A Lull in Deprecation of Currencies Brought Monetary Easing in Indonesia/Malaysia

YUMA TSUCHIYA
ECONOMIC RESEARCH OFFICE

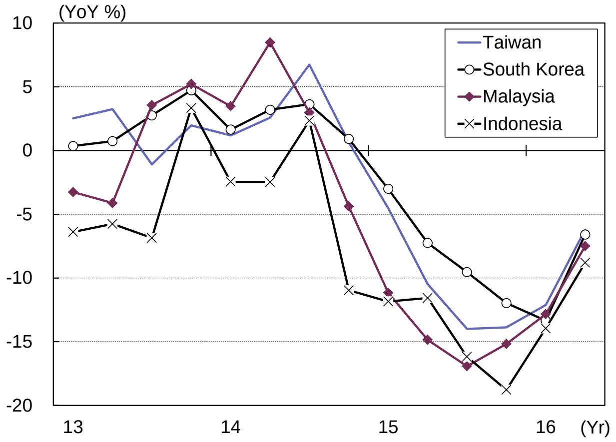
12 AUGUST 2016
(ORIGINAL JAPANESE VERSION RELEASED ON 22 JULY 2016)

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

Recently more aggressive attitude toward monetary easing are observed among the Central Banks of Asia. Overviewing the trend by country and region, among NIEs, South Korea was the first to cut a policy rate to a record low of 1.25% (June 9). Taiwan also cut interest rates for 4 consecutive quarters (June 30). All of such rate cuts aim to boost the economies which lack strength mainly impacted by sluggish exports (Chart 1). In particular, South Korea and Taiwan are highly dependent on exports, their sluggish exports are resulting in weak capital investment, which significantly depressing their economies. In the midst of the aforementioned circumstance, the Central Bank of South Korea and Taiwan decided on interest rate cuts on the ground of on-going sustained low inflation rate.

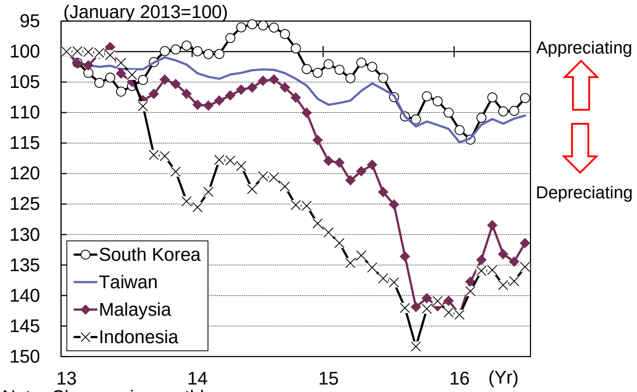
Among ASEAN countries, Indonesia has implemented the 4th interest rate cut since the beginning of the year (Jun 17), Malaysia also decided to cut interest rate for the first time in 7 years and 5 months (July 13). The both countries are primary-product exporting nations with high dependency on resources, in this regard, low resources prices in addition to sluggish exports are exerting downward pressure on the economies. The Central Bank of Indonesia and Malaysia in fact wanted early monetary easing to uplift the economy, however, they have fundamental problems including current account deficits and fiscal deficits. Last year, their currencies has been significantly devaluated due to turmoil in global financial market stemming from low resource prices, the rising expectation for FRB's interest rate hike, devaluation of RMB, and political turmoil in own country (Chart 2). In short, Central Banks so far have been forced to proceed with monetary easing in a prudent manner in the fear of further devaluation of own currencies possibly caused by rate cuts. The exchange rate since the turn of this year indicates that the currencies of both countries turned to appreciating trends backed by recovering crude oil prices. A lull in the depreciation of currencies, and stable low inflation rate finally gave a push to the Central Banks of both countries. The advent of the situation with feasibility of a rate cut is delightful news for Indonesia and Malaysia, the countries with larger room for more diverse consumption, expanded fields as a consequence of rising income level, although their sensitivities to external demands and resource prices remain unchanged.

Chart 1：Exports of Asian major countries/regions



Note: The latest month is June for Korea, Taiwan, Indonesia, May for Malaysia.
Source: country data

Chart 2：Exchange rate of Asian currencies to USD



Note: Changes in monthly average.
The latest month is based on average until July 18.
Source: CEIC、IMF statistics

For further details, please contact the Economic Research Office, Bank of Tokyo-Mitsubishi UFJ

Chief Manager Ishimaru Tel: 03-3240-3204

Written by Yuma Tsuchiya <yuuma_tsuchiya@mufg.jp>