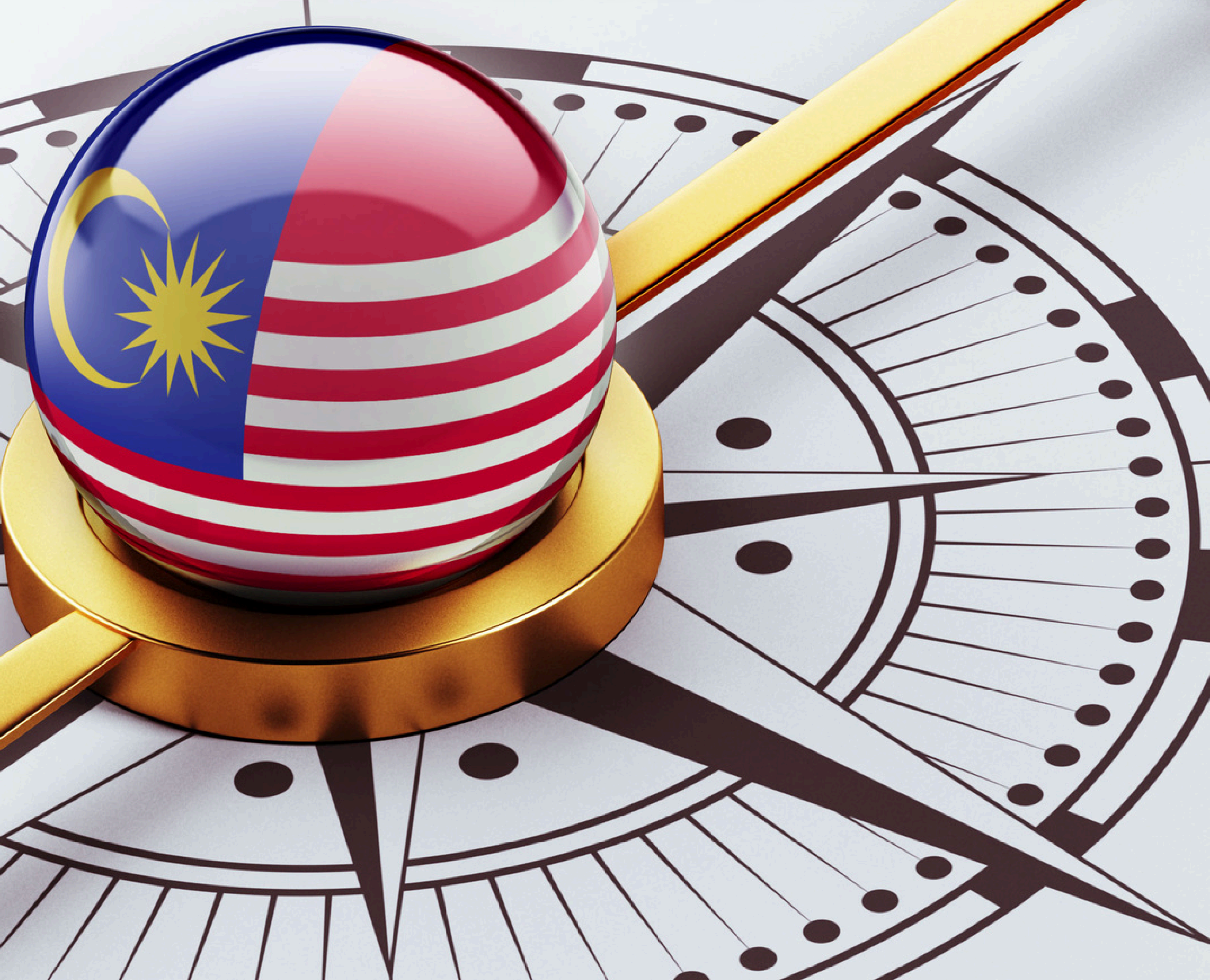
E-Bulletin

August 2024 Edition

ECONOMIC TURBULENCE

EXPLORING THE CAUSES BEHIND MALAYSIA'S RINGGIT DOWNTURN



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Issue 2 - August 2024

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PREFACE

From the Editorial Team

First and foremost, we would like to praise to Allah the Almighty, the most Gracious and most Merciful for His blessing because at the end we had completed the first edition of E-Bulletin for 2024.

We would also like to express our deepest gratitude to beloved Chairman, Prof. Capt Dr Ab Manan bin Mansor, Advisor, Madam Salina binti Ahmad, Chief Executive Officer, Assoc Prof. Dr. Faiz Aizat bin Ab Manan, Provost, Dr Muhammad Nurulfaqih bin Mohd Sajalli, Dean of Faculty of Science and Technology, Ts. Muhammad Zulhiqmi bin Mohd Jamil and Dean of Faculty of Hospitality and Management, Madam Norulbaiti binti Mohd Nor for the endless support and encouragement to make this publication a success. E-bulletin is the platform for UniCAM staff to share their piece of mind on issues related to aviation, health, leisure, aerospace and many more. This edition is only possible due to hard work and contribution of all UniCAM staff. Therefore, we would like to thank all UniCAM staff for their cooperation.

We really hope that you take the time to read what this E-bulletin has to offer and feel free to provide feedback and comments for us to improve in the future. Thank you for all the love and support!

YOUR SINCERELY,
EDITORIAL TEAM

AMIRUL ASRAF BIN ABDUL RAHMAN
SITI AISYAH BINTI AJEMI
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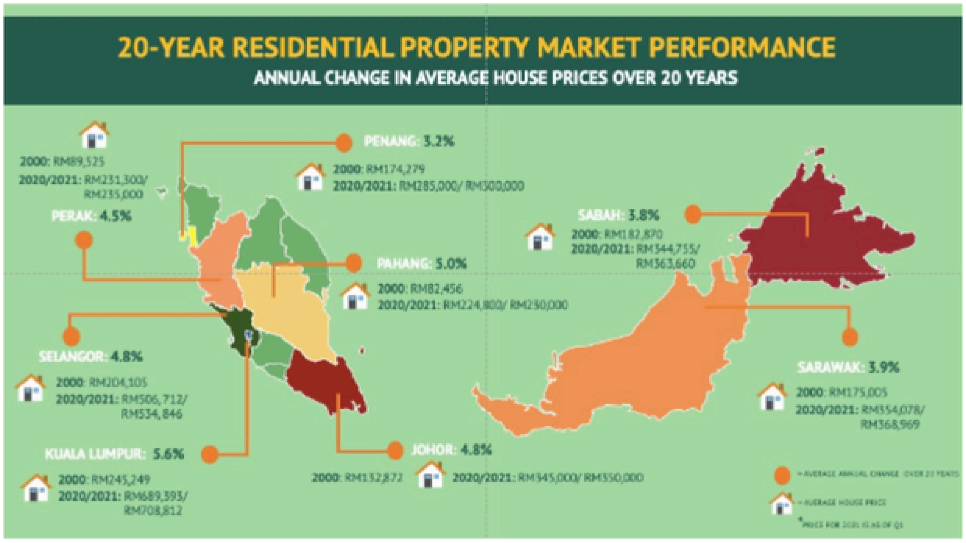
The Impact of Devaluation of Ringgit Towards Property Prices in Klang Valley

By Hafiz Syafiq bin Ab Manan
Chief Operating Officer of UniCAM



Residential properties are considered as valuable asset towards Malaysians. Properties prices are keeping to soar up every single year. Residential properties prices in Malaysia vary significantly depending on factors such as location, type of property, size, condition, and local market dynamics. Here are some general trends and considerations regarding house prices in Malaysia: (ResearchGate, n.d.)

Urban vs. Rural Areas: Prices are typically higher in major urban centers such as Kuala Lumpur, Penang, and Johor Bahru due to higher demand, better amenities, and proximity to economic opportunities. In contrast, prices tend to be lower in rural areas and smaller towns.

Type of Property: Landed properties (terraced houses, semi-detached, and bungalows) generally command higher prices compared to high-rise developments (condominiums, apartments). The price also varies within each category based on factors like location and property size.

Location: Property prices can vary significantly even within the same city or state. Factors influencing prices include accessibility, infrastructure development (such as transportation networks and amenities), and proximity to commercial hubs or educational institutions.

Market Conditions: The Malaysian property market has seen fluctuations in recent years, influenced by economic conditions, supply and demand dynamics, government policies, and global economic factors.

Foreign Ownership: Foreigners can purchase residential properties in Malaysia, subject to minimum purchase price thresholds set by state authorities and other conditions. Different states may have varying regulations regarding foreign ownership.

Trends in Recent Years: There has been a focus on addressing property overhang in certain segments, particularly high-rise developments, through initiatives like the Home Ownership Campaign (HOC) which offers incentives to buyers and developers.

Rental Yields: Rental yields vary across different types of properties and locations. Urban areas generally offer higher rental yields due to stronger demand, especially in well-connected and desirable neighborhoods.

Government Policies: The Malaysian government periodically introduces policies to support the property market, including incentives for first-time homebuyers, efforts to reduce overhang, and infrastructure developments that impact property values.

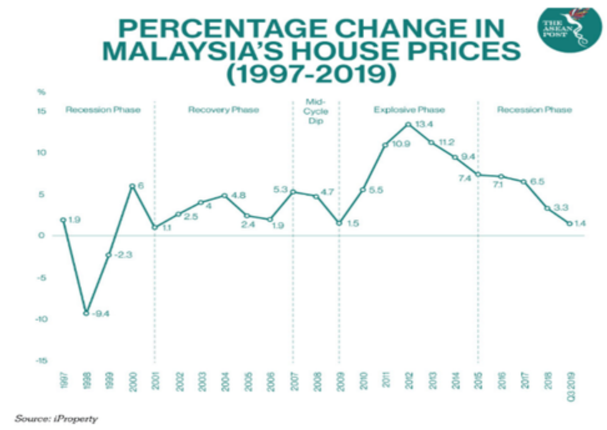


Chart 1: Percentage Change in Malaysia's House Prices from 1997 to 2019

Property developer LBS Bina Group Bhd Managing Director, Tan Sri Lim Hock San said the impact of the ringgit depreciation local currency on the property prices was inevitable.

He mentioned that building materials are more expensive and construction costs are going up as well as the ringgit weakens and even the workers are asking for higher salaries because they get lesser value for every ringgit.

“To sustain themselves, housing developers may need to increase the prices to curb the higher building costs,” said Lim after LBS' extraordinary general meeting here today.

He also added that the reduction of house prices for foreign buyers from RM1 million to RM500,000 can help stabilise the ringgit.

In 2000, the average salary of a fresh graduate is RM1,800 while a 3-bedroom property in Klang Valley cost RM200,000. 20 years later, average salary only increases about RM2,500 but the same property price has doubled. Therefore, it is really a rare case that a graduate could own a home in today's era. (Malaysia,2021)

The solution to solve this is the government needs to strengthen its policy on getting the Ringgit value back on track.

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From Stability to Volatility: Understanding the Decline of Malaysian Ringgit

By Rohazlin Jamaludin
Registrar of UniCAM

The Malaysia Ringgit's crisis in 1998 was the worst situation where the Ringgit had dropped to RM4.88 again US Dollar where Malaysia government took drastic action to peg the Ringgit. The peg was lifted in 2005 and changed to floating system. According to Mariadas and Murthy (2024), the persistent decline of the ringgit brings it perilously close to reach a historic low, with the combined factors of Malaysia's weakening exports and the strength of the US dollar potentially propelling the currency beyond that threshold.

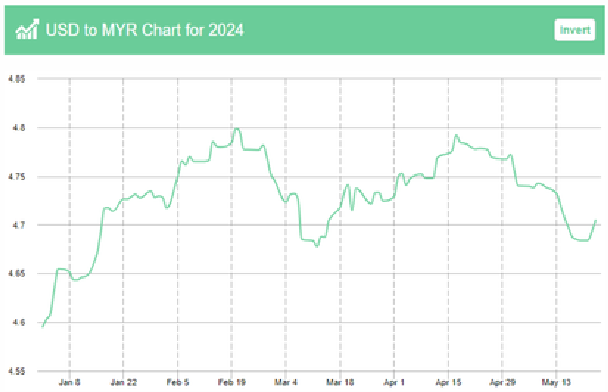

Figure 1: USD to MYR Chart for 2024
Source : https://www.exchange-rates.org/exchange-rate-history/usd-myr-2024

The data shows that the highest Ringgit was recorded on 20 February 2024 with 4.7988 and the lowest on 1 January 2024 with 4.5950. The average Ringgit value so far is 4.7303. Depreciation in value of the Malaysian Ringgit is a great concern to participants, such as policy makers, multinational firms, investors, importers, exporters, foreign students and tourists, due to the off and balance effect on their respective sides, which suggests there is a duty on academic researchers to probe and investigate the determining forces behind the depreciation of the Malaysian Ringgit for reasons of academic interest and market regulatory advice among others (Quadry et al., 2017). There are several major reasons behind the decline of Ringgit. According to research on The Ringgit's Rollercoaster: Navigating Malaysia Ringgit Volatility, 2024), they highlight a few factors.

The first one is **the strength of US Dollar**. US dollar is a major international transaction medium and the strengthening of the US dollar has direct impact on the other currencies including Ringgit. This situation happened when the investors have more trust in US dollar and this action has lower the Ringgit demand. The second factor is Malaysia's Export Trend. Exports are a major influence of Malaysia's economy stability. For 2023, Oil exports brought in RM28.7 billion in revenue in 2023, but export activity in other industries decreased. This means Malaysia earns less foreign currency from the export activities.

Next factor is **the trade partners economic situation**. IMF has projected China will face economic growth drop to 4.6% this year compared to 5.2% growth in 2023. China is a large trading partner of Malaysia, so the economic growth drop has direct effect on Malaysia exports. Demand for Malaysian goods lowers, resulting in less foreign exchange coming in. Another factor is Malaysia Government Debt Issue. Government debt becomes a main concern for investors. The investor worries that, if Malaysia want to pay the debt, government may raise taxes or impose any financial policy which might slow the economic expansions. Raising taxes will directly affect the cost the cost of sales and total profit. The Malaysia inflation has a direct relationship with the value of Ringgit. The value of Ringgit has significant impact to the cost of imports. The necessities like food, which Malaysia import in huge quantities will increase the cost and more expansive. The end price of goods will increase where it will drive domestic inflation.

The drastic action must be taken especially on domestic business activities to stabilize the Ringgit and reduce the volatility. The campaign of “Buy Malaysian Product” is one of the government initiatives to strengthen the Ringgit. The campaign of “Buy Malaysian Product” was launched in 1984 with the objective to reduce the dependency of import product. This action has significant effect where it can stimulate the economy growth by increase job opportunities and purchasing power.

Effective and intensive promotion campaign for tourism can be direct effect to Ringgit. YB Khairul Firdaus Akbar Khan (the deputy tourism, arts, and culture minister) in APG Network Annual General Meeting 2024 has articulated 27.3 million tourists with 102.7 billion tourist expenditure in 2024. This condition will significantly improve the Ringgit when the tourists bring in exchange currency in Malaysia and reflect the economic growth.

The government political stability is another factor in strengthening the Ringgit. Government must ensure political stability and transparency to gain investors' trust. Investor look for stable business environment before decide to invest in the country. Clear and transparency in government policies is crucial in gaining investor trust. Other than that, the dedicated ministry must diversify exports markets to minimize dependency in few trading partners only. Diversifying will increase the foreign exchange inflow and strengthen the Ringgit. Government must have good international relationship to attract the foreign investment. The government might offer a good tax package to attract investors to invest in Malaysia.

A stronger Ringgit is good for business which involves imports, shopping or traveling abroad. If the Ringgit is weaker, it is good if the business depends on exports and tourists coming to Malaysia. However, it is bad if the business depends on imports. These are the significant effects of a stronger and weaker Ringgit.

In summary, although the Ringgit's transition from stability to volatility reflects deeper patterns impacting many developing market currencies, these effects can be reduced and greater stability may be achieved with the support of a proactive and diverse strategy. By addressing the core causes and adopting strategic economic and political changes, Malaysia can handle the challenges of a turbulent global economic climate while also strengthening its currency's resilience.

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The Impact of Economic Turbulence of Malaysia's Economy

By Nor Diyana Mohd Salleh
Head of Academic Affairs of UniCAM

Economic turbulence has significantly affected Malaysia's economy, leading to notable implications on various fronts. The country's experience with crises such as the Asian Financial Crisis has highlighted the vulnerability of its economy to external shocks (Ariff & Abubakar, 1999). The crisis-induced slowdown in economic growth resulted in a contraction of GDP, leading to rising unemployment and levels of inflation (Karim, Zaidi, & Mokhtar, 2018). Malaysia's industrial sector faced challenges, losing its comparative advantage in labour-intensive goods and services (Chai, 2015). However, positive signs of recovery emerged, supported by lower borrowing costs and improvements in the business environment.

The Malaysian financial system remained stable during the global crisis, supported by strong fundamentals and effective reforms post-Asian financial crisis (Ariff & Abubakar, 1999). The banking sector continued to provide financial intermediation, ensuring the flow of credit to the real economy (Karim, Zaidi, & Mokhtar, 2018). Policy responses focused on sustaining access to financing and stimulating economic recovery (Karim, Zaidi, & Mokhtar, 2018). Despite the challenges, Malaysia's economy showed resilience, with growth momentum returning in subsequent quarters.

The impact of economic turbulence on Malaysia's economy can be seen in various sectors. The manufacturing sector, which is a significant contributor to Malaysia's GDP, faced a decline in exports due to weaker global demand (Chai, 2015). This situation has led to a reduction in production and job losses in the sector. The services sector, particularly tourism and retail, also experienced a slowdown as consumer confidence waned. In addition, the construction sector was affected by a slowdown in new projects and a decline in property prices.

The Malaysian government implemented various measures to mitigate the impact of economic turbulence on the economy. These measures included fiscal stimulus packages, monetary policy easing, and targeted assistance to affected sectors and individuals (Karim, Zaidi, & Mokhtar, 2018). The government also focused on diversifying the economy and promoting high-value-added industries to reduce reliance on traditional sectors. The central bank, Bank Negara Malaysia, has played a crucial role in ensuring financial stability and providing liquidity support to the banking system.

In conclusion, Malaysia's economy navigated through economic turbulence with a mix of challenges and opportunities. Policy responses, financial sector stability, and external factors played crucial roles in shaping the country's economic trajectory during turbulent times. Understanding the lessons learned from past crises is vital for formulating effective strategies to mitigate the impacts of economic turbulence on Malaysia's economy. The government's efforts to diversify the economy and promote high-value-added industries are crucial for ensuring long-term sustainable growth and resilience in the face of future economic shocks.

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Influencing Factors on The Exchange Rates Fluctuation

By Aini Nabilah Sulong
Academic Affairs of UniCAM

Exchange rate can be defined as the amount needed to buy one unit of foreign currency. In other words, the exchange rate from one to another currency can be exchanged. The exchange rate is very important in order to make it possible to convert one country's currency into another, which promotes international trade in both goods and services. Other than that, it is also to make it possible to compare the prices of identical goods across borders. (Ibrahim, Nor Jamilah, 2020)

Factors Affect Exchange Rates

Domestic Economic Environment
There was a slowdown in economic growth due to the impact of Covid-19 pandemic in 2020. Apart from that, social consumption was much lower. The employment situation was severely influenced by the COVID-19 pandemic as well.

Balance of Payment Factors
When there are changes in the market supply or demand, it will directly affect the exchange rate and the balance of payments. This situation has affected the import and export activities. (Zhuoran Wang, 2023)

Natural Disaster or Unpredicted Event
Various types of natural disasters such as floods and tornadoes can influence exchange rates. This circumstance will affect the food shortages and give a big damage to the economy. A big contribution in terms of foods, clothes or any important necessaries are needed by the victim as well. (Rabeya Akter, 2021)

As for the conclusion, exchange rate gives a lot of effects towards our economy and country as well. A stronger economy implies a better currency. The exchange rate fluctuations will greatly impact the foreign exchange transactions of corporations and their market value. (Doaa El-Diftar, 2023)

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The Enigmatic Decline of the Malaysian Ringgit

By Umar Abdillah bin Anwar
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In recent years, the Malaysian Ringgit (MYR) has experienced a significant decline, raising concerns among economists and the general public. The known driven factors of this declination are the combination of internal economic challenge and external pressure, particularly the strength of the US dollar. Understanding the multifaceted reasons behind this trend and its implication is crucial for grasping the current economic landscape of Malaysia.

Factors Contributing to the Decline

One of the primary factors contributing to the decline of the Ringgit is the persistent weakness in Malaysia's export sector. Despite 8.7% year-on-year growth in January, the sector had previously experienced ten consecutive months of contraction (Maria Das & Murthy, 2024). The sluggish recovery of exports (compared to other Asian economies) has put additional downward pressure on the Ringgit. This sector performance is vital due to Malaysia's economy being heavily reliant on exports, including electronics, palm oil, and natural gas.

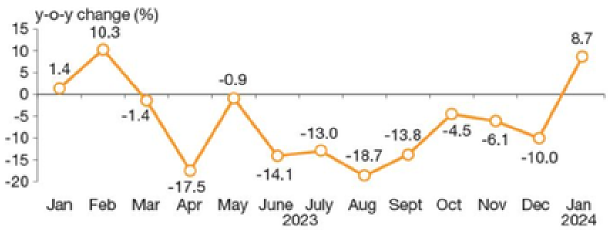

Figure 1: After declining for ten consecutive months, Malaysia's exports increased 8.7% to RM122.43 billion in January, marking the first year-over-year improvement. (Maria Das & Murthy, 2024)

Strength of the US dollar also has a significant impact on the currency. The US Federal Reserve policy of maintaining high interest rates to handle inflation has attracted capital away from Malaysia, leading to a depreciation of the Ringgit (StashAway, 2024). As a result, the local currency slipped past 4.8 against the dollar, reaching levels not seen since the Asian financial crisis, late 1990 (Mahmud, 2024). This situation has been exacerbated by global investors seeking the relative safety and higher return of US assets, leaving emerging market currencies like the Ringgit under pressure.

Apart from that, China's economic slowdown has further compounded the issues. As Malaysia's largest trading partner, China's sputtering growth has negatively impacted Malaysia's export-reliant economy (Maria Das & Murthy, 2024). The slowdown in China's economic activity decreased demand on Malaysian exports, fostering the decline of the Ringgit. This interconnectedness means that economic recession in China is deeply felt within Malaysia, affecting everything from trade balance to investor confidence.

Figure 2: The ringgit has lost 31% of its value in the last ten years alone when compared to the US dollar, most recently falling to RM4.80. (Mahmud, 2024)

Additionally, political instability also played a role in the decline of the Ringgit. When investors' confidence is reduced in the government's ability to manage the economy effectively, their sentiment would diminish (Kathirgugan, 2024). This unrest in politics often would result in inconsistent economic policies and significantly affect both domestic and foreign investment. Nonetheless, maintaining investor confidence and bolstering currency stability depend heavily on political stability and sound economic policy.

Implications of the Decline

The depreciation of the Ringgit has several notable implications for the Malaysian economy. First, a weaker Ringgit means higher costs for imported goods and services. This circumstance particularly will lead to increased inflationary pressures and higher cost of living for consumers (Vincent, 2022) (Asrul, 2024). As import prices rise, consumers face higher costs for everyday items, straining household budgets and reducing disposable income.

Businesses that rely on imported materials are seeing their profit margins squeezed due to higher cost (Asrul, 2024). For example, clothing manufacturers need to spend additional millions to cover production costs due to depreciation of Ringgit. The increase of financial burden surely could limit business expansion and innovation, as companies may be forced to cut costs elsewhere to maintain profitability.

In addition, companies that have debt in US dollars face increased repayment burdens as the Ringgit weakens (Asrul, 2024). This situation could pressure their financial status and limit their ability to invest in growth at the same time . As the cost of servicing foreign-denominated debt rises, local companies may need to issue more resources to pay the debt, reducing available funds for other critical business activities such as R&D and market expansion.

The rise in import costs has led to higher prices for consumers, particularly for food and other essentials. This condition has disproportionately affected lower-income households, exacerbated income inequality and put additional pressure on social safety nets. Inflation erodes purchasing power, meaning that families must spend a larger portion of their income on basic necessities, leaving less for savings or discretionary spending.

Potential for Recovery

Despite the highlighted challenges, there are sign that the Ringgit may recover in the near future. Experts suggest that if the U.S. Federal Reserve begins to cut interest rates (expect later this year), the downward pressure on the Ringgit may ease (Maria Das & Murthy, 2024). Such a move would make Malaysian assets more attractive to investors, potentially stabilizing and even strengthening the currency. More favourable interest rate environment could help reverse some of the capital outflows that have weakened the Ringgit.

Additionally, effort by the Malaysian government and central bank to repatriate foreign earnings and convert them into Ringgit are expected to stabilize the currency. These measures, combined with a commitment to reduce the budget gap and maintaining a current account surplus indicate a proactive approach to stabilizing the economy. Policy initiatives aimed at enhancing fiscal discipline and improving trade balances can support a stronger and more resilient Ringgit.

The decline of the Malaysian Ringgit is a multiplex issue driven by a mix of internal and external factors. While poses significant challenges, particularly in terms of higher import costs and inflation, there are several strategies in place that could pave the way for recovery. By addressing these economic challenges and implementing effective monetary, Malaysia could navigate this period of ambiguity and work towards a more stable and prosperous economy in the future.

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How political instability, corruption allegations, and governance issues have impacted investors' confidence and value of the ringgit?

By Siti Aisyah Ajemi
Lecturer of UniCAM

Political uncertainty, corruption and a weak economy have been cited as reasons for the sharp decline in the value of the ringgit against other major currencies in the past two weeks.
- Free Malaysia Today (7th February 2024)

In recent years, Malaysia has confronted a range of important performance risks connected with political unrest, alleged corrupt practices, and a reformed system of governance. According to Jayanandan (2024) in Free Malaysia Today (FMT), political turmoil, a weakening economy, and corruption have been cited as significant internal factors that have led to the sharp decline in the value of the ringgit. Apart from that, economists told FMT Business that external factors such as high US interest rates have also been instrumental in the local currency's poor performance. These aspects have not only impacted internally, but they have also influenced investors and the value of the nation's currency, the Malaysian ringgit. Othman (2024) stated that the decline in the value of the Ringgit corresponds with the gradual decline in the country's competitiveness ranking, dropping from the 12th place in 2014 to the 32nd spot in 2022, the lowest ranking ever. Fortunately, there was a rebound in 2023 and Malaysia was on the 27th spot in global competitiveness.

Political Instability

Political risk factor entails increased volatility of power by constant changes in government, leadership issues and policy fluctuations which are dangerous to investors. This circumstance is especially the case in Malaysia where politics has from time to time resulted in a change of parties in power. The unstable change of parties to rule the country has created a level of uncertainty regarding government policies. Fluctuations in economic development plans and measures coupled with the risk of policy flip-flopping scares away both domestic and international investors from making long term investment decisions in our country. Therefore, there could be capital flight and the ringgit being devalued in the process since investors will look for other places to invest in.

Corruption Allegations

Besides political instability, corruption charges related to government or public figures lead not only to the loss of people's trust, but also investors as well. If corruption is seen as being widespread, investors may feel that there will be undue bias in business dealings, policy non-disclosure and capricious actions. Issues of this nature raise the risk perception of investing in Malaysia and therefore a negative effect on foreign direct investment (FDI) and portfolio investment. Additionally, corruption undermines market rivalry, slows down the development of the economy and over time decrease the value of ringgit through the adjustment for the risk factor that investors place a high premium on while investing in corrupt countries.

Governance Issues

Lack of a proper and efficient government and its agencies, corrupt policies, bureaucracy, and low-quality legal systems affect business processes and create doubt among investors. However, several business constraints in Malaysia limit entrepreneurial activities and bureaucratic convenience; these include nepotism, cronyism, and an unstable and inconsistent regulatory system. Some investors may regard the aspects such as the absence of regulatory actions and the restricted legal framework as a reason for them to refrain from investing more into the business, which will worsen the rate of devaluation of the ringgit. Furthermore, governance flaws result in wastage of resources as well develop inefficiencies to the economy. This situation has led to a decline in the overall competitiveness in the global market.

Implications for Investors' Confidence and the Value of the Ringgit

It is evident that political instability has a strong negative relationship with investors' confidence especially when it is compounded with corrupt allegations and governance issues which affect the value of the ringgit. Since Malaysia is believed to have a higher level of risk as compared to other markets, investors expect better returns in order to be attracted to invest in the country's securities. This situation has resulted to a high borrowing cost for firms and reduced FDI flows and puts a Bearish pressure on the foreign exchange market. Moreover, appreciation or depreciation of the ringgit contribute to rate of inflation, and at the same time could potentially offset investor confidence and drive down the growth rate.

To conclude all, it is undeniable that political crisis, corrupt practices, and issues of governance have significant effects on investors' confidence and the value of the ringgit in Malaysia. To overcome these challenges, many efforts especially from the policymakers are needed to reconstruct the confidence, increase the company's transparency and improve institutions. By following specific policies of leadership, the reduction of corruption and enhancement of political stability in Malaysia will lead to increased inflow of investments, economic growth as well as the protection of the worth of Malaysia's currency in international markets.

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Examining the Influence of Foreign Investors on the Volatility of the Malaysian Ringgit

By Amirul Asraf bin Abdul Rahman

Lecturer of UniCAM

All currencies such as our Ringgit Malaysia (RM) has its ups and downs based on the economic indicators, political stability, or market sentiment. External investors, however, account for one of the most important sources of the RM's volatility. These include institutional investors and businesses such as multinational corporations (MNC), large speculators and small traders/speculators who together have shaped the Ringgit pricing dynamics through their financial operations and trading activities.

Role of Outside Investors

According to Calimanu (2023), external investors are referring to individuals and companies who have invested their funds in a country other than their country of origin. The investments include in the form of foreign direct investment (FDI), portfolio investment, or capitalizing on economic opportunities.

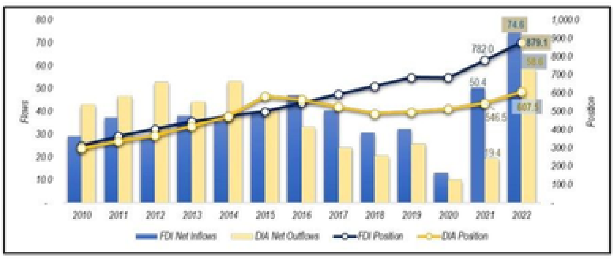

Figure 1: Malaysia's investment performance for 2010-2022 (RM billion)

When foreign investors believe in the Malaysian economy, they will pump in more funds into the local markets, which will increase the demand for the RM and eventually strengthen it. On the other hand, if confidence contracts, the investors may pull out of the investment which lead to reduce demand for the RM, causing the RM to depreciate.

Economic Indicators and Investment Decisions

According to Priscilla Dorothy (2021), economic indicators are an important part of the learning process for foreign investors as they make decisions. Things like GDP growth, inflation rates, interest rates and employment figures give an indication as to the health of the economy in Malaysia. An example would be that great GDP growth which means the economy is doing well. At this moment, a lot of foreign investors will buy in and thereby make RM strong. On the other hand, high inflation rates can scare off investors who are at risk of losing out returns on their investments.

The biggest factor here is certainly the interest rates. Higher rates of interest make RM-denominated investments more attractive to foreign investors as they offer better investment returns. Such increase of capital can enhance the RM. Apart from that, interest rates are seen as unsustainable or as a portent of economic gloom. The effect can be the opposite where investors pulling out and thereby weakening the RM.

Political Stability and Market Sentiments

Another key factor that plays a decisive part in the minds of foreign investors is political stability. This situation inspires confidence, and you will realize there is investment coming into the country. Alternatively, political unrest or uncertainty too will result in capital flight where investors moving their money elsewhere. For example, the RM historically underwent rapid depreciation during periods of political unrest in Malaysia.

According to Wung Li (2021), the RM by fluctuations of the market is driven mainly due to market sentiments which are influenced by global events, news and speculation. In situations like geopolitical influences, changes in global trade policies or financial crises, investors' behaviour changed suddenly. The problem can be further exaggerated by speculative trading in which investors are making bets based on where they think investments will move, and as mentioned, are not linked to economic fundamentals.

Case Study: The Impact of US Federal Reserve Policies

A vivid example of the effect of external factors is the policy of the US Federal Reserve (Fed) on the RM. Policy decisions taken by the Federal Open Market Committee (FOMC) and changes in interest rates have a significant bearing on money and capital flows across the globe, among others to Malaysia.

Conversely, when the Fed hails in interest rates, the US dollar usually drops in value and investors are less likely to hold it. Therefore, money will move away from countries where the economy was badly affected such as Malaysia and to the US, causing RM to be weaker. Through the looking glass when the Fed reduces interest rates, this situation can reverse with investors looking for better returns in emerging markets instead and indirectly strengthen the RM.

In fact, even before policy changes actually happen, the anticipation of such changes can lead investors to act in advance, resulting in variations in the RM. This situation is a pointer to the layers of speculation of the external investors and behaviour of the currency globalisation.

Impact on the Malaysian Economy

The volatility of the RM is important for the Malay economy. A weaker RM will also reduce the cost of imports which is normally seen to be of positive effect for consumers and businesses that rely on imports. The increase in currency does not allow Malaysia to become cheaper (one of the spices that Malaysia offers to attract business is by being cheaper), something that can harm those sectors that are specially export driven in the Malaysian economy.

On the other hand, a weaker RM makes Malaysian exports cheaper and more competitive overseas, benefiting the export sector. This situation has led to higher imports and higher prices for consumers and businesses which have imported inputs as a crucial part. This type of inflationary pressure diminishes purchasing power and hampers economic growth.

Strategies and Challenges on Managing Fluctuations

The monetary authorities, particularly the Malaysian government through its central bank; Bank Negara Malaysia (BNM) has used certain approaches for the management of movements in the value of the RM as pointed out in the publication made by Nik Abdullah (2023). The approaches implemented are commonly by way of manipulating monetary policy, intervening in the foreign exchange market, or for regulatory purposes with the central goal of stabilizing the currency.

A manipulation of such factors as interest rates represents the available monetary policy levers that define capital movements and investors. For instance, adjustment of levels of interest rates makes RM more attractive to foreign investors and supports the currency; yet, at the same time, the lowering of rates stimulates the domestic economic activity but, on the other hand may lead to currency depreciation.

There are two types of interventions, the stepping in by BNM to purchase/sell foreign currencies to regulate the RM. In the same way, such kinds of interventions though can be quite helpful in the short run could be costly, and do not solve the core economic problems as highlighted by Jardon, C. M. and Cobas, X. M (2023).

Another solution of balance of payment situation is to regulate the flow of foreign investment through capital controls for stabilizing the RM. However, these measures must be used discriminately to ensure that they do not have the adverse effect of discouraging legitimate investments and economic activities.

Looking Ahead: The Future of the Ringgit Malaysia

The future evolution of the RM will depend on dynamics of domestic economic structure and the external investors' activity. When it comes to international investment, stability will remain as one of the prerequisites that Malaysia has to meet as it progresses in the political and economic realms.

Figure 2: Analyst's expectation on Ringgit's Malaysia recovery

According to Figure 1 above on the analyst's expectation starting of March an above, Ringgit Malaysia will be in line of recovery by referring to a resource from Bank Negara dated 15th of March 2024. Indeed, macro factors like world trends whereby the focus is shifting toward clean energy, advances in technology, changes in trade relations, and more will continue to affect the investors and, therefore, the RM. For example, initiatives to establish renewable energy and technology industry focus in Malaysia may stimulate considerable international investment, catalysing the issuance of RM.

Therefore, the conclusions made with the help of the time series analysis of the RM against a number of foreign currencies show that external investors have a considerable influence on changing the value of the Ringgit Malaysia. The World's investment decisions based on the economic factors, stability of the politics, and more importantly the sentiments of the market could experience vast fluctuations in the value of the RM. These are the factors impacting the economy and it is important for Malaysia to be able to understand and deal with them in order to have sound and proper economic growth. In the future, issues related to international trade and speculations are going to be far more critical to the Ringgit Malaysia than they have been in the past. Therefore, the need for Malaysia to continue attracting foreign direct investment is something that needs to take into consideration for our own good.

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Beyond Borders: Unravelling the External Influences on Malaysia's Ringgit Performance

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Over the past five years, the MYR has depreciated from 4.17 MYR/ USD in 2019 to 4.80 MYR/USD in 2024, reaching its lowest level in twenty-six years (Wei, 2024). As of today, Malaysia's ringgit (MYR) is trading at a lower value against the US Dollar (USD) day by day and there are still no signs that the value of the ringgit will rise (Figure 1.0). Among many factors that have caused the depreciation of MYR, geopolitical factors are one of the crucial factors that cannot be overlooked. Geopolitical issues are basically related to internal relations, politics and global security which have the capacity to influence the stability of both commodity and financial markets. According to Yusri et al., geopolitical factors and money supply plays a significant role in determining the inflation in Malaysia and Indonesia (Yahya and Pamuncak, 2023).

Figure 1: The difference between MYR and USD (Photo by: Mukhriz Hazim, Malaysia Kini)

Driven by Israel's aggressive action, the critical trade route in Red Sea is heavily disrupted. The instability can severely impact shipping routes, increasing transportation cost and delaying supply chains (Knowledge Management Center, 2024). Additionally, as an oil-exporting country, Malaysia is directly affected by the instability in the Red Sea region which raises the concern over oil supply and causes volatility in oil prices. While Malaysia might initially benefit from higher oil prices, the long-term effect such as the decreased global demand for oil due to persistent instability ultimately hampers it export which further weaking the demand for MYR.

The depreciation of MYR also can be seen as interconnected with the Russia-Ukraine crisis. These geopolitical issues impact various aspects of economies worldwide. There are several issues that arise from this crisis. The primary issue is the rise in energy cost since Russia is one of the major exporters for oil and natural gas (Hossain, Masum and Saadi, 2024). This surge in prices not only burdens businesses, but also puts inflationary pressures on consumers ultimately influencing currency values such as MYR. Secondly, this crisis has raised concern about food security particularly since both Russia and Ukraine play as a producer and exporter of commodities such as wheat and corn (Lin et al., 2023). This situation has resulted in increasing prices for these essential goods, contributing to the depreciation of the MYR market to supply chain disruption and heightened economic uncertainties.

The relationship between the United States and China is indeed complex and significant on the global stage. This mega economic country wields considerable economic influence with interconnected economies that impact global trade, investment and financial market (Itakura, 2020). However, this relationship is also characterized by geopolitical competition, strategic rivalry and occasional tension which have a huge impact on smaller countries around the world. Any escalation in tension between these two mega economic countries can send shockwaves throughout the global economy especially for countries that are integrated into the global supply chain and trade network. This condition will significantly impact Malaysia goods and investor confidence in the emerging market like Malaysia which can give a big impact on MYR.

In conclusion, the MYR has faced significant depreciation over the past five year influenced by many factors where geopolitics emerging as a crucial determinant that cannot be ignored. Malaysia should focus on diversifying trade partners, enhancing economic diplomacy and strengthening financial resilience in promoting economic stability to ensure the Malaysian economy does not depend too much on major economic powers and is able to be self-sustainable.

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Export of Natural Resources and Its Impact on the Economy in Malaysia

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A country's ability to grow and develop is often restricted by the high price of oil, which also affects the availability of other imported goods and products. The demand for these goods and services increases as the price of oil climbs. Malaysia, known for its multicultural heritage, tropical views, and beautiful beaches, offers more than just tourism. With just the activity of mining which includes the extraction of petroleum, and a small percentage of workforce, these activities have significantly contributed to Malaysia's GDP due to its abundance of mineral resources. Numerous minor ore such as gold, manganese, antimony and mercury are found in the country. Natural gas and petroleum deposits are Malaysia's most important mineral resources. Crude oil, refined petroleum, and most recently liquefied natural gas makes up the majority of the nation's earnings from commodity exports (Britannica, 2024).

As per Keh et al. (2021), due to the pandemic COVID-19 that appears as a shock to the world, it also brings great impact to the whole economy and this include the price of oil in the Malaysian market (Ali Burhan Khan, 2022). The findings based on this study significantly show that the poor performance of the market has a negative impact on the economy. The less than a month study also shows that with the shock of COVID-19, the world's wealth has decreased over 25%.

Even though the government is trying to cut reliance on oil revenue by diversifying, oil and gas still remain one of the major contributing sectors in Malaysia (Pierre-Olivier Gourinchas, 2024). Moreover, as oil is predominantly used as an investment asset, the stock market is directly influenced by the changes in the investment portfolios. Given that Malaysia exports a lot of gas and oil, changes in the price of oil globally have an immediate impact on the country's economy. This situation will also affect the value of our money (Hayatun, 2024).

Fluctuations of the economy may also affect the price of oil. An obvious example can be seen in developing countries where the share of the manufacturing sector rises, but the total of oil consumption decreases. This circumstance has resulted in an increase in demand for oil. Besides, it will also affect the consumers as the need for food and energy may increase together with the rising price of oil (Tanumay M., 2022).

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THE WORLD BANK IN MALAYSIA

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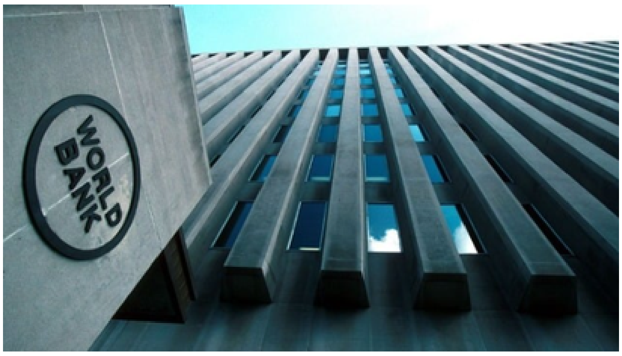
Malaysia's economy has changed significantly since it became independent in 1957, moving from being primarily dependent on agriculture and commodities to having a strong manufacturing and service industry. Due to this development, Malaysia is now one of the world's top exporters of electrical appliances, parts, and components. In just one generation, the country's income level increased from low to upper middle.

Important metrics, such Gross National Income (GNI) per capita, have grown at an astonishing rate: from 1960 to 2017, it averaged 6.9% yearly. Furthermore, Malaysia has made significant progress in eradicating poverty; less than 1% of its people live below the US$1.90 daily international extreme poverty threshold, and just 2.7% fall below the US$5.50 average poverty line among its peers with higher incomes. Furthermore, the nation has strong international commercial ties with 90% of all countries, outpacing many of its regional rivals.

In addition, life expectancy has steadily increased due to advancements in healthcare, going from 59 years in the 1960s to 75 years in 2019. Due to Malaysia's openness to commerce and investment, the country has seen an increase in revenue and employment, with 40% of jobs being related to exports. Even with obstacles like the Asian financial crisis of 1997–1998–Malaysia has continued to expand economically, averaging 5.4% year since 2010 (by World Bank, 2024).

The aforementioned accomplishments can be ascribed to well-thought-out development strategies that prioritize labor-intensive, outward-facing growth, human capital investments, and reliable economic governance to maintain macroeconomic stability. But as Malaysia gets ready to make the shift to a high-income economy, it faces new difficulties.



In comparison to its counterparts, the current economic environment is characterized by slower growth, increased inequality, and a lower percentage of high-skilled employment. Since they don't meet the standards set by wealthy OECD nations, metrics including worker compensation, tax collection, social expenditure, environmental management, and corruption control need to be given more attention. Concerns over equitable wealth distribution and the quality of jobs are part of a growing national perception that the middle class's expectations are not being sufficiently satisfied. Understanding these difficulties is essential as Malaysia is ready to make the transition to a high-income economy.

Malaysia needs to prioritize quality over quantity of growth in its shift toward broader economic development if it is to effectively solve these issues and compete on the world stage. Though it is gradually decreasing, income inequality is still a major problem, and to help vulnerable groups and reduce poverty, specific policies are being put in place. Examples of these policies include cash transfers to low-income households.

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