

Gov't to use state funds to lift stocks, rules out forex intervention

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Reuters

Malaysia will use its state funds to put a floor under the country's battered stock market, though currency intervention and interest rate hikes are ruled out as tools to keep sharp falls in the ringgit in check, its deputy finance minister said.

The world's second-largest exporter of liquefied natural gas has been hit by the collapse in global crude prices that added to the pains of an economy grappling with mounting household debt.

Foreign investors have trimmed exposure to Malaysia, causing its stock and bond prices to tank. Its currency, down 16 percent this year, remains vulnerable to further falls against the dollar as the US Federal Reserve eyes raising interest rates.

Asked whether state investment funds are ready to prop up slumping domestic stock prices with purchases, Johari Abdul Ghani said: "Yes, our state fund is quite big right now, in the sense we always have ample space" to absorb any sell-off by foreign investors.

"Every year these (domestic) pension funds are getting new funds almost close to RM40-50 billion (US\$9.7-12.0 billion), so I think there is enough for them to continue buying while waiting for external factors to improve," he told Reuters on Saturday during his visit to Lima for the World Bank and International Monetary Fund meetings.

Malaysian markets may face a temporary setback from an expected US rate hike but if the Fed wanted to raise rates, it would have to do so quickly as markets "don't like uncertainty" on when it will happen, Johari said.

He stressed that the government does not see an immediate need to take steps to defend the ringgit and will leave markets to determine its levels.

"Pegging (the ringgit to the dollar) is out of the question," as well as direct intervention to prop up the currency or imposing capital controls, Johari said.

"We do a lot of trade with a lot of countries ... We allow markets to find their ways," he said.

An interest rate hike by Malaysia's central bank is also ruled out as an option to rein in declines in the ringgit as it would hurt households with high debt and cool consumption, Johari said.

Malaysia has sufficient foreign reserves to weather further declines in its currency and can repatriate profits or liquidate assets its state funds hold overseas if needed, he added.

"Our financial system is very solid compared to 1997-1998," when Asia suffered from a

financial crisis. "I think we're ready to face the headwind."

Johari also said the government will liquidate assets of heavily indebted state fund 1Malaysia Development Berhad (1MDB), including its energy and property investment, by early next year that will raise enough funds to avoid a bailout.

- Reuters

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