

Mahathir wants ringgit re-pegged
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Former prime minister Dr Mahathir Mohamad has advised that the ringgit peg - criticised as a major stumbling block by investors - be reintroduced to stop further losses in the local currency, which is now on a managed float system.

Mahathir, a former finance minister, argued that a peg would be able to lessen the effect of the global slowdown on the ringgit, which has lost more than 5 percent in value since the start of this year.

"We need to fix the value of the ringgit and I believe the government should do away with managed float because it will result in a loss," he was quoted as saying by Bernama.

Mahathir, together with Second Finance Minister Nor Mohamed Yakcop, had orchestrated the overnight banning of overseas trading in both local shares and the ringgit in a bid to stop capital flight from the country during the Asian financial crisis.

The Malaysian currency was fixed at RM3.80 to the US dollar on Sept 1, 1998.

Reluctant to heed the advice of the International Monetary Fund, the feisty 82-year old preferred to go his own way, choosing the unorthodox method to heal the country's economy.

But while Malaysia managed to pull away from the brink, and IMF officials have grudgingly credited his courage for trying a different tack, the peg was nevertheless identified by most global investors as the single main reason why they would continue to shun the country until it was removed.

The peg was finally scrapped on July 21, 2005 and the ringgit is now on a managed float against a basket of currencies.

Analysts have in recent months slammed Bank Negara for not raising interest rates despite soaring inflation, accusing the central bank of bowing to political pressure from Prime Minister Abdullah Ahmad Badawi's administration.

They warned maintaining populist policies would only lead to further erosion of the ringgit's value.

The government, on the other hand, has said it wants to keep borrowing costs low to avoid triggering a spate of bad loans.

"You can't have one or the other. Either you raise interest rates - which is the key valve to releasing price pressures - or you lose out on the ringgit value," said a foreign exchange trader at a large bank.

"You don't jump from that to re-introducing the peg. In the eyes of the market, that is no different from cheating."

Ailing US economy to affect Malaysia

Speaking at a press conference in Alor Star, Mahathir said fluctuations in the ringgit's value affected the economy and the government should scrap the current managed float.

"If the US economy declines, the country, which is among its key trading partners, will also be badly affected," he said, when asked to comment on the economic situation in the country.

The ringgit at RM3.284 against the greenback on Jan 1, 2008, has plunged more than 5 percent. At 5pm on Friday, it was trading at 3.4570/4620.

Meanwhile, other regional economies scarred during the Asian crisis but which made the decision to follow IMF recommendations include Thailand and Indonesia.

Both have since rebounded, while Singapore, the economic leader of Southeast Asia, was largely unscathed despite maintaining open market policies during the region's worst period of financial turmoil.

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