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Re-pegging ringgit not advisable now

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MARKETS have a tendency to overreact on both the upside and the downside. It is important that policy makers keep cool heads, do not behave like markets and overreact on critical policy decisions.

In recent days the volatility in the currency markets has sent regional currencies to lows not seen in a long while. It has even affected currencies that escaped the brunt of the 1997 crisis. Last week, the Singapore dollar hit a low in more than a decade, the Korean won a low of 30 months and the Thai bhat low of 37 months.

The ringgit with its peg remains unchanged. This has led to renewed speculation and reports from neighbouring countries on re-pegging of the Malaysian ringgit.

While a year ago the reports and rumours suggested that the ringgit was under-valued, now the same sources say it is over-valued. There are suggestions that the ringgit should be revalued at RM4.20 to RM4.80 for the country to remain competitive.

But such depreciation only brings short term gain in terms of competitiveness. If competitive depreciation takes place in the currencies of its competitors, the gains are very short-lived. And the country will have to deal with increased inflation.

Thus Malaysian leaders including Prime Minister Datuk Seri Dr Mahathir Mohamad, Finance Minister Tun Daim Zainuddin and Bank Negara Governor Datuk Dr Zeti Akhtar Aziz, have all said there are no plans to re-peg the ringgit.

According to Bank Negara, based on the real effective exchange rate index, which measures a currency's value based on inflation differentials with major trading partners, the ringgit is now almost at its equilibrium value.

Salomon Smith Barney in its report recently said: "The ringgit is slightly, not grossly over-valued, and the odds that the peg will break are less than even".

There is no reason why the authorities should react to short-term changes on important policies relating to currency.

Knee-jerk reactions on such critical issues could be more detrimental and unproductive and especially if they are to be based on short-term market developments.

Important policy decisions need careful study and deliberation. In fact price stability is a goal which countries, including the developed, aim for. It is a prerequisite for sustainable growth.

The ringgit's peg provides predictability, especially welcomed and appreciated by businesses, both foreign and local.

Volatility in the currency markets, as the weakening yen has pulled regional currencies down along with it, has wreaked havoc on entrepreneurs and businesses.

The ringgit provides the much needed stability even in a sea of volatility. And with trade volume at 200 per cent of the Gross Domestic Product (GDP) the price stability provided by the pegged currency cannot be underestimated.

Thus, decisions on such an important variable cannot be based on short-term developments.

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