

Ringgit fall temporary, says MIER

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> Fair value of the currency should be between RM4.05 and RM4.10 to the dollar

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KUALA LUMPUR: The depreciation of the ringgit is believed to be temporary and due to a combination of both real and speculative factors, without which it would be trading at RM4.05-RM4.10 against the US dollar, said the Malaysian Institute of Economic Research (MIER).

The ringgit strengthened to 4.4390 against the dollar yesterday.

Its executive director Dr Zakariah Abdul Rashid said the fair value of the ringgit, minus the factors, is about RM4.05-RM4.10 against the US dollar.

He said the two elements of the real flow of goods and services, as well as the sentiment and confidence of the currency have influenced the

movement of the ringgit.

"When the ringgit depreciated sharply, we've to expect that some elements of confidence and sentiment was there to determine the exchange rate. In the medium to long term, the overshooting of ringgit will be clear and it will be resting at some level," he said at the National Economic Outlook Conference yesterday.

Zakariah said when the results of the US presidential election were announced, the ringgit fell, but it first plunged following the fall of the crude oil price.

"If you remove the influence of the US presidential election, it goes back to the level it was determined after the decrease in the crude oil price. Now the new factor is that Opec is cutting production. If you take the changes in

crude oil price and sentiment of the US presidential election results, and non-economic factors like the political announcements nowadays, those elements really affect our ringgit. The ringgit drops much more than any other currencies after we see the effect of (the fall in) crude oil price and US presidential election," said Zakariah.

He said what Bank Negara Malaysia (BNM) has done is to stabilise the movement of the ringgit so that the hardships of the people are minimised. Zakariah added that while the demand and supply of the ringgit, as part of the offshore market, is important, the country can still do without the speculative element.

He said BNM's move to make exporters convert 75% of export proceeds to ringgit is a measure to create demand for the ringgit.

"If we want to bring back the value of ringgit, we have to create demand. That's a measure. Whether it's enough or not, it's hard to say. But that will help to create demand for ringgit and improve (the situation) a bit."

On whether the country can still achieve its goal to become a high income economy, he said the target was first set under the New Economic Model in ringgit terms.

"When we formulated the target, the exchange rate was RM3.20-RM3.60. That means we've to deliver RM3.60 to achieve US\$1. But now we've to deliver RM4.40. We've to work (22%) harder," said Zakariah.

MIER is maintaining Malaysia's real gross domestic product growth for 2016 at 4.2% and 4.5%-5.5% in 2017.

"This year and next year, Malaysia will continue to be supported by domestic demand because of the weak external demand. When we continue to rely on domestic demand, there is a price to pay. Consumers have to be given stimulus, through easy credit, through transfers of income like BR1M," said Zakariah.



From left: International Monetary Fund regional office director (Asia & the Pacific) Chikahisa Sumi, Asian Development Bank assistant chief economist Dr Joseph Ernest Zveglic Jr, MIER senior research fellow Dr Zulkiply Omar and Zakariah during the conference yesterday.