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S&P affirms ratings, sees no near-term policy drift

Habhajan Singh

INTERNATIONAL rating agency Standard & Poor's (S&P) says the announcement of the succession plan for Malaysia's political leadership has effectively addressed near-term policy uncertainties.

As such, the agency affirms all of its ratings on Malaysia.

The affirmation comes two days after rival agency Moody's Investors Service said Prime Minister Datuk Seri Dr Mahathir Mohamad's announcement of his intention to step down in October 2003 has not affected its decision to consider the country's rating for possible upgrade.

Industry observers believe that Fitch Ratings, another international rating agency, may be making a similar announcement soon.

On April 9, Fitch had placed Malaysia's triple-B long-term currency rating on positive outlook, meaning that it could be upgraded in the near future.

"The succession plan has effectively reduced the near-term uncertainty in Malaysia's policy environment," Chih Wai Liew, sovereign credit analyst at S&P, said in a statement yesterday.

"For the next 15 months until the official transfer of power, Umno leaders are expected to present a cohesive front and avoid a major leadership tussle that could lead to policy drift," he added.

And S&P expects the Malaysian Government's economic policies and its commitment to corporate restructuring to be maintained under Datuk Seri Abdullah Ahmad Badawi.

Among the ratings affirmed is the foreign currency triple B.

Nevertheless, S&P cautioned that Abdullah may face challenges in the longer term. "In particular, a perceived weak showing by the ruling coalition at the next general election, due by January 2005, could erode his position," it said.

Looking forward, S&P said a rapid improvement in Malaysia's fiscal balance, consistent pursuit of corporate restructuring, and government moves toward less interventionist economic management would strengthen Malaysia's credit standing.

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