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MORGAN STANLEY-MALAYSIA

M'SIA IS ONE OF ASIA'S HIGHEST QUALITY CREDITS

KUALA LUMPUR, April 1 (Bernama) -- Malaysia is one of the highest quality credits in Asia, said Morgan Stanley Dean Witter, an investment house.

In its "Emerging Markets Research" released here today, Morgan Stanley said Malaysia's sovereign surpasses both regional neighbours and the average triple B credit terms of solvency and liquidity measures.

Malaysia, it said, is undergoing recovery much like South Korea, in both real sector and external liquidity position. The country's current account has shifted into a massive surplus, posting a 15 percent of Gross Domestic Product (GDP) last year against a 5.0 percent deficit in 1997.

Its economist, Tim Condon, expects that Malaysia's GDP to grow by 1.8 percent this year after contracting nearly seven percent last year.

Morgan Stanley also called on investors to overweight Malaysian assets and the Petronas bonds at 330 basis points over US Treasury bonds are cheap, relative to similarly rated bonds and can tighten by 55 to 70 basis points over a three-month horizon.

Referring to Malaysia's policy mix, it said they are sound and clear.

"Monetary policy is under tight control and fiscal policy is expansionary but within bounds of available funding," it added.

Morgan Stanley said the country's banking sector reform effort is comprehensive and well-designed.

From a credit perspective, it said Malaysia's external liquidity and solvency measures rank among the highest in the region.

Morgan Stanley said at about 43 percent of exports, Malaysia's external debt burden is very low relative to similarly rated credits.

"Malaysia's debt service burden is also well below those in its neighbours at roughly seven percent of exports," it added.

Morgan Stanley said Malaysia's liquidity ratios are "extremely high", adding that reserves of US\$28.7 billion cover short-term debt by four times, which is far above South Korea's very respectable 1.7 coverage ratio.

It also said lower than average debt ratios and higher than average liquidity ratios stand out as Malaysia's key strengths.

Morgan Stanley said that it would not be surprised to see rating agencies revise their outlook upwards to stable from negative over the next six months.

Incidentally, Standard & Poor's has revised its outlook on Malaysia to stable from negative today.

Meanwhile, Morgan Stanley viewed the upcoming national elections as a source of some uncertainty but not instability.

It also said that at this point there does not seem to be a viable opposition to challenge Prime Minister Datuk Seri Dr Mahathir Mohamad.

Given the ruling coalition's win in the recent Sabah state elections, it also appears that the party retains public support despite political events surrounding former deputy prime minister Datuk Seri Anwar Ibrahim and the deep recession.

Morgan Stanley said that it believes that the pace and strength of economic recovery would help determine when the elections are called. --

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