THE EDGE MARKETS
MAKE BETTER DECISIONS

Malaysia's current inflationary pressures, price hikes temporary — IDEAS

Malaysia's current inflationary pressures, price hikes temporary — IDEAS

Bernama

KUALA LUMPUR (Feb 16): The Institute for Democracy and Economic Affairs (IDEAS) believes that the inflationary pressures and price hikes that Malaysia is currently facing are temporary and can be effectively controlled through proper monetary and fiscal policies.

According to the Department of Statistics Malaysia, the country's inflation rate (as measured by the consumer price index) increased 3.2% year-on-year in December 2021, mainly due to the rise in food and fuel prices and the low base effect.

In a statement on Wednesday, IDEAS said even though the inflationary trend is disconcerting, inflation can be controlled efficiently in the short to medium term through the timely deployment of monetary policies.

It noted that the US Federal Reserve has signalled that it will increase its overnight policy rate (OPR) multiple times this year in order to tame the US' own inflation.

"Malaysia will likely follow suit by increasing its OPR gradually in 2022 and 2023, whereby Bank Negara Malaysia is expected to increase the OPR by about 50 basis points in the later half of this year," it said.

Meanwhile, IDEAS director of economic and business unit and acting research director Dr Juita Mohamad said the current rise in inflation is a global issue, stemming from stronger demand and higher energy prices, after two years of battling the pandemic through the implementation of lockdowns.

"The pandemic and the lockdowns led to both demand and supply shocks at a global scale. As a small and open economy, Malaysia is not immune to the devastating aftermath posed by the pandemic.

"Inflationary pressure is further compounded by the recent flooding in the country, which has put a strain on the supply of selected essential goods produced locally," she said.

Juita said to minimise the negative effects of the price hikes on consumers in the short term, fiscal policies including fuel and electricity consumption subsidies and price ceiling of essential goods have been deployed by the government in the past.

However, she noted that in the long term, these instruments and interventions need to be rationalised in order to avoid sustained dependence on subsidies and price ceilings, which would not be economically viable over the long term.

"In our view, a formalised social safety net programme needs to be developed to ensure financial assistance and aid can be targeted and funnelled to the vulnerable households and groups effectively and transparently," she said.