

Shall government intervene and support our Ringgit and stock market?

The recent underperformance of the Ringgit and stock market has sparked concerns among the public, highlighting the limited understanding of monetary policy and the capital market. Bank Negara Malaysia (BNM) has indeed intervene our Ringgit performance since pegged our Ringgit RM3.80 to USD. Since its depegging in July 2005, BNM has practiced a managed float system for the Ringgit. This entails allowing market forces to determine the currency's value while strategically intervening to stabilize fluctuations as needed. As of June 15, Malaysia's international reserve stands at approximately USD 113 billion (RM 527 billion), a portion of which BNM utilizes to support the Ringgit. However, BNM typically aims to maintain the reserve above USD 100 billion as a rule of thumb.

The challenge lies in striking a balance between supporting the Ringgit and preserving the reserve. Economic Minister YB Rafizi Ramli has expressed a preference for investing in projects that benefit the people rather than using the reserve to prop up the Ringgit during the 12th Malaysia Plan mid-term review engagement session with the Sabah government at the Sabah International Convention Centre last week. However, it's crucial to differentiate between fiscal and monetary policies, with fiscal matters falling within the government's jurisdiction and monetary affairs under BNM's purview. Consequently, the reserve cannot be directly allocated for fiscal purposes.

The principal factor affecting the Ringgit's performance is the spread in interest rate between the United States (US) and Malaysia. With the current US interest rate standing at 5.25% compared to Malaysia's rate of 3%, there is a high tendency for capital flight from Malaysia to the US as investors seek higher returns. Raising Malaysia's interest rate to match that of the US could soar the anger and impose additional financial burdens on the public as it will increased borrowing costs and monthly repayments, particularly in the post-pandemic period when individuals and businesses strive to rebuild.

Turning to the capital markets, foreign institutions invest in Malaysia through two primary channels. Firstly, they bring capital into the country for establishing factories and businesses. Secondly, they invest in Malaysian stocks, bonds, government securities, and other financial instruments. The latter avenue is particularly relevant in this context.

Foreign investments in Malaysia's capital markets offer flexibility, allowing institutions to buy and sell assets rapidly, even within a single day. We do not impose any capital control like we did in 1998. Monitoring the weekly activities in Bursa Malaysia, with a specific focus on the volume of selling by foreign institutions, provides insights into this aspect. When the United States offers superior returns, foreign institutions tend to divest their Malaysian holdings, convert their funds into USD, and redirect their investments towards the US market. This capital outflow contributes to the weakening of the Ringgit.

Supporting the capital market during a period of weak Ringgit can be likened to exacerbating the problem. It's like rubbing a salt into the wound. Foreign institutions tend to sell off their holdings, leading to a decline in our stock market. Malaysia has experienced the consequences of attempting to support the stock market in the past. In 2015, an injection of RM20 billion through ValueCap yielded unfavorable outcomes. Considering that this funding originated from revenue generated by economic activities, the statement made by the Economic Minister holds merit. It would be more prudent for the government to utilize taxpayer money to assist the people and spend in sectors with promising growth potential, particularly in agriculture and start-up businesses. By directing resources towards these areas, Malaysia can foster sustainable development and create opportunities that benefit the wider population. This approach would enable the government to prioritize the well-being of its citizens while simultaneously supporting the economy, rather than burning taxpayers money in stock market.

In conclusion, careful management of the Ringgit and the capital markets is necessary to address the concerns surrounding their performance. It requires a nuanced approach that accounts for the delicate balance between currency support, reserve preservation, and the dynamics of foreign investments. BNM should actively support the Ringgit while taking into consideration the preservation of the reserve. Given their expertise, BNM is best positioned to determine appropriate measures for stabilizing the currency's performance.



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