Depreciating ringgit creating political problems for Malaysian government

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On February 20, the value of the Malaysian ringgit fell to RM4.80 to the US dollar, or about 2 percent higher than the previous record low of RM4.885 in September 1998, during the Asian Financial Crisis. The Pakatan Harapan coalition government of Prime Minister Anwar Ibrahim is on the defensive, seeking to reassure both financial interests and the public that everything is under control.

The ringgit's value has fallen sharply in the recent past, going from $US1 to RM4.24 on January 27, 2023, to RM4.80 on February 20 of this year, strengthening only slightly since then to RM4.75 on February 29. The implications of a persistently low ringgit or a further deterioration are serious due to the unmanageable political instability that could be unleashed.

One of the primary drivers for the ringgit's deterioration is due to the fact that, while the US central bank, the Federal Reserve, increased the Federal Funds rate by one percent (100 basis points) in 2023, the Malaysian central bank, Bank Negara Malaysia (BNM), implemented just one increase of 25 basis points. Both base lending rates define the starting point for lending and borrowing throughout each economy.

Second Finance Minister Amir Hamzah Azizan noted that "the significant difference in interest rates with the US… encourages foreign investors to move capital out of the domestic market to a market that provides higher returns." As money moves out of Malaysia, foreign currency is purchased by selling ringgit, driving the currency's value down.

Furthermore, in 2023, Malaysia's GDP grew at what is considered a disappointing 3.7 percent and there is increasing doubt the economy will achieve the forecast growth of 4 to 5 percent in 2024. The very high level of government debt, consistently high budget deficits, and the increasing risk of a default are also expected to have contributed to a negative view of the Malaysian economy and the ringgit's decline.

Political analyst James Chin of the University of Tasmania noted that "once it hits RM5 per $US1… a lot of people will have lost confidence not only in the Anwar government but in its ability to deal with the economy… Malaysia is a trading nation so everything that it imports will automatically be much more expensive." In this scenario, according to Dr Chin, import prices could rise by more than five percent.

Malaysia imports 60 percent of its food, including meat, dairy, fruit, and vegetables. Food costs have seen significant increases since the onset of the COVID-19 pandemic and the US-instigated war against Russia in Ukraine.

As Chin notes, "The cost of living in Malaysia is very high [and] wages are stagnant. [For] the working class and the lower class, [rising costs] will really impact their standard of living. And of course that will translate into political unhappiness… If Anwar doesn't get the economy right, then he is just setting himself up for a fall because there would be a major push to replace him."

In addition, the slowdown in the Chinese economy has resulted in a fall in exports of Malaysian goods to China, with December marking the 10th consecutive month in this decline. This slowdown is partly due to internal factors such as a sharp contraction in the real estate sector and partly due to geopolitical factors, particularly trade war measures imposed on Beijing by Washington.

In the midst of the mounting criticism, Anwar has tried to project confidence, saying recently, "I think (we should) take a comprehensive view and the country's capacity for growth. What is more important to me is the reassuring investment figures."

Anwar is referring to the record-high investment approval amount of RM329.5 billion ($US68.9 billion) in 2023. Such a measure is, however, misleading since approvals do not necessarily translate into actual monies invested. Geoffrey Williams, professor of economics at the Malaysian University of Science and Technology, referring to Ministry of Investment Trade and Industry data, noted that only 26.3 percent of approved investments eventually translate into real investments.

Indicative of the seriousness of the developing situation, the Pakatan Harapan coalition government has initiated a temporary fix. On February 27, the BNM prompted large Malaysian investors to repatriate government-controlled and other funds back into Malaysia in order to “encourage continuous inflows to the foreign exchange market,” thereby propping up the ringgit.

The political establishment is also moving to prop up the Anwar government. In his first parliamentary address on February 26, the new Malaysian king, Sultan Ibrahim Iskandar, cautioned MPs, “Everyone must respect the unity government [i.e. the Pakatan Harapan coalition]. For those who want to play politics, wait for the next election.” The king, who is chosen from nine hereditary state rulers for five years, was referring to the ongoing political instability and the fact that the Malaysian government changed hands three times between 2020 and 2022.

Sultan Ibrahim, with an estimated family fortune of $US5.7 billion and a fleet of luxury cars and aircraft, also referred to the government’s RM1.5 trillion ($US314 billion) national debt: “I feel regret when I hear that today’s government is shouldering a huge debt… So, I support the government’s measures to be more cost-efficient, and to implement targeted subsidies.”

The imposition of targeted subsidies, in reality cost cutting measures, will itself lead to an explosive political situation since subsidies alleviate the current cost-of-living crisis to some extent. The Anwar government is in the process of cutting subsidies on food and fuel, supposedly only “targeting” wealthier households. In reality, large sections of workers and poor have also been caught up in the cuts and are disproportionately affected as a result.

In order to underscore the developing pressure to rein in government spending, in late January the government also proposed to remove the relatively more generous defined-benefit pension payments for new public servants starting from February 1. The decision on this is due in October along with the 2025 budget.

Whereas a defined-benefit pension scheme guarantees pension payments as a multiple of final salary at retirement with indexing to inflation, new public servants are proposed to go into a defined contribution scheme. Under such a scheme, pension payments are built up from investment returns, which can also be small or negative, thereby leading to meagre pensions or even eroding pension balances.

Currently, there are 1.7 million public servants and more than 900,000 retired public servants. Pension payments to these retirees are expected to cost the government over RM32 billion ($US6.7 billion) in 2024, accounting for more than 10 percent of the government’s forecast operating expenditure. This cost is forecast to rise to RM46 billion by 2030. Anwar noted on January 28, “There is a need for a new service scheme to avoid the risk of the country going bankrupt and future generations facing problems.”

In other words, the Malaysia bourgeoisie is attempting to offload the current global crisis of capitalism and its manifestation in Malaysia onto the backs of Malaysian workers and youth.