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Nation riding out crisis, no thanks to rating agencies

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MANY may still remember the "bullish-on-bouncing-back" advertisement which was repeatedly aired over the broadcast media last year.

The advertisement depicted some Malaysians trying to raise the spirits of many more Malaysians during the difficult days of the recession.

This year, voices from abroad are joining in the bullish chorus and they include the likes of international rating agencies and investment bankers. Among the rating agencies, Fitch IBCA was one of the most vocal with much publicity in hand. It informed the press on Friday, two days ahead of a major announcement the following Monday.

In a refreshing change, Fitch - which is Europe's largest rating agency - restored Malaysia's sovereign rating two notches up to investment grade BBB- from BB, a junk bond status.

Only last September, Fitch had been quick to downgrade Malaysia's sovereign rating from triple B minus to junk bond status following the imposition of selective capital controls and "attendant fears that this amounted to a rejection of the market discipline that has sped reforms in Thailand and South Korea". Fitch was, of course, too hasty in coming to its conclusion and in rightly revising its rating, it has helped to improve Malaysia's financial standing in the world.

Fitch's Singapore-based managing director Chin Teng Sam has also stressed that Malaysia should allow a rating agency to "officially" rate its debt paper.

This is because investors may not accept the pricing of the issue which is based merely on the Government's recommendation or the word of an investment banker.

This suggestion comes in the wake of Malaysia's announcement of plans to raise funds of about US\$2 billion (US\$1 = RM3.80) through the issuance of bonds in the international capital market.

Prime Minister Datuk Seri Dr Mahathir Mohamad has 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.

Chin has also raised the question as to whether investors will accept (the recommendations of) investment bankers who work for the Government. The purpose of the rating agency, according to Chin, is to act as an independent third party which takes the investors' point of view.

But how independent is an international rating agency?

Rating agencies are commercial organisations that are profit-driven, relying on the supply and demand of the market. When such factors come into play, how does an organisation become independent when the market can dictate its operations?

As commercial enterprises that are market-driven, rating agencies' operations are certainly not exempt from abuse. Hence, the question of independence when it assigns a rating.

In addition, are the ratings done purely based on analysis of a country's economic fundamentals or does it merely follow ratings made by its competitors.

If one can recall, Fitch's revision came in a matter of weeks following the changes made by other agencies like Standard & Poor's and Moody's Investors Service which raised the outlook of Malaysia's rating to stable from negative.

The same scenario happened last year at a crucial juncture when Malaysia wanted to raise funds through a bond issue. A spate of downgrades ensued when one agency started downgrading and this quickly created a domino effect from others.

Rating agencies also make mistakes. Take for example in early 1998, where Fitch openly admitted that it was wrong in slashing South Korea's sovereign ratings from AA minus to a speculative B minus.

Ratings of these institutions carry a lot of weight in the international arena. It can help a country to raise much needed funds from the international bond market or it can deprive a country of funds and bring it down to its knees.

Such powers may not be equal to ones possessed by hedge funds but nevertheless, rating agencies need to be monitored. Who monitors them currently? Nobody.

Even Japanese Government officials have been proposing that international rating agencies themselves be rated.

One rating agency was reported to have said in the Financial Times last year: "We over-estimated the sophistication of Asian policymakers, who have proved good fair weather navigators but very poor sailors in a storm."

Malaysia has stuck to its guns without resorting to the International Monetary Fund. Our move has yielded results and we are riding out the financial storm.

In the light of Malaysia's success in forging its own road to financial and economic recovery, maybe the rating agency should re-think and assess again its views expressed last year.

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