

Mahathir was right, says IMF

BY JAGDEV SINGH

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PUTRAJAYA: The International Monetary Fund (IMF) said Malaysia's approach to peg the ringgit in dealing with the Asian financial crisis was the correct move.

"With hindsight, we have to recognise the good performance of the economy. Mahathir was right," said the fund's managing director Horst Kohler, referring to the decision in September 1998 by Prime Minister Datuk Seri Dr Mahathir Mohamad in the aftermath of the currency crash.

"The performance of the economy since the crisis shows that he is right," Kohler told the media here, yesterday.

Malaysia pegged the ringgit to the US dollar five years ago and introduced a host of other capital controls, most of which have since been abolished.

The introduction of the peg and the variety of capital controls had originally met with scepticism from numerous quarters, including the IMF. In 1999, however, the IMF conceded that the cur-

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rency controls had produced more positive results than many observers had initially expected.

Kohler said the move to peg the currency had worked as "shock absorbers" for the economy when it was dealing with the crisis, but added that it may be time now to take a re-look at the ringgit peg.

"This does not mean that this formula can't and should not be reviewed. But let us discuss how this country can prepare for further integration into the global economy," he said.

Kohler is in Malaysia at Dr Mahathir's invitation after they met at Evian, Switzerland, last June.

He said Malaysia had made great progress in strengthening its financial and corporate sectors since the crisis and that work should continue to identify vulnerabilities in the financial sector.

"There is a clear need to consolidate further the investment climate in Malaysia by showing that fiscal policy

is prudent," he said.

His view is that Malaysia needs to move towards a balanced budget in the medium term. At the moment, the government deficit is manageable and debt situation should be taken as a policy challenge.

The fiscal deficit was 5.6% of Gross Domestic Product (GDP) last year and projections are that the deficit could be as much as 5.5% this year. The Government has been running deficits in recent years to stimulate economic growth.

At a luncheon later, Kohler forecast Malaysia's GDP to grow in excess of 5% next year and believed prospects were good for sustained high growth beyond next year.

For Asia, he saw growth closer at 6% this year and expected that to strengthen further next year. The world economy is forecast to grow by 4% next year.

The IMF supported the proposed use of the gold dinar as an international currency but required more information on its workings, he said.