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`No need to review ringgit peg for now'

PRIME Minister Datuk Seri Dr Mahathir Mohamad says there is no compelling reason for Malaysia to review its ringgit peg for now.

There is currently no other factor that could make Malaysia re-think that policy, except for sustained wide swings in the comparative value of the local unit against major currencies.

Such wide swings, often described by Dr Mahathir who is also the Finance Minister, refer to a 20 per cent appreciation or depreciation against most major currencies over a sustained period.

If that happens, it would substantially affect the country's competitiveness.

"(But) as long as we are competitive and our productivity is good, we can maintain a stable currency, a stable exchange rate.

"I don't foresee other factors actually (that would require Malaysia to review its peg policy), but there may be some deliberate attempts to undermine our economy.

"But if we study carefully, we can overcome all attempts to undermine our economy," he said in an interview.

The peg, at RM3.80 to US\$1, was introduced in September 1998 as part of selective capital control measures following intense manipulation of the ringgit in offshore markets that led to substantial effective depreciation of the ringgit.

Since then, the comparative value of the US dollar, hence the ringgit too, has undergone some swings in both directions. There were times when the ringgit was seen to be overvalued, and at other times undervalued; but over a period of weeks, the fluctuations eased and the ringgit never breached the 20 per cent rule.

Dr Mahathir agreed that theoretically, based on current economic fundamentals and environment, the peg could be maintained for a long time as it offered more good than harm and had brought stability to the economy.

"The ringgit peg has done us a lot of good and the world has to admit this. Even the (International Monetary Fund) has admitted this, except for some locals who read textbook solutions. They still keep on saying that this is not good and all that. Tell me why (the peg) is not good.

"The only problem is that the ringgit is now stable only against the US dollar. It is not stable against other currencies."

Following this, he continues to advocate an alternative to the existing monetary system where currencies, printed on paper, carry no intrinsic value and could easily be subjected to manipulation and made worthless.

To illustrate his point, Dr Mahathir fished out a 500 billion Yugoslav dinar from his wallet which, incidentally, he carries with him everywhere..

"Five hundred billion on one piece of paper! It was worth 12 US cents. Now, it is worth nothing. But can you imagine if that figure is printed on gold?"

Malaysia has been trying to promote the use of gold to back currencies, via the Gold Dinar.

"Gold, as I mentioned many many times, has got an intrinsic value in itself. It is not a piece of paper. And because of that, it cannot fluctuate too much. So, if you peg your currency to gold, then you have a better reference point."

Even if it is in lumps and people cannot do anything with it, gold still has an intrinsic value while paper has none.

"The US dollar can appreciate, can depreciate. If the US goes bankrupt, the US dollar is going to go down. If people do not demand for the US dollar, the value is going to go down."

Dr Mahathir also expressed his scepticism on the effectiveness of re-pegging the ringgit to a basket of currencies rather than the US dollar alone as it offers no protection against currency manipulators.

"People can still devalue and revalue your currency. We (once) pegged our ringgit to a basket of currencies at RM2.50 to US\$1. That did not prevent (George) Soros from selling our currency at a rate below that.

"What hurt me was that he never had (to use) any money. They were transactions among themselves. `I am going to sell you RM1 billion. How much are you going to pay?'"