

Fitch raises Malaysia's rating outlook from-stable to positive

FITCH Ratings has raised to positive, from stable, its outlook on Malaysia's creditworthiness for long-term foreign currency and ringgit debt.

This, in effect, puts Malaysia in the investment grade bracket, rating its long-term foreign and local currency debt at BBB and A respectively. Fitch's move yesterday followed similar action by rival credit rating agencies Moody's Investors Service and Standard & Poor's.

"Malaysia's positive outlook reflects accelerated corporate restructuring, a strengthening financial sector, continuing large current account surpluses and robust international liquidity," Fitch said in a statement.

"Near-term recovery prospects look good, with a strong fiscal stimulus supporting domestic demand and an expected upturn in the US set to boost export receipts," Fitch said.

South Korea, another export-oriented economy, which like Malaysia staved off recession despite a sharp drop in demand from the US last year, was rewarded with a ratings upgrade by Moody's last month.

Moody's lifted its outlook for Malaysia to positive last week. S&P was the first to make the switch, in early March. The improved outlooks could be a precursor to a ratings upgrade, which many analysts expect later in the year.

Fitch listed a few nagging concerns over Malaysia's future creditworthiness.

Those concerns included the two most often cited risks investors attach to the country: the durability of its fixed exchange rate regime and who will succeed Prime Minister Datuk Seri Dr Mahathir Mohamad.

"The ratings remained constrained by diminishing fiscal flexibility, rising yet manageable government debt and the fixed peg exchange rate regime," Fitch said.

Malaysia has kept the ringgit at 3.80 per US dollar since late 1998, when it ignored popular convention by fixing the exchange rate and imposing capital controls as protection against the Asian financial crisis. Virtually all capital controls have since been removed, but the peg remains.

Fitch said a sovereign upgrade for Malaysia would depend on the government's ability to consolidate its fiscal position, and the agency said it was encouraged that last year's federal government deficit was 5.5% of gross domestic product (GDP) rather than the budgeted 6.5%.

With more expenditure anticipated to cover significant contingent liabilities, Fitch said, federal government debt at 43.8% of GDP was "above the BBB median".

Fitch also raised the outlook on unsecured foreign and local foreign currency debt to positive from stable for Petroliam Nasional Bhd, whose foreign currency debt is rated at BBB and local currency debt at A. -Reuters