**Why Are We Spending So Much Right Now?**

If you're feeling a little strapped for cash these days, you're definitely not alone. Today, Malaysians are spending around 4.5% more on things like food, bills and transportation compared to what we were paying about a year ago — all thanks to inflation.

But what the heck is inflation anyways?

Just like a seesaw, our economy regularly goes through periods of ups and downs.

Inflation is what happens when the general price of goods and services in the economy increases and causes our living expenses to rise.

Conversely, there's also this thing called "deflation" which happens when prices fall and give consumers more purchasing power to buy things. But this also means that businesses will get less revenue in return (which is not too great either).

We tend to calculate inflation based on this thing called the Consumer Price Index (CPI). Every month, the **Malaysian Statistics Department (DOSM)** would conduct a survey to determine how much overall prices have gone up or down over time. DOSM tracks the price of the same goods and services across the country and these selected goods and services reflect what an average Malaysian household would spend on.

For an economy to function properly, it's crucial to keep inflation at a low and stable rate.

Having persistent high inflation would hurt both consumers (especially low-income groups like the B40) and businesses by having to spend more, while a deflation would typically lead to an economic downturn (or a recession) as businesses would have to cut their prices in order to meet consumer demand for cheaper stuff—causing lowered profits and in turn leading to some people losing their jobs.

In order to counter this, central banks around the world adjust their policies to keep price increases low and stable.

So why are we spending so much right now?

Well, apart from the pandemic (which is still going around BTW…) there are several factors that are attributing to our global (YES GLOBAL!) inflation situation.

Geopolitical conflicts like the United States' (US) and China's trade war and the actual war going on between Ukraine and Russia are disrupting production and supply chains all over the world leading to the rise of raw materials prices, logistics costs and labour charges.

Plus, the world is also facing a climate crisis that's disrupting global agricultural supply chains.

Closer to home, we are also seeing exceedingly high demand and supply shortages of certain goods. This is also causing prices to go up like what we experienced during the recent chicken and egg crisis.

All of these factors are made even more complicated by the fact that the US has been aggressively hiking up their interest rates over the recent months—triggering a decline in the value of the Malaysian ringgit and other currencies across the world.

But it's not all gloom and doom.

Despite everything that's going on, Malaysia's economy is still growing and recovering.

Malaysia has been praised by the International Monetary Fund (IMF) for acting quickly in order to stem inflation.

Meanwhile, according to the World Bank, the country is set to see an increase in our Gross Domestic Product (GDP) of 6.4% and is predicted to grow by another 4.2% in 2023.

This is also reflected in the country's unemployment rate which has shrunk a lil' to 4.1% compared to last year.

Economists are also predicting that the value of the ringgit would stabilise by the first half of next year.

So what can we do to put the brakes on inflation?

Here in Malaysia, the Monetary Policy Committee (MPC) under Bank Negara Malaysia (BNM) is responsible for formulating (surprise!) monetary policies in order to avoid excessive price increases or crashes.

To achieve this, the MPC employs what's known as the Overnight Policy Rate (OPR) which influences the base rate or how much interest banks should collect from giving out loans to consumers and businesses.

Changes in the OPR are intended to affect the country's economic activity by influencing how much we borrow and spend as well as the returns we receive from the money we have saved up.

And with great power, there must also come great responsibility!

Under the Central Bank of Malaysia Act 2009, the MPC has complete independence to enforce a monetary policy that promotes the sustainable growth of the Malaysian economy without any interference from outside parties.

This is done with the aim of keeping inflation low and stable, and also to avoid the economy from going into a recession.

Simply put, when the OPR is increased, consumers would pay higher interest rates on their loans and gain more returns from their savings (and vice versa if the OPR is decreased). Naturally, this would cause people to spend less and save more. This in turn causes the demand for goods and services to drop and keeps price pressures low.
To put this into perspective, check out the returns that banks are giving out on Fixed Deposits (FD) made by those who are investing their money into their savings instead of spending.

While historical data is hard to come by, in September 2022, major financial institutions such as Maybank provided increased returns on savings for investors as compared to previous months.

Throughout the years, BNM has been steadily increasing and decreasing the OPR in order to promote sustainable growth—minimising the risk of boom and bust.

More recently, since May 2022, the MPC has been gradually increasing the OPR by a factor of 25 basis points. This has been done three times after it was initially decreased back during the height of the pandemic.

The logic behind this is quite simple: Keeping the OPR too low for too long would cause inflation to grow increasingly higher, while too high of an OPR would have the opposite effect and diminish our economy.

So if you're feeling the tension from the inflation, you should rest a little easier knowing we do have the proper independent checks and balances that are solely dedicated to keeping our economy running smoothly.

For more information on how the MPC and OPR work to our benefit, check out this simple and easy-to-understand Monetary Stability fact sheet on BNM's official website, HERE.

https://www.therakyatpost.com/uncategorized/2022/11/02/why-are-we-spending-so-much-right-now/