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Keeping options open on currency peg

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PUTRAJAYA, Thurs. - Malaysia is keeping its options open on the currency peg and may review it if the Euro strengthens to beyond US\$1.40 and if the yen falls below 100 to the dollar, Second Finance Minister Tan Sri Nor Mohamed Yakcop said today.

"If the two currencies strengthen beyond those levels, we do not want to be out of whack. We will have to look at the peg seriously," he told 21 of the region's top fund managers at a meeting here.

However, Nor Mohamed said the Government felt the situation at the moment did not warrant removal or review of the peg.

He added when the peg was introduced at the height of Asia's financial crisis in 1998, "it was the right way to resolve the problem."

"It worked very well," he said, giving credit to then Prime Minister Tun Dr Mahathir Mohamad for introducing the unconventional exchange control policy which led to Malaysia being the least affected among countries caught by the contagion.

Many of the fund managers wanted to know whether the ringgit would be re-pegged or if it would be allowed to float.

One fund manager also referred to a New Straits Times article today by former banker, Datuk Malik Marican, who had strongly propagated removal of the peg.

Nor Mohamed said because of the concerns and views expressed, the issue of re-pegging was a relevant question to look at.

"Question is do we continue to have a fixed rate regime and if we do, is RM3.80 the right rate?"

He told fund managers that pegging the ringgit to the US dollar was a policy instrument which was then seen as being in the country's best interest.

"We do not believe that 3.80 is cast in stone. If the time is right and if it is in the national interest, we will do it," he said.

He followed up with a poser: "Is the time right now?"

"Our view is that it is not because regional currencies have not changed much," he said, re-asserting previously expressed views that if regional currencies fluctuate by 20 per cent either way, the Government would then have to re-think its position on the peg.