

# Monetary policy in malaysia



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Monetary policy is guidelines that provide the monetary authority of a country in regulating the supply of money and to stabilize the growth of economy. In Malaysia, Bank Negara Malaysia (BNM) conduct monetary policy based on s22 of Central Bank of Malaysia Act 2009 by influencing the level of interest rates that borrowers have to pay on their loans and depositors earn on their deposits. During the peak of economic overheating and when the threat of inflation is high, monetary policy will be tightened by withdrawing fund from the banking system and raising interest rates. The higher interest rates will encourage people to save more and spend less. It would also make it more expensive for people to borrow money. This will cause consumption and investment to slow down to a level that is more sustainable and reduce the prospect for high inflation. Conversely, when economic conditions are weak, fund will be injected into the banking system to reduce interest rates, spending and borrowing would increase. The resulting increase in consumption and investment would stimulate further economic activity, leading to higher income, employment and economic growth.

The first factor providing the changes is the production of money and economic growth. When money is produced more than the countries expenses, money value will reduce, and it will lead to inflation. This is the time when government will tight up the monetary policy. Happens also sometime when growth of economy is at the bottom level, monetary policy will be changed by suggestion from the Monetary Policy Committee (MPC).

Second, it is the amount of flows from foreign investors. When there is low amount of investors, our country will not have enough capital to develop and manufacture, this then lead to less production and thus the government will

use money precisely and in a meanwhile preventing citizens from borrowing and spending more. This will prevent Malaysia's economic growth from declining.

The effects of monetary policy changes are so diverse, it effects to the rural developments and citizens' poverty. When monetary policy is tighten, the prices of the sugar, fuel, rice, flour and rations will increase. Basically, all the needs will increase, for people who has low income, it will leads to their poverty. Although the country's money value is stable, the citizen's will suffer. Rates of poverty will increase.

Other effect of tightening monetary policy is that education in tertiary level will slow down, this is due to high interest rate of study loan, and it might lead to di-development of the country, as a result from no experties and abilities. The rate of employment will decrease due to employer cannot afford to employ workers. Then lead to usage of foreign immigrants like from Indonesia. It will then lead to high population of imigrants.

Industrialization growth will also decrease, in order to save more, as the increasing price of petroleum/charcoal, leading to non productive manufacturing, increasing rate of unemployment, and poverty. In the case of *Solitaire Land Sdn Bhd v Hong Leong Bank Bhd*[3], the appellant has been reduced his loan for just a quarter out of original value of RM2mil by the bank and this case shows how the monetary policy affect the citizen's commercial bussiness and industrialization.

The desired outcomes of tightening the monetary policy changes is to provide stable value of money. In overcoming this problem, the government will tight

up the monetary policy, providing all the effects above. In order to overcome all the problem, more side policies are introduced, such as New Economic Policy (NEP) to reduce rate of poverty, National Development Policy, and so on.

Responses of the monetary policy changes happens when citizens address their concern towards the changes. Inflicting price of fuel has plenty of objection by the people, as this is the main regular factor that can easily be seen and affects other products' price. Other responses from tightening monetary policy under the New Economic Policy is the privatising of governments agency, in order to reduce the burdens conferred by government's expenses.

Most of the advantages came when the monetary policy rate is on the low, where it gives the consumers and firms cash flow, other than boosting up the value of assets like houses and lands. While on the other situation, tight monetary policy will provide the governments to develop the country part by part. Disadvantages mostly came in when the policy is tight, that it will effect the civillians, to live in peace and wealths. For this, I prefer low interest rate to be applied in Malaysia.

The reactions of people towards the change in monetary policy in Malaysia is so far weaker than we can thought. This is because it has been for long time since the interest rate has change, and the change happens without radical difference. Lots of people misunderstood about monetary policy with the economic policy. Economic policiy's objective is to give more chance to Bumiputra in getting their share in economic terms, whilst monetary policy's

objective is to stabilize the money. It is somehow so different, from aspects of the modus operandi, that for economic policy, the framework is structured and done by the various governments department, whilst monetary policy is wholly controlled under the Central Bank in cooperation with Malaysia's bank, with supervision of the Ministry of Finance.

The last time when monetary policy happens to change was during the Malaysia's inflation period during 1998. Whereby our money is downgraded to the peak level, enforcing the government to increase the loan interest rate, and effect the economic wholly, regardless of discrimination in any race in as what the economic policy was.

During the inflation period, the price of sugar increases, there has been cases for smuggled rice, increase in fuel price, and so on. Citizens happen to save more during that time. As the interest rate is not so far different with prior than 1998, the effect of the change to an individual is not so far too vigorous. The citizens in Malaysia happens to live well without any rebellion and objection otherwise done by the opposing party. Though there has been dispute in contractual bussiness where person suffer for economic loss due change in interest loan, the court will held that the act is reasonable due to constraintment of economy during the period due.[4]