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### INFLATION IN MALAYSIA

Abstract: the article describes the trends and the reasons of inflation in Malaysia. An external factor is due to the increase in the global price of crude oil. One of the internal factors involved is the introduction of minimum wage policy in May 2012. It resulted in the increase in wages and salaries of the workers, hence, some employers and producers took advantage by raising the price of products and services offered. The Prime Minister also implemented goods and service tax (GST) on April 2015, which had a negative effect on the society and raised inflation rate.

Key words: inflation, Malaysia, external and internal reasons

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### ИНФЛЯЦИЯ В МАЛАЙЗИИ

Аннотация: в статье рассматриваются тенденции и причины инфляции в Малайзии. Внешний фактор обусловлен ростом мировых цен на сырую нефть. Одним из внутренних факторов является введение политики минимальной заработной платы в мае 2012 года. Это привело к увеличению заработной платы и окладов работников, поэтому некоторые работодатели вынуждены были повысить цены на предлагаемые продукты и услуги. Премьер-министр

также ввел налог на товары и услуги (GST) в апреле 2015 года, что также повысило уровень инфляции.

Ключевые слова: инфляция, Малайзия, внешние и внутренние причины.

Malaysia, a country in Southeast Asia, consists of two geographical regions divided by the South China Sea: Peninsular Malaysia and Malaysian Borneo. The country is split into a total of 13 states with the capital city being Kuala Lumpur. The overall population of the country is over 32 million as of 2019 and the GDP in Malaysia is about 314.5 billion USD [1,8]. Malaysian Ringgit is the currency of Malaysia issued by the Bank Negara Malaysia similarly known as the Central Bank of Malaysia. Associating with currency, inflation is one of the biggest economic issues in the country. It has led to increase in prices of goods and services in the economy and decrease in purchasing value of the money, which therefore causes the living cost and living standards of the population to rise [2].

Based on the data collected from 2012 to 2019, the inflation rate was 1.66% in the year 2012. This percentage was increased by 0.45% in the following year with an inflation rate of 2.11% in 2013. The value increased at an even higher rate attaining a value of 3.14% in 2014. After this year, for two consecutive years, 2015 and 2016, the percentage remained as low as 2.1% and 2.08% respectively. The inflation rate unpredictably jumped to 3.8% in 2017, which is by far the greatest inflation rate to occur in the indicated years. Succeeding this period of time, the year 2018 experienced a rapid drop in general prices of goods meaning the inflation rate decreased in value to 1%. This year, the inflation rate went up by 1.29% obtaining a value of 2.29% (figure 1) [3].

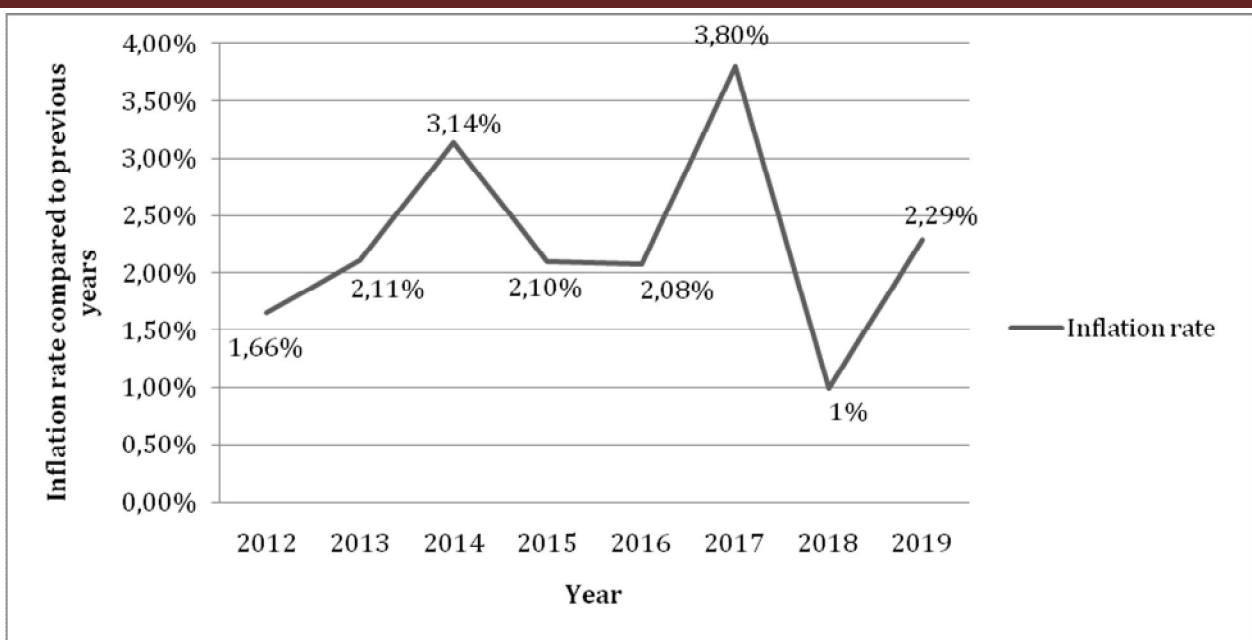


Figure 1- Inflation rate from 2012 to 2019 in Malaysia

The reason behind the inflation problem is owed to numerous factors, including internal economical causes and external factors. An external factor is due to the increase in the global price of crude oil. This occurrence causes the prices of the fuel in the country to be raised as the government is not able to counter the increasing subsidies and has been the reason of Malaysia's inflation since 2008 [4][5]. The change in prices of the fuel varies over the years (table 1) [6,7].

Table 1-Prices of fuels in Ringgit Malaysia (RM) per litre in the month of January

Year	Petrol Ratings		
	RON 95	RON 97	DIESEL
2015	1.91	2.11	1.93
2016	1.85	2.25	1.6
2017	2.1	2.4	2.05
2018	2.26	2.53	2.26
2019	2.2	2.5	2.18

One of the internal factors involved is the introduction of minimum wage policy in May 2012 by the 5<sup>th</sup> Prime Minister of Malaysia, Datuk Seri Najib Razak. It

resulted in the increase in wages and salaries of the workers, hence, some employers and producers took advantage by raising the price of products and services offered. The Prime Minister also implemented goods and service tax (GST) on April 2015, which had a negative effect on the society and raised inflation rate, as the citizens are very dependable on domestic consumptions [2]. Another factor is demand-pull inflation, which is a condition when aggregate demand for goods and services is greater than the supply of the output, which leads to an overall increase in price level of the economy. Furthermore, apart from the economic development in the domestic markets, Malaysia also started to introduce its products on an international scale. This act of globalization causes an increase in aggregate demand of consumers producing the effect of demand-pull inflation. Cost-push inflation also contributes to inflation as businesses raise the price of their merchandises as a response to the growing production costs in order to gain profits. Malaysia had also been determined to enhance the economic development on a higher level by expanding the government purchases, it was recognized as the Economic Transformation Programme and Government Transformation Programme (GTP) [5].

Inflation is a major problem all over the world not just in Malaysia as it affects a country's economic growth, the Consumer Price Index (CPI), labor market, and investors' decision on whether investments should be made. In order to prevent high inflation rate, the government should try to reduce unnecessary expenditures on non-development activities. The rates of income and commodity taxes have to be increased but not by an excessive amount. Heavy fines should be placed to penalize tax evaders. This method should be useful in controlling inflation and simultaneously, higher state revenue can be achieved. The maximum prices for essential consumer goods and services in the market have to be limited especially for highly demanded food products such as sugar, oil, rice and etc. to ensure business owners don't have the right to change the price level in the market as it should be fixed [2].

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