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DEPAN MALAYSIA

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Weakening Value of The Ringgit & Rising Food Prices

POLICY AND RESEARCH DIVISION
INSTITUT MASA DEPAN MALAYSIA
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‘Weakening Value of The Ringgit & Rising Food Prices’

Dated 22 September 2022

No	Issue	Elaboration	Recommendation
1	Weakening Value of Ringgit	<p>Due to the tightening of the US monetary policy, what is happening in Europe and China, 2023 will be a difficult year for the global economy. Malaysia and the world economy would also be impacted by this.¹</p> <p>As of 21st September, Malaysian Ringgit (MYR) closed at RM4.56 against the US Dollar (USD) ↓</p> <p>The value of MYR against USD is the lowest since the Asian Financial Crisis 1998.²</p> <p>The ups and downs of currency values are relative, subject to the current context and factors driving its movement.</p>	<p>While the exchange rate policy is not easily fixed in the short term, there are several measures which can be undertaken to mitigate the impact of the lower currency to the people as follows:</p> <ol style="list-style-type: none"> 1) Malaysian monetary authorities must uphold their monetary policy responsibilities, ensuring adverse effects of exchange rate imbalances on economic growth vigorously address implementation of policies, with strong political will. 2) Bank Negara Malaysia (BNM) and commercial banks must be more proactive in shielding the <i>Rakyat</i> from the impact of tightening monetary policy. <ol style="list-style-type: none"> a) BNM, in particular, must be more transparent in addressing the public on their policies:

¹ [Malaysia will not escape global slowdown in 2023, says Zafrul - The Edge Markets](#)

² [The State of the Nation: What to make of the ringgit's decline to levels last seen in 1998 - The Edge Markets](#)

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		<p><u>Factors Causing Ringgit Depreciation:</u></p> <ul style="list-style-type: none"> - As Malaysia is a small-open economy, it is bound by external factors such as the aggressive rate hikes by the FED as the US is Malaysia’s third largest trading partner; - There has been strong demand for the US Dollar due to its strength as a safe haven currency; - The spike in FED rate directly affects the monetary circulation in the national economy, increases monetary outflow as Malaysia is heavily reliant on food importation; - Other external factors such as political instability is negatively influence investors’ confidence. 	<ul style="list-style-type: none"> i) Address how the Overnight Policy Rate (OPR) hike will affect the stabilising of the Ringgit <u>AND</u> cost of living; ii) Investigate the impacts of OPR increase on household debt; and iii) Examine and broaden the use of other indicators besides Consumer Price Index (CPI) to measure inflation, i.e. Producer Price Index (PPI), Everyday Price Index (EPI) and Perceived Price Index (PePI).

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		<p>All other currencies are affected by US hawkish policy and have also fallen in value against the greenback³.</p> <p>While the value of Ringgit is not an absolute indicator of economic performance, it cannot be denied that the Malaysian Ringgit, at a glance, can and is used to measure the strength of the nation’s economy.</p> <p>It questions whether our country has strong economic fundamentals to weather global economic headwinds.</p> <p>While the value of our exports has become competitive due to cheaper currency, it also means that in reverse, our imports have also become more expensive.</p>	<p>b) Banks and financial institutions must help ease the burden of Small and medium-sized enterprises (SMEs) and micro-enterprises in applying for financial loans, as they make up approximately 38.2 per cent⁴ to the overall GDP.</p> <p>3) On one hand, a cheaper Ringgit can be leveraged by the Ministry of Tourism, Arts and Culture (MOTAC), i.e. by identifying appropriate ways to boost the local tourism industry.</p> <p>a) Reviving ‘<i>Cuti-Cuti Malaysia</i>’ with proper procedures to enhance domestic tourism and boost visitors to Malaysia to stimulate our economy; and</p> <p>b) Providing more incentives to promote tourism and improving infrastructure as soon as possible. This ensures Malaysia’s tourism industry remains competitive and not fall behind in the wave of recovery in Southeast Asian region.</p>

³ [Asian currencies decline as investors brace for central bank meetings - The Edge Markets](#)

⁴ [Small and Medium Enterprises \(SMEs\) Performance 2020 - Department of Statistics Malaysia \(DOSM\)](#)

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		<p>Due to the OPR hike by Bank Negara, compounded by rising inflation, the Malaysian ringgit is projected to go lower, and the average Malaysians will likely feel its impact.</p> <p>Hence, the relevant authorities must work urgently to shield the people from the impacts.</p>	<p>4) With regards to the increasing value of the Ringgit, the government must boost domestic investments and restructure foreign investments (FDI).</p> <p>a) Introduce long term goals to build domestic productive capabilities, and accelerate the technological learning of home-grown firms to enhance local competitiveness. Subsequently, when the local firms are competitive, they shall be geared towards export-led industrialisation to enable them to compete globally; and</p> <p>b) Improve the investment ecosystem where the policies and regulations are upheld regardless of changes in the government. This is to boost investors’ confidence, and to avoid flip-flop in our investment policies and strategies.</p>

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2	Rising food prices	<p>In July 2022, Malaysia’s headline inflation surged to 4.4 per cent, led by food inflation at 6.9 per cent.</p> <p>This led to a spike in food prices by about 20 per cent this year⁵. This is due to a couple of factors:</p> <p><u>External:</u></p> <ul style="list-style-type: none"> - Disruptions in supply chain caused by Russian-Ukraine conflict and the worldwide food security issues that are happening worldwide; - Climate change; and - US interest rate hikes. <p><u>Internal:</u></p> <ul style="list-style-type: none"> - Weakening of the Malaysian Ringgit as our country is largely dependent on food imports; and - BNM’s consecutive tightening of 	<p>Depreciation of the Ringgit and rising food prices are two-pronged issues where solving the former can assist in resolving the latter as well.</p> <p>More targeted mechanisms should be introduced to solve rising food prices:</p> <ol style="list-style-type: none"> 1) Authorities should transform the agriculture sector to strengthen national food security to reduce our dependence on food imports. <ol style="list-style-type: none"> a) BNM should re-introduce a food fund or Fund for Food in the form of loans to encourage aggressive food production by industry players; and b) Banks must find an appropriate system to grant flexibility in bank loans to enterprises for land rental purposes.

⁵ [NST Leader: Soaring food prices - New Straits Times](#)

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		<p>monetary policy has caused higher debt servicing for Malaysians.</p> <p><u>Recent Government Intervention:</u></p> <p>“The increase in the price of goods and overall rise in the cost of living is not peculiar to Malaysia but is actually a global phenomenon⁶.”</p> <p>To reduce the inflationary pressure, the government has utilised several fiscal measures to assist the Rakyat via:</p> <ul style="list-style-type: none"> - RM77.3 billion⁷ in subsidy allocations, the largest amount in nation’s history; - Direct cash injections and handouts to the <i>Rakyat</i>; and - Introduce price controls for certain goods (wheat, sugar, cooking oil, 	<p>2) The government must also focus on enhancing the productivity of the country as a whole. Collaboration between Ministries/agencies to unite the involvement of researchers, industry players, policymakers and civil society to improve efficiency and deliverables - we must not work in silos:</p> <ul style="list-style-type: none"> a) The Ministry of Science, Technology and Innovation (MOSTI) needs to take proactive steps to boost smart farming, utilise Research and Development (R&D) to establish the groundwork, and reduce Malaysia's dependency on foreign labour; b) Agricultural research agencies (i.e MARDI, RISDA, MPOB) must be innovative to deliver higher productivity rates; and c) Malaysia Productivity Corporation (MPC) and Yayasan Inovasi Malaysia (YIM) must recognise the importance of grassroot innovation (GRIs) that

⁶ [Cost of living up worldwide, not just in Malaysia, says PM – Free Malaysia Today](#)

⁷ [Govt strives PM: Govt strives to help people face rising cost of living - Malay Mail](#)

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		<p>chicken, etc.)</p> <p>Issues:</p> <ul style="list-style-type: none"> - Despite huge allocation of subsidies, businesses have dumped the ‘real cost’ to consumers instead, resulting in a hike in daily expenditure.⁸ - <i>Rakyat</i> are feeling the trade-off with higher prices, especially on food and essential items. - <i>Rakyat</i> need at least RM250 to RM300 to buy the same amount of items, that would barely last a week.⁹ - With the blanket subsidies and price ceiling, although they cushion the rising cost effect, they are relatively ineffective in lifting the burden of the <i>Rakyat</i> who still find it hard to put food on the table. 	<p>is driven by community-based to enhance the <i>Rakyat</i>’s self-sufficiency;</p> <p>d) Labour market reforms are needed as wage increases are not keeping pace with increases in the cost of living and the price of goods.</p> <p>i) The minimum living wage should be increased from RM1,500 to RM2,500¹⁰, as it would ease the burden of rising prices.</p>

⁸ [Businesses may increase costs if PPI inflation remains high - The Malaysian Reserve](#)

⁹ [Amid rising cost-of-living, Malaysians tighten belts with various measures - New Straits Times](#)

¹⁰ [KWSP Belanjawanku 2019 - Kumpulan Wang Simpanan Pekerja \(KWSP\)](#)

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