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‘OPR hike a pre-emptive measure’

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BNM governor: Many factors analysed before decision on raise is made

PETALING JAYA: Many factors were considered before Bank Negara Malaysia (BNM) decided to raise the overnight policy rate (OPR) by 25 basis points on May 3, says BNM governor Tan Sri Nor Shamsiah Mohd Yunus.

The move, which is a “pre-emptive measure”, was considered by BNM’s Monetary Policy Committee (MPC).

In a letter to the media yesterday to

address the public discourse over the issue of the rise in OPR, Nor Shamsiah said MPC had analysed a broad range of forward-looking data and engagement with various industries and consumers.

“While some have claimed that our policy normalisation is premature, we aim to be pre-emptive as this is less costly to the economy than waiting until it is too late to act.”

“It will take much bigger and faster OPR increases to bring inflation down once it has taken root – as we can see in other countries.”

“BNM’s man-

date is to maintain price stability that is conducive to the sustainable growth of the Malaysian economy.

“In doing so, BNM pursues a monetary policy that serves the interests of the country with this objective in mind.”

“This means not just considering the immediate impact of our action, but also taking a long-term view of our policy measures, including OPR decisions,” said Nor Shamsiah, pointing out that all central banks work under the same premise.

She said headline inflation was lower, averaging at 3.6% in the first quarter compared to 3.9% in the previous quarter.

“Much of this downturn was driven by lower RON97 prices, which contributed around two-thirds of the decline during the first quarter.”

“However, despite some moderation, prices are expected to remain elevated compared to what Malaysians are used to.”

“This is because demand remains strong, driven by economic recovery.”

“Core inflation, which is a proxy of demand-driven inflation, remains high, averaging 3.9% in the first quarter compared to the long-term average of 2.1%.”

“There are also the perils of having a ‘too low for too long’ interest rate environment, with damaging effects on the economy.”

“The devastation of the Global Financial Crisis that happened



Nor Shamsiah ... ‘All central banks work under the same premise.’

within the recent two decades, rooted in the US housing market, is a sobering reminder of this,” said Nor Shamsiah.

The governor also addressed the argument that “OPR hikes have caused financial hardship for borrowers”.

“We recognise that some people may be more affected than others by the OPR hikes.”

“The OPR is by design a blunt tool to deliver price stability. It does not distinguish between those who have loans and those without in its transmission to the economy ... over 50% of loans from B40 and vulnerable groups are in fixed-rate instruments.”

“So, their monthly repayments from these fixed-rate loans will not be impacted by the OPR increases,” said Nor Shamsiah.

She further debunked the idea that OPR has not helped the ringgit, saying that the value of the ringgit against other currencies is determined by the market.

“Malaysia remains an open economy and BNM’s role is to ensure that in the short term, excessive volatility to the ringgit is contained.”

“BNM has been steadfast in our calls and advocacy for structural reforms. This, rather than short-term measures or monetary policy decisions, will provide more enduring support for the ringgit,” she said.

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