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Nation will stick to ringgit-dollar exchange rate peg, says Daim

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KUALA LUMPUR, Sat. - Finance Minister Tun Daim Zainuddin said he is confident Malaysia will continue to benefit from the ringgit-dollar exchange rate peg, and will, therefore, stick to the policy.

"The decision is made for the sake of predictability and certainty. We are confident we will remain competitive even at the present rate," a Malaysian official quoted Daim as saying at a closed-door session with his counterparts after a speech at the two-day Fifth Asean Finance Ministers Meeting today.

Daim said that the country's strong economic fundamentals at present gave no reason for any change to the pegging policy.

Malaysia fixed the exchange rate at RM3.80 per dollar in September 1998 as part of the measures introduced to insulate the country from further effect resulting from the regional economic crisis.

Daim said that while most East Asian currencies had depreciated at the height of the financial crisis of the late 1990s, China did not devalue its yuan and yet, it continued to be competitive.

Daim's remarks came in the wake of recent views by some economists and business associations that the ringgit had been slightly overvalued against the greenback as well as other major and regional currencies compared to the much favourable rate in 1999 and last year.

Prime Minister Datuk Seri Dr Mahathir Mohamad had reiterated that at this point of time, Malaysia did not see any necessity to change the peg because it was fairly efficient.

Even some securities firms are in agreement with the Government.

CIMB Securities Sdn Bhd had said that as long as the country's price growth remains low relative to its competitors, in particular manufacturing unit labour cost growth, the current appreciating trend in the nominal effective exchange rate should not pose a big risk.

"The fact is Malaysia does not need to devalue the peg to remain competitive. There may be other reasons for doing so but it has next to nothing to do with maintaining or enhancing export capabilities," said the research house.

In the past week, Malaysia's pegging policy was also rewarded as ringgit remained the only currency unaffected by the volatile situation faced by other regional currencies.