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ANWAR: OPR HIKE NOT TO BENEFIT BANKS

Monetary Policy Committee does not take such interests into account, says PM

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THE increase in the overnight policy rate (OPR) is not to benefit any party such as banks.

Prime Minister Datuk Seri Anwar Ibrahim said such interests were not considered by the Monetary Policy Committee in arriving at a decision.

He said although banks might benefit from loan repayments when the OPR increases, they would also have to pay higher interest rates, which increased their funding costs.

"To ensure that the country's economy continues to grow at a sustainable rate and to control inflation, Bank Negara Malaysia acted early in adjusting the OPR in stages from May 2022.

"The move was important to ensure that the OPR was at a rea-

sonable level and it is according to the macroeconomic conditions.

"If the OPR continues to be at a level that is too low for too long while the economy is strengthening, it would lead to extremely high spending and borrowing," said Anwar, who is also finance minister.

He said this in a parliamentary written reply to Lim Guan Eng (PH-Bagan), who had asked the Finance Ministry to explain the rationale behind Bank Negara increasing the OPR rate by 0.25 per cent, which he said would only benefit the banking sector.

Anwar said when the country's economy faced challenges of recession due to Covid-19, the OPR was reduced from three per cent to 1.75 per cent in 2020, the lowest in the country's history.

He said economic activity then gradually recovered and returned to normal as the country entered the transition to the endemic phase in 2022, and the economy continued to strengthen.

"The economic growth rate in 2022 also exceeded pre-pandemic levels. In fact, the level of growth of the gross domestic product (GDP) for the first quarter at 5.6 per cent exceeded the GDP average from 2011 to 2019.

"In addition, the improving labour market also aided in household spending activities,

which remained resilient.

"Therefore, the macro policy had to be reviewed so that the country does not experience pressure in terms of unsustainable economic growth and extreme price pressure, especially in the future due to inappropriate macro policies."

He said this was mainly due to the existence of price pressure driven by strong demand in line with economic activity recovery.

In the first quarter this year, Anwar said, inflation had dropped to 3.6 per cent, compared with 3.9 per cent in the fourth quarter last year, due to lower prices of RON97 fuel.

He, however, said inflation was still high as domestic demand was still strong in a more robust economic situation.

Anwar said a healthy economy and a more stable pricing condition would have a positive spillover effect for all parties.

"At the current OPR of three per cent as announced by the Monetary Policy Committee on May 3, 2023, the monetary policy is still accommodative and supportive towards the country's economic growth.

"Moving forward, the committee will continue to ensure that the monetary policy stance remains consistent with inflation and domestic growth prospects."