

Ringgit move worries FMM

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TROUBLING: Ruling to hurt exports, contract manufacturing and toll formulation, says federation

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THE Federation of Malaysian Manufacturers (FMM) is very concerned over Bank Negara Malaysia's latest foreign exchange ruling, which requires exporters to bring home and convert 75 per cent of their foreign proceeds into ringgit, which came into effect on Monday.

"Bank Negara's ruling adversely affects export activities, contract manufacturing and toll formulation businesses as exporters—manufacturers use their export proceeds, which are usually in the dollar as a natural hedge to cushion costs, pricing as well as to offset against purchases of imported raw materials," it said.

"The natural hedge allows exporter—manufacturers to manage volatility in foreign exchange rates and minimise exchange rate losses as to lower the cost of exporting and to maintain price competitiveness in global markets.

"The 25 per cent limit is definitely insufficient to offset purchases of imported raw materials and services."

It added that the central bank's ruling had effectively prevented businesses from exercising financial prudence in managing their trade transactions as only the banks benefit from the buying and selling of currency, at the expense of manufacturers.

"FMM believes that the holding of export proceeds in different currencies is not the main factor for the weakening of the ringgit. Manufactured exports have been growing in monetary terms every year and have kept the country's balance of trade in the black, thus Bank Negara Malaysia's latest ruling could upset this balance."

It went on to call for Bank Negara to revise the ruling to 50 per cent instead.

"FMM, therefore, calls on Bank Negara to reconsider its ruling and to offer greater flexibility to exporter—manufacturers by allowing them to keep at least 50 per cent of their export proceeds in foreign currencies."

Acting president of the Kuala Lumpur Malay Chamber of Commerce Don Nazwim Don Najib however was of the opinion that

this new measure will prove beneficial over the long term.

"Steps taken by Bank Negara on these can be seen as a safeguard against further weakness in the ringgit, as well as preventing excessive speculation in the forex market," he told Business Times.

"I think it would have a moderate positive impact on the ringgit as 75 per cent of Malaysian annual export proceeds amounted to about 15 per cent of the country's foreign reserves. While it may prove to be unpopular among foreign fund managers, I believe that Bank Negara is doing what is best and necessary."

Unlike the FMM, the Kuala Lumpur Malay Chamber of Commerce is highly optimistic of this new measure.

"The Kuala Lumpur Malay Chamber of Commerce lauded this move with caution for our member companies to manage their foreign costs accordingly."

Meanwhile, chief economist of global research group, The Conference Board Inc, Bart van Ark said that it is most unusual for the central bank to impose such a ruling.

"The central bank has a very fine line to walk on as on the one hand we need a strong global trade environment and obviously a devalued currency will help facing a global economy so we should not discount that effect on the economy," said van Ark.

"From that point of view, it makes sense to take a stance where there's a need to see a lot of the proceeds from the exports reinvest back into the economy to benefit the strong domestic market that we are having."

He noted that though the move is unusual for a central bank, it is understandable.

"I understand the steps that have already been taken and it is not very usual to do that because central banks usually try to put too many constraints on the private sector and let's see how this will play out and whether this would work," said van Ark.

"Central banks usually stay away from interfering directly in the private sector but if central banks feel that monetary stability of the economy can come under pressure from the decision that have been taken.

"Yes, it is unusual but it is a legitimate move."