

Headline inflation rises to 3.3 pct in 2022, expected to moderate in 2023

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Malaysia's headline inflation increased to 3.3 percent in 2022 compared with 2.5 percent in 2021, while core inflation averaged higher at three percent from 0.7 percent in 2021, Bank Negara Malaysia (BNM) said.

For the fourth quarter (4Q), it said the country's headline inflation moderated to 3.9 percent versus 4.5 percent in the third quarter of 2022, mainly due to the fading base effects in electricity inflation, a key contributor to the higher inflation in the third quarter of 2021.

"The moderating trend in key global commodity prices partly led to lower inflation in some consumer price index (CPI) items, including fuel," it said in a statement announcing the fourth quarter gross domestic product (GDP) growth and the full-year performance.

The central bank said that inflation for some key staple food items, such as fresh meat and eggs, also moderated during the quarter.

However, the downward impact of these factors was partially offset by higher core inflation. Core inflation increased to 4.2 percent (3Q 2022: 3.7 percent), driven by the continued strength in demand amid a still-elevated cost environment.

Dissecting the core inflation, governor Nor Shamsiah Yunus told a media conference that the headline inflation was driven by a number of factors, and it primarily reflected supply and demand factors and price items.

“On the other hand, core inflation is a better proxy of underlying inflation that is affected by demand factors. With this in mind, I want to stress three points - (firstly) our inflation is driven mainly by supply factors.

“(Secondly), the persistence of core inflation indicates that demand factors do contribute to underlying price pressures. Unlike past trends, core inflation is taking longer to moderate, amid high cost and demand pressures.

“(And thirdly) the increase in the overnight policy rate is therefore undertaken to manage the demand pressures,” she said.

Upward pressure

The BNM said for 2023, the headline and core inflation rates are expected to moderate but remain elevated amid lingering cost and demand pressures.

Core inflation is expected to remain elevated in the near term, in part due to the low base in the first half of 2022, it said.

Existing price controls and fuel subsidies, as well as the remaining spare capacity in the economy, will continue to partly contain upward pressures to inflation, the central bank said.

The inflation outlook remains highly subject to any changes to domestic policy, as well as global commodity price developments, it added.

The BNM will publish its Annual Report 2022, the Economic and Monetary Review 2022, and the Financial Stability Review for the Second Half of 2022 on March 29, 2023.

BNM today announced the country's GDP growth for 4Q, which grew by seven percent from 14.2 percent in 3Q2022, as support from the stimulus measures and low base effects waned.

For the whole of 2022, Malaysia's economic growth rose to a 22-year high of 8.7

percent against 3.1 percent in the previous year.

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