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MAHATHIR-PEG

MAHATHIR SAYS RINGGIT PEG SHOULD BE REVIEWED

By Mohd Arshi Daud

PUTRAJAYA, Jan 19 (Bernama) -- Malaysia's currency peg, which has been in place for more than six years, should be reviewed as the weak U.S. dollar has caused the ringgit to depreciate against major currencies, says former Prime Minister Tun Dr Mahathir Mohamad.

"I feel the time has come for us to review because we have lost a lot as the value of our currency has fallen," he told newsmen after meeting Joseph E Stiglitz, an economics professor at Columbia University, at the Perdana Leadership Foundation office here today.

Dr Mahathir said while the depreciation of the greenback had little impact on Malaysia's imports from the US, it was now costlier to buy products imported from Japan, Europe and elsewhere.

At the peak of the Asian financial crisis, Dr Mahathir imposed selective capital controls and fixed the ringgit at 3.80 to the US dollar as part of measures to stem the rapid outflow of speculative hedge funds from the country and to shield Malaysia from the vagaries of sharp currency fluctuations.

The move was then criticised by many quarters except for a few economists, including Stiglitz and renowned economist Paul Krugman.

Stiglitz had served as the World Bank's Senior Vice-President and Chief Economist between February 1997 (before the Asian financial crisis broke out) and February 2000.

The peg, imposed on Sept 1, 1998, had brought stability to the ringgit, which was then spiralling down in a contagion effect that started with the depreciation of the Thai baht, which later impacted on other regional currencies such as the Indonesian rupiah, South Korean won and the Phillipine peso.

Malaysia benefited from the fixed exchange for several years and did not have to be subjected to restrictions placed by the International Monetary Fund like what had happened to other countries in Asia.

However, the ringgit peg was the subject of much speculation and possible review towards the latter part of last year when the U.S. dollar depreciated sharply and over expectations that China, an emerging Asian economic powerhouse, might revalue its yuan.

These developments were said to have attracted speculative funds from overseas wanting to take advantage of any possible upward revaluation of the ringgit coupled with the buoyant stock market then.

When asked to comment on this, Dr Mahathir, who was also the country's former finance minister, said:

"From the onset, we have said that although we have a fixed exchange rate, we can fix it at any level we want.

"That is the most important thing...the freedom to fix the exchange rate."

Therefore, he said that it was up to the government to evaluate on how best to review the value of the ringgit.

"Now, the ringgit is depreciating as the (US) dollar is falling. The Singapore dollar has (also) appreciated. Whether this is good or not good is up to the government to study," he said.

In the period between January 2004 and the middle of this month, the ringgit dropped by 4.1 percent against the euro, 5.1 percent against pound sterling, 3.2 percent against the yen and 3.6 percent against the Singapore dollar.

On his two-hour meeting with Stiglitz, Dr Mahathir said the former World Bank official was still interested to know how Malaysia had handled the 1997-1998 financial crisis and how it had emerged stronger from it.

"There were a lot of things that he knew but not in detail. I explained how we did it," he said.

Stiglitz, who met Mahathir personally for the first time today, said the ringgit peg worked well for Malaysia and it had brought about enormous advantages to its economy, including financial stability.

"The critical problem is that in a very volatile world, there is a risk of exchange rates getting out of line, so you have to always be aware of the changes."

However, the recipient of the Nobel Prize in Economics in 2001, said he had also been critical of the fixed exchange rate system implemented in Argentina, where it had tried to maintain an overvalued exchange rate for a very long time.

This was done when the US dollar was overvalued and the exchange rates of Argentina's neighbours collapsed.

"In that context, it was an enormous mistake but that is not the situation today in Malaysia," he said stressing that the lesson here was that the world changed in a "very volatile" manner.

Asked whether he was calling for a revaluation of the ringgit peg, Stiglitz said: "No, you have to recognise when the world changes you may have to change but right now it's (the peg) working."

Stressing that Malaysia's fixed exchange rate "is still working" at its current value, he, however, said that eventually "the time will come to change it."

"I think probably now is not the time (to change it) but I think the question is that you have to look at a lot of data (so as) to make a firm assessment of that (impending change later)," added Stiglitz. -- BERNAMA

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