



**MACROECONOMIC FACTORS THAT AFFECT EXCHANGE RATE VOLATILITY
IN MALAYSIA**

**NURUL NAJIHAH BINTI ABDU KHADIR
2016328937**

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ABSTRACT

The depreciation and volatility of the Ringgit Malaysia exchange rate are one of the vast macroeconomic disadvantages that have occurred in the Malaysian economy in the recent past. Exchange rate in Malaysia drastically depreciate on 1997 and it is continued to depreciate since 2012 until 2016. The exchange rate volatility can influence an economic growth in each country and it also consider as the most important factors in determine the economics health of one country. Thus, the objectives are try to determine if there is relationship between exchange rate with inflation, interest rate, export, gross domestic product and foreign direct investment as well as to measure the most significant factor that affecting the exchange rate volatility in Malaysia. Annual data from 1970 until 2017 was analysed using Ordinary Least Square method (OLS), discloses that foreign direct investment is negative and highly significant. In parallel, other variable such as gross domestic product follows the result which is has a negative relationship with exchange rate and significant at 1 percent significant level. In contrast, export has positive relationship towards exchange rate. Meanwhile, the results for other two variables such inflation and interest rate shown a significant and negative relationship with exchange rate in Malaysia. Hence, the federal government should exercise control over feasible macroeconomic factors that directly affect exchange rate fluctuations while the central monetary authority establishes policies that minimize the magnitude of exchange rate volatility.

Keywords: *Exchange Rate, Inflation, Interest Rate, Export, Gross Domestic Product, Foreign Direct Investment, OLS method*