

**Najib, 1MDB and the ringgit**  
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COMMENT At the height of the Asian financial crisis of 1998, currencies of countries like South Korea, Thailand and Indonesia basically plummeted, forcing them to seek help from the International Monetary Fund or IMF. The ringgit was not immune, falling from RM2.50 to the US dollar to as badly as RM4.80 in a space of months.

They were rough times - not only was there a currency crisis starting with the Thai baht and spreading to the Indonesian rupiah and the South Korean won, but Malaysia was also in the throes of a major political crisis between its then-prime minister Dr Mahathir Mohamad and his then-deputy Anwar Ibrahim.

That exacerbated the ringgit decline, although Malaysia never did have to resort to IMF's help. Then as now, as seen in the unfolding situation in Greece, the standard IMF prescription was a bitter dose - higher interest rates, austerity, cutbacks and so on.

In 1998 Malaysia was being sucked into the vortex of the currency whirlpool, with the threat of being pulled under with the rest of the weak currencies. Defending the ringgit was becoming an enormous burden on reserves and driving interest rates higher. And the politics was really getting bad.

Mahathir's solution was simple but had major ramifications. He imposed capital controls, making it impossible for traders and speculators to get their hands on the ringgit, and pegged it at RM3.80 to the US dollar. Then he removed Anwar from all government and party positions and had him arrested first under the infamous Internal Security Act and then charged with sodomy, being held for trial without bail.

Through the storm of the next two years, as Malaysia attracted international condemnation but nevertheless put in place its monetary easing policies like lower interest rates and greater availability of funds to aid economic recovery, the ringgit remained rock solid as the peg held at RM3.80 to the US dollar.

But now that level has been breached. On July 6, it hit a near 17-year low when it closed above RM3.80 to the US dollar. Never had it gone above that level since the ringgit was refloated in 2005 as part of measures to ease capital controls in Malaysia. (More ringgit per US dollar means a lower ringgit value.)

And this is despite Fitch not downgrading Malaysia as expected but instead upgrading the outlook to stable.

Why was the ringgit so weak? Yes, Greece was a factor - in a referendum on July 5, the majority of Greeks voted against austerity measures the European Central Bank or ECB and the IMF were about to impose on the debt-laden country.

## **Economic ramifications**

But surely the economic ramifications on Malaysia, which has very little trading with Greece, are minuscule. Is the economic situation as bad as it was in 1998? The answer has to be no.

Perhaps it is 1Malaysia Development Bhd or 1MDB and all its unanswered questions. But that's not new any more which is not to say the concerns have disappeared.

But something else happened before the Greeks had their referendum. On Friday, July 3, the Wall Street Journal (WSJ) reported that some US\$700 million (RM2.6 billion) found its way into accounts in the name of Prime Minister Najib Abdul Razak at AmIslamic Bank. The major part of US\$681 million or 97 percent was transferred in March 2013, less than two months before the last general election in May 2013.

The prime minister's office issued a denial of sorts saying that the PM has not taken any money for personal gain but this did not address the specific issues raised by the article. The journal has stood by its report, even releasing documents in support of the article.

Some cabinet ministers, including Najib's deputy Muhyiddin Yassin, have said that the PM needs to clarify and urged him to sue WSJ if the reports were untrue. Instead, so far, Najib's lawyers seem to have only sought a clarification from WSJ, sending a letter to WSJ owners Dow Jones, asking if the WSJ was implying that there was misappropriation of US\$700 million by Najib from 1MDB. That was not what the WSJ said in its article.

But back to the implications on the ringgit. The main reason for the ringgit's weakness and that of the stock market is because of the increased uncertainty this report raises both in terms of governance and political stability.

A sitting prime minister has been accused by a reputable financial newspaper of receiving not RM1 million, not RM10 million, not RM100 million, not RM1 billion, but RM2.67 billion - a huge sum of money by any standards anywhere - with names and account numbers given. Nothing like this has ever happened in Malaysia before.

If this is true, what does it say for Malaysia? It means we have poor standards of governance and enforcement. It means we tolerate the illegal move of money and money laundering. If this is true, what was the source of the money and what was it used for? Is the government clean?

If this is true, can Najib survive politically? His deputy is already indicating that he wants explanations and that is exactly the mood everywhere. Tell us clearly what happened. Were there such accounts? Were the monies transferred into the accounts? What were they used for?

Najib had earlier announced the postponement of Umno polls, which would now be due

only sometime in mid-2018, around the same time the next elections are due. It looked like Najib was digging in for the long haul and that his position was ensured for the next three years.

### **Throwing everything into limbo**

But these allegations throw everything into limbo. If there are no adequate explanations coming forth from Najib, the pressure from within his own party to step down will increase further. Increasing disillusionment among an already disillusioned public makes it more untenable for him to lead the party into the next elections.

The allegations have renewed concerns as to who will take over from Najib if he should be forced to step down and raised anew fresh concerns about governance within government in Malaysia. That means sustained weaknesses in the ringgit and the local bourse until the murky situation clears somewhat.

But does the ringgit really deserve to be trading at around RM3.80 to the US dollar? Probably not, considering the greater severity of the 1998 crisis. But short-term sentiments in the market are difficult to reconcile with.

The real problem arises if enough Malaysians start losing confidence in the ringgit - that will happen if they lose faith in the government altogether. If that happens, even Bank Negara's reserves of over US\$100 billion may not be enough to hold the ringgit up.

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