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Always be objective, analysts urged

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MARKET and economic analysts were told that they must always be objective and professional if they wish to win the confidence of investors and governments.

Second Finance Minister Datuk Mustapa Mohamed said the Asian financial crisis has shown that some analysts, especially the credit-rating agencies, could cause severe damage to economies with their assessments.

"We have no problems with objective assessments based on quality research and analysis, but we have problems when credit assessments are influenced by herd instincts, political considerations and the need to punish some over others if they do not toe the conventional wisdom line," he said when opening the Asian Securities Analysts Federation 1999 conference in Kuala Lumpur yesterday.

International rating agencies have come under fire for severely downgrading sovereign ratings of countries hit by the regional crisis of 1997. In Malaysia's case, a planned US road tour to raise funds last year had to be aborted after some of the agencies further downgraded the country's ratings on the eve of the mission.

With the dominant role played by analysts from outside the region, Mustapa noted it was timely that Asian analysts provide an alternative view.

"We have to seek to develop our own agencies and nurture our own core of institutions and expertise to provide the alternative opinion, when the need for one arises," he added.

Towards this end, he expressed hope that Asian analysts cooperate in establishing an Asian "voice" or opinion in the industry.

He noted that there has been a return of confidence in the region and in this transition period, inflows of long-term capital and investment are important.

Here, he reiterated the important role of securities analysts in influencing investment decisions.

"It would be helpful if you could advise investors to take a longer term view of their investments, as growth in this region should return to a more robust level beginning next year.

"As economists, analysts and fund managers, you have the power and ability to persuade or dissuade investors to invest in our economies...and the power to cause a run on our economies," he said.

In September 1998, Standard & Poor's downgraded Malaysia's sovereign rating from triple B plus to triple B minus. It followed Moody's downgrade of the country's rating to Baa3 from Baa2 a day earlier, placing Malaysia just a notch above junk bond status.

As a result of the slash in ratings, the cost of raising funds overseas became prohibitive and plans for a roadshow to tap the international bond market was called off.

Following this, Prime Minister Datuk Seri Dr Mahathir Mohamad called for the regulation of international rating agencies. Japan also criticised the actions of the rating agencies which had downgraded many leading financial entities in the region.

At the Asia Pacific Economic Cooperation Summit in Kuala Lumpur last year, leaders resolved to try and regulate the activities of these agencies.

The leaders called for a review of the practices of international credit

rating agencies and for these agencies to have greater accountability.
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