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Fitch upgrade lifts investors' confidence

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INTERNATIONAL rating agency Fitch Ratings' upgrade on the outlook of Malaysia to positive from stable has been discounted by investors, and has not caused any significant impact on financial markets like bonds and equities, the investment fraternity said.

Nevertheless, the rating agency's upgrade has strengthened investors' perception of the sound fundamentals of the Malaysian economy and financial markets.

Bond executives and traders said the Fitch upgrade was expected.

"The upgrade is pleasant and helps to reiterate investors' confidence in the economy and its future prospects. More importantly, the upgrade would help to boost foreign investors' sentiments in the local financial markets," a bond trader added.

Investors are now more focused on current developments in the region, like the Indonesian election and the recent unrest in Southern Thailand.

Fitch revised the outlook on Malaysia's long-term foreign and local currency ratings to positive from stable, reflecting diminishing political transition risks following the recent landslide election victory by the United Malays National Organisation (Umno) and the ruling Barisan Nasional.

The long-term foreign and local currency ratings are BBB+ and A respectively and the short-term foreign currency rating is F3.

The rating agency said the strength of support received by the BN and Umno in the recent elections has substantially buttressed Prime Minister Datuk Seri Abdullah Ahmad Badawi's position within Umno, and more or less rules out the possibility of any major threat to his leadership when Umno conducts internal elections later this year.

This helps to cement the smooth transition of power following 22 years of rule under Tun Dr Mahathir Mohamad and mitigates political uncertainties that had previously been seen as an important constraint on the country's sovereign creditworthiness.

However, Fitch said Malaysia's fiscal performance continues to constrain its sovereign ratings. The rating agency said it recognises that the recent cancellation of a number of high-profile public investment projects will augur well for the fiscal policy outlook, and notes the pick-up in revenue growth towards the end of 2003.

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