

Ringgit peg seen surviving 2002

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KUALA LUMPUR: The three-year-old currency peg is expected to survive at least another year, supported by the country's large reserves, fiscal strength and manageable foreign debt levels, analysts said.

The 3.8 ringgit peg to the dollar has recently come under the spotlight as the Argentine peso's peg to the dollar collapsed and rumblings over the recent weakness of

the Japanese yen have grown louder.

"Our scenario testing for the barometer shows that the peg is here to stay, at least for 2002," said a recent research note from Standard Chartered, which has calculated a barometer of the ringgit peg's durability.

Most analysts simply refuse to draw any parallel between the Malaysian and the Argentine

economy which lost its ability to service its debt obligations after struggling to endure over four years of recession.

Prime Minister Datuk Seri Dr Mahathir Mohamad unnerved the market last Friday by saying the country might rethink its ringgit peg if China devalued the yuan in response to Japan's weakening yen.

Though he revisited the topic

on Saturday, saying he was comfortable with the peg at 3.80 to the dollar, investors remain wary, though most analysts believe the yuan was under no threat from the yen.

The yen's weakness could be challenging from a competitive standpoint but few analysts see it as an overwhelming reason to adjust or give up the peg, at least not until the decline of the Japanese currency gathers more pace.

"While we believe the peg will remain intact, nevertheless, should the yen weaken to the 135-140 level, the ringgit would be rendered relatively dearer," HSBC said in a recent research note.

HSBC said the ringgit peg would remain firm as economic activity accelerates into 2002.

Malaysia has international reserves of nearly US\$31 billion (RM117.8 billion), which is six times the level of its short-term foreign debt.

The economy has so far avoided a recession.

Exports are estimated to account for over 80% of its gross domestic product which is likely to grow 3% this year, from a forecast of 0.5 to 1.0% growth last year. - Reuters