

16 JAN 2002  
RINGGIT-PEG  
NO NEED TO ALTER RINGGIT PEG FOR TIME BEING

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KUALA LUMPUR, Jan 16 (Bernama) -- Should Malaysia devalue the ringgit now that the Japanese yen has gone down?

There is no need to, say many informed commentators after the flurry of speculation over the past few days.

The peg of RM3.80 to one US dollar, which was introduced on Sept 1, 1998 amidst the turbulent Asian regional financial crisis, has served the country well as far as its objectives are concerned.

Announced as part of the selective capital controls by Prime Minister Datuk Seri Dr Mahathir Mohamad, the peg had shielded Malaysia from the unstable vagaries of the erratic foreign exchange movements.

Dr Mahathir had then also said that the peg would enable one to know exactly how much ringgit he would get from a foreign currency.

"We have to fix the value of the ringgit so that traders and individuals will be aware of their financial positions and with that the economy will operate well," he had then said.

The controls put a spanner in the works for those bent on manipulating currency markets and reaping big rewards from volatile currency movements in the process.

Stability was a key concern then as is now for the country's economic planners who strategised to shore up confidence and kept the lid on potential mob unrest.

Despite many sharp criticisms on Malaysia's so-called retrogressive steps when the controls were first announced, the country's economic planners did not flummox or cave in under pressure. The critics eventually acknowledged the superiority of Malaysia's economic management which prevented the country from economic ruin.

Till this day, many informed analysts do not think there is a need for a re-peg under the present circumstances.

The heart of the matter is that currencies in this region have been relatively stable despite the current weakening of the yen.

And what does this translate into?

It simply means that there is no need to re-peg the ringgit at the moment.

Towards the end of last year, Bank Negara Malaysia governor Tan Sri Dr Zeti Akhtar Aziz said there was no reason to re-peg the ringgit as the country's economy is in a very good position and that its financial system is not under stress.

She cited various fundamental factors that supported the current ringgit peg. They include domestic fundamentals like government policies which encourage low inflation, maintain external debt at prudent levels and promote a strong external balance.

In addition, Malaysia's foreign reserves have been maintained at a comfortable RM117.2 billion or US\$30.8 billion in the second half of December, while its banking sector has been strong and resilient.

While the weakening yen is a factor to consider, analysts interviewed say the main worry will be from China if it were to devalue the yuan because that country is the real competitor to South East Asian economies.

"The slight devaluation in Asian currencies at between 1.0 and 3.0 percent at present is no big deal when compared to during the 1997/1998 financial crisis. China's yuan has remained intact since then," one of the analysts said.

Given that China is nowhere near to devaluing its currency, this means that Malaysia is not under pressure to change its peg.

"The pressure on the ringgit is from the yuan, not the yen. If the yuan devalues, it will pressure the Hong Kong dollar and this in turn will affect the next pegged currency, which is the ringgit," said Anthony Dass, head of research at SJ Securities Sdn Bhd.

China, he said, would not devalue its currency just to boost its competitiveness because its productivity is strong.

Furthermore, he said China has ample reserves to hold on to its current peg at 830 yuan to a dollar.

Meor Amri Meor Ayob, Rating Agency of Malaysia's (RAM) head of financial institutions rating, also does not see the need for China to devalue the yuan because it is a controlled economy.

China's market itself, he said, is so huge that it can be an economy by itself.

Meor Amri said the key to whether the ringgit should be re-pegged does not hinge on the value of the yen alone but on the competitiveness of Malaysia's products as well.

"Even if the yen is at 160 to the US dollar, it is still quite good for Malaysia as most of our electrical inputs for our manufacture base are from Japan and so we can import cheaply (from Japan)," he said.

And Japan, he said, is not a competitor to Malaysia but a supplier while China is a competitor.

As long as there are no fundamental shifts, Malaysia should not change its peg because of several positive factors or else it will be merely an over-reaction, Meor Amri said.

Datuk Mustafa Mansur, chairman of the international business committee of the Federation of Malaysian Manufacturers (FMM), also feels that there is no need to re-peg because the slight devaluation of the yen is unlikely to cause instability in Asian currencies.

"Our ringgit is very competitive. Our productivity has improved and there has been lower cost of production here," said Mustafa, who is also FMM's vice-president.

As such, he said the slight depreciation of the yen would not affect local manufacturers.

But if the devaluation of China's yuan does take place, Mustafa said it would have some impact on Malaysian exports, especially manufactured products, since China is a major supplier of similar products.

The yen is currently traded at 131.80 per dollar and Dass expects the yen to move between 130 and 140 for 2002. Should it fluctuate between 140 and 145, Dass believes that the Bank of Japan is likely to intervene.

Both Dass and Meor Amri also feel it is unfair to compare Malaysia's ringgit peg with the Argentinian peso.

"Both are separate entities," said Dass who stressed that the Argentinian peso was on a one-on-one peg with the US dollar while the ringgit's parity is at 3.80.

The difference is that while Malaysia pegged its currency to protect itself from potential currency instability and to block the fissures of short term capital outflows, Argentina undertook its peg to attract foreign investors and tackle runaway inflation.

Additionally, Malaysia was far more successful than Argentina in pump-priming economic growth and attracting local investment funds in an environment of exchange rate stability.

Meor Amri also said while Argentina's neighbours like Uruguay, Chile and Brazil devalued their currencies sharply in the recent past, the Argentinians still held on to the peg. As a result, relatively higher priced Argentinian products saw few takers from its Latin American

neighbours and this caused Argentina's exports to fall.

As for the local scenario, Meor Amri said there has been no active devaluation among Malaysia's neighbours like Singapore or Hong Kong.

Those taking an extreme view that the ringgit ought to be re-pegged lower feel that it will make Malaysian exports cheaper while an overvalued currency may cause leakages in capital flows.

But on the other side of the coin, sectors with high import content and companies with heavy foreign borrowings could face additional pressure from forex losses on their balance sheets.

The consensus is that if there were to be a re-peg, the dominant factor would be Malaysia's export competitiveness.

This is because the impact of a lower re-peg may see imported inflation pushing up the Consumer Price Index (CPI) which had earlier been steady at around 1.5 percent.

And rising import costs could lead to a potentially higher CPI and trigger higher interest rates.

This will not be good for Malaysia as its financial planners had been striving hard for a relative low interest regime to lower the cost of doing business.

The pertinent points to remember in the Argentinian financial crisis were the relatively high inflation, high interest rates which eventually crippled that country's budget and the difficulty faced by small and medium-scale businesses in getting loans despite the fact that the entry of foreign-owned banks. -- BERNAMA

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