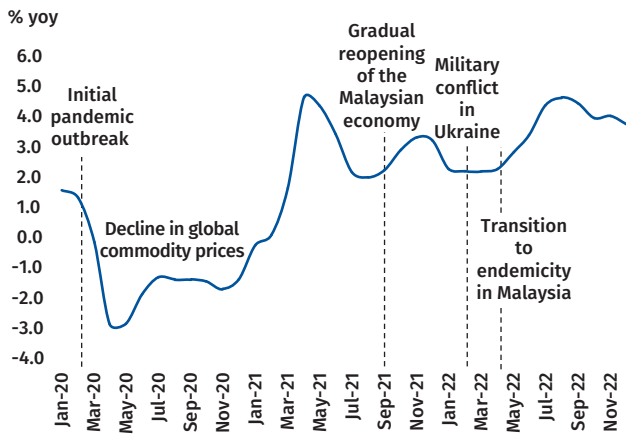


# Inflation: Its evolution, two years after the pandemic

**1** Over the past two years, consumer price developments shifted from being disinflationary to inflationary

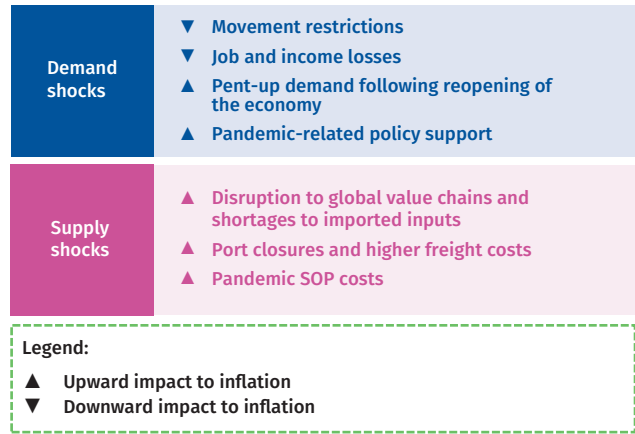
Chart 1: Headline Inflation



Source: Department of Statistics, Malaysia and Bank Negara Malaysia assessments

**2** In particular, the COVID-19 pandemic led to changing demand and supply dynamics

Chart 2: Pandemic-related Economic Shocks



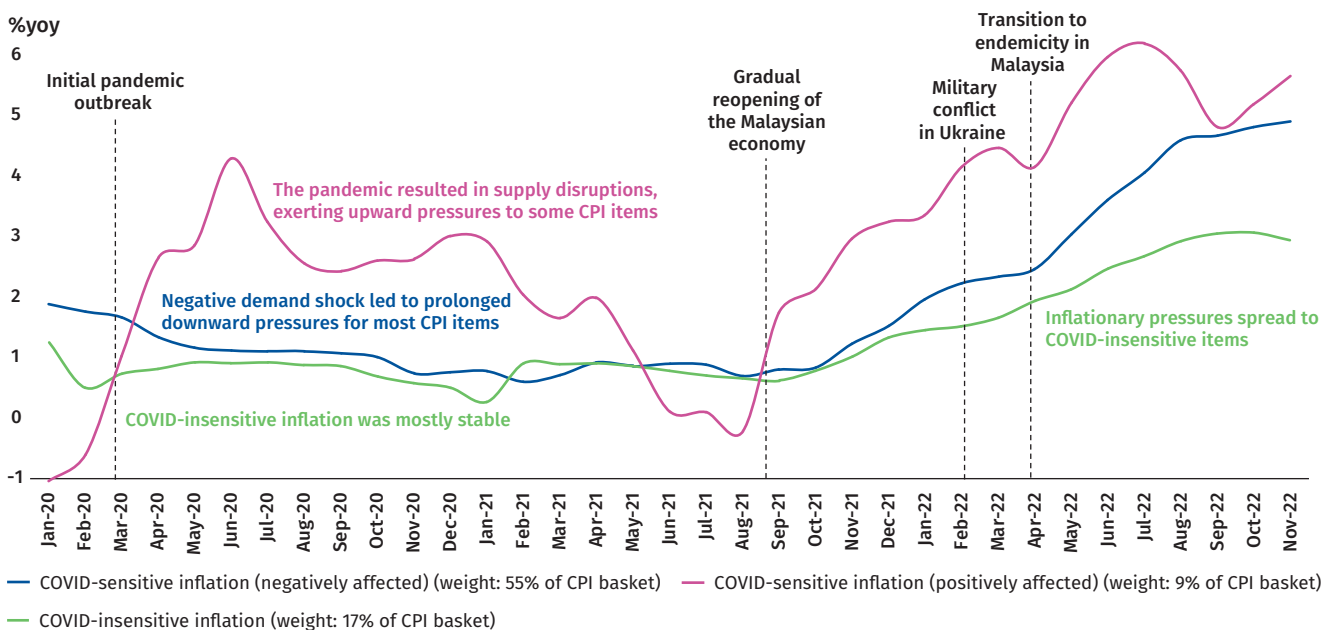
Source: Bank Negara Malaysia assessments

**3** In 2020-2021, inflation dynamics were driven mostly by pandemic developments. In 2022, however, inflationary pressures began to be observed in most CPI items, suggesting that other factors beyond the pandemic were at play

Chart 3: Inflation by Pandemic Sensitivity

Recap on COVID-sensitive inflation methodology (for more details, refer to EMR 2021 Box Article: An Anatomy of Inflation: Effects from the Prolonged Pandemic):

1. CPI items are classified into two categories: Those that are statistically sensitive to pandemic shock (COVID-sensitive) and those that are not (COVID-insensitive)
2. Among COVID-sensitive items, some faced downward price pressures (negatively affected), while others faced upward pressures (positively affected)
3. To reflect the pandemic shocks only, this statistic excludes price-administered items, and items which had been affected by the severe monsoon season in 2021

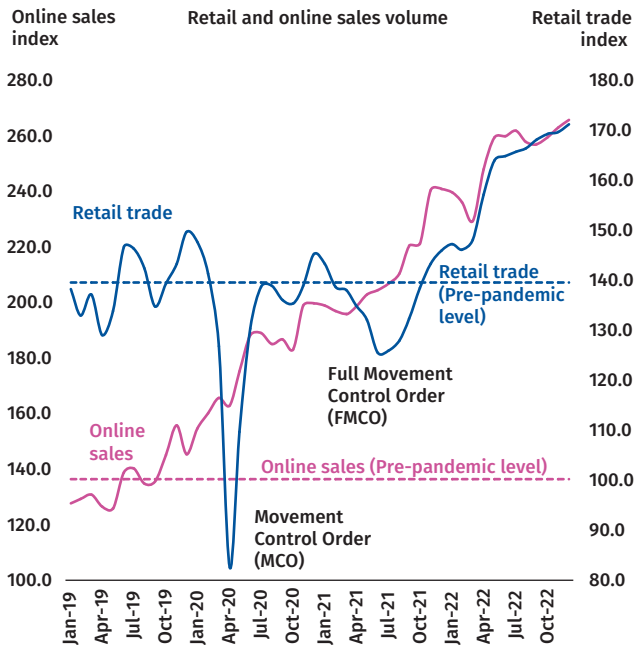


Source: Bank Negara Malaysia estimates

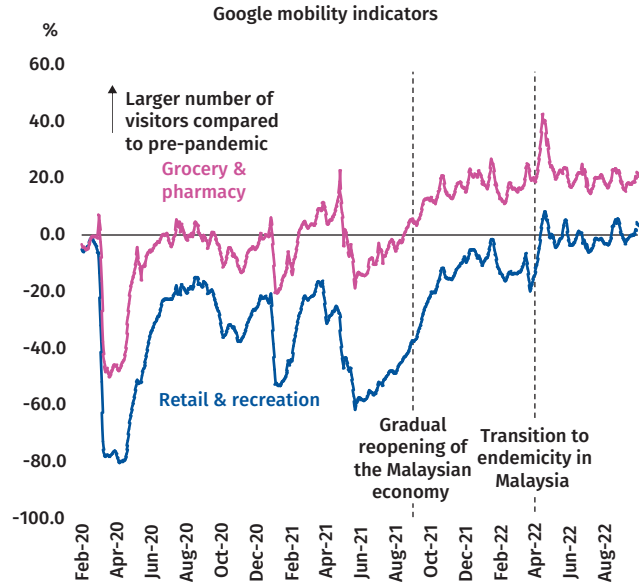
**4** This turn of events reflected additional shocks, which coincided with pent-up demand following the reopening of the economy and the general rebound in economic activity

**Chart 4 and 5: Indicators of Domestic Demand and Economic Activity**

Additional shocks in 2022 included the military conflict in Ukraine, droughts in commodity-exporting countries; and domestically, from full relaxation of COVID containment measures and several policy measures, including the revision in minimum wage and EPF special withdrawals.



Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

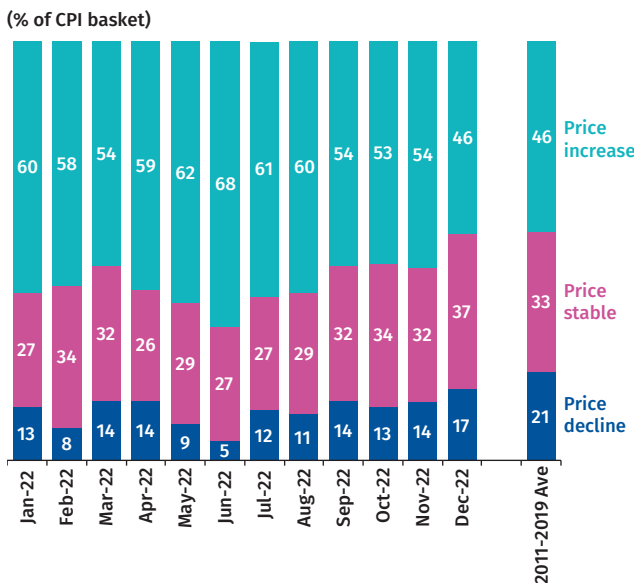


Note: The chart shows how the number of visitors (or time spent) in categorised places has changed compared to baseline days (the median value for the 5-week period between Jan -Feb 2020)

Source: Google Mobility Report

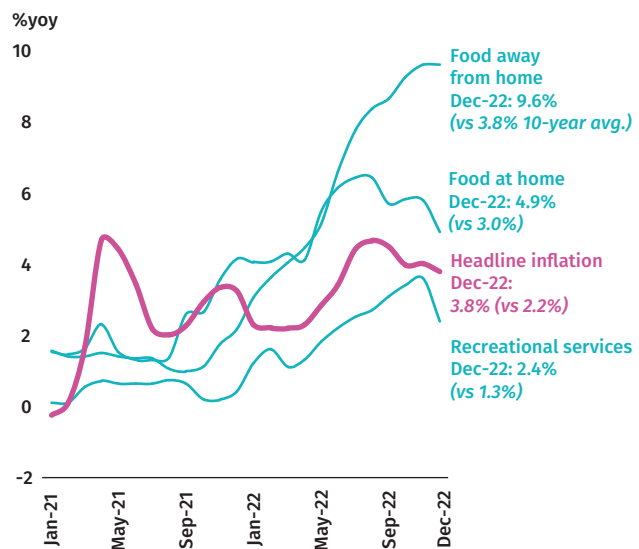
**5** The resulting inflation was evident across most consumer items, most acutely for food. Nevertheless, there are signs of moderation in price pressures after a year of rising inflation

**Chart 6: Monthly Price Changes of CPI Items**



Source: Bank Negara Malaysia estimates based on Department of Statistics, Malaysia

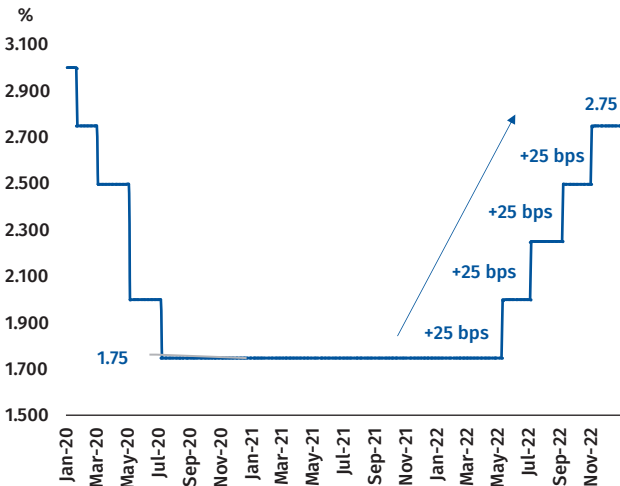
**Chart 7: Inflation by Categories**



Source: Bank Negara Malaysia estimates based on Department of Statistics, Malaysia

**6** Monetary policy was gradually calibrated throughout 2022 given firmer economic recovery and amid signs of demand-driven inflation

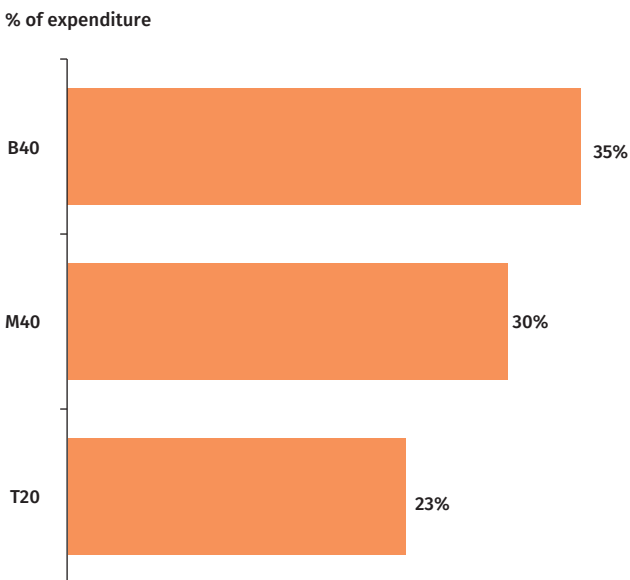
Chart 9: Overnight Policy Rate (OPR)



Source: Bank Negara Malaysia

**8** Higher inflation in the past two years affected all Malaysians. Lower-income households were most impacted, given their higher spending on food

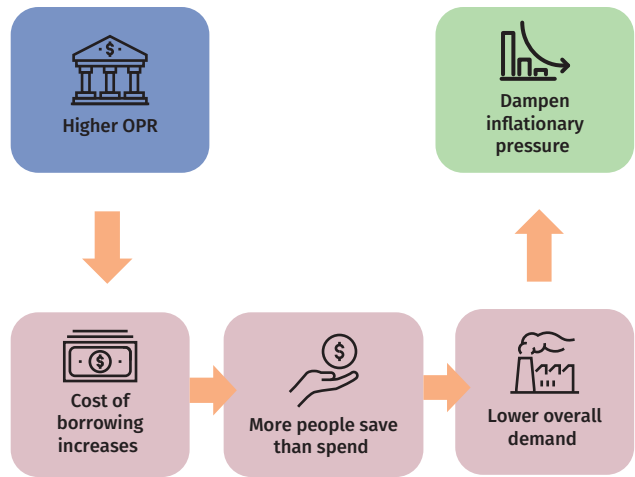
Chart 10: Spending on Food (Including Food Away from Home)



Source: Bank Negara Malaysia estimates based on 2019 Household Income and Expenditure Survey, Department of Statistics, Malaysia

**7** The role of monetary policy is to maintain price stability that is conducive for sustainable growth. This, in turn, ensures that purchasing power is preserved

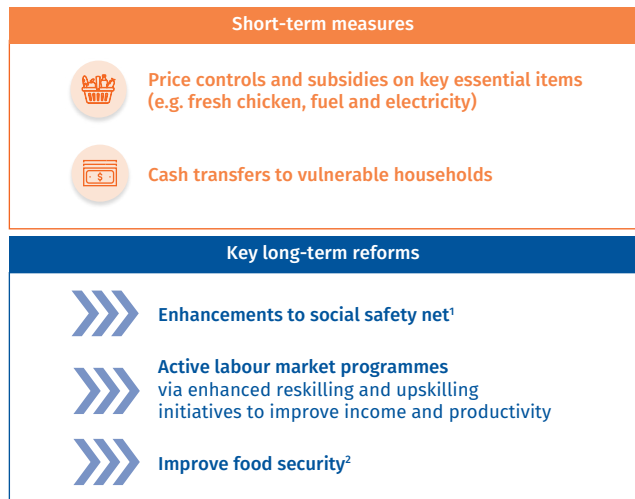
Chart 8: Stylised MP Transmission



Source: Bank Negara Malaysia assessments

**9** Short-term measures have helped to partly alleviate the burden, but are not a substitute for structural reforms to create higher paying jobs and improve social protection

Chart 11: Policies to Address High Cost of Living



1/ For more details, refer to BNM EMR 2020 Box Article: A Vision for Social Protection in Malaysia

2/ For more details, refer to BNM Quarterly Bulletin 3Q 2021 Box Article: Closing the Food Gap: The Role of Structural Improvements in Agrofood Security

Source: Bank Negara Malaysia assessments