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Malaysia's sovereign rating up dramatically (HL)

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EUROPE's largest rating agency, Fitch IBCA, has restored Malaysia to investment grade yesterday by "dramatically" raising its sovereign rating two notches to triple B minus from BB.

The agency, however, dismissed suggestions that it had made a mistake when it downgraded Malaysia's rating last September.

Last September, Fitch had been quick to downgrade Malaysia's sovereign rating from triple B minus to junk bond status following the imposition of currency exchange rate controls and "attendant fears that this amounted to a rejection of the market discipline that has sped reforms in Thailand and South Korea."

The triple B minus rating given by Fitch is what has already been accorded to Malaysia by leading US rating agencies Standard & Poor's and Moody's Investors Service as well as Duff & Phelps Credit Rating Co.

Early in 1998, the European rating agency openly admitted that it had made a mistake in slashing South Korea's sovereign ratings from AA minus to a speculative B minus.

Singapore-based Fitch IBCA managing director Chin Teng Sam, when asked whether this meant the rating agency had been too hasty and overly pessimistic in its assessment of Malaysia, replied: "We have been, maybe a little"

He said this at a press conference yesterday to announce the broad improvement in emerging Asia's sovereign credit-worthiness including placing Thailand's BB+ and South Korea's BBB- foreign currency rating on Rating Alert positive.

In addition, Malaysia's short-term foreign currency rating has been raised to F3 from B and long-term local currency rating to BBB from BBB minus.

"In a sense we try to be as rational as we can from our years of experience. We look at probability of default and attempt to produce more accurate judgement (than the market), he said.

For example, he said, at one point the rating agencies were more positive than the market which was asking for Malaysian debt papers at 700 to 1,000 basis points over the US Treasury bonds.

He added that the magnitude of the surge in Malaysia's current account position was not anticipated and had taken everyone by surprise.

Explaining the upgrade in Malaysia's sovereign rating, Chin said, the country's determination not to seek assistance from the International Monetary Fund has been accompanied by a "very severe" external adjustment of a swing from a current account deficit to a surplus in 1997-98 exceeding 20 per cent of gross domestic product.

"A sharp reduction in short-term external debt and a restoration of international reserves to pre-crisis levels has further enhanced Malaysia's superior external liquidity and debt fundamentals relative to its peers," he added.

However, he said, the fixed exchange rate regime and slight increase in political risks (although the country continues to have a strong Government) and proximity to Indonesia given its uncertainties remain a concern.

He added though, that the concern over the fixed exchange rate regime is not so serious given that the ringgit is undervalued.

The move by the rating agency closely follows last week's announcement

that Malaysia plans to raise funds of about US\$2 billion (US\$1 = RM3.80) through issuance of bonds in the international capital market. Prime Minister Datuk Seri Dr Mahathir Mohamad had said the exercise will help improve the country's creditworthiness based on the willingness of foreign funds to take up the bonds and not because of the opinions of rating agencies.

On whether this means the rating agencies have changed their views on the currency exchange rate controls, he said, they have only because the measures have been relaxed and replaced by a graduated exit levy.

Chin added that, contrary to expectations, Malaysia has also moved ahead with financial and corporate sector restructuring and the economy is showing signs of recovery.

In fact, he said, South Korea and Malaysia have made the most progress in terms of banking sector restructuring because they were the most "interventionist".

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