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RM may be re-pegged if currency rate swings exceed 20pc

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MALAYSIA will consider re-pegging the ringgit against the US dollar only if there is a 20 per cent swing in the exchange rates of regional currencies compared to the value of the ringgit, says Tan Sri Nor Mohamed Yakcop.

Nor Mohamed, who is Special Economic Adviser to Prime Minister Datuk Seri Dr Mahathir Mohamad, said in an interview that the current peg had so far worked well for Malaysia.

"But we've also said that we're flexible, in the sense that if the exchange rates of the world become very volatile and change structurally, and the exchange rates of our regional currencies move up or down 20 per cent compared to the value of the ringgit... then we will consider changing the peg," he said.

Even in that scenario, Nor Mohamed emphasised, Malaysia will still keep the ringgit pegged to the US dollar, but at a different rate.

Nor Mohamed has repeatedly said that the ringgit peg has been good for the country as it provided an "oasis of stability" in an environment where exchange rates can be very volatile.

"This peg has done us very good. Of course, some people say we should change, but why should we change? Who has lost as a result of the peg? Nobody," he remarked.

He noted that the peg made the ringgit more stable - an important factor for businessmen and foreign investors who now do not have to worry about profits being potentially wiped out by foreign exchange losses.

The peg, at RM3.80 to US\$1, was introduced in September 1998 as part of selective capital control measures to stem the effect of the Asian financial and economic crises of 1997.

At that time, the unorthodox move was widely criticised, particularly by the International Monetary Fund (IMF), which preferred that the ringgit's exchange rate be determined by market forces.

Late last year, however, the IMF acknowledged that the peg was a stability anchor.