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Nation poised for rating upgrades by global agencies

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INTERNATIONAL rating agencies may rate Malaysia's sovereign credit upwards

within the next six months, a securities firm says.

Affin-UOB Securities Sdn Bhd said Malaysia's economic fundamentals have

improved and the country is ripe for upgrades by these agencies.

It said Malaysia's economic fundamentals have been further strengthened

by the sustained rise in Malaysia's external reserves since mid-March.

As at June 13, the country's external reserves stood at a record high of

RM139.7 billion, enough to sustain 5.7 months of retained imports and 4.6

times the country's short-term external debt.

"However, any delay in Malaysia's sovereign credit rating will be related to the international rating agencies' assessment of the new leadership, the political landscape and impact of government policies following the transition of power when Prime Minister Datuk Seri Dr Mahathir Mohamad steps down in October," Affin-UOB said in its latest research note.

Currently, Malaysia's sovereign credit are rated "Baal" by Moody's Investors Service, and "BBB+" by Standard & Poor's and Fitch Ratings.

Affin-UOB also revised its year-end external reserves forecast to RM150

billion from RM142.5 billion due to the sustained trade surplus of RM56.6

billion this year which had resulted in continued inflows from export earnings repatriation.

Last year, Malaysia enjoyed a trade surplus of RM51 billion.

The Government's plan to issue another tranche of Global Islamic Bond (Sukuk) soon is one of the reasons for Affin-UOB's revision of its external reserves forecast.

Others include the prospect of fresh inflows of foreign portfolio funds,

the plan to introduce measures and incentives to boost inflows of foreign

funds into the country's capital market, and the revaluation gains in the

holding of other currencies in the external reserves on expectation of a weak US dollar this year.

Bank Negara Malaysia attributed the rise in external reserves to the repatriation of export earnings, inflows of foreign portfolio funds and foreign direct investment. Exporters are bringing back their earnings to Malaysia due to the higher returns on local deposits.

Currently, three-month fixed deposits earn 3 per cent interest per annum, which is more than double the 1.2 per cent per annum yield on three-month US dollar deposits overseas.

"The recent upturn in the local stock market saw the return of

interest

from some foreign portfolio investors, especially hedge funds. These inflows offset the outflows due to payments for import bills, some repatriation of profits and dividends as well as repayment of foreign debts," it said.

According to Affin-UOB, other economic fundamentals are also looking positive for Malaysia, such as the expected pick-up in the economy over the next 18 months amid signs of US economic growth, the containment of the Severe Acute Respiratory Syndrome and the expected positive impact of

the Malaysian and the US economic stimulus packages.

Continued improvement in the banking sector with banks recording stable profits, falling non-performing loans and the strengthening of the risk-weighted capital ratio also contributed to better fundamentals.