

BNM Retrieves RM9b From Export Proceeds

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by R KAMALAVACINI

BANK Negara Malaysia (BNM) has retrieved US\$2.2 billion (RM9.75 billion) in the first two months of this year via the conversion of foreign currency export proceeds into ringgit.

Governor Datuk Muhammad Ibrahim said in 2015, the foreign currency conversion was at negative US\$8.5 billion and had improved to negative US\$1.5 billion in 2016.

"Our Dec 2 measure has realigned the demand and supply for the dollar and ringgit," Muhammad said in a press conference yesterday.

The Financial Markets Committee, in collaboration with

BNM, introduced several measures to deepen and broaden the domestic foreign-exchange (forex) market — including by promoting forex hedging within the domestic forex market.

In December last year, the central bank implemented a new ruling that exporters can only retain up to 25% of export proceeds in a foreign currency and higher balances would need BNM approval.

It also stated that all payments among resident exporters should only be made in ringgit.

"This measure will be permanent until we have any new developments," Muhammad said.

Throughout the year, while the ringgit was affected by the external shocks that impacted regional currencies, the volatility of the ringgit exchange rate was exacerbated by speculative activities in the offshore non-deliverable forward (NDF) market.

The speculative nature of the offshore NDF market — which created a disconnect between the exchange rate and the underlying domestic economic fundamentals — was a key factor behind the misalignment and volatility of the exchange rate.

During this period, the opaque pricing mechanism in the NDF market spilled over to the onshore forex market and

disrupted the domestic price discovery process.

The ringgit was also subjected to higher volatility, due to the supply and demand imbalances in the domestic forex market.

"As a net exporter, Malaysia's current account has been in a surplus position since 1998. Nevertheless, when these export proceeds are not converted into ringgit, it weakens the structural demand for the ringgit," he added.

At the same time, as Malaysian companies ventured into more investments abroad, their demand for foreign currencies increased — which led to further imbalances in the forex market, said Muhammad.