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ZETI-RINGGIT

RINGGIT NOT MISALIGNED AGAINST CURRENCIES OF MAJOR TRADING PARTNERS

KUALA LUMPUR, Feb 6 (Bernama) -- Bank Negara Governor Tan Sri Dr Zeti

Akhtar Aziz says that ringgit is not misaligned against currencies of major trading partners and gravitated around its fair value.

"Right now, our data and assessment shows that it is not misaligned and over the last six years, it has operated in the plus or minus seven percent. This is well within an acceptable range," she told reporters after the Tun Ismail Ali Chair Public Lecture on "Managing Financial Instability and Shocks on a Globalizing World."

She said this when asked whether the ringgit's peg against the U.S.

dollar should be reviewed in view of the dollar's steep fall in currency markets especially against the euro.

In her speech, Dr Zeti said the pegged exchange rate had served Malaysia well in terms of the significant growth in the volume of trade and steady inflow of foreign direct investment. In trade-weighted terms, the exchange rate was not misaligned.

"Since the ringgit peg to the US dollar, the ringgit real effective exchange rate (REER), which is the trade weighted value of the ringgit against our major trading partners' currencies after taking into account changes in our inflation relative to those of our trading partners, has fluctuated within a range of plus or minus seven percent".

Former prime minister Tun Dr Mahathir Mohamed introduced the peg, along with capital controls, at the height of the Asian financial crisis in September 1998.

The dollar was trading at 1.255 against the euro in foreign exchange markets today.

According to the Malaysian Institute of Economic Research (MIER) the dollar was now at US\$124 to the euro, down by 16 percent compared with US\$106.7 to the single European unit a year ago.

MIER said judging by the shrinking dollar during the last 12 months, the ringgit was seen to be 15 to 20 percent undervalued.

During the period Jan 2003 to Jan 2004, the ringgit weakened 17.9 percent against the euro and 10.2 percent against the yen and had also depreciated against major currencies.

As such, the central bank governor said that "the ringgit's pegging should be considered on its own, in terms of whether it is misaligned or whether structural changes have taken place."

"So, actually, now it may be just three-and-a-half percent away from the equilibrium value," Dr Zeti said.

The governor highlighted an appropriate exchange rate regime as one of the key elements to enhance national resilience to external shocks as emerging market economies had become more vulnerable to international shocks which could have a significant adverse impact on the economy.

She said trade and investment should be facilitated by an exchange rate that was stable and reflective of economic fundamentals, not by one that was volatile and unstable and subject to speculative capital flows, she said.

"The exchange rate should not be manipulated to cater to narrow sectoral interests," Dr Zeti said.

It was also not prudent to respond to short-term trends or to focus solely on developments in bilateral exchange rates.

"Malaysia had trading and investment relations with many nations. We therefore, cannot look at movements of any particular currency pair as a basis for determining the appropriate valuation of the ringgit," she stressed.

A longer-term perspective to exchange rate policy was taken, looking at the relationship between the exchange rate and economic fundamentals.

The Malaysian economy had both external balance in the form of a sustainable current account and internal balance in the form of price stability.

"This again supports the ringgit being fairly valued," she said.

Another approach to enhancing national resilience was capacity building

by strengthening the economic and financial base.

Dr Zeti said a deliberate policy to diversify the economy to achieve a greater balance between domestic and external sources of growth, to avoid excessive concentration in any activity and to reduce over-dependence on any particular market.

Of equal importance was the development of a resilient institutional framework and institutions. This, she said included the promotion of strong private and public institutions.

"For emerging economies, where the financial infrastructure is still relatively less developed, the premature liberalisation of capital flows could lead to an accumulation of risk factors that could lead to instability and culminate into a financial crisis," she said.

The approach for the liberalisation of the capital account in Malaysia had been to adopt appropriate sequencing so that the increase financial integration would not have destabilising implications.

She said it was important to have sufficiently developed domestic financial markets, sound macroeconomic conditions and sound institutions in place. -- BERNAMA

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