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THE EXCHANGE RATE IN MALAYSIA

Abstract: the article describes the trends of the exchange rate in Malaysia. The Malaysian Ringgit (MYR) has recently, since October 2015, suffered a large decline against most world currencies. In this study the relationship between the exchange rate of national currency and the interest rate, money supply, world price of crude oil and Goods and Services Tax is revealed.

Key words: exchange rate, Ringgit, Malaysia, current situation, crisis.

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ОБМЕННЫЙ КУРС В МАЛАЙЗИИ

Аннотация: в статье описываются тенденции изменения обменного курса в Малайзии. Курс малайзийского ринггит (MYR) в последнее время, начиная с октября 2015 года, сильно снизился по отношению к большинству мировых валют. В исследовании установлена долгосрочная зависимость между курсом национальной валюты и процентной ставкой, денежной массой, мировыми ценами на нефть и налогом на товары и услуги.

Ключевые слова: валютный курс, ринггит, Малайзия, текущая ситуация, кризис.

Malaysia has pegged their currency for almost five year after the Asian financial crisis. Does this pegging really necessary for Malaysia in order to maintain the value of the currency? Before knowing why, how or when the research will discuss more on the history of the exchange rate system. History is the most important component in this report because its how's the currencies are managed and how it opened its gap towards speculative attack on Malaysia currency thus creating the infamous Asian financial crisis. Secondly, after knowing the history of Malaysia exchange system this research will take a look into the current Malaysia exchange system. Lastly, we will look into what action could be taken to avoid the financial crisis from happening again.

First of all, Malaysia is a Southeast Asian nation possessing portions of the Malay Peninsula and the island of Borneo. The economy of Malaysia is the third biggest in Southeast Asia, after Indonesia and Thailand, and is the 35th biggest economy on the planet [1]. Work profitability in Malaysia is altogether higher than in neighbouring Thailand, Indonesia, Philippines or Vietnam because of high thickness of information based ventures and selection of front line innovation for assembling and computerized economy. As indicated by the Global Competitiveness Report 2018, the Malaysian economy is the 25th most focused nation on the planet in the time of 2018–19. Malaysia is the third wealthiest country in Southeast Asia after the littler city-conditions of Singapore and Brunei. Malaysia has a recently industrialized market economy, which is generally open and state-arranged. The Malaysian economy is profoundly hearty and broadened with the fare estimation of innovative items in 2015 remaining at US$57.258 billion, the second most noteworthy after Singapore in ASEAN [1]. Malaysia sends out the second-biggest volume and estimation of palm oil items all-around after Indonesia.

Following the Asian issue of 1997, the Malaysian Ringgit endured an extremely hard thump that prompted it is worth being evaluated at RM4.72 per US Dollar (USD), and this brought about the Malaysia approach producers pegging the cash at RM3.80 per USD [1,2]. The Ringgit was unpegged later in July 2005 - the choice to skim the national money was made by the Malaysian fiscal strategy producers to empower the cash incentive to be controlled by advertising powers. The Ringgit acknowledged marginally after it was formally unpegged from the USD; for instance, in mid-2012 the Ringgit was cited at RM3.00 per USD. Ten years after the unpegging, on July 29th, 2015, be that as it may, the Ringgit was gradually devaluing; it was exchanging at RM3.80 per USD. At that point on October twentieth, 2015 came a significant blow with the Ringgit plunging to a low of RM4.2460 per USD. The central issue asked by the monetary network presently is: will the Ringgit sink further to RM4.72 per USD (it is most reduced low during the 1997 issue) [2].

Malaysian Ringgit otherwise called (RM) is the cash of Malaysia. In the year 1973, the Malaysian dollar was currently permitted to be vacillated. Prior to this, the Bank will undoubtedly get the US Dollars at the floor pace of Ringgit Malaysia 2.4805 for every US Dollar. In the right on time of 1975, the Malaysian dollar was pegged to the United States dollar so as to maintain a strategic distance from the devaluation of the Malaysian Dollar. As indicated by Chua and Bauer (2006), in the year 1975 happened the devaluation between Ringgit against United States dollar which Malaysia had propelled a conversion standard framework called "Filthy buoy" and after that Malaysia money had been pegged as a piece of the composite of monetary forms. The exploration did by the Nanyang Technological University (2006) expressed that, from 1976 to 1980, there was an ascent of 20% of the estimation of Ringgit and afterward deteriorated with the dollar since the US dollar with Ringgit conversion scale is essential to Malaysia monetary part [5].

The system proceeded until July 1997 which Bank Negara Malaysia chose to quit supporting the conversion scale in the Asian budgetary emergency. Asian budgetary emergency in the time of 1997 to 1998 had pegged Malaysia money for very nearly five years at USD $1 = RM3.80. Delicate peg implies that the present conversion standard is fixed to other hold money. This system maintained a strategic distance from the day by day variances, for example, deterioration and gratefulness for a nation to continue in a budgetary emergency. This likewise supported worldwide exchange and speculation in light of the fact that the conversion scale was fixed around then. The purchaser and the vendor would not lose any money trade contrasts by disposing of the vulnerability about all over of cash [5,6].

The mechanism used by Central bank managed to maintain the value of ringgit that are supported with par value are stated around RM2.50 toRM2.60 against US dollar, during 1986-90 the average value of RM/USD are stated withRM2.63 and it shows a rise of RM from 1986-1995 with the average of RM2.60 for 1991-1995 and RM 2.51 in 1996. This regime had lasted until July 1997, when BNM gave up sustaining the exchange rate in the wake of the Asian Crisis. Since September2, 1998, the ringgit has been pegged to the US dollar at US$1.00=RM3.8010.[3][5] Some insisted that the pegging was not necessary to overcome this financial crisis but some does approve the action of our former Prime Minister Tun Dato' Dr Muhammad. The pegging done after 13months after the crisis began. During that time the Malaysia affected by the crisis but it will be discussed more in the report under the title of Asian Financial Crisis. Even after 13 months we still able to stand on our feet with the crisis occurrence it shows that Malaysia is a truly great country and are managed by one of the great Prime Minister of all time in history of Malaysia. Meaning of the resident here is that the person or organization that stays in Malaysia and conducting transfer of exchange using RM as the home currency [6].

Under resident rules set by BNM there are divided into investment in foreign currency assets, borrowing onshore and offshore, payment and receipts in foreign currency between residents, buying and selling of currency, export of goods, foreign currency account, guarantees, securities, import and export of currency and special status company. There are no limit set up by the BNM where any resident who will try to invest in foreign currency but there are only one rules that limit the RM, which is in the import and export of the currency which it clearly stated that. The non-resident rules are pretty strict rather than resident rules. Because the foreign individual are capable of manipulate the value of currency if he/she possessed a lot of capital. Event that can we take note is during the financial crisis where George Soros who are taking advantage during fluctuation of RM and making profit towards it by just speculating the prices of the RM value. Fret not because BNM are monitoring the value of RM and the RM is not free floating in the market. If there any mass fluctuation in the market there would be intervention from Malaysia government and Central Bank to float back the currency's value.

During July 2005, Malaysia has merged from a fixed conversion scale framework to an oversaw coasting swapping scale system. The evacuation of ringgit peg to USD acquired Malaysia to a superior stand a zone of globalization, yet it would get insecurity the FOREX showcase [7]. Overseen gliding swapping scale system likewise got a national bank for interceding the cash when the change of conversion scale was out of the arrangement. While different banks were in trouble, the national bank went about as a loan specialist in the financial framework. For instance, purchasing or offering Ringgit Malaysia to rise or debilitate the money in the hypothesis of supply of interest. Subsequent to receiving the oversaw gliding conversion standard system in the year 2005, it appears to have a little gratefulness in the Ringgit Malaysia until 2014. It implies Malaysian utilize less Ringgit Malaysia for trading a dollar.

The current situation of Malaysian exchange rates shown that The Ringgit (MYR) has recently, since October 2015, suffered a large decline against most world currencies. Since the beginning of 2018, the Ringgit has only depreciated slightly against the U.S. dollars, whereas many other large emerging economies have suffered more substantial depreciation, including Indonesia and India. Depreciation in value of the Malaysian Ringgit is of great concern to participants, such as policy makers, multinational firms, investors, importers, exporters, foreign students and, lastly, tourists, due to the off and balance effect on their respective sides [7].

As the Ringgit (MYR) supply increased relative to the British Pound, the Ringgit depreciated, and as the crude oil price strengthened, the Ringgit appreciated. A high dependency of the Ringgit on world crude oil implies a bad sign. In our view, Malaysia needs to work harder to attract foreign direct investment to maintain the value of the Ringgit at a healthy level. However, despite recent tumbles in Indonesian Rupiah and Philippines Peso have caused jittery in Southeast Asian market, economists remain positive on Malaysian Ringgit outlook as its fundamental remains resilient. Malaysia's new government is moving in the right direction in improving its fiscal position, which could have positive consequences on the country's credit rating, and support the Ringgit going forward.

The Ringgit opened lower at 4.1462 against the U.S. dollars on Wednesday and continued to slide to 4.1508, the weakest since November 2019. Year-to-date, it has depreciated 2.58 percent against the greenback. Due to a slower economy growth of 4.5 percent in the second quarter this year, Malaysia's current account surplus has narrowed to 3.9 billion ringgit from 15 billion ringgit in the previous quarter. The Finance Ministry earlier indicated that the country was on track to improve its deficit level to 2.8 percent of its GDP this year, from 3 percent last year [7].

For the moment the Ringgit is safe as currency speculators are attacking the weakest links in the chain and those currencies that are running massive current account deficits. However, the market analyst predicted for the next 12 months will be a bumpy ride for the currency, due to higher U.S. yields and a possible trade tensions escalation. The GDP and consumer price index (CPI) will also be essential metrics. If the economy growth and inflation are lower than expectations, Malaysia's Central Bank may adopt a dovish stance which will add pressure on the Ringgit. Prime Minister Tun Dr Mahathir Mohamad indicated that the 2019 budget, which was tabled in November 2019, has entail many "sacrifices" as government is looking way to save money. Despite the recent government change following the general election in May 2018 has caused some uncertainty in fiscal reform, it is hope that the government is able to achieve its budget deficit of 2.8 percent of its gross domestic product (GDP) for 2019 onwards [7,8].

The underlying positive factors are that Malaysia still has a current account surplus, which is a source of strength for the external account, and has a broad range of exports of manufactures, commodities and services which help to underpin export growth momentum. Global oil prices should continue to hold sway over the ringgit’s performance for the year ahead, as oil-related revenue remains a significant contributor to Malaysia’s fiscal spending plans. US dollar-ringgit is forecast to average around the 4.13 level for the first quarter, before potentially testing the 4.05 -

4.00 support range by year-end in the event that the global economy can stage a better-than-expected recovery that pushes risk-on mode onto higher plains. As per now, the nations that recorded in the best seven places of most exchanged cash by an incentive around the globe in 2016 are United States Dollar. Followed by China Yuan, was put in eighth position[6] [7]. Along these lines, an examination on Malaysia would be fascinating on the grounds that it is a creating nation.

Despite the stable currency rate in Malaysia at the moment, there was some crisis that happen during the growth of the Malaysian’s Currency rate. The issue was called the Financial crisis of Malaysia. East Asian Crisis was a financial crisis began in July 1997. It began in Thailand and then it expanded and affected the other neigh boring countries. It bring the asset’s prices to a record low. The most affected are Indonesia, South Korea, and Thailand while Malaysia, Philippine, Taiwan, and Laos had a moderate affect. The financial crisis indeed had made the value of Malaysian currencies depreciated. Before, in April 1997 the ringgit was equivalent to 2.42 of the US dollar, later on it became RM4.88to US dollar on January 7, 1998 [8].

Not only that, composite index (CI) of Kuala Lumpur Stock Exchange (KLSE) also affected by falling down from 1,077.3 points in June 1997 to 262.7 points on September 1, 1997. Between July 1997 and midJanuary 1998, approx imatelyUS$225 billion of share values were wiped off and between July 1, 1997 and September 1,1998, market capitalization in the KLSE fell by about 76% to RM 181.5 billion. Then, Malaysia faced the biggest stock market plunge among all of other Asian countries[8][9]. After that, it led to a negative wealth effect which resulted in a general contraction of domestic demand. Besides that, imports of luxury goods had declined, as domestic demand slowed due to the depreciation of the ringgit. Exports in the resource-based had increased and resulted in a continued uptrend in ringgit terms. However, when converted into U.S. dollar terms, most of the major export categories displayed a downward trend. Therefore, to avoid this financial crisis to occur again they have taken action by not floating the currency freely in the market. If there any sign of undervalued occur the government and central bank will take an immediate action to prevent it and closing the gap for another speculative attack

[9,10]. The effect of this crisis is totalled which many have lost their jobs, inflation are at rise and the political institution are at messy condition

As a closure, this article determinants of conversion standard in creating nations: proof from Malaysia. The principle object is to discover what macroeconomics factors, for example, swelling, government consumption, GDP and financing cost influence conversion standard in the creating nation.

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