

'BANK NEGARA FACES TOUGH INFLATION DECISION'

Government should be mindful of timing and impact of subsidy reforms, say economists

AZANIS SHAHILA AMAN
KUALA LUMPUR
bt@nst.com.my

THE removal of the ceiling price for chicken and eggs and subsidies for bottled cooking oil is fuelling inflation in Malaysia, and may put Bank Negara Malaysia in a tight spot in the course of the year, warn economists.

They acknowledge the need for subsidy reforms but said the government should be mindful of the timing and their impact on the general economy.

MIDF Research economist Abdul Mui'zz Morhalim said prices of chicken, eggs and bottled cooking oil will be higher as sup-

pliers will pass on the cost increase to consumers.

Based on the latest Consumer Price Index (CPI), Mui'zz said the inflation rate in Malaysia is not as high as other countries because the effect of high commodity prices has been partly cushioned by the control on domestic food prices.

"In our baseline projection, we forecast the headline CPI at 2.6 per cent in 2022 (2.5 per cent in 2021), with the pace of food inflation to double to 3.5 per cent in 2022 from 1.8 per cent last year.

"Although there is a chance overall inflation could accelerate faster, our estimate shows Malaysia's headline inflation will still be around 3.0 per cent even if food prices were to increase 5.0 per cent," he told the *New Straits Times*.

The country's headline inflation accelerated to 2.8 per cent year-on-year in May (from 2.3 per cent in April), surpassing Bloomberg consensus of 2.7 per cent. About two-thirds of 12 CPI components recorded a larger

annual gain in prices compared to the preceding month.

While MIDF Research does not think the cost-push inflation will trigger Overnight Policy Rate (OPR) hikes, it believes Bank Negara will tighten its monetary policy if inflation occurs due to strong demand pressure.

However, Mui'zz said in the current situation, fiscal policy support is more appropriate to address inflation caused by supply-side adjustments.

"Measures by the government (e.g. liberalisation of approved permits, subsidies for food suppliers and building of food stockpiles) will be more effective to improve the stability of domestic food supply and ease upward pressure on food prices.

"Other measures to ease pressures from high production costs can also be considered."

Putra Business School associate professor Dr Ahmed Razman Abdul Latif expects the overall inflation rate to be higher, especially in July, but will not exceed 3.3 per cent.

He said this is because even though the major increase would be on food (which constitutes 29.5 per cent weightage) and housing, electricity, gas and other fuel (23.8 per cent weightage), they consist of many items and not all experience drastic increase in prices.

"There will be an overall increase but not as high as feared. I think Bank Negara will continue to keep the inflation down by increasing the OPR by another 25 basis points (bps) in July, in tandem with the decision by the US Federal Reserve recently to increase its interest rate by 75 bps.

"If there is a need to do so, the central bank may increase it by another 25 bps in September."

Bank Islam chief economist Dr Mohd Afzanizam Abdul Rashid said while subsidy reforms are needed, the government should be mindful of the timing and impact on the general economy.

At the current juncture, he said rising inflation is the main issue and is quite systemic.

"The predicament is not

unique as the global economy is also grappling with a similar problem. My concern is that it may aggravate inflationary pressures and create a negative shock to the economy should other subsidies be removed.

"Ideally, such reforms need to be well planned and properly executed with ample notice to be shared with the public and industry players. More importantly, the government needs to identify the root of the problem rather than treat the symptoms."

On Tuesday, the government announced the removal of the ceiling price for chicken and chicken eggs, as well as subsidies for cooking oil in bottles of 2kg, 3kg and 5kg from July 1.

According to the Domestic Trade and Consumers Affairs Ministry, the move is to ensure adequate food supply in the market and stabilise prices in the longer term.

The government plans to introduce more targeted subsidies and assistance to the needy in coping with rising prices.



Measures by the government, such as liberalisation of approved permits, subsidies for food suppliers and building of food stockpiles, will be more effective to improve the stability of domestic food supply and ease upward pressure on food prices, according to MIDF Research. PIC BY NUR AISYAH MAZALAN