The ringgit's renaissance

CAPITAL CONTOURS

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The ringgit has appreciated to levels last seen in April 2016 and January 2018, prompting market observers to ask whether the benchmark of 3.80 against the US dollar is within reach. The ringgit was pegged at RM3.80 to the US dollar on Sept 1, 1998, during the Asian financial crisis. This article examines the ringgit in the context of both fundamentals and purchasing power as a gauge of valuation.

A common concern is whether a stronger ringgit would hurt exports. So far, there has been little evidence of this. Malaysia's exports grew 6.6% in 2025 and 5.9% in 2024, even as the ringgit appreciated 9.2% against the US dollar in 2025 and 2.8% in 2024.

At first glance, it is widely assumed that exports suffer when a currency strengthens. This view overlooks, however, the limits of the baseline theory and the need for a more nuanced assessment. Exports do not decline in lockstep with currency appreciation. In practice, trade flows are shaped by broader economic cycles and commercial planning decisions, many of which are tied to forward contracts and investment commitments made well in advance. Moreover, Malaysia exports a significant share of goods that are embedded in global supply chains (such as semiconductors), where price elasticity is typically lower than for commodity-style exports.

Whether Malaysia's competitiveness will be dented by the exchange rate can also be understood from the real exchange rate or measures of purchasing power parity (PPP). Broad economy-wide labour productivity, measured as GDP per worker in PPP terms, increased by roughly 20% between 2016 and 2025. While this is not identical to tradable-sector productivity embedded in unit labour cost measures, it provides directional evidence of improving productive capacity, which can partially offset currency appreciation effects on export competitiveness. This evidence of improving competitiveness is reinforced after considering that the Malaysian ringgit has hardly appreciated over the same period.

Another way to assess the ringgit's competitiveness is through purchasing power. On an inflation-adjusted basis, the currency has not been materially stronger over the past decade. From a longer-term perspective, the recent appreciation is, therefore, unlikely to undermine Malaysia's competitiveness.

Much of the debate over the ringgit has been focused on short-term drivers, such as interest rate or yield differentials with the US dollar. This focus is understandable, given the immediacy with which rate arbitrage influences currency valuations and the attention being paid to monetary policy. Based on the interest rate channel, the ringgit could further strengthen as the US dollar depreciates on further US federal funds rate cuts as compared with stability in Malaysia's overnight policy rate.

Nonetheless, much also depends on the positioning of the next US Federal Reserve chair, and whether the perception of policy credibility can be maintained amid apparent political pressures from the Trump administration. Consequently, political and geopolitical frictions emanating from uncertainties over tariff policy have encouraged longer-term diversification away from US dollar concentration risk.

Portfolio flows are therefore quick to react to interest rate differentials, alongside political risk developments. Regionally, the perception of political risk towards Malaysia has improved significantly, compared with the armed conflicts in the Cambodia-Thailand border and civil discontent in Indonesia, leading to reallocation flows.

Perceptions of governance in Malaysia are improving, given the advancement of newly developed Acts such as the Public Finance and Fiscal Responsibility Act, Government Procurement Act, and Government Service Efficiency Act. Raising development through heightened political and economic recognition of East Malaysia's importance also improves the scope for further development across less developed states in the country, expanding long-term drivers of potential economic growth.

The ringgit's recent rerating appears to coincide with a broader structural phase in the maturation of Malaysia's political economy. The 2018 election served as a pivotal inflection point for the nation's democratic transition, marking the first transfer of power since independence in 1957. This was followed by the 2022 election, which facilitated the realignment of a cross-coalition unity government, effectively tempering single-coalition dominance and fostering greater political competitiveness.

Malaysia's democratic transition, coupled with a bias towards political stability in recent times, is associated with potential long-run economic benefits, consistent with institutional and development economics, which find that more competitive political systems tend to support durable improvements in governance quality, regulatory transparency and policy credibility, all of which are positively correlated with higher investment, productivity growth and long-term economic resilience.

The various national plans' focus on export-oriented industries and a revival of industrialisation has led to an investment upcycle in Malaysia, expected to sustain GDP growth above the long-term trend of 4.5% per year, at least in the short term. In particular, the national strategic plans are supportive of ringgit appreciation as elevated growth continues with higher exports and associated reserve positions, necessary for durability in longer-term assessments of the currency.

More recently, Malaysia's external balance dynamics have shown signs of stabilisation, following the post-pandemic normalisation phase. After widening to above 4% of GDP in 2020 and 2021 amid pandemic-driven goods demand and import compression, the current account surplus narrowed subsequently as domestic demand and capital imports recovered.

More recent data suggests, however, that a re-anchoring of the surplus, generally stabilising in the low- to mid-single-digit range as export volumes recovered alongside improving terms of trade and services balance normalisation. This stabilisation is important from a currency durability perspective, as it signals that the external surplus remains structurally intact despite the cyclical import recovery phase associated with the domestic investment upcycle.

Regarding the extent of trade surplus expansion, geoeconomic developments remain an intervening factor and, notably, US President Donald Trump and Chinese President Xi Jinping are expected to meet in Beijing in early April 2026 to discuss trade and tariffs, the first of several trade meetings scheduled in 2026, suggesting ongoing uncertainties on tariff and trade outcomes for the region. This high-signal event will be closely watched, alongside the pending US Supreme Court ruling on the legality of tariffs, which is expected to be announced soon.

Furthermore, while reserve import cover moderated during the post-pandemic reopening phase as imports normalised, reserve adequacy has remained comfortably above conventional external vulnerability thresholds and has shown gradual stabilisation, with early signs of improvement as export receipts and capital inflows strengthened. It remains too early to assess the extent to which the import cover ratio will eventually sustain a structural upward trend, particularly as capital goods imports rise alongside the current phase of Malaysia's investment upcycle.

A constructive viewpoint in the near term is that Malaysia's currency appreciation will at least reflect cyclical valuation normalisation, as it does not appear richly valued through the long-term lens. Furthermore, over the medium term, a necessary condition for investment upcycles to begin is the presence of potential productivity gains and economic value creation as earlier alluded to, mirrored by the present phase of currency strength. E

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