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S'PORE-ZETI

ZETI SEES SMOOTH TRANSITION IN MANAGING M'SIAN ECONOMY

By: Salbiah Said

SINGAPORE, Nov 7 (Bernama) -- Bank Negara Malaysia Governor, Tan Sri Dr Zeti Akhtar Aziz is confident of a smooth transition in managing the Malaysian economy under the newly-installed Prime Minister, Datuk Seri Abdullah Ahmad Badawi.

"The leadership change would result in different styles of management, but we have a very high degree of confidence that there will be a smooth transition in respect of managing the economy in Malaysia," she said in response to a question at the Morgan Stanley Asia Pacific Summit here today.

She said the objectives of the country's economic policy would remain the same under the new prime minister.

"We are part of the same team," she said.

Abdullah, 63, took over as Malaysia's fifth Prime Minister from Tun Dr Mahathir Mohamad, who retired after 22 years at the helm.

Zeti was asked on whether Malaysia had any plans to review its policy of pegging the ringgit to the US dollar despite the recent pressure following the weaker greenback against major currencies and depreciation in the Chinese yuan.

"We will only make a review if significant fundamental structural changes occur in the region," she added.

The dollar recently depreciated against the yen and even against other major currencies including euro and pound sterling.

Many countries in particular the US, Japan, and the European countries, began last year to pressure China to revalue the yuan.

They believe that China's exchange rate regime leads to unfairness in international trade and that it allows China to dump its products at low prices, thus causing trade deficits and deflation in their countries.

Earlier in her speech, Zeti said that allowing East Asian currencies to appreciate to address a global trade imbalance, as suggested by the world's richest economies, would not work.

"Our view is that it is very unlikely that an adjustment in the regional currencies will contribute to correct the imbalance," said the central bank governor.

This, she added, would only take place if the dominant driver of exchange rates were trade flows and not financial flows.

Such an appreciation of regional currencies, she said, would have to be very substantial to address the issue of competitiveness which required more fundamental and structural adjustments.

Zeti warned against prematurely raising interest rates in Asia and elsewhere, saying this would harm the global economic recovery.

"It appears that rates have bottomed out in major economies and discussion has begun to shift the debate to the need to raise interest in the future," Zeti said.

"At this juncture, a premature increase in interests rates when inflation is low, when unemployment remains high and when there is excess capacity would have implications on the growth momentum on countries in which financial reforms are being undertaken," she said.

Zeti also warned interest rate hikes in East Asia would damage the potential growth of consumer spending, which is a major contributor to the region's economies where rising living standards have led to a growing middle class with high purchasing power.

"This expansion in consumer spending in East Asia has the potential to increase further," she noted. -- BERNAMA
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