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Ringgit is not overvalued: Dr M

PRIME Minister Datuk Seri Dr Mahathir Mohamad yesterday said the ringgit is not overvalued and it will not be pressured into being re-pegged by other depreciating regional currencies.

"The ringgit will not be pressured into being re-pegged by other depreciating regional currencies. The fact that Malaysia is still able to compete internationally shows that it is not overvalued.

"The ringgit can be said to be overvalued if the country is unable to compete globally ... even other regional currencies are not expected to rise or fall beyond 20 per cent. Even if they do, they will head back to where they were," he said.

The economic slowdown, he said will affect every economy in the world in terms of reduced imports.

"However, it does not warrant a re-peg here. Even if we re-peg the ringgit lower to make things cheap and competitive, there will not be a good market for our products and services if demand from the US and other economies depending on it spiral down."

Meanwhile, Malaysian Institute of Economic Research (Mier) said the current level of foreign reserves, adequate to sustain four months of retained imports, is not alarming enough to warrant a revaluation or re-pegging of the ringgit.

The institute, however, warned that if the downward trend in the reserves is not arrested, there is a possibility of negative implications on the ringgit arising from a shrinking current account surplus.

"So far there is no serious mismatch or misalignment of the ringgit," Mier executive director Dr Mohamed Ariff Abdul Kareem said.

The country's foreign reserves declined to US\$27.2 billion (US\$1 = RM3.80) as at end-March 2001 from US\$29 billion in February.

In its Malaysian Economic Outlook 2001-2002 Report, Mier said after reaching a peak of US\$34 billion in April last year, reserves have been declining for 11 straight months since May 2000.

Bank Negara Malaysia, however, assured that the outflows are not worrying since they consist of debt repayment and strategic overseas investment which could be counter-balanced by trade earnings and long-term inflows.

Dr Mohamed Ariff also said the country's currency has appreciated in terms of real exchange rate against the nominal exchange regime but added that the appreciation is only marginal.

"As we know, the US dollar has been appreciating against the regional currencies making them weaker vis-a-vis the ringgit.

"The manufacturing sector is the driver of the Malaysian economy, so any external factors affecting the value of our currency will certainly have implications on our competitiveness," he explained.

He said while there is no external pressure to force re-pegging of the ringgit, weakening of the domestic economy may result in the country losing out in its international market share and affecting new investments.

While recognising that the fixed exchange rate regime has provided stability and injected confidence in the economy, Dr Mohamed Ariff hoped the currency controls will be lifted in the future.

"Now would not be a good time to dismantle it. It's easier to get in than to get out. If we achieve growth above 6 per cent maybe then it's a

good time.

"If we de-link the ringgit from the US dollar now it may lead to a tailspin in the economy and we may not be able to immunise ourselves from changes in the regional economy," he said.

On foreign direct investments, Dr Mohamed Ariff said although there is a sharp increase in the number of applications and approvals from the Malaysian Investment Development Authority (Mida), there is little evidence to show translation into actual investments.

Approved domestic investment increased by 61.5 per cent amounting to RM13.7 billion in 2000 from RM4.8 billion in 1999. Approved foreign investment also rose by 61.5 per cent from RM12.3 billion in 1999 to RM19.8 billion last year.

Most foreign investments were in the electrical and electronics industries while domestic investments were dominated by a large outlay in the natural gas sector.

"We hope with improvement in the US economy, additional investment into the country will help our expansionary growth," he added.

Commenting on interest rate, Dr Mohamed Ariff said there is still some room for reduction in interest rates.

"Currently we are enjoying the lowest interest rate in the region while the inflation rate is also the lowest.

"However, lower interest rates may not lead to increased consumption and will make banks' margins thinner," he added.

Mier said interest rates continued to remain flat in March, reflecting the easy monetary policy in place.

The central bank has continued to ensure ample liquidity in the banking system, leaving the interbank rate slightly lower at 3.11 per cent in March 2001 from 3.22 per cent in January.

The average lending rate for commercial banks eased slightly to 7.35 per cent in February from 7.45 per cent in December.

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