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Why the ringgit is declining

COST OF LIVING

WHY THE RINGGIT IS DECLINING

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CONCERN about the ringgit's value against the US dollar reveals Malaysians' interest in this important issue, indicating that our nation is deeply integrated with the global economy.

Our total trade, export plus import, makes up more than 150 per cent of the gross domestic product. It exceeded 200 per cent some years ago.

Any shock in the global economy will impact ours. When exchange rates decline, exporters are happy, but they remain quiet, while importers will cry and complain.

The central bank also benefits from exchange rate decline as it values its reserves in local currency, though in times of currency appreciation, it may suffer some losses.

Malaysia has experienced both. In the mid-1980s, the ringgit was very strong, about RM2.50 to US$1, leading to a deficit in our trade balance as imports exceeded exports. The economy experienced a decline of about one per cent in 1985.

This forced the government to implement liberalisation and deregulation measures to enhance competitiveness and attract investments.

In 1997 and 1998, the ringgit declined markedly and the economy went into tailspin.

A big factor in this East Asian contagion was the large inflow of short-term capital into our stock market between 1994 and 1997, creating a property boom and economic bubble.

The inflow left in 1998, forcing Malaysia to carry out capital control and peg the ringgit. The economy contracted by more than seven per cent.

Malaysians are concerned again about the decline of the ringgit.

They should be, as it has contributed to the rising cost of living as many of our food items are imported.

The main reason is the rising US dollar, which is the consequence of rising interest rates in the United States way above that of many countries, leading to large inflow of currencies into the US in search of higher return.

Consequently, other currencies declined in value in relation to the US dollar.

Why the ringgit's decline seems larger than other currencies' fall may need some explanation.

The fact that several currencies saw single-digit declines while ours hit double digits shows that other factors are at play.

The outflows were mainly and expectedly from the stock market, which is by nature volatile, as short-term capital is always in search of profit from the fluctuations in the market or from expectations of interest rise or capital and currency appreciation.

There have been many measures to control currency decline in the past.

We can support the ringgit by selling our US dollar reserves.

We can also ask our companies to bring back their export earnings immediately and convert them into ringgit.

We can even ask our government-linked companies to bring their foreign savings on shore to check the slide in the ringgit.

Bank Negara Malaysia has also increased the Overnight Policy Rate (OPR) a few times to contain outflows.

This has caused uneasiness among businesses due to the increased cost of loan repayments.

There is a limit to this measure as we do not know how long the high interest rate in the US will prevail.

We are quite sure Bank Negara has analysed all the options to control the ringgit slide.

It has two main committees to advise its position, the Monetary Policy Committee and the Financial Stability Committee.

Its recent decision not to raise the OPR augurs well for businesses at a time when the economy is still recovering from the Covid-19 crisis between 2020 and 2022.

The fact that this position was taken without political intervention speaks well for the autonomy of Bank Negara.

Bank Negara governor Datuk Shaik Abdul Rasheed Abdul Ghaffour recently said the ringgit could be undervalued.

Others say the ringgit decline is mainly structural, caused by the movement of short-term capital, but not long-term investments.

The number of investments the Malaysian Investment Development Authority has approved do indicate a significant rise in 2021 and 2022 compared with earlier years.

This is a more accurate reflection of investors' confidence.

The strengthening of the domestic economy should remain everyone's concern, especially firms listed in our stock market.

Firms should work hard to enhance shareholder values and rely less on transactional and speculative motives and sentiments. It is the economic fundamentals that really matter.

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