

Currency Prospects of Malaysian Ringgit - Current and Future Outlook on the Basis of Malaysian Economy

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Abstract

This study is done to explore the Malaysian Ringgit Current and Future Outlook on the basis of current economic, political and geographical features of Malaysia. This study has been mostly focuses on Current Economic and Political situation of Malaysia. How was Malaysian economy in the past and how it has been changing its shape? as well as political situation of Malaysia is also being considered. On the basis of basic descriptive of US Dollar to Malaysian Ringgit Exchange Rate we can easily see that Ringgit is in pressure for last 3 years, although last year recovered a bit but that was a short recovery after which it went again into pressure of weakening.

Keywords: Malaysian Ringgit, International Finance, Exchange Rate, Currency Prospects

1. Malaysia's Introduction:

Malaysia or Federation of Malaysia is a federal constitutional monarchy located in Southeast Asia. It consists of thirteen states and three federal territories and has a total mass of 329,847 square kilometers (127,350 sq mi) separated by the South China Sea into two similarly sized regions, Peninsular Malaysia and East Malaysia (Malaysian Borneo). Peninsular Malaysia shares a land and maritime border with Thailand and maritime borders with Singapore, Vietnam, and Indonesia. East Malaysia shares land and maritime borders with Brunei and Indonesia and a maritime border with the Philippines. The capital city is Kuala Lumpur, while Putrajaya is the seat of the federal government. By 2015, with a population of over 30 million, Malaysia became the 43rd most populous country in the world.

Since its independence, Malaysia has had one of the best economic records in Asia, with its GDP growing at an average of 6.5% per annum for almost 50 years. The economy has traditionally been fuelled by its natural resources, but is expanding in the sectors of science, tourism, commerce and medical tourism. Today, Malaysia has a newly industrialized market economy, ranked third largest in Southeast Asia and 29th largest in the world. It is a founding member of the Association of Southeast Asian Nations, the East Asia Summit and the Organization of Islamic Cooperation, and a member of Asia-Pacific Economic Cooperation, the Commonwealth of Nations, and the Non-Aligned Movement.

2. Key demographic Figures

- **Population growth rate:** 1.542% (2012 data)
- **Age Structure:**
 - 0–14 years: 29.6% (male 4,118,086/female 3,884,403)
 - 15–64 years: 65.4% (male 7,838,166/female 7,785,833)
 - 65 years and over: 5% (male 526,967/female 667,831) (2011 est.)
- **Gender ratio:**
 - at birth: 1.07 male(s)/female
 - under 15 years: 1.06 male(s)/female
 - 15–64 years: 1.03 male(s)/female
 - 65 years and over: 0.89 male(s)/female
 - total population: 1.03 male(s)/female (2012 est.)
- **Life expectancy at birth:**
 - total population: 74.04 years (at 1:1 male-to-female ratio)
 - male: ^ 71.28 years (2012 data)

- *female*: ^ 76.99 years (2012 data)
- **Literacy Rate:**
 - *Total*: 95% (all 15 years and above)
 - *Male*: 95% total, 98% 15–24 yrs
 - *Female*: 95% total, 98% 15–24 yrs

3. Malaysian Economy

Malaysia's economy in 2014–2015 was one of the most competitive in Asia, ranking 6th in Asia and 20th in the world, higher than countries like Australia, France and South Korea. In 2014, Malaysia's economy grew 6%, the second highest growth in ASEAN behind Philippines' growth of 6.1%. The economy of Malaysia (GDP PPP) in 2014 was \$746.821 billion, the third largest in ASEAN behind more populous Indonesia and Thailand and the 28th largest in the world. Table 1 has Key Economic Indicators of Malaysia.

Table 1: Key Economics Information Figures									Sources	
Central bank	Central Bank of Malaysia								Bank for International Settlements	
International Reserves	US\$ 137.045 billion (Source: IMF; Data updated: 2014)								International Reserves: IMF	
Gross Domestic Product - GDP	US\$ 376 billion (2015 estimate)								IMF, WEO	
GDP (Purchasing Power Parity)	800 billion of International dollars (2015 estimate)								IMF, WEO	
Real GDP growth	2003	2004	2005	2006	2007	2008	2009	2010	IMF, WEO	
	5.8%	6.8%	5.0%	5.6%	6.3%	4.8%	-1.5%	7.4%		
	2011	2012	2013	2014*	2015*					
	5.2%	5.6%	4.7%	5.9%	5.2%					
GDP per capita - current prices	US\$ 12,127 (2015 estimate)								IMF, WEO	
GDP per capita - PPP	25,833 International Dollars (2015 estimate)								IMF, WEO	
GDP - composition by sector	agriculture: 11.2% industry: 40.6% services: 48.1% (2013 estimate)								CIA - World Fact Book	
Inflation	2011	2012	2013	2014*	2015*				IMF, WEO	
	3.2%	1.7%	2.1%	2.9%	4.1%					
Public debt (% of GDP)	2010	2011	2012	2013	2014*	2015*				IMF, WEO
	53.5%	54.2%	56.2%	57.7%	56.6%	54.9%				
Public deficit (% of GDP)	2010	2011	2012	2013	2014*	2015*				IMF, WEO
	-4.7%	-3.7%	-3.6%	-4.6%	-3.6%	-2.7%				
Government bond ratings	Standard & Poor's: A- Moody's rating: A3 Moody's outlook: POS								Foreign Currency Government Bond Ratings;	
Largest companies in Malaysia	Maybank, Tenaga Nasional, CIMB Group Holdings, Public Bank, Sime Darby, Axiata Group, Genting, RHB Capital, Petronas Chemicals, AmBank Group, Hong Leong Financial, MISC, Petronas Gas, YTL, Maxis, Petronas Dagangan, IOI Group								Forbes Global 2000	

4. Stage of Industrialization:

In the 1970s, the predominantly mining and agricultural-based economy began a transition towards a more multi-sector economy. Since the 1980s, the industrial sector, with a high level of investment, has led the country's growth. The economy recovered from the 1997 Asian Financial Crisis earlier than neighboring countries did, and has since recovered to the levels of the pre-crisis era with a GDP per capita of \$14,800. Economic inequalities exist between different ethnic groups. The Chinese make up about one-quarter of the population, but accounts for 70 per cent of the country's market capitalization. Chinese businesses in Malaysia are part of the larger bamboo network, a network of overseas Chinese businesses in the Southeast Asian market sharing common family and cultural ties.

The Petronas Towers house the headquarters of the national oil company Petronas and are the tallest twin-towers in the world. International trade, facilitated by the shipping route in adjacent Strait of Malacca, and manufacturing are the key sectors. Malaysia is an exporter of natural and agricultural resources, and petroleum is a major export. Malaysia has once been the largest producer of tin, rubber and palm oil in the world. Manufacturing has a large influence in the country's economy, although Malaysia's economic structure has been moving away from it. Malaysia remains one of the world's largest producers of palm oil.



In an effort to diversify the economy and make it less dependent on export goods, the government has pushed to increase tourism to Malaysia. As a result, tourism has become Malaysia's third largest source of foreign exchange. The tourism sector came under some pressure in 2014 when the national carrier Malaysia Airlines had one of its planes disappear in March. Between 2013 and 2014, Malaysia has been listed as one of the best places to retire in the world too, with the country in third position on the Global Retirement Index. This in part was the result of the "Malaysia My Second Home" programme to allow foreigners to live in the country on a long-stay visa for up to 10 years. In 2015, Malaysia ranked in fourth position on The World's Best Retirement Havens while getting in the first place as the best place in Asia to retire. The country has developed into a centre of Islamic banking, and is the country with the highest numbers of female workers in that industry. Knowledge-based services are also expanding. To create a self-reliant defensive ability and support national development, Malaysia privatised some of its military facilities in the 1970s. The privatisation has created defence industry, which in 1999 was brought under the Malaysia Defence Industry Council. The government continues to promote this sector and its competitiveness, actively marketing the defence industry.

5. Economic dependency

A founding member of the Association of Southeast Asian Nations (ASEAN) and the Organisation of Islamic Cooperation (OIC), the country participates in many international organisations such as the United Nations, the Asia-Pacific Economic Cooperation, the Developing 8 Countries, and the Non-Aligned Movement (NAM). It has chaired ASEAN, the OIC, and the NAM in the past. A former British colony, it is also a member of the Commonwealth of Nations. Kuala Lumpur was the site of the first East Asia Summit in 2005. Malaysia's foreign policy is officially based on the principle of neutrality and maintaining peaceful relations with all countries, regardless of their political system.

6. Political stability

The Malaysian Armed Forces have three branches, the Royal Malaysian Navy, the Malaysian Army, and the Royal Malaysian Air Force. There is no conscription, and the required age for voluntary military service is 18. The military uses 1.5% of the country's GDP, and employs 1.23% of Malaysia's manpower. Currently, Malaysia is undergoing major program to expand and modernise all three branches of its armed forces. Malaysia has long been regarded as one of Southeast Asia's success stories. With a population of 30m, it is the region's third-largest economy with a relatively well-educated population. It is a rare example of a moderate and democratic Muslim state, one where the Islamic majority lives in reasonable harmony with the nation's Chinese and Indian communities. But Malaysia's delicate political and ethnic balance is starting to unravel as the country risks sliding into authoritarianism. This is a worrying development at a time when economic clouds are also darkening. (Financial Times, March 2015)

7. Exchange Rate History

The currency of Malaysia is Malaysian Ringgit (RM), formerly known as the Malaysian Dollar (M\$). In June 1967, the 3 separate dollars including M\$ replaced the old Sterling-linked Malaysian/Straits Dollar and the unit of M\$ was created. The Bank Negara Malaysia (Central Bank of Malaysia) administered exchange controls on

behalf of the Malaysian Government throughout Malaysia, with authority delegated to the authorized banks. In the earliest time, M\$ was linked to Pound Sterling. With the floating of Sterling and dismantling of the Sterling Area, Malaysia adopted the U.S. Dollar as the intervention currency in place of the Sterling in June 1972. The Effective Rate was established with a fluctuation range. Since June 1973, Malaysia placed the Effective Rate for her dollar on a controlled, floating basis. The Central Bank of Malaysia intervened only to maintain orderly market conditions and to avoid excessive fluctuations in the value of the Ringgit in terms of Malaysia's trading partners and the currencies of settlement (Ariff, p.329).

In June 1975, the controlled, floating Effective Rate was replaced. In order to maintain orderly exchange rate, Malaysian government adopted a new exchange regime. The external value of the Ringgit was to be determined in terms of a basket of representative major currencies, weighted on the basis of the major currencies of settlement as well as those of countries which were the major trading partners of Malaysia (Ariff, p.159). In August of the same year, the M\$ was officially renamed, known as the Ringgit (RM). The same exchange rate determination was sustained up till the Asian Financial Crisis in 1998. The exchange rate of the Ringgit was no longer determined by demand and supply in foreign exchange market. Malaysia returned to a fixed exchange rate system, pegged a rate against the U.S. Dollar at RM3.80 per \$1.

Table 2: Important Events effecting Malaysian Ringgit

Date	Changes to the exchange rate regime
12 June 1967	The unit of Malaysian Dollar was created. The old Sterling-linked Malayan/Straits Dollar was replaced by separate dollars of Malaysia, Singapore and Brunei. All these 3 currencies can be freely interchangeable. (WCY 1984, p.495)
15 August 1971	The Malaysian Dollar linked to the Pound Sterling at a fixed rate M\$7.3469 per Sterling Pound. (WCY 1984, p.495)
20 December 1971	A new Official Rate was established at a rate M\$2.81955 per U.S. dollar which based on the Malaysian Dollar's unchanged gold content. (WCY 1984, p.495)
25 June 1972	With the floating of Sterling and the dismantling of the Sterling Area on 23 June 1972, Malaysia broke the Malaysian Dollar's ties to the British unit and linked the currency to the U.S. Dollar with a fluctuation range for the Effective Rate. The range is between M\$2.7561 and M\$2.8830 per U.S. dollar. (WCY 1984, p.495)
13 February 1973	Following the U.S. Dollar devaluation in February 1973, the Official Rate of Malaysian Dollar was realigned to M\$2.5376 per U.S. dollar, based on the currency's unchanged gold content. The new fluctuation range for the Effective Range was defined, M\$2.4805-M\$2.5947 per U.S. dollar. (WCY 1984, p.495)
8 May 1973	Malaysia abrogated the accord with Singapore providing for the free exchangeability at par of the Malaysian and Singapore Dollars, which had been functioning since 1967. (WCY 1984, p.495)
22 May 1973	The unrestricted exchange at par of the Brunei Dollar and the Malaysian Dollar was suspended and the currency interchangeability agreement with Brunei was rescinded. (WCY 1984, p.495, 496)
21 June 1973	The authorities ceased to maintain the exchange rate within announced margins. (IMF 1976, p.303) Malaysia placed the Effective Rate for her dollar on a controlled, floating basis. (WCY 1984, p.495) The Central Bank of Malaysia intervened in order to maintain relative stability in the value of Ringgit in relation to the basket of currencies. (IMF 1979, p.266) If the exchange rate of Ringgit was fluctuated, the Central Bank would intervene and maintain the rate close to the Official Rate, M\$2.5376 per U.S. dollar.
21 August 1975	The Malaysian Currency (Ringgit) Act 1975 amended the Central Bank of Malaysia Ordinance 1958. (IMF 1976, 305) The Malaysian Dollar (M\$) was officially renamed the Ringgit (RM). (WCY 1984, p.495)
27 September 1975	The controlled, floating Effective Rate for the Ringgit was replaced, the external value of the Ringgit was determined on the basis of its relationship to a weighted basket of currencies of Malaysia's major trading partners. (IMF 1976, p.305) The minimum reserve requirement was 80.59% in gold and foreign exchange for Malaysian banknotes. (WCY 1990/93, p.475)

1978	Rates for all other currencies were determined on the basis of the Ringgit-U.S. Dollar rate and the U.S. Dollar rates for those currencies in markets abroad. (IMF 1979, p.266)
1986	The commercial banks were free to determine and quote exchange rates for all currencies, other than Israeli and South African currencies, to customers. The commercial banks were permitted to deal forward in all currencies other than Israeli and South African currencies, and were free to determine the rates. (IMF 1987, p.332)
31 March 1989	Following the IMF classification, Malaysia was considered to be pegged to composite basket of currency. (Ariff, p.155)
1992	The commercial banks were free to determine and quote exchange rates for all currencies, other than those of Israeli, South African and the Federal Republic of Yugoslavia (Serbia and Montenegro), to customers. The commercial banks were permitted to deal forward in all currencies other than those of Israeli, South African and the Federal Republic of Yugoslavia (Serbia and Montenegro), and were free to quote the rates. (IMF 1993, p.312)
28 September 1993	All exchange control restrictions governing transactions with South Africa were lifted. (IMF 1994, p.312)
1995	Foreign exchange contracts were effect freely for commercial transactions; prior approval was required for financial transactions. (IMF 1996, p.299)
4 August 1997	The Central Bank of Malaysia imposed controls requiring banks to limit outstanding noncommercial-related Ringgit offered side swap transactions to \$2 million a foreign customer. (IMF 1998, p.556)
2 September 1998	The exchange rate was no longer determined by demand and supply. The Central Bank announced that the exchange rate of the Ringgit would be pegged against the U.S. Dollar at RM3.80 = \$1. (IMF 1999, p.532)
July 21, 2005	The Central Bank of Malaysia announced the end of the PEG to the US \$ immediately after China's announcement of Chinese currency peg to the US \$ and allows ringitt to operate under managed float against several major currencies.

8. Current Outlook of Malaysia and its Currency

According to a HSBC report, Malaysia will become the world's 21st largest economy by 2050, with a GDP of \$1.2 trillion (Year 2000 dollars) and a GDP per capita of \$29,247 (Year 2000 dollars). The report also says "The electronic equipment, petroleum, and liquefied natural gas producer will see a substantial increase in income per capita. Malaysian life expectancy, relatively high level of schooling, and above average fertility rate will help in its rapid expansion". Viktor Shvets, the managing director of Credit Suisse, has said "Malaysia has all the right ingredients to become a developed nation".

8.1 Short Term Position (3-6 Months) for Malaysian Currency

Currently, (On December 21, 2016), 1 USD is equal to 4.35 MYR, despite from all the positive reports about Malaysian Economy by International Financial Institutions that Malaysia has potential to grow more and their internal investment on Human resources has started paying off to Malaysian Economy. So current Spot Rate of (MYR/USD) being 4.35 shows Malaysian ringgit is undervalued. Although for short term nothing can be forecasting with surety however, due to current economic situation of Malaysia, we think Long Position for Malaysian Currency will be good strategy.

8.2 Long Term Position (1 – 2 Years) for Malaysian Currency

As Malaysian Ringgit is undervalued, It is better to have a long position in Long term for this Currency as Malaysian is assumed to be the emerging economies in coming years by MSCI Classification.

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