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Domestic inflation unlike the West, says Fraziali

ECONOMY

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>
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KUALA LUMPUR: While there is still room for normalising the overnight policy rate (OPR) hike to pre-Covid-19 levels, the decision will largely depend on the strength of the domestic economy and the level of inflation, says Bank Negara assistant governor Fraziali Ismail.

"Malaysia does not have an inflation problem like in the West but we need to be careful to make sure inflation remains well behaved.

"We do not implement interest rate hikes just because the US Federal Reserve (Fed) did so.

"Rather, we take into account how the global economy and financial markets are affected by the Fed's decision and how this in turn affects Malaysia's prospects in terms of growth and inflation," he said in a panel discussion organised by the Malaysian Economic Association at the Asia School of Business here yesterday.

He pointed out that the pervasiveness of inflation has declined but it still warrants careful observation.

On the other hand, inflation has been going at a relatively slower pace.

"Headline inflation has somewhat peaked in August last year and has calmed down a bit but core inflation is still gradually going up and slowly easing downward.

"The figures are above the long term average of 2.1% and 2.2% for core and headline inflation respectively.

"Inflation remains prone to supply shocks and is also dependent on the removal of subsidies," said Fraziali.

The growth in credit by households and businesses remain supportive of economic activity despite the country's elevated household indebtedness and rising interest rate environment, Fraziali said.

"Some have argued that looking at the high indebtedness levels, would it be the case that monetary policy is being constrained by financial stability concerns.

"Let me be very clear that this is not the case for Malaysia.

"Yes, there is high household indebtedness, but it hasn't come to a point where what we need to do in monetary policy implementation needs to be highly qualified by what is happening on the financial stability side," he said.

Although household indebtedness to gross domestic product has dropped further to 81.2% in December last year, it is still relatively higher compared with that of regional economies like Singapore and Indonesia.

Under the country's floating exchange rate regime, the ringgit became a first line shock absorber of the domestic economy.

Fraziali said despite the upheaval in the international financial market for the US dollar, there was hardly any strong overreaction in the real economy.

Malaysia's real economy grew by 8.7% last year.

"One thing about Malaysia is that we have highly open financial markets. There are a lot of foreign players investing in our bond market with ownership of government bonds by non residents at 22.9%.

"In fact, the local bond market is the third largest in Asia.

"What differentiates us from many other parts of the region is also the depth, breadth, and maturity of domestic institutional players, like Employees Provident Fund, Retirement Fund Inc, and insurance players that offers some counter movements whenever non-resident players undertake huge movements in the market," he said.