

Malaysia's bond market will not collapse, says Zeti
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By Eileen Ng

Malaysia's bond market will not collapse as local funds will step in to fill the void and invest in the market, assures Bank Negara Malaysia (BNM) Governor Tan Sri Zeti Akhtar Aziz, amid concerns over the weakening ringgit and economic slowdown.

Despite foreign investors withdrawing their money out of the country, Zeti said this would not impact on the bond market much.

"We have our own domestic institutional investors like EPF, PNB, Tabung Haji," she said, referring to retirement fund Employees Provident Fund, fund management company Permodalan Nasional Berhad and pilgrims fund Lembaga Tabung Haji.

"The insurance industry is a major player in the bond market so our own institutional investors will step in to purchase those, so we don't expect any collapse to our bond market," she told reporters after delivering her address at the "Malaysia-OECD High-level Global Symposium" on financial well-being today.

Malaysia's currency and economy are suffering from "an almost perfect storm", according to a Reuters report quoting Datuk Seri Abdul Wahid Omar, due to an outflow of funds from emerging markets, low oil prices and slowdown in China.

Wahid said the country was better placed than in the 1990s Asian financial crisis to ride out the hard times.

The ringgit, Asia's worst performing currency, has lost a quarter of its value against the US dollar this year and fallen to its lowest levels since the Asian financial crisis 17 years ago.

Bonds have also fallen.

Echoing Wahid's assurances, Zeti said today Malaysia has demonstrated it can live with uncertainties and still survive.

"If there is any setbacks, we have shown time and again we have been able to recover from the setbacks quite quickly and this is what policy makers try to ensure – that this will still hold even during periods like this," she said.

Citing an example, Zeti said during the 2008/2009 global financial crisis, there were huge outflows which were much more significant than what the country is seeing now.

She said Malaysia was still able to "intermediate" those flows and not face any disruption to its credit flows and its financial system remained efficient.

"This demonstrates we have a degree of maturity. Therefore, the fact there is some

sell-off on our bonds, we have a financial system that could intermediate this kind of without being disrupted.

"It still continues to function, it has not prevented corporations from raising funds, (it) has not disrupted credit supplies," she added.

She also said the central bank has no plans to introduce capital controls, including pegging the currency, despite the ringgit freefall.

This is because the country has adjustable market mechanism and fundamentals that allowed for adjustments as well, she said.

"When the uncertainty subsides, then our currency will regain its strength again," she added.

Zeti said BNM had also not detected any signs that the ringgit volatility had affected imports on capital and consumption goods.

"But I am sure there will be threshold levels where it might begin to have an impact, we have to monitor it and see the incoming information, but so far our track record and experience have shown that global and domestic demand has been important in effecting imports and exports.

"We have done many studies over several periods of time and episodes and they haven't indicated that exchange rate is significant in explaining our export performance or our import," she said.

She also dismissed concerns that Malaysia's sluggish economy will be a weaker link to the countries in the region, and trigger a contagion effect.

"They should assess what we look like and highlight what areas of vulnerabilities they think we are facing," she said and listed the country's strengths which included a solid financial system, well developed bond market and a favourable growth rate.

Zeti, however, said Malaysia has some vulnerabilities due to it being a commodity and oil producing country, but was quick to point out that the country has diversified its economy so that 80% of it are manufacturing and services sectors. – September 30, 2015.

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