

'RCI on forex losses an embarrassment for Mahathir'

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An opinion piece in The Straits Times recounts events of the 1990s when Bank Negara was riding high in the forex markets, and ignored a warning by the US Federal Reserve to watch it.

KUALA LUMPUR: The proposed Royal Commission of Inquiry into Malaysia's massive forex trading losses in the 1980s and 1990s will prove to be an embarrassment to Dr Mahathir Mohamad, even if no fraud or fault is uncovered.

An opinion piece in Singapore's The Straits Times by associate editor Ravi Velloor says it is not easy to predict if the inquiry will have its intended outcome.

"However, by stirring skeletons thought to have been buried a quarter-century ago, it will certainly embarrass the grand old man of Malaysian politics in the twilight of his long and remarkable life."

He notes that officials of that period may have difficulty explaining why they did what they did despite being warned against it by the US Federal Reserve.

The Prime Minister's Office announced the RCI to look into Bank Negara Malaysia's (BNM) forex losses in the 1980s and 1990s on June 21, on the recommendation of a special task force.

The chairman of that task force, Mohd Sidek Hassan, had said its investigation found that "the figure is greater than what was disclosed" and that an RCI would be able to uncover more.

The task force was set up after Abdul Murad Khalid, a Bank Negara assistant governor then, revealed that BNM had suffered US\$10 billion in foreign exchange market losses in the early 1990s, much higher than the figure of RM9 billion disclosed by BNM.

Delving into the past, Ravi notes that BNM was speculating heavily in the global currency markets then and "betting spectacularly wrong".

He says under Jaffar Hussein, who took charge of BNM in June 1985, and his key deputies such as Nor Mohamed Yakcop, BNM had acquired the reputation of a feared foreign exchange operator.

“By some accounts, it had clout enough to move currency values by up to 5%, often choosing times of relatively thin trading to drive a currency in one direction and then taking profit as markets followed.”

However this reputation collapsed on Sept 16, 1992, later labelled Black Wednesday, when the sterling was devalued. BNM recorded a forex trading loss of RM9 billion. In the following year, as it unwound more of its trades, it would report another RM5.7 billion loss.

Ravi says that a quarter-century later, it is not easy to say what went wrong, but that one plausible explanation is that BNM had had excessive confidence in its ability to read the markets.

He points out that three years earlier, in 1989, the US Federal Reserve had advised BNM to curtail its foreign exchange forays, which often exceeded US\$1 billion a day.

“The Fed told Bank Negara it was out of proportion to Malaysia’s then forex reserves of about US\$7 billion.

“The warning was ignored because Bank Negara had a track record of big wins, contributing to a doubling of Malaysia’s foreign reserves between 1985 and 1991- a fact, no doubt, that the royal commission will be asked to consider by those under scrutiny today.”

Ravi says that both Jaffar and Dr Mahathir had defended their actions following the losses, with Jaffar saying: “In hindsight, it is apparent that we made the wrong decisions, but we had to act the way we did. If not, the loss might have been even more.”

Ravi goes on to say that other central banks were also into forex speculation then, including the Bank of England and the central banks of Spain, Portugal and the erstwhile Soviet Union.

Ravi concludes: “Were it not for the inquiry commission, Dr Mahathir would probably respond with his characteristic soft chuckle if asked about those days. But given his strident opposition to the man he helped elevate after toppling Tun Abdullah (Ahmad) Badawi – making him an implacable foe of Datuk Seri Najib (Razak)’s – it may be more than a laughing matter and the stakes way higher than they were in 1992.”

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