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Response to bond a resounding vote

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FROM a candidate for International Monetary Fund "takeover" to a heretic and pariah of the free market, Malaysia has come a long way since those heady, uncertain days.

It started with the adoption of the IMF-sanctioned tight monetary policy by former Finance Minister Datuk Seri Anwar Ibrahim in the final quarter of 1997 which threatened to bankrupt the economy.

This was followed by the imposition of selective capital and exchange controls in September last year by the Prime Minister, Datuk Seri Dr Mahathir Mohamad, which saw the country being widely condemned and isolated by international financiers.

In recent months, however, a growing number of the people who ostracised Malaysia for implementing the controls have modified their stance, saying that the policy worked.

Hence, Thursday's successful launching of the country's sovereign bond in New York can be seen as marking not only Malaysia's return to the global capital markets but more importantly the acceptance of the country by global investors.

The US\$1 billion (RM3.8 billion) 10-year global bond was oversubscribed by 300 per cent although its rating, according to some analysts, was not as favourable as originally expected.

The bond, according to them, opened on the higher side - at 330 basis points over comparable US Treasury Bills.

But the same sources said over the next six months, the spread should get within 20 or 30 basis points of a similar bond issued by South Korea, and they considered the Malaysian bond a "good buy" given the current difficult market.

Reuters noted that Asian debt markets, smarting from a week of Latin American and Russian related tensions, welcomed the attractive pricing of Malaysia's bond.

The Government, which was led by First Finance Minister Tun Daim Zainuddin in the fund raising exercise, considered the success of the launch as a turnaround in investors' perception of the country.

Given the prevailing market conditions and the decline in the Emerging Market Bond Index, the 330-point spread is considered favourable. In fact, it fell to 300 points soon after Asian trading commenced.

The Government had originally intended to raise US\$2 billion from the exercise. But taking into account the wider than expected spread and the potential for continued unstable market conditions, the decision was taken to raise only US\$1 billion.

Speaking in New York, Daim said the Government's low financing requirements gave him the flexibility to determine the volume that met the objective of the bond issue.

AFP quoted a Singapore-based analyst as saying that the bond looks good from the buyers' point of view while the borrowing cost is not likely to be a major issue for the Malaysian Government.

Dr Mahathir said the overwhelming response reflected investors' confidence in the Malaysian economy and the acceptance that it was turning around.