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`Potential rating upgrade for Malaysia on track'

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MOODY'S Investors Service says Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement of his intention to step down next year has not affected its decision to consider the country's rating for possible upgrade.

It is maintaining the review of Malaysia's foreign currency ratings as announced on Monday, it said in a statement on Wednesday.

In view of Dr Mahathir's surprise announcement at the Umno general assembly last weekend, some credit analysts had wondered if Moody's review would be affected.

In response, Moody's said the succession issue had been taken into consideration, and Dr Mahathir's announcement was consistent with its analysis.

"Moody's believes that Malaysia's institutional framework is stable and that the succession process is fairly clear," it said.

The agency added that it does not see any impact on Malaysia's strong economic and financial indicators from the change in leadership.

Moody's has placed on review for possible upgrade Malaysia's Baa2 foreign currency country ceiling for bonds, Baa3 for foreign currency bank deposits, and Prime-3 for short-term foreign currency. It cited as reasons for the action the country's strong external indicators as well as good progress in bank and corporate reforms.

However, the review does not cover ringgit-denominated debts, which are currently rated A3.

The move comes two months after both Moody's and rival agency Standard & Poor's had raised the country's ratings outlook to "positive" from "stable".

"They are looking at the country's economy and fundamentals... if there are political uncertainties, they could take that into account later," said Suresh Menon, executive director of Rating Agency Malaysia Bhd.

But the reading is a smooth transition is expected, he added.

A Reuters report out of Hong Kong had quoted Desmond Supple, Barclays Capital managing director, as saying: "The fact that the (Moody's) announcement did not mention (Dr) Mahathir's resignation suggests... bad timing and/or myopia."

The report said Supple's views were echoed by a host of investment bank analysts, although most of them had been anticipating Moody's move, given an improvement in Malaysia's economic fundamentals and a recent upgrade for South Korea.

"They have done it for South Korea and were simply moving on to Malaysia," Suresh said.

On the banking front, Moody's review may lead to upgrades for six banks in Malaysia, whose debt and deposit ratings are currently constrained by the foreign currency country rating ceilings.

They are Malayan Banking Bhd, Bumiputra-Commerce Bank Bhd, RHB Bank Bhd, Public Bank Bhd, HSBC Bank Malaysia Bhd and Standard Chartered Bank Malaysia Bhd. However, their individual financial strength ratings are not affected.

Also headed for an upgrade is state oil company Petroliam Nasional Bhd, whose existing long-term foreign currency rating of Baal is one notch above that of the sovereign ceiling.

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