

## **MoF: Ringgit remains competitive, inflation in check despite geopolitical tensions**

KUALA LUMPUR: The ringgit remains robust and competitive with inflation in check, despite headwinds from global geopolitical tensions and its related uncertainties.

The Finance Ministry (MoF) said Malaysia's strong external position, which includes a healthy current account surplus and a net external creditor position, has significantly improved the country's ability to withstand such volatility and external shocks.

"Furthermore, Malaysia's fundamentals remain robust, as indicated by a consistent export growth and competitiveness, ample foreign reserves, as well as low inflation trajectory in comparison to peers within the region. All these are expected to cushion further ringgit declines," it said in a statement, here today.

It said because of Malaysia's open economy and market-determined exchange rate, fluctuations in the ringgit are influenced by both global and domestic factors.

Changes in investor sentiment, the path of pandemic recovery, and policy normalisation in advanced economies are among them, the MoF said.

The statement said the ringgit's depreciation has tracked the general weakening of major and regional currencies. The prospect of a more aggressive monetary tightening by the US Fed, with a 50-basis point rate hike expected in May, as well as the overall weakening of currencies in the region, are some of the factors that have influenced the recent movement in the Ringgit.

"This is especially true for the weakening of the Yuan, which is positively correlated to the Ringgit, as China remains one of Malaysia's most important trading partners.

"Furthermore, the ringgit, like other Asian currencies, has been influenced by the US Fed's withdrawal of global liquidity.

"Regardless, it is worth noting that activity in the ringgit market remains robust", the MoF said.

The ministry further said that year to date, the average daily onshore foreign exchange trading volume has been USD12.6 billion, compared to USD11.3 billion in 2021, with 3.9 per cent average volatility (2021 average: 4.6 per cent).

"The flexibility of the Ringgit will continue to benefit the Malaysian economy by facilitating appropriate external sector adjustments and cushioning the domestic economy from adverse global shocks," it said.

In terms of inflation, the MoF said the International Monetary Fund's (IMF's) most recent projections is expecting a 5.7 per cent increase in advanced economies, and 8.7 per cent in emerging market and developing economies.

These are 1.8 and 2.8 percentage points higher than projections in January 2022, it added.

"For Malaysia, the price control policies imposed by the government, as well as subsidies allocated for the RON95 petroleum and various food items will protect the people from any implications of further inflationary pressures.

"Malaysia's inflation rate this year is expected to be between 2.2 per cent to 3.2 per cent (2021: 2.5 per cent), lower than other countries .

The IMF also reflected this in the inflationary forecast for Philippines 4.3 per cent; Vietnam 3.8 per cent; Thailand 3.5 per cent; Singapore is 3.5 per cent; Indonesia is 3.3 per cent; and Malaysia 3.0 per cent.

The MoF statement said this is further supported by the **Department of Statistics Malaysia's (DoSM)** recent announcement of the March 2022 inflation rate, which remained as per the February rate at 2.2%.

"Moving forward, the Ministry, along with Bank Negara Malaysia (BNM) will continue to monitor both financial and non-financial risks towards the economy.

"These include the recent geopolitical tensions, as well as how it will affect global supply chains, which may lead to higher inflationary pressures and increased volatility in Malaysia's foreign exchange and financial markets.

"BNM will also contribute to the smooth operation of the domestic foreign exchange market by always ensuring adequate liquidity, to ensure that businesses will be able to plan and execute both trade and investment transactions with greater certainty," it said.

Earlier in the statement, MoF said the recent geopolitical uncertainties have put downward pressure on Malaysia's recovery from the impact of the Covid-19 pandemic.

It added that according to IMF the most recent projection in their April 2022 World Economic Outlook report, global growth will slow to 3.6 per cent in 2022 and 2023, down from 6.1 per cent in 2021.

These are 0.8 and 0.2 percentage points lower than the forecast in January 2022. The economic costs of such uncertainties will raise prices in 2022. So far, fuel and food prices have risen at an unprecedented rate, disproportionately affecting vulnerable groups said the statement.

In light of this, despite the United States Federal Reserve (US Fed) signalling an impending aggressive tightening of monetary policy, investors' expectations for US inflation have risen to their highest level in decades, said MoF.

It said that, as a result, there has been a historic bond sell-off in major markets around the world. Such a move came in response to the sign of a more aggressive US Fed monetary tightening to combat inflation, which is currently at its highest level in 40 years in the US.

<https://www.nst.com.my/news/nation/2022/04/791218/mof-ringgit-remains-competitive-inflation-check-despite-geopolitical>