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FACTORS AFFECTING THE REAL EXCHANGE RATE OF MALAYSIAN RINGGIT

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ABSTRACT

Using quarterly data from 2009 to 2020, the goal of this study is to look at the influence of independent variables on the actual exchange rate of the Ringgit Malaysia. The independent variables (current account balance, trade openness, and crude palm oil price) are regressed on the real exchange rate of Ringgit Malaysia (USD/MYR) using a multiple linear regression model with E-Views. Thomson Reuter's Eikon DataStream, Refinitiv DataStream, and Bloomberg provided the data for this study, which was subsequently analysed using multiple linear regression. Furthermore, econometric tests were run to see how factors related to the real exchange rate of the Malaysian Ringgit, or USD/MYR. To acquire tests such as descriptive analysis, correlation analysis, regression analysis, heteroskedasticity testing, and normality tests, the tests were done using an interactive programme known as E-views 12th student version. Onto the tests, because the probability is less than the 5% significance level, the regression analysis on the T-test indicated that only Current Account Balance (CAB) has a meaningful link with the real exchange rate of USD/MYR. Other factors, such as Trade Openness (TOP) and Crude Palm Oil Price (CPO), however, have a P-value larger than 5% significance level, suggesting that they are not significant.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter begins with the research's history, followed by the issue statement, which gives readers a better idea of the environment in which the study was done. The research aims, research questions, importance of the study, and scope of the study for the research are all described, followed by a brief summary of the result.

1.1 Background of the study

Malaysia, a small and open economy, has done well in recent years and has stayed steady, despite experiencing a pause in global growth when it was hit by the Covid-19 outbreak. For over two years, Malaysia has been dealing with the Covid-19 epidemic, which has wreaked havoc on the economy by putting people and companies on lockdown for lengthy periods of time, putting the country's economy back a few years. Malaysia's gross national income (GNI) per capita, based on the current US currency, was US$10,580 in 2020, according to the World Bank, down from US$10,650 in 2018. The highest GNI per capita in Malaysia was US$11,230 in 2019 showing a decrease in GNI based on year-on-year (YoY).

With that being said, it can be stated without hesitation that the Malaysia's economy was heavily affected by the Covid-19 in terms of unemployment rate. The

Covid-19 epidemic has had a significant influence on Malaysia's economy. This may be demonstrated by comparing Malaysia's unemployment rate. The unemployment rate is 3.2% in January 2020, but it continues to rise until it hits 5.3% in May 2020. In other words, the number of unemployed persons as of May 2020 accumulated to 826,000 compared to 508,000 in 2019. This can be seen in Figure 1. This is a negative trend in labour demand, thus this is not a positive occurrence. (Shankar,2020).

Figure 1.1: *Malaysia unemployment rate from 2008 to May 2020, Source: DOSM*

Apart from that, the foreign exchange rate, on the other hand, can determine the relative level of economic health. The reason behind is that the foreign exchange rate is so important to a country's trading level. Malaysia's currency has been changing a lot against the US dollar since it established a managed float exchange system. Prior to 1972, Malaysia used a fixed exchange rate regime by pegging the Malaysian dollar to the British pound, which was later changed to the US dollar due to the pound's depreciation.

Malaysia enforced capital controls and was compelled to adopt a fixed exchange rate system in September 1998, pegging the MYR to the US dollar at RM3.80/USD,