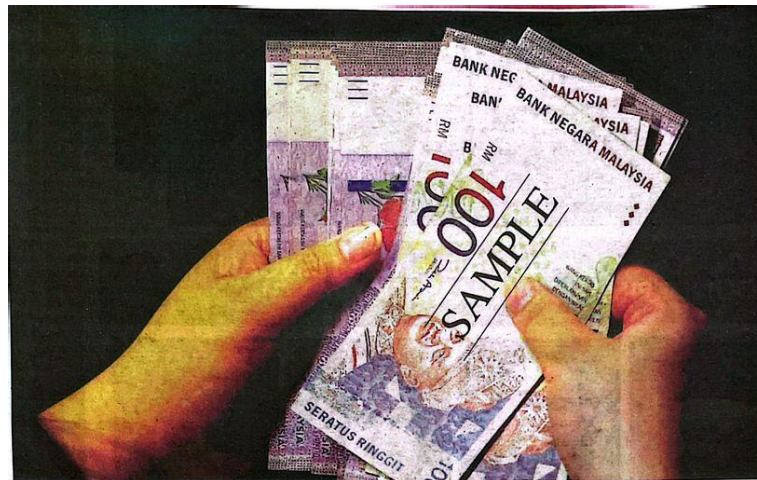


KERATAN AKHBAR

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Focus on long-term measures to strengthen ringgit



Structural reforms with a commitment to tackle graft and encourage innovation are critical to ensure economic growth and a strong ringgit. FILE PIC

CURRENCY DEPRECIATION

FOCUS ON LONG-TERM MEASURES TO STRENGTHEN RINGGIT

THE recent depreciation of the ringgit has raised concerns among the public. However, the movement of the ringgit is not unique to Malaysia's currency.

For example, China and Japan have announced that they will curb excessive depreciation of their currencies. In Thailand, the baht recently hit a seven-month low, which analysts attributed to the strong dollar.

Comparisons between the ringgit and the Singapore dollar isn't helpful. Structurally, our economies are different.

While Malaysia's trade to gross domestic product ratio is quite high at around 130 per cent, Singapore relies much more on trade with their trade to GDP ratio at around 340 per cent, almost three times as much as Malaysia.

Therefore, Singapore cannot afford to allow its currency to depreciate significantly or its whole economy will be impacted. Consequently, the Monetary Authority of Singapore (MAS) controls monetary policy via exchange rates, not interest rates.

Looking at the issue from an

interest rate differentials perspective, Malaysia's overnight policy rate (OPR) is back to the pre-pandemic level of three per cent as of May.

The key policy rates of the United States Federal Reserve (pre-pandemic: 2.75 per cent; now: 5.25 per cent) and MAS (pre-pandemic: 2.8 per cent; now: 3.8 per cent) have increased significantly.

Our interest rate used to be higher than the US and Singapore pre-pandemic but is now much lower than theirs. Naturally, funds would flow into their economy purely because of the higher rates.

This does not mean Bank Negara Malaysia (BNM) should follow suit and raise the OPR at such a rapid pace. I'm sure most of us would struggle if interest rates on our loans went up as fast as in the US or Singapore. Overall, the discourse surrounding the ringgit is too focused on short-term thinking rather than longer-term structural reforms.

We must shift the discourse away from short-term measures, such as the nitty-gritty of subsidies, cash handouts, short-term ringgit movements and OPR.

We should discuss more on how

can we undertake structural reforms that can transform Malaysia into a globally competitive economy.

Malaysia has transitioned from a primarily agriculture and mining economy in the colonial era, to a manufacturing-based one in the 1990s.

But, our economy has somewhat stagnated since. We are still growing but not as much as our peers. In the global economic race, we will need to keep up with the other economies or be left behind.

There are two key issues that we need to tackle for long-term prosperity.

FIRST, innovation. Our economy currently lacks impactful innovation. Malaysia has an abundance of talent, but we fail to address the brain drain. Many of our bright minds are contributing to the development of other countries.

There are just not enough high-paying and high-quality jobs in our country.

Our industries have an overreliance on cheap foreign labour, which impedes innovation. Underemployment in Malaysia is close to one million people, that's around five per

cent of the labour force. This statistic should worry us.

SECOND, the issue of political stability and corruption. Looking at the ringgit from a longer-term perspective, the currency depreciated sharply around 2015 and settled into a new long-term average (in economic terms, a structural break).

According to the World Bank Worldwide Governance Indicator, the measure for political stability and control of corruption similarly declined sharply post-2015.

Thus, there needs to be a clear commitment to tackle corruption that scares away investors.

It is high time for us to take heed of the alarm bells that have been ringing since 2015 and undertake structural reforms to not only encourage innovation but also tackle corruption.

It is critical for us to shift the discourse towards long-term measures that will help our country achieve greater economic growth. When we achieve that, the ringgit will naturally appreciate.

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