Foreign Exchange Administration of Malaysia

While the protracted global financial crisis has yet to be resolved, many new lessons have been learnt. In this context, the implications for the pace of capital account liberalisation need to continuously be assessed. Malaysia has continuously reviewed the relevance of the remaining foreign exchange administration (FEA) rules to achieve greater efficiency in the conduct of international financial transactions. Issues for consideration is to ensure that there will be no disruption to the financing of international trade and investment in an environment of short US dollar liquidity, highly volatile capital flows, capital markets are more risk averse and heightened counterparty risks for settlement and payments.

During the height of the Asian financial crisis, the FEA rules assumed a significant role and were implemented as part of a comprehensive Economic Recovery Plan to expedite reforms, restore stability and promote growth in the domestic economy. With the stabilisation of the economy following the implementation of the Economic Recovery Plan, the rules have been removed in a series of sequenced and progressive liberalisation initiatives. The liberalisation has extended beyond removing these rules. This has been in line with the overall philosophy of creating a conducive business environment to facilitate private sector expansion and enhance overall competitiveness of the economy. The country's improved economic fundamentals, a strong and resilient domestic financial sector as well as the development of a more effective and comprehensive surveillance framework have permitted a more rapid pace of liberalisation of the FEA rules since 2003. Major and significant liberalisations were made in 2005 and 2007 on rules affecting the flexibility of capital flows to enhance business efficiency and promote foreign direct investments.

In 2008, the FEA rules were further liberalised, aimed at enhancing Malaysia's competitiveness by facilitating greater flexibility and accessibility to financing by businesses and reducing the cost of doing business in Malaysia. A resident corporation is free to borrow any amount of foreign currency from licensed onshore banks, non-resident non-bank parent company and other resident companies within the same corporate group in Malaysia. The resident corporation is also free to refinance any outstanding approved foreign currency borrowing.

To provide additional flexibility of financing for real sector activities in Malaysia, a resident corporation is free to borrow any amount of ringgit from its non-resident non-bank parent company for such purposes. A non-resident non-bank company or individual is also allowed to borrow any amount in ringgit from resident corporations as well as the licensed onshore banks to finance the real sector activities in Malaysia.

To promote Malaysia as an International Islamic Financial Hub, International Islamic Banks, International Takaful Operators and International Currency Business Units of licensed onshore banks, takaful operators or retakaful operators may make payments in foreign currency to resident intermediaries for the settlement of financial services rendered. In addition, to support the development of domestic financial markets, residents are free to invest in US dollar denominated crude palm oil futures contracts on Bursa Malaysia.

The remaining existing FEA rules are mainly for prudential safeguards to support monetary and financial stability and can be categorised as supporting the following broad objectives-

(i) Facilitating the effective use of domestic financial resources;
(ii) Sustaining manageable level of external debt;
(iii) Safeguarding against speculation on the domestic currency; and
(iv) Facilitating overseas investments by Malaysian corporations.

The deterioration of the global financial landscape in 2008 has underscored the need for prudent and pragmatic external debt management policies that are consistent with the country's long-term economic growth, extension of the domestic economic frontier and the nation's strategic economic agenda. In safeguarding against speculation on the ringgit, the non-internationalisation of the ringgit restricts the access to financing speculative activity on the ringgit by non-residents.

The administration of FEA rules – going forward

While the FEA rules are still relevant and would continue to serve as a prudential safeguard in supporting and complementing the broad macro-economic policy framework to maintain the country's economic and financial stability against external shocks, Malaysia remains committed to progressively liberalise the FEA rules. This is particularly important as Malaysia is a small and open economy with its domestic financial system highly integrated with the international financial markets.

The liberalisations going forward, will be conducted within a holistic framework and will be undertaken in an orderly and progressive approach with careful and comprehensive assessment to ensure the following guiding principles are met:

(i) The benefits of the liberalisations outweigh the costs and risks
The country has a strong track record of policy pragmatism and maintains the objective of ensuring that policies liberalised will be able to meet its goal of sustaining and enhancing competitiveness during periods of high and sustained economic growth as well as able to withstand periods of vulnerabilities and shocks that confront the domestic economy. The liberalisations undertaken thus far have yielded economic benefits to the country outweighing the trade-offs of the increased risks that may be associated with the liberalisations.

(ii) The liberalisations be supported by "readiness" of the economic and financial system
Consideration for liberalisation of the FEA rules will be based on comprehensive evaluation of the domestic and global economic and financial conditions to ascertain the state of readiness of the economy. Important preconditions include sound macroeconomic fundamentals supported by a sufficiently robust regulatory framework. This would be achieved through continuous environmental scanning, the establishment of an effective and a comprehensive surveillance system for early detection of possible vulnerabilities and emerging risks.

Conclusion

The country's strong trade and financial inter-linkages with the regional and global economies merit continuous review of the rules in order to continue to be supportive in facilitating the nation's economic transformation taking into account the new regional and global challenges. Malaysia will also continue to pursue a comprehensive strategy in administering the FEA rules to harness the full potential of the Malaysian economy while promoting a sound and stable financial system as well as a resilient and competitive economy. This comprehensive approach is key in the efforts towards achieving balanced and sustainable growth with stability.