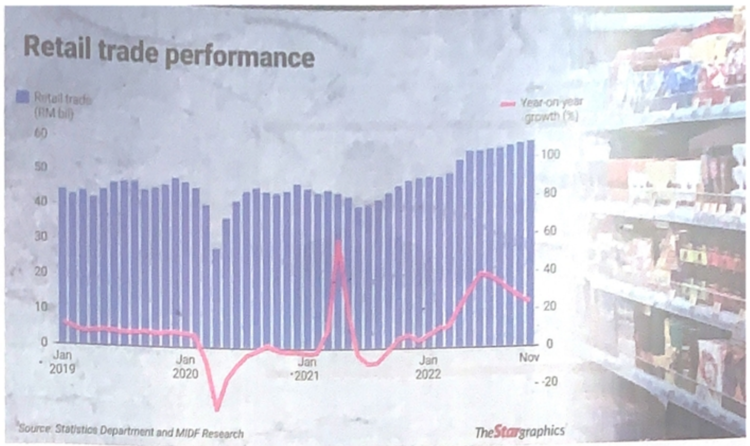
KERATAN AKHBAR

TARIKH : 17 JANUARI 2023

AKHBAR : THE STAR

MUKA SURAT : 1 & 2 (STARBIZ)

Inflation downtrend likely to continue



The consumer sector is poised for better margins, supported by lower raw material costs, stronger ringgit and easing inflationary pressures, according to MIDF Research. > See page 5

StarBiz Special

Inflation downtrend likely to continue

Another round of OPR hike unnecessary, say experts

ECONOMY

By THOMAS HUONG
huong@thestar.com.my

KUALA LUMPUR: While there are expectations that Bank Negara will further hike the overnight policy rate (OPR) by 25 basis points (bps) to 3% this week, economists have mixed views on the need for such a move and its effectiveness in combating inflation.

Malaysia University of Science and Technology economics professor Geoffrey Williams said there was no necessity for the central bank to raise rates, as "inflation is slowing and will be lower this year, anyway."

"I think Bank Negara is under pressure to raise rates but in my assessment, it does not need to do so. Growth will be slow and the international environment is unstable.

"Also, the historical average for OPR is around 2.88%, and we are around that level now," he told *StarBiz*.

Williams said an increase of 0.25% would not have no widespread impact but would affect individuals and specific companies.

"To that extent, it will not be necessary. So far, the increases in interest rates have not affected aggregate loan repayments or distressed loans but at an individual level, it will have an impact," he noted.

Centre for Market Education chief executive officer Carmelo Ferlito said the central bank would go for another rate hike, as "the consumer price index (CPI) has been growing and the country's producer price index (PPI) is back on a upward trend, after a short period of decline."

According to Ferlito, there are over-expectations on the power of interest rates, in both directions.

> ***"The increases in interest rates have not affected aggregate loan repayments or distressed loans but at an individual level, it will have an impact."***
>
> Geoffrey Williams

"While I do not believe that lower interest rate per se will stimulate the economy, I also do not believe that by simply raising them will contain inflation.

"In fact, the effects of the hikes will be visible in few years, at a different stage of the economic cycle," he said.

Ferlito pointed out that there would be some contractionary effects on the economy with another OPR hike, but with a time lag.

"A serious fight to contain inflation implies cutting government spending and possibly remembering how inflation was created rather than having governments keep crying over spilled milk," he said.

The PPI measures the prices of goods at the factory gate.

According to the Statistics Department, the PPI rose by 0.6% last November compared with 0.1% in last October, mainly supported by the agriculture, forestry and fishing sector (up 5.5%), mining sector (up 0.5%), as well as manufacturing and water supply sectors (up 0.2%).

Sunway University economics professor Yeah Kim Leng said with the latest core CPI still inching up to 4.2% last November and the gross domestic product (GDP) growth in 2022 likely to exceed the 7% upper end of the forecast range, the gradual normalisation of interest rates is expected to continue at Bank Negara's monetary policy committee (MPC) meeting tomorrow and on Thursday.

Yeah pointed out that a 25 bps increase would bring the OPR closer to the neutral level that is accommodative to growth, while easing demand pressures and lowering inflation to the desired 2.5% to 3% range, thus achieving the 3,25% to 3.5% of the pre-pandemic range.

"However, should the rate remains unchanged, it is likely that the MPC is factoring a pronounced growth slowdown and quicker dissipation of demand-pull inflation pressures.

"Another possible reason for a pause is to observe the cumulative effects of three consecutive 25 bps rate hikes," he said.

Yeah also pointed out that if the rate normalisation continues as expected, it would bring the OPR closer to the pre-pandemic level of 3.25% to 3.5%.

"Consumer spending, corporate earnings

> TURN TO PAGE 2

High household debt to have impact on consumption

> FROM PAGE 1

and inflation rose in tandem with the strengthening growth last year, which hit 9.3% in the first three quarters.

"The gradual rate hike is expected to slow down consumer and business spending, thereby moderating demand-pull pressures and lowering inflation expectations.

"As it remains below the pre-pandemic level, we can surmise that the interest rate remains supportive of growth led by domestic demand," he said.

Meanwhile, OCBC Bank chief economist Selena Ling said the central bank is likely to hike the OPR by 25 bps each in the January and March 2023 meetings, to 3.25% in the first quarter, set against the relatively strong economic backdrop for the past few quarters.

"We see Bank Negara to pause thereafter. While the near-term growth looks rosy, Malaysia is unlikely to be unscathed in any sharp global slowdown that may materialise," she noted in a statement on the economic outlook for 2023.

On the monetary policy side, concerns about inflation are likely to persist going into 2023, even if on a year-on-year basis the headline numbers may not be as bad, according to Ling.

"On a relative basis, the likelihood of subsidy cuts might have been reduced with the new government in power, but it would remain one of the key risks that Bank Negara would have to countenance.

"Hence we continue to see the risk that the central bank may have more compulsion for rate hikes," she said.

Ling noted that the research unit had upgraded its 2022 growth outlook for the country from 5.7% to 6.9%.

"Going forward, however, the consumption support might not be as robust due to the relatively high household debt level and depletion of the Employees Provident Fund statutory retirement funds," she said.

Ling is also cautious about the nation's export outlook in 2023, given the continued downdraft in the semiconductor sector.

"While Malaysia's role in the testing and packaging part of the value chain, rather than the initial production side, may shelter it somewhat and with a time lag, the effect might come forth more strongly in 2023, especially if the down-cycle is prolonged," she said.

Ling also said GDP growth in 2023 would shift to a lower gear and come in at 4.6%, lower than the likely 6.9% in 2022.