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Abdullah Says Malaysia Has Shifted Reserves Away From Dollar

By John Fraher and Adrian Cox

Jan. 27 (Bloomberg) -- Malaysian Prime Minister Abdullah Ahmad Badawi said his country has shifted some of its \$82 billion of currency reserves away from the dollar and that potential foreign-exchange volatility may hurt exporters.

"We're concerned for the reason that the high percentage of our international trade is in U.S. dollars," said Abdullah today in an interview in Davos, Switzerland at the annual meeting of the World Economic Forum. When asked whether Malaysia will cut its dollar holdings, he said: "We have already done. We'll continue to watch the situation."

Abdullah's comments reflect concern that lopsided trade flows between the U.S. and the rest of the world will weaken the dollar. The U.S. currency has dropped 6 percent against the euro in the past year. Kuwaiti Finance Minister Bader al-Humaidhi said on Jan. 24 that the third-largest Arab oil producer may abandon the dinar's peg against the dollar in favor of a basket.

Malaysia's central bank abandoned a peg to the dollar in July 2005 and manages it against an undisclosed basket of currencies. The ringgit has advanced 0.7 percent against the dollar this year, climbing to a nine-year high this month and trailing only the Icelandic krona as the world's best performing currency.

"Overdependence on one currency can create a problem, the dollar or any other currency," said Abdullah. He declined to comment further on the country's foreign exchange policy or his favored currencies.

Central bank Governor Zeti Akhtar Aziz in November declined to comment on whether Malaysia was diversifying its reserves.

Abdullah also called on U.S. and European ministers meeting in Davos today to unblock stalled World Trade Organizations talks on dismantling trade barriers.

"The U.S. and the Europeans have a very important role to play," he said. "A lot of things are stuck here because of these giants. If we can't have it globally then people do it bilaterally or multilaterally."

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