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RATING-UPGRADE LEAD

FITCH IBCA UPGRADES MALAYSIA'S LONG & SHORT TERM CURRENCY RATINGS

KUALA LUMPUR, April 26 (Bernama) -- International rating agency Fitch IBCA has upgraded Malaysia's long- and short-term sovereign currency rating to "BBB-" and "F3" from "BB" and "B" respectively.

The rating agency also upgraded Malaysia's long-term local currency rating to "BBB" from "BBB-".

It said this upgrade in Malaysia's long- and short-term foreign currency ratings reverses the downgrade in September last year.

Back then, Malaysia's long- and short-term foreign currency ratings were downgraded to "BB" and "B" from "BBB-" and "F3" respectively following the imposition of exchange control measures by Bank Negara Malaysia (BNM).

Announcing this at a press conference here today, Fitch IBCA managing director Sam Chin attributed the higher rating to a sharp reduction in short-term external debt and a restoration of international reserves to pre-crisis levels.

This has further enhanced Malaysia's superior external liquidity and debt fundamentals relative to its peers, he added.

Malaysia's determination not to seek assistance from the International Monetary Fund (IMF) was accompanied by an external adjustment swing from a current account deficit to a surplus in 1997/98 which exceeded 20 percent of Gross Domestic Product (GDP), Chong said.

Besides this, he said the exchange controls had been relaxed, with a graduated exit tax replacing a one-year holding period.

Contrary to expectations, Chong noted that the Malaysian government had moved ahead with financial and corporate sector restructuring and the economy is showing signs of recovery.

However, he said it remains unclear as to what extent private investor confidence had been damaged by the imposition of selective exchange controls while the fixed exchange rate (to the US dollar) remained a vulnerable point.

"So, too, is the political climate although it seems unlikely that the opposition will unify itself sufficiently to unseat Prime Minister Datuk Seri Dr Mahathir Mohamad in the elections due before May 2000," he added.

Sam attributed the ratings' upgrade by two notches largely to Malaysia's concerted efforts to reform its banking system.

"Malaysia had acted accordingly and fast enough to expedite the financial restructuring in its banking system through the buying of non-performing loans (NPLs) from local banks by the asset management corporation - Danaharta," he stated.

He explained that by establishing Danaharta and another vehicle Danamodal, to recapitalise the banking system, the government had moved decisively to contain the banking system's asset quality problems.

"The loans acquired and managed by Danaharta accounted for 17.4 percent of the banking system's end-1998 non-performing loans, using the three month default," he said.

The removal of such a large amount of non-performing loans from the banking system and the injection of capital into the undercapitalised banks, he said, significantly reduced the potential for systemic risk.

However, Sam reckoned that the recovery of Malaysia's banking sector will lag slightly somewhat behind the pace of the recovery of the entire economy.

He also expects the NPLs to continue to climb unless there is a real

upturn in economic activities.

"We expect the banking system's NPLs, including those taken over by Danaharta, to peak at 25 percent of the bank system's loans by the end of this year," he added.

Sam remains optimistic that now is the most opportune time for Malaysia to raise funds from the international capital market, following the spate of favourable ratings upgrade, not just by Fitch IBCA, but also by other international rating agencies.

"I think one can look for a lower cost of borrowings and Malaysia is currently in the best possible stand to borrow overseas, given its previous limited exposure to foreign debts," he said. -- BERNAMA

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