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Sitemap

Main	Ministry's Profile	Client's Charter	Contact Us
------	--------------------	------------------	------------

[Home](#) [Archives](#) [2017](#) [News](#) [The New Straits Times - FOREX Losses Could've Led To Crisis](#)

The New Straits Times - FOREX Losses Could've Led To Crisis

□ Thursday, Dec 28 2017

BANK NEGARA

'FOREX LOSSES COULD'VE LED TO CRISIS'

Speculative trading could've reversed country's growth trajectory, say economists

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THE central bank's massive bets in foreign exchange trading during the early 1990s, which reached as high as RM750 billion, could have led to a severe liquidity and financial crisis, economists said.

They said the speculative investments could have reversed the country's growth trajectory and made achieving Vision 2020 impossible.

An economist said speculative forex trading was bad for the country because it would result in a massive decline in reserves.

"It could compromise the ability of the central bank to control the level of liquidity in the system," another expert said.

Malaysia teetered on the edge of collapse when Bank Negara Malaysia incurred losses of RM31 billion from "voluminous" forex trading in 1992 and 1993 during the administration of former prime minister Tun Dr Mahathir Mohamad.

RM31 billion is equivalent to 10 per cent of the 2018 Budget, or the entire market capitalisation of Genting Malaysia Bhd.

The forex trade by Bank Negara was as high as RM750 billion, equivalent to the gross domestic product of Vietnam in 2015. It was also a big jump from an average of RM140 billion in 1992.

Second Finance Minister Datuk Seri Johari Abdul Ghani, citing Bank Negara's internal audit report, said a substantial portion of the transactions was very speculative.

The government was forced to transfer its shares in Telekom Malaysia Bhd and Tenaga Nasional Bhd to Bank Negara at a nominal value of RM1 per share.

The shares were then revalued by the central bank, at RM22.10 per Telekom share and RM19.30 per Tenaga share, to cover the losses, he added.

The globally-accepted standard for international reserves adequacy level is equivalent to three months of imports. Anything below that may have a disastrous effect on a country's liquidity and sovereignty should the world's economy worsen.

An economist said: "The country would become vulnerable to volatility in the exchange rate."

"The central bank would have less ammunition to intervene if massive capital outflows occurred within a short period, in particular when the country has a sizeable external debt or higher percentage of foreign ownership in government securities or bonds."

He said Malaysia would need to source more money from debts to cover the outflows.

This would get worse in a financial crisis, he said, as the final outcome would lead to asking the International Monetary Fund for financial aid.

"When that happens, we would lose our sovereignty, like what happened to Indonesia and other emerging countries during the Asian financial crisis."

Malaysia's current international reserves, at US\$102.2 billion (RM417.2 billion), was sustainable and on strong footing.

"This is a stark difference to 1998, when our reserves was only US\$20 billion, sufficient to finance merely 2.6 months of retained imports at that time," the economist said.

Countries need to find the right balance of reserves that suit their unique economic conditions. Too much reserves can be costly.

"Typically, US dollar assets, such as US Treasury, have lower yields compared with Asian bonds. It could result in negative carry," the economist said.

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Datuk Seri Johari Abdul Ghani



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