Doubts weigh on markets

Reforms continue to be salient factor in Fitch's credit view of M'sia

PETALING JAYA: Malaysia's economic outlook remains in the balance as sentiments reflecting the political uncertainties, including the Bersih rally over the weekend, continue to weigh on the capital markets.

The fourth Bersih rally took place over Saturday and Sunday in the capital city and several other cities around the world, with participants calling for electoral reforms, transparency and the right to demonstrate.

Fitch Ratings Asia Pacific sovereign ratings head Andrew Colquhoun said in a press release that progress in fiscal consolidation, the resilience of growth and renewed pressures on external finances remain more important for now in the assessment of the country's credit trajectory.

He added that the weakening external accounts were a more pressing credit risk, as pressure on the balance of payments had intensified, with foreign reserves falling a further 10% to US$95bil by mid-August compared with end-June.

The ringgit has also been among the weakest emerging-market currencies year-to-date, depreciating by about 19% versus the US dollar.

There were also broader structural reasons for the country's external account pressures, given the capital investments under the Economic Transformation Programme.

Colquhoun said reforms continue to be the salient factor in the rating agency's credit view of Malaysia's rating, but noted that large demonstrations in Kuala Lumpur over the weekend highlight ongoing political volatility in Malaysia.

He said weak governance had been factored into the sovereign rating.

"The recent political uncertainty in Malaysia falls in line with the country's relatively weak governance ranking. World Bank governance indicators place it in the 62nd percentile, well below the median for 'A'-rated countries, which is around the 75th percentile," he said, adding that the country scored particularly poorly on the "voice and accountability" and "political stability" indicators within the governance rankings.

Colquhoun said the country's robust long-term average real economic growth and deep domestic capital markets must be set against weak governance standards in the assessment of credit fundamentals.

However, he added that significant progress had been made on reforms to improve the fiscal accounts over the past 18 months, with the most notable being the introduction of a 6% goods and services tax (GST) in April 2015, and reforms to the fuel-subsidy programme.

Nonetheless, further fiscal measures would be needed to achieve the Government's longer-term plan of a balanced budget by 2020.

Colquhoun said any back-tracking on these reforms due to political volatility would be considered a credit negative.

The rating agency had revised Malaysia's sovereign credit rating to "stable" from "negative" in July after earlier warning that the country faced a credit rating downgrade after having its outlook downgraded to "negative" in July 2013.

Meanwhile, Moody's Investors Service analysts said in a report that the ongoing political uncertainty could chip away at reserves and the growth outlook, both of which have been buffers against market volatility but have trended downwards this year.

The analysts said should business confidence and capital inflows continue to weaken, they would gradually erode the support that reserves and growth had offered thus far.

They expect continued political uncertainty to dampen business sentiment and economic expansion, with growth to come in at 4.8% this year compared with last year's 6%.