

Stagflation risk low in Malaysia, say economist

ECONOMIC OUTLOOK

STAGFLATION RISK LOW IN MALAYSIA, SAY ECONOMISTS

GDP expected to grow 5.5pc-6.5pc this year, jobless rate easing

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MALAYSIA is not expected to slip into stagflation, and ultimately recession, despite rising food and fuel prices, said economists.

Some, however, cautioned that the risk of stagflation cannot be completely ruled out given the uneven economic recovery and gradual increase in the consumer price index (CPI) in the past few months.

Stagflation is a condition where the economy is experiencing high inflation, slow growth and high unemployment at the same

time.

Bank Islam chief economist Dr Mohd Afzanizam Abdul Rashid said stagflation could happen in Malaysia due to multiple downside risks on the horizon.

"The economic recovery is expected to be uneven due to supply chain disruptions as goods, be they raw materials, work-in-progress or finished items, cannot be delivered on time," he told the *New Straits Times*.

He said there is also difficulty in procuring labour, adding the crude oil price has been elevated for a while and prices of necessities are unlikely to fall.

"Surely, it will present a great challenge to policymakers as they are not able to remain status quo," he said, referring to the pos-



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sible monetary policy tightening by Bank Negara Malaysia later this year.

For instance, he said the US Federal Reserve has indicated its intention to raise the benchmark interest rate.

"This is understandable given the improvement in the labour market and signs of demand-pulled inflation have become increasingly visible."

Malaysia's inflation, as measured by the CPI, increased 3.2 per cent in December 2021 from a year earlier, mainly due to the rise in food and fuel prices and the base effect, according to the Statistics Department.

The increase in December partly contributed to a higher inflation rate of 2.5 per cent last year compared with a 1.2 per cent deflation in 2020.

Other economists believe the

chances of Malaysia slipping into stagflation are slim.

They said the CPI is not increasing sharply and the unemployment rate is easing.

The Statistics Department said month-on-month, the unemployment rate in November last year remained unchanged at 4.3 per cent or 694,400 people.

This was a decrease of 1.5 per cent from 705,000 in October.

Putra Business School associate professor Dr Ahmed Razman Abdul Latif does not expect Malaysia to slip into stagflation as the gross domestic product (GDP) on average grew three per cent last year.

"For 2022, we expect the GDP growth to be between 5.5 and 6.5 per cent. The risk of stagflation is low," he told the NST.

He said inflation should not rise substantially and the govern-

ment should ensure that the unemployment rate is reduced further.

"At the same time, initiatives to encourage investment and economic sectors in our country should be continued."

Employees Provident Fund (EPF) chief strategy officer Nurhisham Hussein said Malaysia would not fall into recession this year.

He said unemployment and underemployment rates are falling and the labour market is expected to continue improving.

"EPF data show a strong pickup in incomes and economic activity," he added.

Page 1 pic: A boy looking at a statue of a tiger at the Thean Hou temple in Kuala Lumpur on the eve of Chinese New Year yesterday.