

KERATAN AKHBAR

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Ringgit value-Keep faith in our economic fundamentals



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Our total trade, exports plus imports, makes up over 150 per cent of GDP; it even exceeded 200 per cent years earlier.

Any shock in the global economy will definitely impact ours.

As always, when exchange rates decline, the exporters are happy but they remain quiet, while the importers will cry and complain.

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

Malaysia had experienced both. In mid-80s, the ringgit was very strong, about RM2.50 to a US dollar, 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 liberalization and deregulation measures to enhance competitiveness and attract investments. In 1997/1998, the ringgit declined markedly and the economy went into tailspin.

A big reason of this East Asian Contagion, was the large inflows of short-term capital into our stock market during 1994-1997, creating a property boom and bubble economy.

These same inflows left in 1998, forcing Malaysia to carry out capital control and peg the ringgit.

The economy contracted by over seven per cent.

Malaysians are now concerned again with the decline of the ringgit.

They should be, as it had contributed to the rising costs of living given that many of our food items are imported.

The main reason was the rising US dollar which was the consequence of rising interest rate level in USA way above that of many countries, leading to large inflows of currencies into the USA in search of higher return.

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

Why the decline in our currency seems larger compared to the experience of other currencies may need some explanation.

The fact that several currency declines were in a single digit decline while ours touched double digit shows that other factors may also be relevant.

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 declines 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 GLCs to bring their foreign savings on shore to check the slide in the ringgit.

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

This has caused uneasiness among businesses from increased costs of loan repayments.

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

We are quite sure the BNM has analysed various options to control the ringgit slide.

For this purpose, it has two main committee to advise its position, namely, the Monetary Policy Committee and the Financial Stability Committee.

Its latest position not to raise the OPR augurs well for businesses at this time when the overall economy was still recovering from the Covid crisis on 2020-2022.

The fact that this position was done without political intervention speaks well for the autonomy of the BNM.

In any event, new BNM Governor, Datuk Rashid Ghafur, recently said that the ringgit could be undervalued.

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

On this latter matter, the numbers of approved investments by MIDA do indicate a significant rise in total approved investments in 2021 and 2022 compared to earlier years.

This is a more accurate reflection of investors' confidence.

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

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

* The writer is Adjunct Professor at the International Institute of Public Policy and Management (INPUMA), University of Malaya