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RINGGIT-REACTION
MIXED VIEWS ON RINGGIT PEG REVIEW

KUALA LUMPUR, Jan 20 (Bernama) -- Views and analyses from economists and market-watchers were mixed after former Prime Minister Tun Dr Mahathir Mohamad called for a review of the ringgit peg, now standing at RM3.80 on US dollar.

The elder statesman had called for a review as he said the peg had caused the ringgit to slide against other major currencies.

"The call is prescient not only because Dr Mahathir was the PM, whom some believed, saved the country from a fire-sale of distressed companies and assets during the Asian financial crisis by enacting the ringgit peg but also that we are likely to encounter more international currency turmoil this year," said economist Dr Yeah Kim Leng.

This was especially so with the US grappling with its twin fiscal and trade deficits, he said.

And this would force the US dollar to face continuing downward pressure as long as those problems remained, said Yeah, who is also managing director and chief economist of RAM Consultancy Services Sdn Bhd.

A sustained downward spiral of the US currency would put pressure on both the Chinese renminbi and ringgit as both are pegged to it.

Though speculation over the breaking point of the fixed exchange rate regimes of these two countries would likely intensify this year, the uncertainty created may be disruptive to trade and investment, said Dr Yeah.

The probable adverse impact, however, may be limited given that both the Chinese and Malaysian economies were showing healthy growth, he said.

Philippe Sachs, credit analyst at Standard & Poor's, said although there were little credit implications to changing the currency regime now, it was in Malaysia's interest to act decisively to best manage expectations and accompanying speculative flows in the aftermath of Dr Mahathir's statement.

He said although the peg had served Malaysia well, it had five primary options opened -- freely float the ringgit, introduce a managed float, re-peg to the US dollar at an appreciated value, re-peg to a basket of currencies or maintain the current regime.

Sachs said action in the near term would allow Malaysia to dictate the course and nature of the transition to a new regime.

But he said there was little evidence of capital distortion as a result of the current exchange rate policies.

"Asset bubbles are minimal and inflows of +hot money+ are still manageable," he said, adding that it was always better to move on exchange regimes from a position of strength.

Sani Hamid, a senior analyst from the Singapore-based research house of Forecast Pte Ltd, concurred with Bank Negara Malaysia governor that there would be a review only when there was a structural change or misalignment.

Tan Sri Dr Zeti Akhtar Aziz had said that a change in any single currency would not affect the ringgit peg.

Sani said he believed that BNM would only act if potential imbalances caused by a misaligned currency peg showed up.

"We believe that the primary trigger for a review lies with an array of macroeconomic variables from inflation to the banking sector stability to international reserves," he said.

Secondary triggers such as the yuan revaluation, dollar/yen parity at

140 or a 20 percent misalignment only served to alert the authorities to the likelihood of the peg being misaligned significantly.

Sani also quoted Nobel Prize laureate Joseph E. Stiglitz as saying that the peg was still working and that "you have to look at a lot of data to make a firm assessment".

Bumiputra Manufacturers Association of Malaysia (PPBM) deputy president, Mejar (R) Abdul Rahman Ibrahim said it was high time for the government to consider reviewing Malaysia's currency peg which would definitely benefit local manufacturers.

He said a review would at least lessen the cost of importing manufacturing materials from countries like United States, Europe and Japan.

"3.8 is very high for us. How can we compete with other imported products?" he asked.

Citing the example of China, Abdul Rahman said it was difficult for local goods to compete with products brought in from that country as it was cheap and of good quality.

"We can give you good quality too but of course at a higher price due to the imported price we have to bear," he said.

Abdul Rahman also said the situation was not so rosy for those selling their products locally.

Mayban Securities executive vice president and head of dealing Wan Ahmad Satria Wan Hussein said Dr Mahathir was echoing what foreign brokers were already saying in that the ringgit was undervalued.

"The government could review the present situation and do something if there is a misalignment. It is a balancing," he said. -- BERNAMA

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