

# Ringgit peg to remain, says Daim

For the sake of predictability and certainty

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**KUALA LUMPUR:** Finance Minister Daim Zainuddin told other southeast Asian ministers meeting here Malaysia would stick with its ringgit/dollar exchange rate peg despite the turbulence in regional currency markets.

"For the sake of predictability and certainty the peg will remain. We are confident we will remain competitive even at this rate," a Malaysian official quoted

Daim as telling the Asean finance ministers meeting on Saturday

Daim's comments follow speculation in the past week Malaysia might re-peg its currency sooner than expected as a weak yen dragged down other regional currencies, prompting calls from two industry groups for a review of the peg.

Malaysia fixed the exchange rate at 3.8 ringgit per dollar and slapped on capital controls in September 1998 to protect the country from an economic crisis whipping round the region.

In recent weeks, as other currencies fell, the ringgit has turned from a cheap currency to slightly overvalued, putting pressure on its exporters at a time when United States's demand is drying up for the electronic and computer equipment Malaysia sells.

The economy is expected to slow from the blistering 8.5% growth seen in 2000, and other export-oriented Southeast Asian countries also face a tougher year.

"What remains uncertain at this point is the magnitude, duration and severity of the downturn," Daim told other ministers from Asean in a

speech opening the meeting. But he said Malaysia's exchange rate was supported by prevailing economic fundamentals.

"He told his counterparts the currency peg remains based on fundamentals at present," the official said.

Last week Prime Minister Datuk Seri Dr Mahathir Mohamad reiterated the policy that only a 20% fluctuation in value between the ringgit and regional currencies would prompt a review.

Economists say the peg's future is tied up as much in politics as economics.

Mahathir staked out the policy when he sacked his deputy and then finance minister Datuk Seri Anwar

Ibrahim, who had advocated taking International Monetary Fund medicine to weather the Asian crisis.

The humiliation of Anwar, now serving a 15-year jail term for sex and corruption convictions he says were trumped up, caused a split in Mahathir's support base.

But Malaysia's economy has bounced back more strongly than others from the Asian crisis.

Daim said Malaysia had stuck by the peg when other currencies continued falling as the Asian crisis ravaged the region, and China had also managed to stay competitive without lowering the trading band for its yuan.

"At the height of the currency crisis other currencies depreciated. We didn't re-peg," Daim was quoted as saying.

"When all other currencies depreciated China didn't devalue and they remained competitive."

Speculation over a devaluation was in the air and it was manifest in the Kuala Lumpur Stock Exchange's sharp declines this week, despite repeated assertions by Malaysia's leaders that they will not respond to short term world currency market fluctuations.

Unusually large transactions by Malaysian banks and corporates in Singapore/US dollar trading also raised suspicions they were using their neighbour's currency to hedge against a ringgit devaluation, as capital controls prevent forward selling in their own currency

A branch of the Federation of Malaysian Manufacturers (FMM) in the northern state of Penang, home to the country's electronics manufacturers, joined another local group which this week urged a review of the peg. — Reuters