls, Malaysia was very liberal. For example, travellers entering the country were not required to make any declaration unlike in countries like Australia or the US.

"(Now) we want to keep (the exchange controls) until the world establishes a regime that will not expose us to the threat of having our ringgit once again devalued by the market," he said.

Take the case of Mexico and Brazil for instance. The currencies were attacked and devalued, and their economies subsequently battered.

In time, the two economies recovered, only to be attacked again. This, he said, is a prospect which Malaysia wants to avoid.

"If the international community decides to regulate currency trading... and there is order... for managing exchange rates, then Malaysia will go back to the previous system," the Prime Minister said.

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