

TARIKH : 28 DISEMBER 2022
 AKHBAR : THE STAR
 MUKA SURAT : 5 (STARBIZ)

Inflation likely moderating

ECONOMY

PETALING JAYA: Despite the persistent cost pressure, headline inflation – as measured by the change in consumer price index (CPI) – in Malaysia is expected to moderate in the year ahead.

Among the factors contributing to this is the strengthening of the ringgit, slowing global demand, easing commodity prices as well as government's move to maintain subsidies over the medium term.

Still, economists expect Bank Negara to continue normalising interest rates by raising the overnight policy rate (OPR) gradually to 3.25%.

Kenanga Research said the central bank would likely raise the OPR by 25 basis points (bps) next month to 3% to further realign with the global monetary tightening trend and curb the persistently high core inflation.

It assigned a 50% chance of another 25 bps hike in March.

"We reckon that the terminal rate would be around 3% to 3.25%, in line with the long-term OPR average, after which we expect Bank Negara to keep it unchanged for the rest of 2023," the brokerage wrote in a report yesterday.

Kenanga Research expected the country's CPI to moderate to 2.5% in 2023 from the projected 3.3% this year versus 2.5% in 2021.

"Despite our expectation that core prices may start to trend lower in the next few months due to a drop in prices of imported inputs amid the strengthening ringgit and slowing global demand, risks remain skewed to the downside due to elevated economic uncertainties.

"However, inflation may start to ease in the second quarter (2Q) of 2023, as the new government made tackling the rising cost of living its priority, while maintaining subsidies till at least end of 2Q23.

"This, coupled with the eventual reopening of China and the normalisation of supply chain, may bring the CPI down to 2.5% on

Inflation likely moderating

Core prices may start to trend lower in next few months

"Inflation may start to ease in the second quarter of 2023 (2Q23), as the new government made tackling the rising cost of living its priority, while maintaining subsidies till at least end of 2Q23."

Kenanga Research

average in 2023," it explained.

TA Research expected CPI to ease to around 3% in 2023 from its estimate of 3.4% for 2022.

It said as core inflation reached a new peak of 4.2% year-on-year (y-o-y) last month, Bank Negara would likely raise the OPR by 25 bps in January meeting, and another 25bps in March, pushing the OPR to settle at 3.25%.

"This could lead to Malaysians having tighter budgets, reduced demand for goods and eventually lower pricing. As a result, prices could drop by around 3% next year.

"The expectation that fuel subsidies will

continue; along with the strengthening of the ringgit and normalising commodity prices, will also contribute to the moderate annual growth," TA Research explained.

Malaysia's CPI rose 4% last month, bringing the average CPI to 3.4% for 11 months to November this year.

Meanwhile, Centre for Market Education Sdn Bhd (CME) suggested several policy measures for the government to tackle inflation in the country.

These included allowing productivity growth deflation by nurturing an environment conducive to innovation; promoting cash-building deflation, as savings are the

EXCHANGE RATE

OPENING RATES BY MAYBANK ON DEC 27, 2022

	SELLING TT/OD	BUYING TT	BUYING OD
1 US Dollar	4.4840	4.3500	4.3400
1 Australian Dollar	3.0400	2.9190	2.9030
1 Brunei Dollar	3.3290	3.2320	3.2240
1 Canadian Dollar	3.3040	3.2150	3.2030
1 Euro	4.7770	4.6220	4.6020
1 New Zealand Dollar	2.8340	2.7290	2.7130
1 Singapore Dollar	3.3290	3.2320	3.2240
1 Sterling Pound	5.4260	5.2310	5.2310
1 Swiss Franc	4.7570	4.6880	4.6730
100 UAE Dirham	123.4900	117.1100	116.9100
100 Bangladesh Taka	4.3850	4.1130	3.9130
100 Danish Krone	65.8500	60.5900	60.3900
100 Hongkong Dollar	58.0800	55.1800	54.9800
100 Indian Rupee	5.5100	5.1800	4.9800
100 Indonesian Rupiah	0.0297	0.0269	0.0219
100 Japanese Yen	3.3820	3.2750	3.2650
100 Norwegian Krone	46.8400	42.0100	42.8100
100 Pakistan Rupee	2.0200	1.8900	1.6900
100 Philippine Peso	8.2400	7.7700	7.5700
100 Qatar Riyal	124.0700	117.7800	117.5800
100 Saudi Riyal	120.5200	114.4100	114.2100
100 South Africa Rand	27.2900	24.6400	24.4400
100 Sri Lanka Rupee	1.2700	1.1500	0.9500
100 Swedish Krona	44.1500	40.1000	39.9000
100 Thai Baht	13.5300	12.0000	11.6000

necessary means for enhancing a process of sound growth; gradually reducing government spending to reduce the quantity of money in circulation; and introducing reforms to reinstate the primacy of balanced budgets.

"If the government wishes to be serious in tackling inflation, it should first be able to properly recognise its cause and to implement an adequate communication policy.

"A U-turn in fiscal policy is the most important factor," CME chief executive officer Dr Carmelo Ferlito said in a statement.

"Restoring saving is important but this cannot be done with impossible policies such as 'changing elasticity'; rather, financial literacy should be promoted.

"Furthermore, if the government wants the people to be responsible with their finances, it should send a signal by being responsible with its own finances, which are indeed made up of money collected from the people via taxation," he added.