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Fitch raises Malaysia's rating

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INTERNATIONAL rating agency Fitch Ratings has upgraded Malaysia's foreign currency rating to BBB+ from BBB.

The upgrade, which enables the country to tap funds at more competitive rates, "highlights Malaysia's impressive external adjustment since the Asian financial crisis".

Fitch said the Government's continued efforts to push through corporate and financial sector restructuring augured well for the country's medium-term economic growth prospects.

"The agency also extends a cautious welcome to recent announcements on political succession, while continuing to express reservations about the current economic policy mix in the context of a fixed exchange rate regime," it said in a statement released yesterday.

Fitch is the first of the three major international rating agencies to raise Malaysia's credit rating this year.

In June, Moody's Investors Services announced a potential upgrade, citing the country's strong external indicators as well as good progress in bank and corporate reforms.

Two months earlier, rival Standard & Poor's (S&P) had raised the country's ratings outlook to "positive" from "stable", a prelude to a potential upgrade.

Following Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement of his intention to step down in October next year, both agencies reaffirmed their positions on Malaysia's credit ratings.

In yesterday's announcement, Fitch also upgraded Malaysia's local currency rating to A from A minus, citing a stable outlook.

Fitch expects Malaysia to ride out the current uncertain external environment relatively well, given its high current account surplus and comfortable external liquidity position.

The agency noted the "good progress" in addressing corporate restructuring issues, while the banking sector has also remained resilient.

"More importantly, debt restructuring is being accompanied by asset sales, spinning off of non-core businesses as well as management changes in some of the heavily-indebted companies, which should make these corporates more resilient in times of economic stress," it said.

On the ringgit peg, Fitch said Malaysia had sacrificed an important element of policy flexibility with its continued adherence to a rigid exchange rate while the absence of an exit strategy remains a source of uncertainty.

It noted that pressures on the exchange rate had subsided in the current environment of a weaker US dollar and low global interest rates.

"Nonetheless, the cost of maintaining the peg has been high in terms of capital flight since 1999 and it could easily become so again," it said.

On further improvements in the country's creditworthiness, Fitch said it will depend on the Government's ability to engineer a fiscal consolidation programme that leads to a progressive decline in its debt burden.

Externally, the rigid exchange rate regime will put a high premium on sound macro-economic policies, a continuing strong international liquidity position and a well-managed external debt burden, it added.