

Weaker ringgit means higher costs, economists warn
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By Sheridan Mahavera

Malaysia's largest consumer group has warned everything from food to diapers would cost more just as Malaysians are reeling from the goods and services tax (GST).

Federation of Malaysian Consumers Association (Fomca) said this was due the fall of the ringgit to a 9-year low which pushed the cost of importing raw materials and finished goods, leading to higher retail prices in the coming weeks.

The ringgit's plunge, say experts, is another element choking the economy at a time when the country suffers from low oil revenues, high debt and inflation.

Bank Negara insists the plunge is temporary and that the country has strong fundamentals to weather its impact.

But some economists argue that the weakness of the currency reflects the state of the economy itself.

"The value of a country's currency is like a thermometer to the health of its economy," said Tan Sri Ramon Navaratnam, a former deputy secretary-general of the Finance Ministry, adding that currently, the readings were not good.

And if the economy gets "ill", it could mean harder times for everyone.

Fundamentals

On June 9, the ringgit fell to RM3.77 against the US dollar, the lowest in 9 years and close to the RM3.80 peg during the Asian economic crisis.

In a statement to Bloomberg the same day, Bank Negara governor Tan Sri Dr Zeti Akhtar said the currency was not trading at levels which reflect the fundamentals of the Malaysian economy.

"Fundamentals" are the basic pillars of a country's economy. According to the Investopedia website, they include rates of employment and inflation, gross domestic product (GDP), private consumption, all of which can affect the value of a currency.

Economist Azrul Azwar Ahmad Tajuddin (pic, left) echoed Bank Negara's sentiment, saying that the ringgit was grossly undervalued and that was a temporary, cyclical phenomenon, not a "structural" problem that reflects weak fundamentals.

The country's economy is stronger now than it was in 1997-98, when it was plagued by low foreign reserves, a plummeting equity market, high non-performing loans and default rates, said Azrul.

Economists quoted by The StarBiz said it was actually the dollar's value that went up against other currencies due to a strengthening US economy.

Perception drives value

Ramon, however, points to the fact that the ringgit is also sliding against other currencies such as the Singapore dollar, now at RM2.80.

Decades ago, the Singapore dollar and the ringgit were almost the same value.

"The weakening of the ringgit is over several years compared to the currencies of Taiwan, Hong Kong and South Korea. So it's difficult for us to accept that this decline is temporary, it's a trend," said Ramon who heads the Centre for Public Policy Studies (CPPS).

The problem is perception, and negative perceptions about the health of the economy and Putrajaya's management of it can affect the sentiment towards the ringgit's value.

The government's credibility in managing the economy, said Adjunct Prof Tan Sri Kamal Salih of Universiti Malaya, is important, and affects how players in the market feel.

"Our high level debt, for instance, is a structural problem and it impacts upon the perception of market players," said Kamal (pic, right) of UM's Faculty of Economics and Management.

Confidence in the economy goes down according to confidence in the ringgit, said Ramon.

When this happens, the negativity towards the economy and the ringgit starts to reinforce each other.

Low confidence in the economy affects foreign direct investment, and private capital starts flowing out of the country, said Ramon (pic, left).

As such, he said Putrajaya must come to grips with this plunge in confidence and start combating corruption, adopting good governance and deal with issues such as the 1Malaysia Development Berhad (1MDB) saga.

Cons and pros

A low ringgit has pros and cons, said Azul, and benefit exporters as well as those in the tourism sector and foreign investors just setting up shop.

However, industries that need to import raw materials may suffer from rising costs and see lower profits.

"So far, Malaysian exporters seem to have failed to capitalise on the weaker ringgit since gross exports plunged by 8.8% in April 2015.

"If falling exports become a permanent trend over the next few months, only then this would be a real cause for concern."

But a real cause for concern now is the rising price of goods.

Fomca said since Malaysia imports a lot of fresh food, the prices for these will certainly go up.

"Prices are going up but incomes are not," said Fomca secretary-general Datuk Paul Selvaraj (pic, right).

As businesses start seeing their costs go up because of the weak ringgit, they will be less likely to raise wages.

As inflation goes up and consumption goes down, it adds more negative perception towards the economy and in turns impacts the value of the currency.

"Investors look at all these factors so the government should not see this slide as temporary, and come to grips with it," said Ramon. – June 22, 2015.

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