

Fix competitiveness to fix ringgit



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Ringgit will stabilise. If the positive and negative things I mention happen, it can bounce back to 4.30, 4.20 quite easily, says Tan

by **HABHAJAN SINGH**

SLIDING competitiveness over the years has been a major contributor to the weakening of the Malaysian currency, with failure to reform.

"This phenomenon of the ringgit weakening against the US dollar is a temporary thing," said Capital Dynamics Asset Management Sdn Bhd MD Tan Teng Boo.

"My gut feel is that where we are now — 4.70 to 4.80 against US dollar — is about the peak already. The ringgit will stabilise. If the positive and negative things I mention occur, it can bounce back to 4.30, 4.20 quite easily," he said, alluding to, among other things, the looming possibility of a US recession and a strong rebound in China's economy.

"I will welcome the US recession especially when China's economy will grow faster in 2024. This is like a perfect calm," he told reporters recently in Kuala Lumpur.

However, a survey conducted by the US National Association for Business Economics projected a much better outlook for the US economy than what business economists were forecasting just a few months ago.

In a post on X (formerly Twitter) last month, World Bank chief economist Apurva Sanghi wrote: "Weak MYR is ultimately a symptom of long-term decline in Msia's competitiveness."

In another post, he wrote: "MYR suffers mostly from long-term decline in MYR's competitiveness. If you take care of this decline — which policymakers are attempting to do — MYR will take care of itself."

In the last two weeks, top officials from the Finance Ministry and Bank Negara Malaysia (BNM) have come out saying that ringgit was undervalued. This was precipitated by the mounting pressure on the government when ringgit slid to almost 4.8 against the greenback on Feb 20, its lowest since January 1998 when the Asian region was staring at a financial meltdown.

Finance Minister II Datuk Seri Amir Hamzah Azizan, for example, told the Dewan Rakyat on Feb 29 that the Malaysian currency was undervalued between 8% and 10%, citing analysis by several bankers.



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The following are extracts from Tan's lengthy presentation at the media conference.

Ringgit

We expected ringgit will stabilise against the US dollar.

This phenomenon of ringgit against the US dollar is a temporary thing. Sanghi had said that ringgit weakened for one simple reason – what I've been saying for many years – that Malaysia is not competitive anymore.

After the 1997 economic crisis, Malaysia did not reform. IMalaysia Development Bhd (IMDB) is only a marginal factor. The main factor is Malaysia's failure to reform in 1997 compared to South Korea, Thailand and Indonesia.

The Japanese yen – the strongest currency once upon a time – has plunged 50% against the US dollar. It did so because the greenback is strong.

Based on our analysis of economic factors, ringgit will stabilise. If the US goes into recession, the US stock market crashes and then the US Federal Reserve (Fed) cuts the interest rates like mad, ringgit may come back to 4.00, 4.20. If you're not so optimistic, 4.20 to 4.40 in 2024. It depends on Fed. It has nothing to do with our economic policies. The likelihood of going back to 3.00 or 2.50 (to US\$1), those days are gone.



Amir Hamzah told the Dewan Rakyat on Feb 29 that ringgit was undervalued between 8% and 10%

Politics at Play

Inflation and exchange rate are the two most complicated subjects in economics.

Under the current government, ringgit has weakened only very slightly. It has been dropping for many years now. If you want to blame the current government, then you're becoming political, you're engaging in political debate rather than economics debate. The movement has been pretty slight and what can the government do in a short period of time.

The other currencies – yen, baht, rupiah, rupee – all had weakened. It's the US dollar that is strong. You can increase the Overnight Policy Rate (OPR), say from 3% to 5%, then the economy may crash. But you still might not be able to strengthen ringgit. Then the currency market will keep attacking you.

Those people talking about a weak currency should have talked about it 30 years ago.

US Recession

A lot of it depends on the Red Sea crisis and the Panama drought, and the US interest rates. The feeling in the US is that inflation is under control. (If inflation returns), Fed will have no choice but to increase interest rates. (When that happens) emerging countries will suffer again. But that will most likely push the US economy into recession.

Chances of a US crash is not that low. But good for us because then the US interest rates will plunge, ringgit will strengthen. Not just ringgit — the Thai baht, Indonesian rupiah, Japanese yen will all strengthen. When US interest rates drop, it will stay low for some time.

Interest Rate Differential

The interest rate differential between ringgit and the greenback has been the widest for a long time. This is a temporary phenomenon. Interest rate differentials cannot forever determine currency rate. Structural factors will determine the long-term direction of currencies, not interest rate differentials. Temporary could mean 1–3 years. (The OPR has been kept at 3% since May 2023).

Once US interest rates go down, Malaysia does not have to do much because we did not increase (the OPR) that much. Then, the interest rate differentials will narrow. Now it is about 2% plus. If it narrows to 1% or less, ringgit will strengthen. Foreign funds don't just come in for listed companies, they also come in for our bonds. Malaysian government bonds are highly rated.

Current Account

Our exports are recovering, so the current account to GDP ratio should recover in 2024.

In 1980 to 1997, Malaysia suffered massive current account deficits. If you're a currency trader or speculator, this is an important indicator. It means that this country's economy, especially if you're a developing country, is vulnerable to external shocks, to currency devaluation. Malaysia's current account to GDP deficit in 1994 and 1995 was almost 10%, worse than what Greece experienced in 2008. So, it was not surprising we (currency) got whacked.

We also had a currency crisis that nobody talks about in the mid-80s, when ringgit went down. So, if you want to determine the long-term of ringgit, look at the current account to GDP ratio. A country is competitive when you're able to persistently experience current account surplus.

Singapore has a current account surplus most of the time. People ask why is the Singapore dollar strong? It's because they have a current account surplus. The same with the Japanese yen. Why the Chinese yuan cannot be attacked? It's because China also has a current account surplus. This is important especially if you're a developing country.

If Malaysia's current account situation (today) were like in the mid-90s, ringgit could be at 6.00 or 7.00 to US dollar.

Fortunately, our economic structure now is dominated by semiconductors, which are global (in nature). If the US is in recession, I can export to China or European Union (EU) or Japan. You can still enjoy a current account surplus, especially if the current government can really attract, not just announcing that I'm going to invest so many billions, and the money for those foreign direct investments (FDIs) are actually committed to Malaysia. Then our current account surplus will be even stronger.

Real Effective Exchange Rate

The real effective exchange rate (REER) compares a nation's currency value against the weighted average of the currencies of its major trading partners. It is an indicator of the international competitiveness of a nation in comparison with its trade partners. The formula is weighted to take into account the relative importance of each trading partner to the home country. An increasing REER indicates that a country is losing its competitive edge. A nation's nominal effective exchange rate (NEER), adjusted for inflation in the home country, equals its REER.

So, you don't just compare ringgit to greenback. On the REER perspective, Malaysia's currency performance is about the same with neighbouring countries such as Indonesia, Thailand and the Philippines. Sometimes a bit weaker, sometimes stronger, but overall, the trend is more or less the same with our neighbours. So, from a currency point of view, I'm not particularly worried from a long-term point.

Competitiveness

What did Thailand, Indonesia and South Korea do after the 1997's financial crisis? They really reformed.

First, they closed companies that cannot do well. It meant that the unemployment rate went up. Our unemployment rate never went up. Those companies that should not survive, did not survive. In our case, we try to build them up.

We ignored our education. At the end of the day, the economy depends on the skills of the people. We have allowed too many universities to be built, producing the same degrees, and degrees that the business sectors are not looking for. We should have focused on a few postgraduate universities producing Masters and PhDs.

Even in the semiconductor industry, we are not on the high-end side like Taiwan or Japan, but at the lower-end. To move up to the higher-end, we need the Masters and PhDs in electrical engineering in Mathematics and Physics, but we don't have local universities producing enough of these people. Our education direction was wrong. It was not about the language you teach. The TVET (technical and vocational education and training) is to allow Malaysia to make-up for lost time to regain our competitiveness.

Ringgit weakening against the Singapore dollar and the US dollar is not new. It has been happening for the last 40 years, because we have lost our competitiveness. When you lose your competitiveness, you have to cheapen your currency, you have to *jual murah* your currency.