Credit agency disappointed by GST postponement
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Malaysia needs to implement structural fiscal reforms like a goods and services tax in order to improve its credit rating, said Fitch Ratings.

Its Asia sovereign ratings director, Andrew Colquhoun, said structural reforms to raise government revenue as a percentage of gross domestic product (GDP) in a sustainable way and a broader structural economic reforms to increase the investment rate to give longer-term growth prospects were needed.

azlanThe rating agency last June cut Malaysia's local currency ratings to "A" from "A+" due to concerns over the country's growing budget deficit which hit 7.4 percent of GDP in 2008.

He said the government planned to narrow the fiscal deficit to 5.6 percent of GDP this year but has shied away from measures to reduce fuel subsidies and introduce new taxes.

"Disappointingly, fundamental reforms to budget revenues with the introduction of goods and services tax have been postponed.

"That kind of reform and structural improvements in the budget revenue are what we are looking for to restore positive pressure in the credit ratings," he told reporters after Fitch Ratings's 2010 credit briefing today.

He said reforms had the potential to significantly improve the public finances on the structural side.

Outlook for Asian banking systems

Meanwhile, Fitch Ratings' senior director of Financial Institutions Asia, Ambreesh Srivastava, said outlook for Asian banking systems was expected to be better this year.

"In 2009, sector return on asset (ROA) rose in Indonesia, the Philippines and Vietnam, and was stable in Singapore and Thailand.

"Malaysian banking sector's ROA was down due to one-off goodwill impairment at Maybank, excluding which ROA would have been relatively unchanged," he said.

On local banks, Ambreesh said, the rating outlook was mostly stable, but positive rating actions were possible for a few banks whose financial profiles had improved despite the recent downturn.

He said under Basel 3 framework, banks were required to increase their tier-1 core capital ratio and this would result in moderation in return on equity (ROE).

"But capital position may need to be strengthened if the bar is raised significantly," he said.

The Basel 3 framework is scheduled for implementation by end-2012.

"If the bar is raised, I won't be surprised if there are some negative implications on ROE for the local banks," he said, adding that most local banks were at eight per cent and above.

Ambreesh said the banks, however, were likely to have adequate time to do so should this happen over the medium term.

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