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`Ringgit not facing any threats of devaluation'

THE ringgit, which has been pegged to the US dollar since 1998, is not facing any threats of devaluation, Malaysian Institute of Economic Research (Mier) executive director Dr Mohamed Ariff Abdul Kareem said.

He said the stabilising Japanese yen will not pressure the ringgit to be devalued.

"There was some pressure recently but our reserves are high, relative to the short-term external debt and short-term liabilities," he told a news conference after briefing representatives from the corporate sector on Malaysian economic outlook in Kuala Lumpur yesterday.

Statistics show that the country's foreign reserves rose to US\$32.7 billion (US\$1 = RM3.80) as at March 30 this year, up from US\$30.8 billion at end-December 2001.

The level is sufficient to finance 5.5 months of retained imports and is 5.3 times the short-term external debt.

Malaysia adopted a fixed exchange rate regime at RM3.80 to the US dollar at the height of the Asian financial crisis in September 1998 to insulate the ringgit from manipulation by currency traders.

The currency peg has so far provided stability to the economy, benefit manufacturers and boost the country's export competitiveness.

Mohamed Ariff said there was some pressure recently on the ringgit peg when the greenback depreciated but now the Japanese currency has since stabilised.

He does not expect the yen to weaken to 140 to the greenback, which may cause the Government to review the ringgit peg.

Earlier this year, Prime Minister Datuk Seri Dr Mahathir Mohamad had said that the currency peg may have to be revised if there is sustained weakness in the yen and devaluation of Chinese yuan.

Mohamed Ariff, however, cautioned about Malaysia's export competitiveness as export performance determines the staying power of the ringgit peg.

According to him, there may be cause for concern if the country's export growth lags behind that of other countries in the region.

He, said so far, there are no indications that Malaysia's exports will fall behind its neighbours'.

Mier also expects the currency peg to stay a "while longer" as the country's fundamentals are strong, while the current account is expected to continue registering favourable surplus this year.

The economic think tank, however, believes that the currency peg needs to be reviewed when the economic stability returns and growth becomes entrenched.

It observes that Malaysia's real effective exchange rate has seen some upward movement but presently the increase is not alarming.

Interest rates, which have been low for quite a while, are expected to continue to be accommodative against ample liquidity to support the economic growth.

Mier noted that so far, the general impact of low interest rates on total loans growth has been modest, given the prevailing excess capacity and weak demand.

Loans growth moderated from a peak of 6.4 per cent in July to 4.3 per cent in February this year.

Mohamed Ariff said the oil price increase has a double-edge impact on

Malaysia.

Echoing views of other local economists, he said in the short-term, it will benefit Malaysia, which exports high grade oil.

"Malaysia will gain in terms of higher growth in Government revenue, high export of oil and strengthening of government finance," he said.

However, in the long run, if the oil price rises consistently, it will affect other economies like the US, Japan and Europe.

On a question whether Malaysia has done enough to diversify its economy, Mohamed Ariff said for a small economy like Malaysia, it is difficult to be very diversified.

He said it does not mean that Malaysia's economy is not diversified although the manufacturing sector, particularly the electronic sub-sector, drives the economic growth.

"There is a lot of diversification within the electronic sector itself," he said, citing the movement of the sector into high-tech manufacturing such as photonics and nano-technology.

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