BNM to spend billions in ringgit intervention

Defence at expense of BNM's foreign reserves, resulting in a negative by-effect on the ringgit

by ALEXANDER WINIFRED

MALAYSIA'S central bank may spend billions to continue defending the ringgit in coming weeks from external factors and local concerns weighing down the embattled currency, which slumped 8% this year against the dollar.

If Bank Negara Malaysia (BNM) intends to continue or step up intervention activities, it will do so at the expense of its foreign reserves, resulting in a negative by-effect on the ringgit, said Roshi Yaakop, a former deputy BNM governor.

"The authority needs to seriously consider imposing capital controls or pegging the ringgit to the dollar," said the former top government official, who worked abroad in finance and now runs a foreign-exchange (forex) business in Kuala Lumpur.

The ringgit slid over the last two days to as low as 3.8922 versus the US dollar at one point, erasing gains made in an earlier rally in China's stock market.

Maintaining the value of the ringgit at 3.8 against the dollar will cost BNM's reserves to deplete quite sizably over a prolonged period, warned Rosli.

"Efforts to intervene have so far had little effect," he said. Trying to push the ringgit to 3.80 or lower could cost the bank "many billions," he said.

BNM's foreign reserves are valued at US$172 billion, was not included in the A-G report.

The Malaysian Reserve weekly report last week that estimated roughly RM20 billion could have been used to support the ringgit this year.

Malaysia's gross domestic product grew 5.6% in the first-quarter of 2015, but the A-G or the PAC did not investigate the RM20 billion could have been used to support the ringgit this year.

"The A-G or the PAC did not investigate the causes of the ringgit's steep slide," the report said. "The A-G or the PAC did not investigate the causes of the ringgit's steep slide."