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Frequently Asked Questions (FAQ) on Ringgit

Summary of Questions

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1. What is driving the recent developments on ringgit?

- The ringgit is market-determined. The recent ringgit's appreciation is largely influenced by external factors such as concerns over the direction of global trade policies. The global financial markets have also experienced heightened volatility in recent weeks.
- However, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

2. How does the exchange rate affect me?

- A weaker or stronger ringgit will **benefit some and affect others**.
- A stronger ringgit:
  - is good if your business needs a lot of imports, or you are shopping or travelling abroad.
  - is bad if your business depends on exports, or for tourists coming to Malaysia.
- A weaker ringgit:
  - is good if your business depends on exports, or for tourists coming to Malaysia.
  - is bad if your business needs a lot of imports, or if you are shopping or travelling abroad.

3. If the ringgit falls against the US dollar, should we be worried?

- While the US dollar plays a dominant role in global markets, it is important to emphasise that the ringgit's performance against the US dollar alone is **not a reflection of the state of the economy**. The exchange rate is only one indicator among many.
- Moreover, we should **not only compare the ringgit to the US dollar**, but also against our diverse trading partners. This is the purpose of the nominal effective exchange rate (NEER), which accounts for the changes in the ringgit against the currencies of our major trading partners.

4. If the ringgit is weak, does this lead to higher inflation in Malaysia?

- Dollar (or any foreign currency) strength will raise the cost of imported goods, including food prices. However, imported inputs account for less than 20% of production cost. Although the exchange rate impact to inflation is not one to one, it partly contributes to the rising cost of living as higher commodity prices and supply disruptions affect domestic prices. Various measures are being implemented to lessen the impact of this increase in prices. These include social assistance, stabilisation of prices and access to discounted necessity goods.

5. How does BNM manage the ringgit?

- On an ongoing basis, BNM manages the risks arising from both domestic and external developments. While we **do not target any level of exchange rate**, our role is to ensure foreign exchange markets remain effective and movements in the exchange rate are orderly. By that, we mean that there are **no sudden or large swings** in the value of the ringgit, so as not to disrupt economic activities.
- We are ready to use the tools at our disposal to ensure these outcomes. This will enable the exchange rate to serve as a shock absorber – not a shock amplifier – to the domestic economy, helping businesses plan and undertake business and investment decisions with more certainty, which will support more sustainable growth.

- Daily onshore foreign exchange transaction volume and bond market activity remain healthy. Reforms to deepen the domestic bond market have helped strengthen the fundamentals of the economy by enabling businesses to meet their funding needs more effectively.
- The Government is also committed to creating a conducive investment climate which has led to **reforms in the country's investment ecosystem to strengthen Malaysia's growth potential.** In particular, the implementation of initiatives under the New Industrial Master Plan 2030 (NIMP) and National Energy Transition Roadmap (NETR) will improve Malaysia's competitiveness. The recently announced Budget 2024 continues to highlight the Government's commitment to fiscal consolidation and will improve investor confidence in the medium to long term. All these will provide a more enduring support for the ringgit.

6. Will a higher OPR strengthen the ringgit exchange rate?

- Changes in the OPR help foster the right conditions for sustainable economic growth with price stability. This in turn improves investors' sentiments on our economy and supports the ringgit exchange rate over time.
- There are many other factors that also influence the ringgit exchange rate. Of note, we are currently in a strong US dollar environment, due to a few reasons. These factors include the large rate hikes by the US Federal Reserve to contain US inflation, which have led to higher returns, and thus demand for US dollar assets among investors globally.
- As such, we should not just compare the ringgit movements against the US dollar.
- Instead, we should take a broader view and compare it against other currencies. This is where the nominal effective exchange rate (NEER) comes into play. The NEER takes into account ringgit movements against the currencies of Malaysia's trade partners. This is often a better measure of general trends in the exchange rate rather than any one bilateral exchange rate (e.g., ringgit against the USD). For example, the ringgit could

be depreciating against the US dollar but appreciating against other currencies.

7. What is the cost of pegging the ringgit?

- If Malaysia were to peg the ringgit, there would be **significant trade-offs** and **costs** involved.
- Malaysia will **lose independence of our monetary policy** as we need to follow the monetary policy of the currency that the ringgit is pegged to. For example, if the ringgit is pegged to the US dollar, we will need to raise the OPR whenever the US Fed raises their interest rates, even though Malaysia is at a different stage of economic recovery and inflation level. In this case, Malaysia won't be able to set our own monetary policy and the people will have to bear high financing costs even though our economy has not recovered to the same level as the US economy.
- In order to maintain a peg, we need a **significant amount of international reserves, or capital control measures need to be imposed** to prevent or counter speculative pressures on the ringgit. Selective exchange control measures were an important factor contributing to the success of the fixed exchange rate regime in 1998. However, the negative impact from these measures on investor confidence, if introduced now would be extremely costly and could affect capital flows as we have a much larger capital market now compared to 1998.
- Proponents of repegging the ringgit often cite our experience during the Asian Financial Crisis. Although pegging and selective foreign exchange control measures worked for Malaysia in 1998, it is not the right solution for the challenges we face today. We are now a very different Malaysia, and our economy has come a long way since the 1990s. The Malaysian economic and financial system are in a much better position today to withstand global financial market volatility and exchange rate movements. Our external position is also strong, given our positive net external creditor position and sizable foreign currency assets that far exceed our foreign currency liabilities. Our international reserves are adequate while our banking system

is also now much better capitalised. **A peg will no longer work for us**. What's best for us now is a floating exchange rate.