

## The Drivers of the Ringgit

### Introduction

The ringgit, like many other currencies, has experienced increased volatility in recent years. As a small and open economy, the ringgit is especially sensitive to shifts in global capital flows and broader financial market trends. In this article, we will explore the global and domestic factors that drive the performance of the ringgit, both in the short and long run. Understanding these drivers is essential for policymakers, including BNM, in designing policies to manage exchange rate fluctuations and mitigate its adverse effects on Malaysia's economy. This ensures economic stability while promoting long-term growth.

Malaysia's transition from a fixed exchange rate pegged to the US dollar, introduced during the Asian Financial Crisis in September 1998, to a flexible regime from July 2005 reflects the nation's strengthened financial and macroeconomic resilience. This flexible approach means that the ringgit's value is sensitive to both short- and long-term drivers.<sup>1</sup> Short-term drivers, often cyclical in nature, be it domestic or external factors affect immediate market conditions or sentiment. In contrast, long-term drivers impact a currency's broader direction and are based on the country's macroeconomic fundamentals, such as trade balances, productivity growth and capital investments. This encompasses not just domestic variables but also how they fare against other countries, for example how a country's productivity compares against that of its key trade partners. Both short-term and long-term drivers do not operate in isolation but frequently act alongside each other to create a dynamic influence on the currency performance.<sup>2</sup>

### The short-term drivers of the ringgit

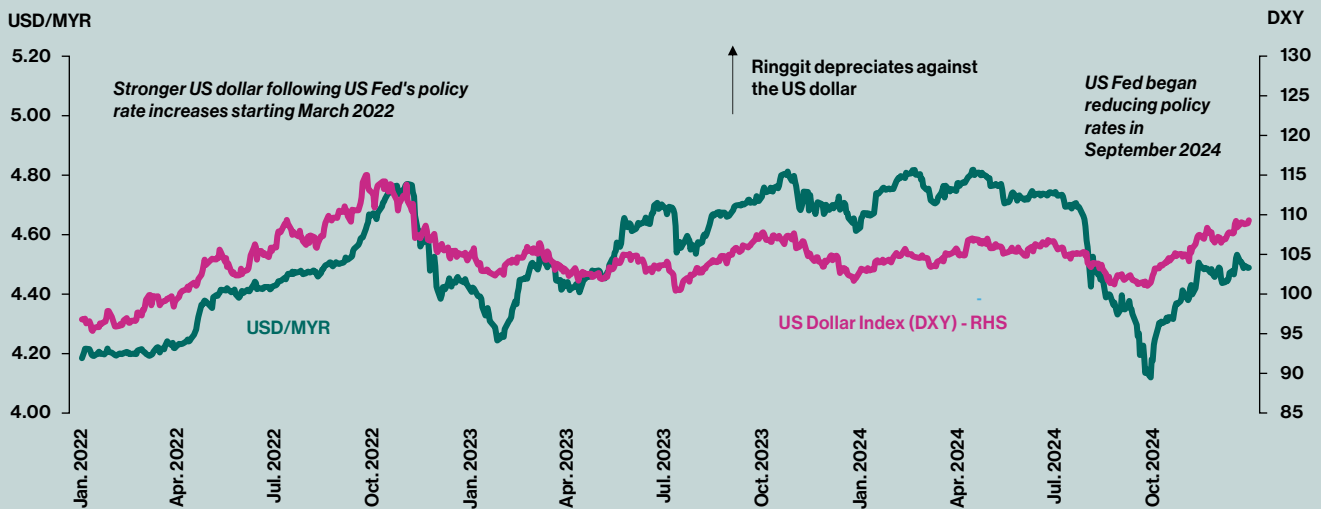
Short-term factors that emanate from global, regional or domestic developments include changes in monetary policy, business cycles, regional growth prospects or geopolitical tensions that can affect investor sentiment and their investment decisions. One such example is the Federal Reserve's (Fed) decision to raise its policy interest rate<sup>3</sup> – the federal funds rate – beginning in March 2022. Higher interest rates in the US made short-term investments there more attractive compared to other economies, which drew more investors to the US and strengthened the US dollar. The ringgit, like many other currencies, is mostly traded against the US dollar. As a result, the ringgit's performance, as observed via the USD/MYR exchange rate, depreciated by 15% since the start of 2022 up to early 2024 (Chart 1). Despite positive global growth during this period, which typically benefits trade-dependent economies like Malaysia, regional currencies including the ringgit notably weakened against the stronger US dollar. This highlights the dominant influence of US dollar-related dynamics on emerging market currencies in the short term, even when the broader economic environment is supportive for stronger domestic growth.

<sup>1</sup> An exchange rate regime represents the way in which a monetary authority manages its currency in relation to other currencies, which can be either fixed to another currency or allowed to fluctuate based on market conditions. According to the International Monetary Fund's (IMF) Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER), several countries adopt a flexible exchange rate regime. Notable examples include the United States, Eurozone nations, Japan, Canada, Australia, India, South Korea and Brazil.

<sup>2</sup> The supply and demand of a currency come from both trade activity for the purchase of goods and services, and financial market activity such as the sales and purchases of real and financial assets.

<sup>3</sup> As measured by the upper limit of the federal funds target range.

Chart 1: Ringgit's Performance Against the US Dollar Since 2022



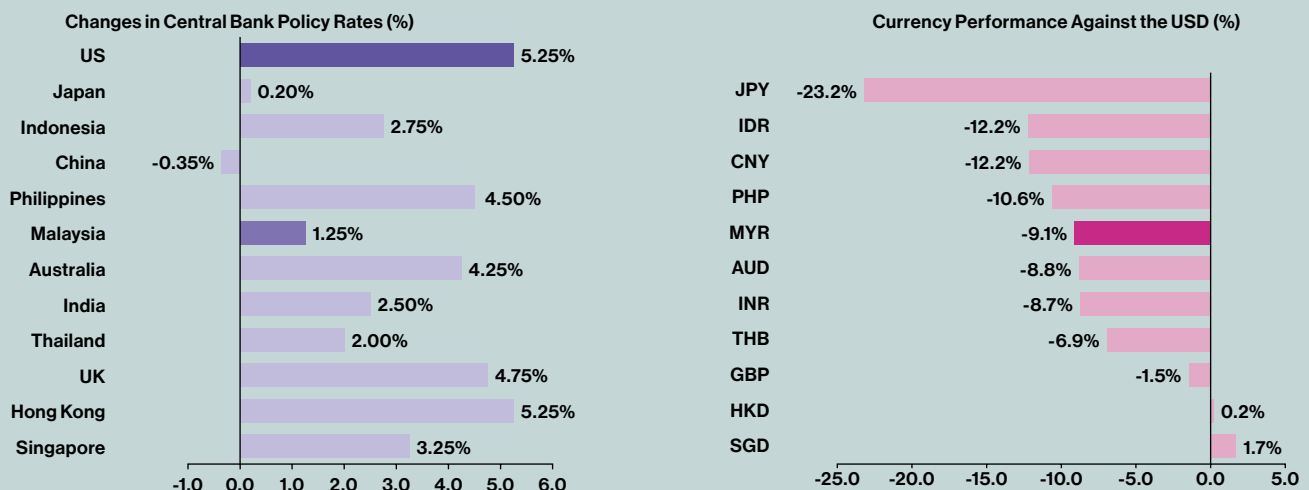
Note: 1. The USD/MYR exchange rates used here are the daily noon rates up to 31 December 2024.  
 2. The US dollar index (DXY) represents the performance of the US dollar against a basket of currencies which consists of the Euro (57.6%), Japanese yen (13.6%), British pound (11.9%), Canadian dollar (9.1%), Swedish krona (4.2%) and Swiss franc (3.6%), as at 31 December 2024.

Source: Bank Negara Malaysia and Bloomberg

What has caused the US dollar to perform better relative to the ringgit over the last two years? Two factors played a major role.

- a. **A higher US interest rate:** The post-pandemic increase in inflation in the US led the Fed to raise its policy rate aggressively by a total of 525 basis points to a target range of 5.25%–5.50%. In contrast, inflation in Malaysia was more contained, prompting BNM to raise the Overnight Policy Rate (OPR) by a more modest 125 basis points to 3%. Consequently, the large difference in interest rates between the US and Malaysia made holding US financial assets more attractive, spurring global investors to shift their funds towards the US, further strengthening the US dollar (Chart 2).

Chart 2: Policy Rate Changes in Selected Economies and Corresponding Currency Performance Against the US Dollar During the Post-COVID-19 US Fed's Hiking Cycle (15 March 2022–30 July 2024)



Note: 1. Calculations are based on the following timeframe: between 15 March 2022 (the day of the first US Fed policy rate hike at the March 2022 Federal Open Market Committee, FOMC meeting) and 30 July 2024 (shift in market expectations for the commencement of US Fed policy rate cuts following the July 2024 FOMC meeting, as indicated by the US overnight index swap rate).  
 2. Currency abbreviations are as follows: JPY – Japanese yen, IDR – Indonesian rupiah, CNY – Chinese renminbi, PHP – Philippine peso, AUD – Australian dollar, MYR – Malaysian ringgit, INR – Indian rupee, THB – Thai baht, GBP – British pound sterling, HKD – Hong Kong dollar, SGD – Singapore dollar.  
 3. Currency performance calculations are based on noon rates.  
 4. The chart shows the countries' respective policy rates except for Singapore which is based on the Singapore Overnight Rate Average (SORA).

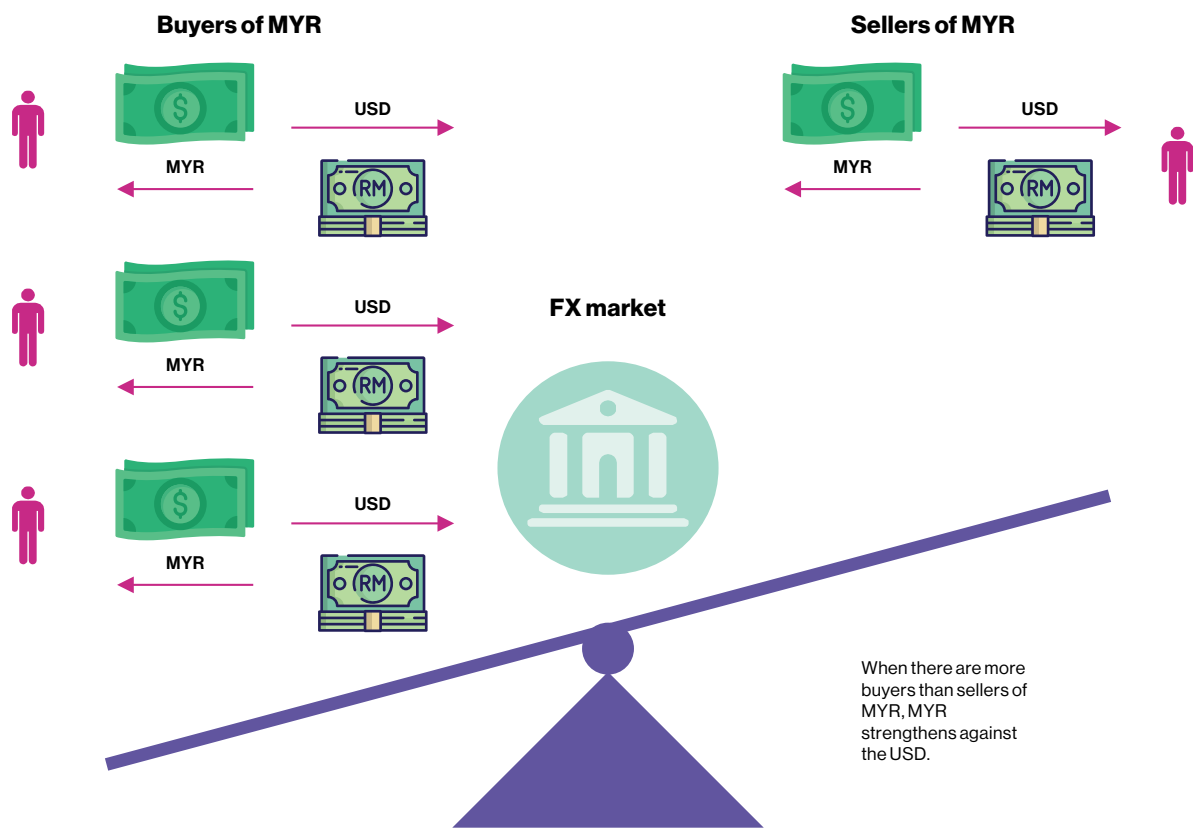
Source: Bank Negara Malaysia and Bloomberg

b. *Geopolitical tensions and 'safe-haven' demand:* Geopolitical tensions in the Middle East and Ukraine also increased demand for 'safe-haven' currencies as investors sought protection against global financial market volatility and potential losses.<sup>4</sup> During periods of global uncertainty, such currencies typically see higher demand. The US dollar, considered a 'safe-haven' currency due to its high liquidity and central role in international trade, experienced significant appreciation. This added to the pressure on the ringgit, which weakened further against the strengthening US dollar.

### How Do Markets Price Exchange Rates?

When the USD/MYR exchange rate rises from 4.00 to 4.20, it means the ringgit has depreciated against the US dollar. Why is that? At a rate of 4.00, one US dollar can be exchanged for 4.00 Malaysian ringgit. If the rate shifts to 4.20, this means it now takes more ringgit to buy one US dollar, indicating either a stronger US dollar or a weaker ringgit. The same principle applies to other currency pairs. For instance, when the SGD/MYR rate moves from 3.50 to 3.25, it means that the Singapore dollar now buys less ringgit, which again points to either a weakening Singapore dollar or a strengthening ringgit.

**Diagram 1: Stylised Illustration of Supply and Demand Affecting the Ringgit (MYR) Exchange Rate Against the US Dollar (USD)**



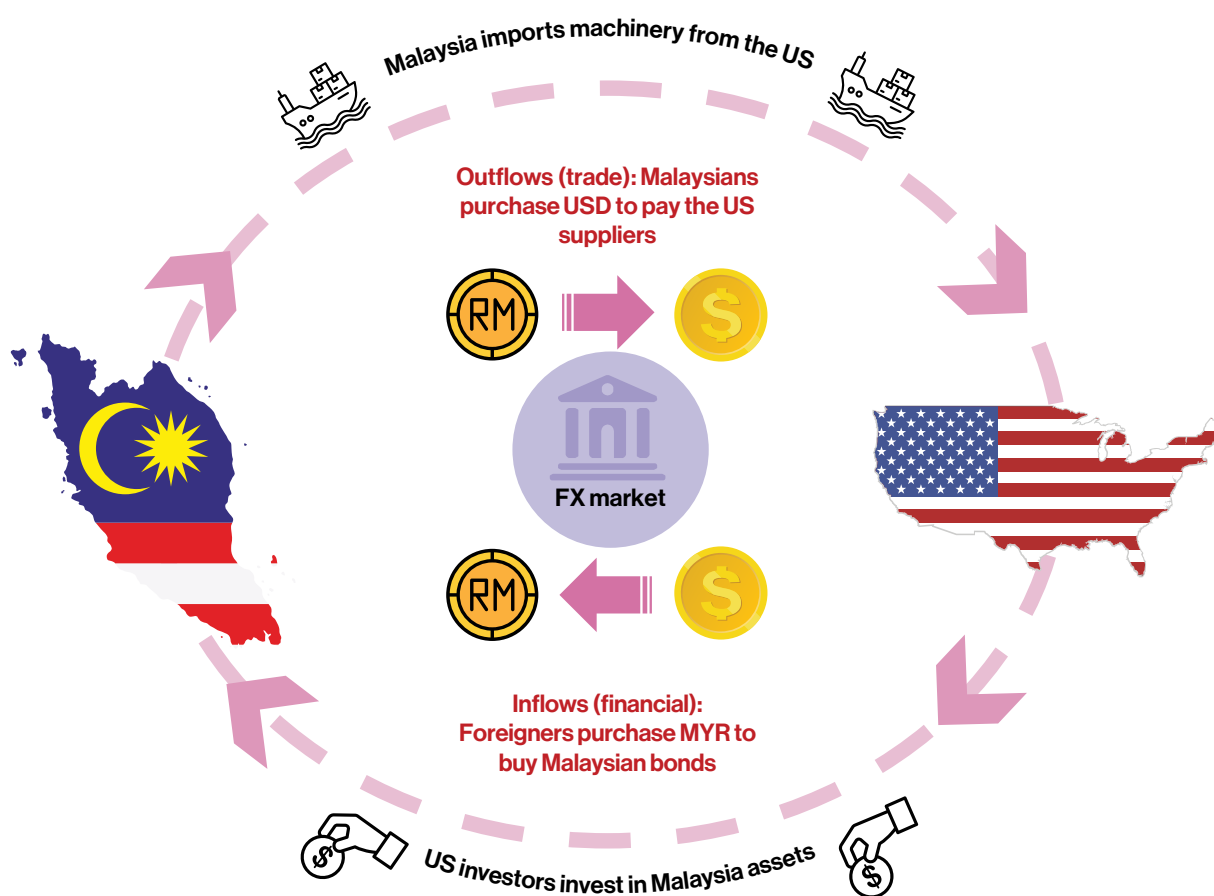
Source: Bank Negara Malaysia

<sup>4</sup> In contrast to 'safe-haven' currencies, 'risk-on' currencies (which commonly include currencies which are sensitive to global growth prospects such as the ringgit) tend to depreciate during periods of economic uncertainty and appreciate during periods of economic optimism and market stability, as investors are willing to take on more risk.

The foreign exchange market operates like any other markets, where prices are determined by the balance of demand and supply (Diagram 1). When demand for a currency increases more than its supply, its price will increase (the currency appreciates), and vice versa. For example, the exchanges of currencies surged following the post-COVID-19 tourism boom, as lockdown restrictions across the world were lifted and global travel resumed. A US tourist traveling to Malaysia would need to exchange US dollars for ringgit in order to holiday in Pulau Langkawi. This increases the relative demand for ringgit in relation to US dollars. Similarly, a Malaysian tourist travelling to Thailand would have to exchange ringgit for Thai baht, thereby increasing relative demand for the baht compared to the ringgit. These cross-border currency exchanges drive changes in the respective currency value across countries.

These transactions are typically referred to as 'foreign exchange flows'. These flows originate from two main sources: trade flows and financial flows (Diagram 2).

**Diagram 2: Illustration of Economic Activity Affecting Foreign Exchange Flows**



Source: Bank Negara Malaysia

- a. **Trade flows** involve the exchange of currencies for goods and services. For example, when Malaysia exports commodities like palm oil or electronic products, foreign buyers convert their currencies into ringgit to pay for these goods, which generates inflows into Malaysia. Conversely, when Malaysia imports machinery or when Malaysians travel abroad, ringgit is exchanged for foreign currencies, resulting in outflows. These trade-driven exchanges reflect the flow of goods and services between countries, and are influenced by factors such as global demand and commodity prices.

**b. Financial flows**, on the other hand, are based on portfolio and direct investment activities. Portfolio flows in particular, are often more volatile and sensitive to the changes in investor sentiment and interest rates between economies. For example, when the US interest rates rise, US financial assets like Treasury bonds become more attractive to global investors. These investors exchange their home currencies for US dollars, increasing the demand for the dollar. Similarly, when Malaysia offers competitive returns on its financial assets, it attracts foreign investors who convert their currencies into ringgit, boosting the ringgit's value.

Trade and financial flows collectively shape the supply and demand dynamics for the ringgit in the global markets. As this article will explore further, the relative demand for a currency remains the key factor influencing its performance.

The flexible exchange rate regime under which the ringgit operates allows the Malaysian economy to adjust to changing external conditions. When the ringgit weakens against other currencies, it boosts the competitiveness of Malaysia's exports,<sup>5</sup> locally produced goods and inbound tourism. This increased competitiveness would encourage foreign demand for Malaysia's goods and services, thus stimulating domestic economic activity.<sup>6</sup> In early 2024, when the ringgit was approaching historical lows, there were calls to peg the ringgit to the US dollar akin to the period following the Asian Financial Crisis. However, to maintain the peg, this would require Malaysia to either have substantial foreign currency reserves, to impose capital controls, or to align the domestic interest rates with that of the country it pegs to.<sup>7</sup> For example, if Malaysia fixes the ringgit exchange rate while allowing free capital flows, it will lose control over its monetary policy autonomy, as domestic interest rates would need to align with the US to sustain the peg. This means that Malaysia's OPR, which stood at 3% in early 2024, would have to be raised simultaneously alongside US interest rates, which exceeded 5% during the same period.

Malaysia's diverse economic base, strong financial sector and robust external position, which include sustained current account surplus and adequate reserves, provide resilience against external shocks, allowing the ringgit to remain under a flexible exchange rate regime better suited to its economic structure.<sup>8</sup> The ringgit's flexibility is, however, not without drawbacks for certain segments of the economy. With over 80%<sup>9</sup> of Malaysia's international trade transacted in the US dollar, businesses face higher costs for imported inputs as well as imported capital goods during periods of ringgit depreciation. Meanwhile, households feel the impact through increased prices for imported consumption items such as dairy products and clothing. This phenomenon, known as the 'exchange rate pass-through' (ERPT) to inflation, describes how a lower ringgit can result in higher domestic consumer prices. While BNM analyses<sup>10</sup> showed that ERPT has been generally low over the past two decades, it remains an important consideration in BNM's monetary policy decisions, given its bearing on inflation and broader economic activities.

## BNM's role in the foreign exchange market

Foreign exchange markets can be volatile. Surprises, whether positive or negative, can cause the ringgit to fluctuate. The greater the surprises, the larger the movement in the ringgit. Being such an important relative price, BNM places a high emphasis on managing excessive volatility in the USD/MYR exchange rate. The primary tool BNM uses is foreign exchange intervention (FXI), which involves deploying its international reserves<sup>11</sup> during periods of disorderly market conditions. These often result from short-term factors such as global economic data surprises or sudden material shifts in investor risk appetite. In extreme cases,

<sup>5</sup> Since a significant portion of Malaysia's exports is priced in US dollars, a weaker ringgit against the US dollar may have a limited and delayed impact on export volumes or competitiveness. This phenomenon is also commonly referred to as the 'dominant currency paradigm'. However, in the short term, exporters still benefit from translation gains, as they receive more ringgit from every good or service sold in US dollars.

<sup>6</sup> For further information on Malaysia's exchange rate regime, please refer to the BNM Annual Report 2022 box article titled 'The Exchange Rate and the Malaysian Economy'.

<sup>7</sup> The policy trilemma states that a country can only achieve two out of three goals: free capital flow, a fixed exchange rate and independent monetary policy. For further information on the trilemma, please refer to the BNM webpage on 'Ringgit Exchange Rate Policy'. <https://www.bnm.gov.my/monetary-stability/ringgit>.

<sup>8</sup> In contrast, Singapore and Hong Kong currently adopt a managed float regime and a currency board system featured by the Hong Kong-United States dollar peg respectively. The choice of having a less flexible exchange rate system is due to their relatively much higher economic openness and reliance on external trade and capital flows.

<sup>9</sup> For further information on the currencies used as a percentage of Malaysia's total trade settlement, please refer to the BNM Annual Report 2023 box article titled 'Promoting Cross-border Local Currency Settlement'.

<sup>10</sup> For further information on the extent to which the exchange rate pass-through channel affects domestic consumer prices in Malaysia, please refer to the BNM Economic and Monetary Review 2022 box article titled 'Revisiting Exchange Rate Pass-Through to Inflation in Malaysia'.

<sup>11</sup> Also known as foreign-currency assets typically held by central banks.

market prices may experience ‘knee-jerk’<sup>12</sup> reactions when market liquidity is low, as many financial market participants look to buy or sell a particular currency at the same time with limited opposing sellers or buyers available. During episodes of sharp ringgit depreciation, BNM intervenes by buying ringgit from those who want to sell against a foreign currency, thereby providing liquidity and supporting the ringgit’s value. Conversely, when the ringgit appreciates sharply, BNM steps in by selling ringgit in exchange for foreign currency to contain the excessive upward pressure on the ringgit. When the demand and supply of ringgit is more balanced, this helps ensure that the ringgit adjusts gradually, thereby preventing sudden changes in its value and maintaining foreign exchange market stability.

BNM faces a delicate balancing act when deciding whether to intervene in the foreign exchange market, while taking a measured and prudent approach. Many market shocks are temporary, meaning volatility in the ringgit may not last long. For example, shocks driven by specific events – such as global elections, policy announcements or speeches by influential figures like the US Fed Chair – can temporarily create sharp movements in the ringgit. These changes are typically driven by short-term investors looking to take advantage of price movements to gain profits. Market prices tend to stabilise once the uncertainty subsides and policies announced become clearer. In such cases, a more prudent approach would be to ‘see through’ such fluctuations, rather than unnecessarily deploying international reserves.

For the market to better face these challenges, BNM focuses on building the resilience of economic agents<sup>13</sup> and the financial system against exchange rate shocks. BNM has developed several market deepening initiatives aimed at enhancing accessibility to the ringgit, establishing financial linkages with regional trading partners, and improving market participants’ flexibility to manage their foreign exchange exposure.<sup>14</sup> These initiatives effectively help Malaysia to diversify and manage its exposure to foreign currency risks. Additionally, BNM’s progressive liberalisation of foreign exchange policies has led to a decentralisation of reserves, enabling local banks and entities to accumulate sizeable liquid foreign assets. These assets can be used to meet external debt obligations, without having to rely on the action of BNM.

More recently, in early 2024, when the US dollar reached its cyclical peak, the Government together with BNM took coordinated actions to improve foreign exchange market liquidity. In addition, BNM has introduced a pilot Qualified Resident Investor (QRI) programme in April 2024 to ease the process for resident corporates to repatriate foreign currency proceeds from overseas investments and convert into ringgit, as well as facilitate subsequent reinvestments abroad by the corporates. This programme aims to encourage a balanced flow of funds in the foreign exchange market. Alongside this, regular engagements with investors and corporates to encourage the repatriation and conversion of export proceeds and investment income provided support to the ringgit during a period of heightened financial market volatility. As the year progressed and monetary policy directions in advanced economies – particularly the US – became clearer, investor sentiment shifted. By September 2024, with US inflation cooling, the Fed began lowering its policy rate, reducing investors’ demand in the US dollar. A gradual narrowing in the interest rates between the US and the rest of the world also further contributed to this change in investor sentiment and a broad recovery in regional currencies, including the ringgit. Given Malaysia’s strong macroeconomic fundamentals and positive economic prospects, the ringgit not only benefited from these global developments but also performed relatively well relative to regional currencies in 2024. However, as previously mentioned, volatility in the global financial markets has remained elevated due to ongoing uncertainties arising from economic and geopolitical developments. Against this backdrop, the next section will explore the importance of building resilience against the negative impacts of exchange rate volatility, emphasising the role of underlying long-term drivers of the ringgit.

<sup>12</sup> Refers to quick and impulsive movements in prices, like a sudden spike or drop that happen immediately after news or events are announced. These reactions often occur because traders and investors respond without thoroughly analysing the situation, leading to sharp changes that may not always reflect the event’s true long-term impact.

<sup>13</sup> Include businesses, financial and non-financial institutions, as well as financial market participants.

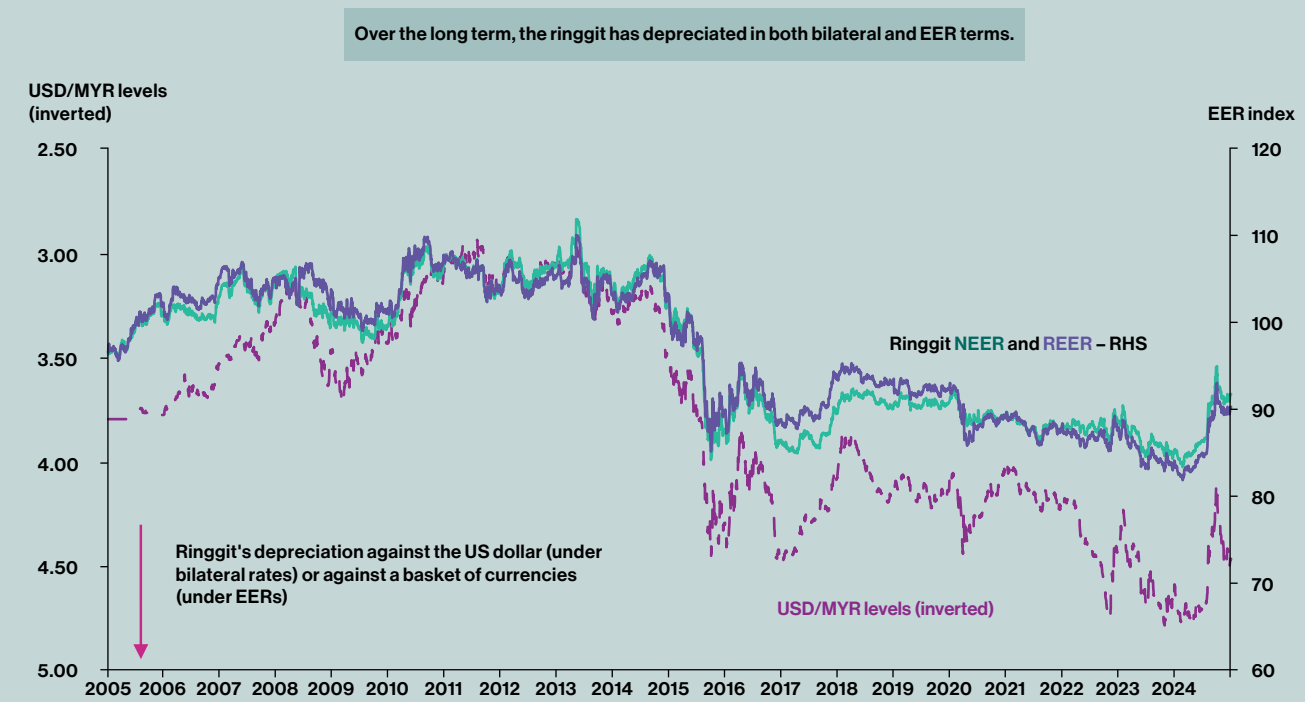
<sup>14</sup> This includes the local currency initiatives with China such as the bilateral currency swap arrangement agreement with the People’s Bank of China, the Cross Border Collateral Agreement (CBCA) in 2010, the Renminbi Liquidity Facility in 2013, and the Local Currency Settlement Framework (LCSF) in collaboration with Bank of Thailand in 2016 as well as Bank Indonesia in 2018. BNM has also introduced the dynamic hedging programme in December 2016 to allow greater flexibility for registered institutional investors to actively manage their invested assets’ foreign exchange exposure.

### The long-term drivers of the ringgit

The USD/MYR exchange rate is just one measure of the ringgit’s performance. To gain a more holistic view, economists often refer to ‘effective exchange rates’, as opposed to a bilateral exchange rate.<sup>15</sup> The ringgit Nominal Effective Exchange Rate, or ringgit NEER for short, is commonly used for this purpose. This index measures the ringgit relative to the weighted average of Malaysia’s major trading partner currencies, such as the Singapore dollar, the Chinese renminbi and the US dollar. A decline in the NEER indicates ringgit’s depreciation against the basket of currencies, while an increase signals an appreciation. A related measure, the ringgit Real Effective Exchange Rate (ringgit REER), which also accounts for differences in price levels between Malaysia and its trading partners, offers insights into the country’s export competitiveness. A lower REER means Malaysian goods and services become cheaper compared to those of trading partners, making them more attractive to global buyers. Conversely, a higher REER suggests that Malaysian exports may have become relatively more expensive, potentially reducing foreign demand. Together, the ringgit NEER and REER provide a foundation for analysing<sup>16</sup> the ringgit’s longer-term movements.

Effective exchange rates (EERs) are better at providing a long-term perspective of any given currency’s performance because they are less sensitive to short-term fluctuations. They are also not overly influenced by sudden and unique movements arising from any single economy.<sup>17</sup> The diverse composition of the currency basket used in EERs acts as a stabilising factor. Comparing the NEER and REER with the USD/MYR exchange rate (Chart 3) reveals a contrast. While the bilateral rate has depreciated over the years, the EERs have remained more stable, especially during periods of US dollar strength. However, over a longer horizon since 2014, both measures showed a gradual depreciation of the ringgit. This divergence from the performance of other regional currencies suggests that the ringgit’s challenges extend beyond global factors. The next step is to identify the underlying drivers of these deviations, many of which are rooted in Malaysia’s economic fundamentals relative to other countries.

**Chart 3: USD/MYR Levels Against Ringgit EERs**



Note: 1. The USD/MYR exchange rates used here are the daily noon rates up to 31 December 2024.  
 2. Both NEER and REER indices are calculated based on the daily noon rates up to 31 December 2024.

Source: Bank Negara Malaysia and Bloomberg

<sup>15</sup> The BIS website provides updated and historical effective exchange rate indices data for a wide range of countries, including Malaysia, along with an explanation of the methodology used. <https://data.bis.org/topics/EER>.  
<sup>16</sup> For more details on the recent trends in the ringgit NEER and the ringgit REER, please refer to the BNM Second Quarter of 2023 Quarterly Bulletin box article titled ‘Methodological Framework for Computing Malaysia’s Effective Exchange Rate Indices’.  
<sup>17</sup> Fluctuations of currencies significant to the global economies, such as the US dollar and the Chinese renminbi, tend to have significant spillover effects to currencies of small open economies such as the ringgit.

Malaysia is a small, open economy with extensive financial linkages and exposure to global trade, making the ringgit susceptible to external developments. However, these external factors commonly affect most currencies in the same direction and are usually cyclical, meaning they do not fully explain the long-term depreciating trend in the ringgit EERs. Studies of the NEER and REER, reveal that structural economic drivers are the primary determinants of exchange rates over time.<sup>18</sup> These include relative productivity growth, terms-of-trade and trade openness.<sup>19</sup> While Malaysia’s economic fundamentals have remained solid over the years, ongoing efforts to boost the nation’s long-term competitiveness and growth potential (Table 1) through the decisive and accelerated implementation of structural reforms will ensure enduring support for the ringgit. Cyclical factors may well exert short-term depreciation pressures on bilateral exchange rates, however, a sustained demand for the ringgit, supported by solid fundamentals, can help cushion against these external shocks and contribute to greater stability in the EERs over the long term.

**Table 1: Key Macroeconomic Indicators for Malaysia Over the Years**

Indicators (period average)	2005–15	2016–24
GDP per capita (RM)	29,250	47,866
Real GDP growth (%)	5.0	3.9
Inflation (year-on-year %)	2.6	1.8
Gross international reserves (USD million)	107,648	106,598
Net international investment position (RM million)	15,784	30,026
Current account balance (% of GDP)	10.5	2.8
Terms of trade (Index)	102.8	103.5
Fiscal deficit (% of GDP)	-4.2	-4.5
Banking system total capital ratio (%)	15.0	17.9

Note: 1. Data for terms of trade comprises the period 2010–24, where indexation begins at 2010=100.  
 2. Banking system total capital ratio data is only available starting 2013 following the adoption of the Basel III regulatory framework.

Source: Bank Negara Malaysia, Ministry of Finance and Department of Statistics, Malaysia

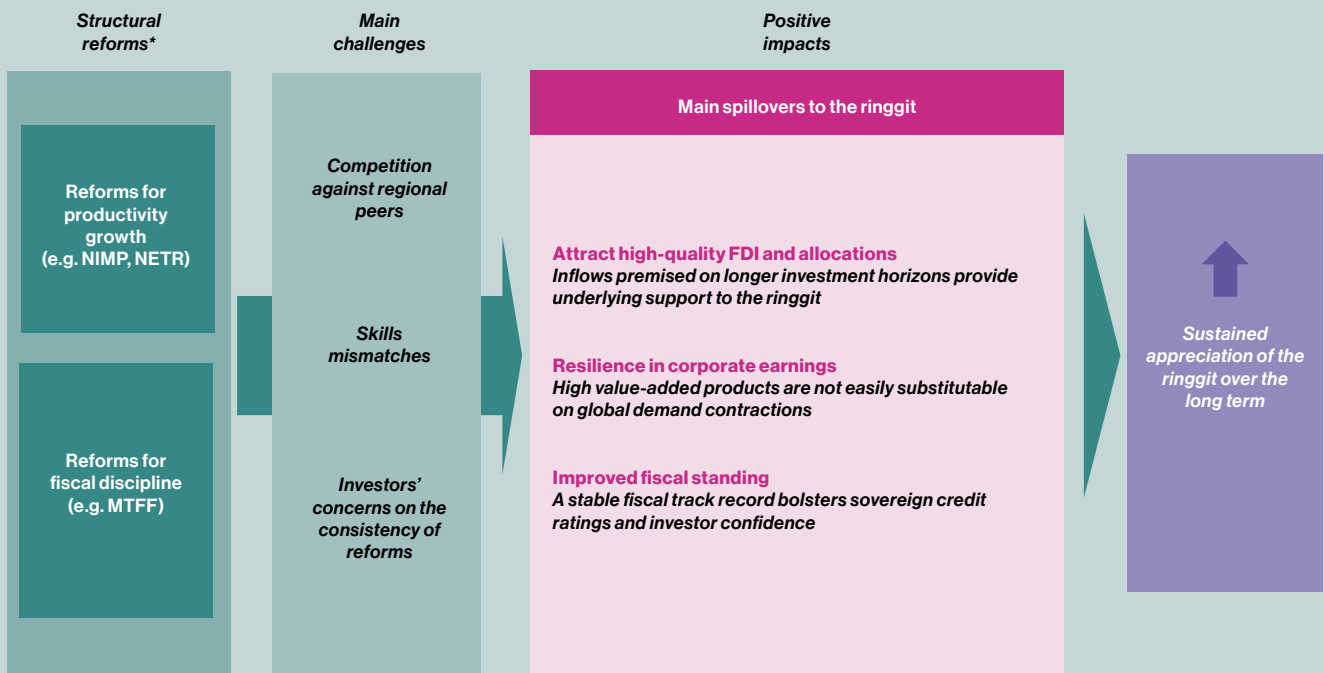
This demonstrates why policy discussions on the ringgit’s longer-term outlook are premised on Malaysia’s domestic structural reforms. In improving Malaysia’s relative productivity growth and relative terms-of-trade, the Government’s ongoing initiatives – such as the New Industrial Master Plan 2030 (NIMP) and the National Energy Transition Roadmap (NETR) – have a critical role to play. Both are designed to elevate Malaysian industries up the global value chain and better position them to capitalise on global investment trends. If Malaysia’s industries can gain a competitive edge through the quality, complexity, and diversity of products manufactured, rather than overreliance on lower cost advantages alone, the country can secure a stronger position within the global value chain and increase its output value. These outputs, when exported, would generate greater and more resilient earnings for Malaysian businesses, leading to larger and more consistent profit repatriations. From the perspective of global investors, policies that enhance Malaysia’s attractiveness – such as enabling investment frameworks, increased ease of doing business and robust economic growth prospects – will encourage foreign direct investment (FDI) and other long-term capital flows. These ‘pull-factors’ create long-lasting support for the ringgit, even during periods of cyclical financial market stress.

As part of structural reforms, increasing Government’s expenditure on developing the necessary infrastructure to attract high-quality investments without undermining its commitments to fiscal discipline will be important. Maintaining a consistent record of fiscal discipline signals that Malaysia’s growth is balanced, sustainable, and conducive to long-term investments. The Medium-Term Fiscal Framework (MTFF) outlines a clear direction for Malaysia’s fiscal consolidation, with initiatives designed to diversify and broaden the tax base while ensuring more productive spending. For example, the subsidy rationalisations for electricity, water, and diesel have been timed and sequenced based on favourable macroeconomic conditions, such as Malaysia’s positive growth trajectory and low inflation, to manage its impact on households and businesses.

<sup>18</sup> Despite having a relatively lower inflation vis-à-vis its trade partners, Malaysia’s EER over the longer term is largely influenced by structural factors beyond relative prices (or inflation). In contrast, in several Latin American emerging market economies such as Argentina or Venezuela, the domestic currencies have experienced significant depreciations, which are often tied to its diminished purchasing power from high inflation rates and recurring economic crises.

<sup>19</sup> Ca’Zorci et al. (2022), Goldfajn and Valdes (1999), Elbadawi (1994), Dufrenot and Yehoue (2005), and Melecký and Komárek (2007).

**Diagram 3: Transmission Channels of Structural Reforms and Their Associated Challenges**



\* This diagram does not represent a comprehensive account of ongoing structural reforms as it is meant for illustrative purposes only.

Source: Bank Negara Malaysia, Ministry of Economy, Ministry of Investment, Trade and Industry, Ministry of Finance, and Malaysian Investment Development Authority

### Conclusion: Prospects for the economy and ringgit

The movements of the ringgit, like that of most currencies, would be driven by both short-term fluctuations as well as long-term economic fundamentals. The choice of policy responses to preserve orderly conditions in the foreign exchange market will depend on the underlying drivers of exchange rate movements. Often, a multi-pronged policy toolkit is deployed to enhance policy efficacy and to avoid overburdening of any single tool. BNM's FXI is useful in dampening short-term excessive volatility caused by global shocks. However, relying too heavily on international reserves to counter long-term drivers rooted in fundamental factors may not be the appropriate strategy. Instead, structural reforms and policies must take centre stage, whether through further financial market developments to build resilience against the negative impacts of ringgit volatility, or through policies aimed at strengthening productivity and competitiveness, hence improving economic growth prospects and fiscal sustainability.

BNM continues to collaborate closely with the Government on multiple fronts to maintain confidence in the ringgit and promote orderly conditions for households and businesses to manage their foreign exchange exposure. This includes supporting the effective implementation of structural reforms, engaging with the global investment community in highlighting their positive impacts, and leveraging its policy toolkit to ensure favourable domestic financial conditions to enable reforms to take place. Ultimately, however, a collective effort – spanning policymakers, businesses and the society at large – is critical to realising the full potential of these reforms. This unified approach holds the key to unlocking sustainable growth, ensuring the long-term resilience and appreciation of the ringgit.

## References

- Bank Negara Malaysia, 'Ringgit Exchange Rate Policy'. Retrieved from <https://www.bnm.gov.my/monetary-stability/ringgit>.
- Bank Negara Malaysia (2022), 'Revisiting Exchange Rate Pass-Through to Inflation in Malaysia', BNM Economic and Monetary Review 2022.
- Bank Negara Malaysia (2022), 'The Exchange Rate and the Malaysian Economy', BNM Annual Report 2022.
- Bank Negara Malaysia (2023), 'Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices', BNM Second Quarter of 2023 Quarterly Bulletin.
- Bank Negara Malaysia (2023), 'Promoting Cross-border Local Currency Settlement', BNM Annual Report 2023.
- Bank for International Settlements (2023), 'Effective Exchange Rate Indices'. Retrieved from <https://data.bis.org/topics/EER>.
- Boz et al. (2020), 'Patterns in Invoicing Currency in Global Trade', International Monetary Fund (IMF). Retrieved from <https://www.imf.org/en/Publications/WP/Issues/2020/07/17/Patterns-in-Invoicing-Currency-in-Global-Trade-49574>.
- Ca'Zorci, M., Cap, A., Mijakovic, A. and Rubaszek, M. (2022), 'The Reliability of Equilibrium Exchange Rate Models: A Forecasting Perspective', International Journal of Central Banking.
- Elbadawi, (1994) I. A., 'Estimating Long-Run Equilibrium Real Exchange Rates', Institute for International Economics.
- Goh, N. (2023), 'Malaysia's Anwar pushes for local currency transactions in trade', Nikkei Asia. Retrieved from <https://asia.nikkei.com/Editor-s-Picks/Interview/Malaysia-s-Anwar-pushes-for-local-currency-transactions-in-trade>.
- Goldfajn, I. and Valdes, R. (1999), 'The Aftermath of Appreciations', Quarterly Journal of Economics.
- Hofmann, B., Mehrotra, A., and Sandri, D. (2022), 'Global Exchange Rate Adjustments: Drivers, Impacts and Policy Implications', Bank for International Settlements. Retrieved from <https://www.bis.org/publ/bisbull62.pdf>.
- International Monetary Fund (2023), with Annual Report on Exchange Arrangements and Exchange Restrictions 2023. Retrieved from <https://www.elibrary-areaer.imf.org/Pages/YearlyReports.aspx>.
- Melecký, M. and Komárek, L. (2007), 'The Behavioral Equilibrium Exchange Rate of the Czech Koruna', Transition Studies Review.
- Siregar, R. (2011), 'The Concepts of Equilibrium Exchange Rate: A Survey of Literature', SEACEN Research and Training Centre.
- Yehoue, E. and Dufrénot, G. (2005), 'Real Exchange Rate Misalignment: A Panel Co-Integration and Common Factor Analysis', International Monetary Fund.