

# Dr M: Keep currency peg

NST- 8/4/2005: B9

MALAYSIA must keep a currency peg and change the level should the ringgit's value hurt the nation's ability to compete, former Prime Minister Tun Dr Mahathir Mohamad said.

Dr Mahathir, who left office in November 2003 and is an adviser to national carmaker Proton Holdings Bhd and state oil company Petroliam Nasional Bhd, said changing the level of the ringgit's peg to the dollar should hinge on the economy's competitiveness.

"If we are uncompetitive in

comparison with our neighbours, then we need to review the peg, and if we are too strong, then also we have to review," he told reporters in Kuala Lumpur yesterday.

"The peg has served us very well."

Dr Mahathir, who fixed the ringgit to the dollar at 3.8 in 1998, earlier said the Government ought to review the exchange rate policy as the dollar's decline against the euro, yen and other Asian currencies means imports cost more.

The current administra-

tion under Prime Minister Datuk Seri Abdullah Ahmad Badawi has stressed the peg's continuing usefulness to the economy.

Malaysia's currency peg is still good for the country and doesn't significantly undervalue the ringgit, Second Finance Minister Tan Sri Nor Mohamed Yakcop told reporters in Laos on Wednesday.

Malaysia has no "ideological" preference for keeping the peg, he said.

The peg "will hold for the whole of this year," said Lee

Heng Guie, head of economics at CIMB Securities Sdn in Kuala Lumpur.

"The latest liberalisation of foreign exchange measures could set the stage for a more flexible exchange rate regime further down the road.

"They will have to monitor how the people adjust to the more liberal controls raising the limit for overseas investment."

Foreign-exchange controls in the US\$118 billion (US\$1 = RM3.80) economy, South-East Asia's third

largest, will be eased this month to help companies and investors cut transaction costs and hedge currency risks, Bank Negara Malaysia said on March 23.

Under the plan, local investors will be allowed to enter into forward contracts to hedge their overseas investments and debt repayments, and Malaysia's fund management companies will also be allowed to invest as much as 30 per cent of their money outside the country, compared with 10 per cent previously.

The ringgit has tracked the dollar's decline against major currencies since the start of 2002, driving up the cost of imported goods and components. Inflation in Malaysia, South-East Asia's third-largest economy, held at a five-year high of 2.4 per cent in February.

Malaysia's economy expanded 7.1 per cent last year, the fastest in four years. It may grow between 5 per cent and 6 per cent this year, according to the central bank. — Bloomberg