

DJ: Malaysia Moves to Develop MYR Bond Market Further

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KUALA LUMPUR (Dow Jones)--Following the success of supranationals in issuing ringgit bonds in the past year, the Malaysian government announced Tuesday it will open the country's domestic capital market to foreign sovereign and quasi-sovereign borrowers.

As part of efforts to develop its MYR300 billion domestic bond market, the government will also introduce bond pricing agencies and tighter regulations governing local credit ratings agencies.

Second Finance Minister Nor Mohamed Yakcop said Tuesday the new measures will help the corporate bond markets grow and become more transparent.

"Following the success of the bond issues by supranational agencies and to satisfy investor demand for more high credit quality bond issues, the government will soon extend this policy initiative to bond issues by sovereigns and near-sovereign agencies," Nor Mohamed said.

Demand, by investors hungry for high-grade bonds, hasn't been satisfied as the government issues less treasuries. The government's funding needs have eased in part because it is aiming for a smaller fiscal deficit.

Corporate issuance, meanwhile, has been concentrated more in the higher-yielding, mostly mid- and lower-rated debt sector.

That demand for highly rated paper will only grow.

Days earlier, the government raised the limit of bond investments for life insurers, among the largest long-term investors in the high-grade bond market.

Issuance of ringgit bonds by supranational agencies, such as the World Bank, Islamic Financial Corp. and the Asian Development Bank, received strong investor interest. However, just MYR1.6 billion have been issued by supranationals so far.

While letting other governments and their state agencies issue in Malaysia would help meet this demand, the decision will also allow these high-grade borrowers to capitalize on the country's relatively low interest rates, analysts said.

Malaysia's policy rate stands at 3.0%, and the central bank is expected to increase it by another 50-75 basis points this year to curb inflation and excessive capital outflows. But at 3.75%, its policy rate would still make Malaysia's interest rates among the lowest in the region.

Two Bonds With Strong Local Ratings Defaulted Last Year

Malaysia expects a spate of costly infrastructural projects to require funding in the months ahead. These include oil & gas and water services providers which are expanding their operations domestically and overseas.

Thus, its planned measures can be seen as a preparation for the funding needs to come.

"The measures will increase the depth of the bond market and make it more liquid and they will allow Malaysia to boost its ratings standards," said Baljeet Grewal, head of fixed income and chief economist at one of the country's largest investment bank Aseambankers Bhd.

The proposed measure regarding credit rating agencies comes after two small issuers failed to make repayments to bondholders last year.

Bond defaults are not common in Malaysia, but tighter control over credit ratings will increase investor confidence and attract more foreign funds to the domestic bond market, analysts said.

Last August, battery manufacturer ABI Malaysia defaulted on a MYR80 million Islamic bond while heavy vehicle manufacturer Pesaka Astana didn't make payments on its MYR140 million Islamic bond.

Both bonds were given strong local ratings of A-ID and A+ID respectively, before the defaults.

"In developing the corporate bond market as a viable source of cost efficient funding, it is essential that we maintain constant vigilance to ensure that investor interest is protected at all times," Nor Mohamed said.

Details of the bond-pricing agencies and tighter rules for credit rating agencies will be unveiled by the end of this week by the Securities Commission, the industry regulator, Nor Mohamed added.

Rating Agency Malaysia, one of the country's two local ratings agencies, plans to launch the country's first bond pricing agency via its associate company BondwebMalaysia Sdn. Bhd.

Such agencies, common in developed economies, provide credible, reliable and independent pricing to investors and boost trading. Only 2%-3% of the more than MYR300 billion outstanding corporate and government bonds are traded daily, market participants estimated.

The availability of independently derived bond prices is critical to unit trust firms, which are among the country's largest bond investors, analysts said.

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