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# Interest hike, foreign bond-holdings factors behind ringgit's decline

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*Malaysian bonds have high foreign holdings, with some 34% of the total controlled by non-resident holders, says Najib*

by P PREM KUMAR

TWO factors that caused the depreciation of the ringgit against the greenback are interest-rate alarm by the US Federal Reserve (Fed) and holding of Malaysian bonds by foreigners, said Prime Minister Datuk Seri Mohd Najib Razak.

Najib, who is also finance minister, said Fed interest-rate hike caused outflow of funds from the country that directly affected the local currency.

He said Malaysian bonds also have high foreign holdings, with some 34% of the total controlled by non-resident holders.

"The interest-rate hike in the US has caused the non-residents who are holding Malaysian bonds to do portfolio rebalancing, which will involve outflow of funds," he told the Dewan Rakyat yesterday.

"A total of 34% of the bond market is held by non-resi-



Pic by Muhd Amin Naharul

**BNM reserves will continue to be a cushion to the excessive fluctuations in the financial market, says Najib**

dents. This is a good and bad phenomenon not only for Malaysia but for the region."

Najib added that the declining value of the ringgit is mostly due to changes in the flow of funds, which are influenced by external factors.

These include the expectation that the interest rate in the US would rise faster, uncertainties in global crude oil price and the fear on China's economic growth rate and its financial market.

Apart from the US, Najib said political developments in the UK and Europe also have influenced the demand in fast developing markets.

"These factors have given negative effects on most currencies of the rapidly developing nations and the region," said the prime minister.

On short-term measures to address the decline of ringgit, the government will ensure that the foreign-exchange (forex) market is not affected

so that economic activities are not hampered.

At the same time, Najib said the position of Bank Negara Malaysia's (BNM) reserves amounting to US\$95 billion (RM420.85 billion) will continue to be a cushion to the excessive fluctuations in the financial market.

BNM will also continue to provide liquidity in the local market to ensure a stable and orderly situation, he said.

According to Najib, the

Financial Market Committee and BNM have also taken measures to promote a value protection market and overcome the imbalance in the national forex market.

"These included ensuring the exchange in export earnings in foreign currencies to the ringgit. The inflow of forex from export earnings into our market will boost forex liquidity in the domestic market," he said.

Despite the announcement of these measures made only two months ago, Najib pointed out that there are signs of encouraging results where the fluctuations in the value of the ringgit have stabilised significantly.

As such, Najib urged certain parties to stop indulging in activities that could lead to economic sabotage for the country.

He said the views and opinions made without facts aimed to undermine the national economy may create sentiments that affect its performance.

"As such, this should not be continued although we have political differences, and national interest should not be gambled away in matters concerning party politics."