

Dwindling reserves not a concern, no need for ringgit peg, says Zeti
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By Elizabeth Zachariah

Bank Negara Malaysia (BNM) governor Tan Sri Zeti Akhtar Aziz today reiterated that the central bank has no intention of pegging the ringgit to another currency, dismissing concerns over the dwindling foreign exchange reserves, which have reportedly dropped below US\$100 billion (RM409 billion) for the first time since 2010.

She insisted that Malaysia had a "strong and resilient" financial system and had "high financial reserves" which were meant to serve as buffers at times like these.

"That is what reserves are for – to represent buffers during this period. We have told the private sector that they have to strengthen their buffers," she told reporters after the launch of the Global Findex Database 2014 in Kuala Lumpur today.

"There were periods when our currency appreciated, we appreciated much more than others. And so now, the depreciation, we are depreciating more than others.

"So there is no intention of moving to a less flexible regime like pegging our ringgit," she said.

The ringgit has fallen 12.32% this year, making it one of the worst performing Asian currencies. It is now trading at levels of 4.0945 to the US dollar after breaching its 17-year low of 3.9365 against the greenback last week.

Zeti said that leaving the ringgit to adjust itself would allow the economy to remain more stable.

"There are three factors that will adjust when we have external development – domestic prices, aggregate demand and the exchange rate.

"If you can't adjust the exchange rate, the other two will adjust and the consequences will be much worse," he added.

She also said that the foreign exchange reserves have dropped to below US\$100 billion before.

"We have held more than the amount of reserves our country needs, precisely for reversals," she said.

"We received surges of in-flows and that's why the reserves increase. There is no issue to be concerned about."

The central bank governor also claimed that certain measures were taken "long ago" to develop the financial market to enable it to be more mature and as such, is able to absorb the volatility of the ringgit.

"The measures that we have taken, have been done long ago and these are measures of developing our financial market so that they are more matured and able to absorb this volatility. This is a period of adjustment for the entire world.

"But when there's more certainty about policies in the major economies, then stability will be restored," Zeti said, adding that the dropping oil price was one of the factors causing the emerging global currencies to depreciate against the US dollar.

The ringgit began to weaken in September 2014, when global prices of commodities fell.

Between September and July this year, the country's foreign-exchange reserves fell by more than US\$35 billion (RM143 billion) to less than US\$100 billion (RM409 billion).

In 1998, during the Asian financial crisis, then prime minister Tun Dr Mahathir Mohamad imposed capital controls and pegged the plunging ringgit at 3.80 to the dollar. The controls were lifted in 2005. – August 20, 2015

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