Zafrul: Country not in crisis

Inflation in check, GDP continues to expand

ECONOMY

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KUALA LUMPUR: Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz says the weak ringgit does not automatically imply that the country is in an economic crisis.

However, he also noted that there was a need to brace for any possible slowdown in major global economies next year and that this would need to be addressed in the coming Budget 2023.

"The ringgit is influenced by the movements of currencies across the world – including the main export partners of Malaysia. We are not in a currency or financial crisis like back in 1997 which is being claimed by certain parties," Tengku Zafrul told a press conference at the "Developing and Financing Green Housing in Asia" event by Cagamas Bhd.

"Even though the ringgit has fallen, other currencies have fallen in tandem with some at a greater measure such as the Japanese yen, British pound, etc. The yen, for example, has fallen to its lowest level in about 24 years, and the sterling is at its lowest level in about 37 years," he noted.

Tengku Zafrul stressed that the country was "not in a crisis", noting that inflation levels were in check while the gross domestic product (GDP) continued to grow, noting "this does not indicate an economy which is in crisis".

"A flexible exchange rate for the ringgit is an important policy to maintain in ensuring the economy is able to absorb and flatten out the shocks to the system, to also support domestic economic activities in an uncertain economic environment," Tengku Zafrul said.

"Bank Negara will always ensure a domestic financial market which is stable, implementing proactive measures to ensure ample domestic liquidity and a financial market

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which is stable to determine the ringgit's level," he added.

The Finance Minister anticipates 2023 to present a more challenging global economic environment, which will impact all countries, including Malaysia.

"In Budget 2023, we should see what can be done to mitigate this economic slowdown. Since our trade-to-GDP is 120%, we need to do the necessary.

"To say that we will not be affected by a global slowdown is not true. But do note again that these are all forecasts," he said.

He said that all major economies are expected to slow down next year unlike in 2008 which saw China's GDP growth remaining strong and holding up global economic growth.

Commenting on the subsidy policy for items such as fuel and basic food ingredients, he said this had helped keep inflation by and large in check.

"Actually if you realise it, we have one of the lowest inflation rates in the world.

"Inflation was at 4.4% in July but for the first seven months of this year, inflation was at 2.8% and this is because the subsidies and price controls that have been imposed on several items have helped to keep a lid on inflation," Tengku Zafrul said.

"If we had not had a subsidy policy in place, the inflation rate in the country is expected to be higher at 11% to 12%.

"Being a net commodity exporter has helped as well with subsidies," he added.

Tengku Zafrul noted that inflation was influenced by supply and demand – as the economy grew stronger, more and more people would buy and sell goods, pushing prices up because of the stronger demand.

Tengku Zafrul also said there were no immediate plans for a peg of the ringgit to the US dollar.

He said the ringgit was being influenced by many factors, mainly due to the expected rate hikes by the US Federal Reserve (Fed).

This, he noted, would increase the US financial assets' attractiveness such as the 10-year Treasuries compared to the rest of the world because of its safe-haven status.

"There are no plans at this point in time for a currency peg to the US dollar as this has high risks and trade offs.

"If there is a peg, Malaysia has to follow the monetary policy of the currency it is pegged to," he added.

Tengku Zafrul said a peg would mean the people of Malaysia would need to pay a high cost to maintain the peg, even though the economic situation here is not the same as in the United States.

"This would also necessitate capital controls to prevent currency outflows.

"Capital controls would be needed to be successful in pegging the ringgit.

"If we do something like that, we would lose the freedom to decide on our own monetary policy.

"If it is pegged to the US dollar, then our monetary policy would have to mirror the monetary policy in the United States.

"This would affect foreign investor sentiment towards the country," Tengku Zafrul said.

This would mean Malaysia would be at the losing end.

This is given that inflation levels here are lower than in the United States while the economic growth here is much stronger, he elaborated.

"So, if we follow the monetary policy of another country, then our country will suffer."

Meanwhile, he said further moves by the Fed to raise interest rates in the United States may mean Bank Negara's Monetary Policy Committee (MPC) would have to follow suit eventually.

"I'm not sure what they (the MPC) will decide, but they would think they need to take into account what happens globally as this also has an impact on inflation and the ringgit.

"Higher returns from US-denominated financial assets will stimulate a higher demand for these among global investors," Tengku Zafrul said.

"This will affect market sentiment and financial investors may want to do a rejig of their portfolios into safe-haven assets and US dollar-denominated financial assets.

"So, the rest of the world's currencies including the ringgit will continue to weaken against the US dollar in this situation," he added.

Earlier in his speech, Tengku Zafrul said the government will continue its efforts to ensure sustainable development goal elements are embedded in the annual government budgets.

"We started this in Budget 2021 and I assure you that this will also be part of Budget 2023.

"Holistically, the transition and implementation of green practices across all sectors of the economy will require the deployment of significant resources, both financial and non-financial," he said.