The Role of Monetary Policy in Maintaining Price Stability in Malaysia: A Conceptual Analysis

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ABSTRACT

Monetary policy supports price stability, but observed disinflation may reflect changing supply costs or administered prices rather than monetary restraint. This conceptual article develops a Malaysian framework that separates policy transmission, direct price influences and conditions affecting propagation. A structured narrative synthesis of 48 publications from 2020–2026 connects interest-rate and credit channels with heterogeneous household responses, imported costs, expectations and monetary–fiscal interaction. The contribution is an explicit distinction between attenuation of the initial price impulse and containment of subsequent inflation persistence, conditional on subsidy coverage, import exposure, debt repricing and policy credibility. A comparison with conventional transmission analysis, open-economy models and heterogeneous-agent approaches clarifies the framework's scope without claiming new channels or empirical superiority. Six propositions specify observable relationships and possible disconfirming evidence. Recent Malaysian policy episodes illustrate the diagnostic problem but do not identify causal effects. The framework supports practical recommendations for a monthly inflation dashboard, conditional policy communication and coordinated appraisal of administered-price reforms. Empirical validation remains necessary to estimate effects, transmission lags and the benefits of the proposed diagnostic distinctions.

Keywords: Monetary Policy; Price Stability; Malaysia; Overnight Policy Rate; Inflation Expectations; Monetary Transmission

INTRODUCTION

Price stability supports spending, saving and investment by making aggregate price changes predictable. Slower inflation does not mean that prices have returned to previous levels, and household purchasing power also depends on income growth and consumption patterns. This distinction is relevant in Malaysia, where concern about living costs can persist alongside moderate national inflation (Bank Negara Malaysia, 2026a).

Malaysia's exposure to trade, commodity markets and capital flows interacts with subsidies and administered prices. The resulting analytical problem is attribution: does a decline in observed inflation reflect monetary restraint, favourable imported costs, or an intervention that temporarily absorbs price pressures? This article asks how monetary policy affects Malaysian price stability and which conditions distinguish containment of persistent inflation from a temporary reduction in measured headline inflation.

The pandemic and subsequent normalisation illustrate changing policy conditions. BNM reduced the OPR to 1.75% on 7 July 2020; its later reviews document disrupted activity, recovery and normalisation (Bank Negara Malaysia, 2020, 2021, 2022b, 2023a). These episodes caution against interpreting a contemporaneous rate–inflation correlation as a causal relationship.

BNM reduced the OPR to 2.75% on 9 July 2025 as pre-emptive support for growth amid moderate inflation prospects. The rate remained 2.75% on 3 September 2026, when BNM reported January–July headline and core inflation averages of 1.8% and 2.0%, respectively (Bank Negara Malaysia, 2025c, 2026c). These observations illustrate decision-making; they do not estimate policy effects.

The objectives are to explain transmission mechanisms, specify Malaysian conditions that alter their operation, and develop testable propositions. The contribution is a conditional attribution framework: it assigns observable price movements to distinct candidate mechanisms and differentiates the initial inflation impulse from its propagation. The proposed distinctions supplement existing models and provide a basis for testing and policy diagnosis.

Approach And Scope Of The Conceptual Review

The article uses a structured narrative synthesis of 48 publications dated 2020–2026. Peer-reviewed studies and working papers inform mechanisms and competing explanations; BNM publications, IMF assessments, BIS reports and DOSM releases establish institutional context and observed outcomes. Working papers are identified in the references. This is a conceptual review, not a systematic review or an econometric evaluation.

Sources were selected for relevance to transmission, inflation persistence, expectations, imported costs, household sensitivity and policy interaction. Publication years are distinguished from coverage years: BNM's Economic and Monetary Review 2025 was published in 2026. The evidence cut-off remains 5 October 2026; reported 2026 inflation averages are partial-year observations, not full-year outcomes.

Synthesis involved three analytical steps: assigning evidence to policy channels or direct inflation drivers; comparing the conditions under which those mechanisms operate; and deriving propositions with observable outcomes and boundary conditions. Selection was purposive rather than exhaustive, without formal bias scoring. International studies support plausible mechanisms but cannot supply Malaysian coefficients because contracts, subsidies and import structures differ.

Policy documents are interpreted within their original information sets. The IMF's 2020 consultation predates the full pandemic shock, while the 2021 and 2022 consultations address disruption, support and recovery (International Monetary Fund, 2020, 2021, 2022). Earlier forecasts are not substituted for realised outcomes. Neither official assessments nor the source count establish causal validity.

Price Stability And Theoretical Foundations

3.1 Inflation rates and household purchasing power

Price stability concerns low, predictable aggregate inflation. Its assessment therefore requires the level, volatility, persistence and breadth of price changes. Headline CPI captures the national expenditure basket, while core measures help assess underlying pressures; neither alone describes every household's experience (Bank Negara Malaysia, 2024c).

DOSM reports 2025 headline inflation of 1.4%, core inflation of 2.0% and food and beverages inflation of 2.1%. December headline inflation was 1.6% year on year, a distinct reference-period measure (Department of Statistics Malaysia, 2026a, 2026b). Variation across categories means that lower aggregate inflation can coexist with pressure on households concentrated in faster-rising items.

Household experiences also affect beliefs. Grocery-price exposure and food-price experience influence expectations in international studies (D'Acunto et al., 2021; Anesti et al., 2025). These findings motivate Malaysian monitoring of salient costs, but do not establish an identical domestic response or equate price stability with universal affordability.

3.2 Monetary conditions and aggregate demand

The quantity equation $MV = PY$ relates money, velocity, prices and output. Causal interpretation requires behavioural assumptions: velocity and output need not remain constant, while credit and monetary aggregates respond endogenously to borrowing and financial conditions. Money growth alone therefore cannot identify a monetary-policy shock.

New Keynesian transmission connects expected real financing costs to spending and resource pressure. The approximate expected real rate equals the nominal rate minus expected inflation, so an unchanged OPR need not imply unchanged real conditions. Demand affects price adjustment over time rather than determining the current CPI mechanically.

Households differ in liquid wealth, borrowing and income exposure. Auclert et al.'s heterogeneous-agent analysis motivates distinguishing direct financing effects from income and employment responses (Auclert et al., 2020). Malaysian debt repricing and liquid buffers should therefore condition the size and timing of expenditure responses.

3.3 Inflation expectations and persistence

Credibility may limit propagation from temporary costs to wider wage and price setting, but expectations are heterogeneous. Changes in their level, disagreement and ambiguity can carry different information, while distributional features may improve prediction (Chang et al., 2022; Brandão-Marques, Gelos, et al., 2023). A median forecast alone can miss emerging tail risks.

Expectations are not automatically an independent causal driver. Barrett and Adams report identified US expectation-shock responses that differ from standard predictions (Barrett & Adams, 2022). Policy information, supply news and income concerns must be distinguished before attributing inflation changes to anchoring.

The low- and high-inflation regimes discussed by Borio et al. motivate examining broadening and persistence, while Hakamada and Walsh show that the implications of delayed policy depend on expectations assumptions (Borio et al., 2023; Hakamada & Walsh, 2024). Neither provides a Malaysian threshold for intervention.

3.4 International production networks and policy interaction

Imported inputs and binding production constraints can raise domestic prices without an initial increase in domestic demand. Global production-network and capacity-constraint analyses also show why demand can amplify supply pressures (di Giovanni et al., 2022; Comin et al., 2023). Distinguishing origins does not imply that subsequent demand and supply effects remain separable.

Fiscal support can reinforce inflation when supply is constrained, while its income protection can cushion an adverse shock (di Giovanni et al., 2023). Malaysia's monetary–fiscal interaction therefore needs joint appraisal of demand, capacity and financing rather than separate instrument narratives (Bank Negara Malaysia, 2024b). Table 1 summarises the evidence and its limits.

Table 1 : Literature synthesis and limits of inference

Evidence stream	Selected sources	Contribution and boundary
Policy and local inflation	(Bank Negara Malaysia, 2026d; Bank Negara Malaysia, 2024c; Bank Negara Malaysia, 2023b)	Explains Malaysian operations, underlying inflation and pass-through. Institutional analysis does not isolate an OPR counterfactual.
Household transmission	(Auclert et al., 2020; Bank Negara Malaysia, 2026e)	Connects income, liquidity and debt to expenditure. Contract-specific Malaysian effects require estimation.
Expectation formation	(D'Acunto et al., 2021; Anesti et al., 2025; Chang et al., 2022; Brandão-Marques, Gelos, et al., 2023)	Salient costs and distributional differences matter. International estimates cannot be assigned to Malaysia.
Competing expectations evidence	(Barrett & Adams, 2022; Bhalla et al., 2023; Hakamada & Walsh, 2024)	Expectations identification and policy design alter results. Anchoring is a proposition to test.

Evidence stream	Selected sources	Contribution and boundary
Supply and persistence	(Bernanke & Blanchard, 2025; Borio et al., 2023; di Giovanni et al., 2022; Comin et al., 2023)	Distinguishes initial costs, capacity and persistence. Does not establish Malaysian shock shares.
Fiscal interaction	(di Giovanni et al., 2023; Brandão-Marques, Casiraghi, et al., 2023; Bank Negara Malaysia, 2024b)	Support, debt credibility and capacity shape inflation. Does not establish Malaysian fiscal dominance.

Malaysian Policy Framework And Recent Evidence

4.1 OPR decisions and monetary implementation

BNM's MPC uses the OPR to signal the stance after assessing inflation and growth prospects. Changes affect market and reference rates, retail financing and deposit returns before broader spending responses develop. Banks' pricing and borrower circumstances remain relevant (Bank Negara Malaysia, 2026d).

Liquidity implementation is distinct from the policy signal. BNM reduced the SRR from 2% to 1% in 2025 to provide liquidity-management flexibility (Bank Negara Malaysia, 2026d). This was not a separate OPR cut or evidence of a predetermined lending response; credit demand, bank capital and borrower quality also matter.

Policy is forward-looking and endogenous to the outlook. A rate rise may coincide with rising inflation because the central bank anticipates pressure. Empirical analysis must separate this reaction from an independently identified policy innovation and allow financial repricing and expenditure responses to occur at different horizons.

4.2 From crisis support to normalization

In 2020, BNM identified lower oil prices as an influence on negative headline inflation, while assessing persistent broad-based price declines as a limited risk (Bank Negara Malaysia, 2020). Accommodation addressed the prospective contraction rather than seeking to reverse every component price decline.

BNM's early reviews and pandemic inflation analysis describe disrupted activity and uneven recovery, consistent with the global stabilisation setting in the BIS 2020 and 2021 reports (Bank Negara Malaysia, 2021, 2022a, 2022b; Bank for International Settlements, 2020, 2021). Crisis easing consequently requires different assumptions from easing near capacity.

The recovery and normalisation setting, including subsidies' influence on measured inflation, appears in the 2022 Malaysian review and IMF's 2023 consultation. BIS reports in 2022 and 2023 place this transition alongside resurgent inflation and financial vulnerabilities (Bank Negara Malaysia, 2023a; International Monetary Fund, 2023; Bank for International Settlements, 2022, 2023).

4.3 Disinflation and the 2025–2026 setting

BNM's 2023 and 2024 reviews and the IMF's corresponding assessments place moderation within changing growth, fiscal and external conditions (Bank Negara Malaysia, 2024a, 2025b; International Monetary Fund, 2024, 2025). These contextual accounts do not allocate a causal share of disinflation to monetary policy.

In 2025, headline inflation declined from the 2024 average of 1.8% to 1.4%, while core inflation rose from 1.8% to 2.0% (Department of Statistics Malaysia, 2026a). The divergent movements and BNM's account of cost and domestic policy developments motivate separating headline influences from underlying demand pressure (Bank Negara Malaysia, 2026b).

The July 2025 rate reduction addressed prospective growth risks under a contained inflation outlook. The IMF's February 2026 assessment provides a later information set, and the September MPC statement reports partial-year inflation while retaining the rate (Bank Negara Malaysia, 2025c, 2026c; International Monetary Fund, 2026). Table 2 preserves these distinctions.

BIS reports in 2024–2026 highlight residual inflation risks, trade uncertainty and fiscal and financial vulnerabilities (Bank for International Settlements, 2024, 2025, 2026). Malaysia can face simultaneous export-demand, financing and imported-cost effects; another central bank's rate path is consequently not a sufficient domestic decision rule.

Table 2 : Malaysian monetary policy and inflation evidence

Observation period	Verified observation	Interpretation and source
7 July 2020	OPR reduced to 1.75%	Crisis support amid pandemic disruption. (Bank Negara Malaysia, 2020)
2024 annual average	Headline 1.8%; core 1.8%	Full-year comparator in the DOSM annual infographic. (Department of Statistics Malaysia, 2026a)
9 July 2025	OPR reduced from 3.00% to 2.75%	Pre-emptive action amid downside growth risks and moderate inflation. (Bank Negara Malaysia, 2025c)
2025 annual average	Headline 1.4%; core 2.0%	Annual inflation measures; not December year-on-year rates. (Department of Statistics Malaysia, 2026a)
December 2025	Headline CPI inflation 1.6% year on year	Monthly reference-period measure. (Department of Statistics Malaysia, 2026b)
January–July 2026	Headline 1.8%; core 2.0% on average	Partial-year averages reported in the September statement. (Bank Negara Malaysia, 2026c)
3 September 2026	OPR maintained at 2.75%	Policy decision as of this date; no full-year 2026 outcome inferred. (Bank Negara Malaysia, 2026c)

Transmission Channels And Malaysian Conditioning Factors

5.1 Interest rates and household cash flows

Higher financing costs can discourage new borrowing, increase payments on repricing debt and raise deposit income. The aggregate spending response depends on contract timing, liquidity and income: borrowers and savers may respond differently, and some effects offset.

BNM identifies income, wealth, debt and policy support as Malaysian consumption drivers (Bank Negara Malaysia, 2026e). Debt-service exposure and liquid buffers therefore belong in the transmission conditions, rather than an assumption that aggregate indebtedness uniformly strengthens or weakens monetary effects.

5.2 Bank credit and business investment

The credit channel includes financing availability as well as price. Banks can adjust spreads or approval standards, while collateral and cash flow affect access. A change in borrowing volumes can reflect credit supply, demand or both.

Investment responses should therefore be evaluated with lending rates, applications, approvals, collateral and sectoral activity. Balance-sheet resilience can permit continued investment; weak cash flows can amplify adjustment. Credit-growth deceleration alone does not identify successful demand restraint.

5.3 Exchange rates and imported inflation

The exchange rate can mediate an OPR effect or respond independently to global finance and domestic fundamentals. Its subsequent impact on import costs is a separate price pathway. Malaysian pass-through analysis motivates distinguishing these origins (Bank Negara Malaysia, 2023b).

Pass-through depends on import exposure, invoicing, margins, inventories and price interventions. Depreciation need not generate proportional CPI inflation, and appreciation need not produce equally rapid retail declines. Sectoral differences are therefore central to testing the framework.

5.4 Expectations and policy credibility

Credibility is confidence in consistent action as conditions change. Explanations should distinguish temporary relative-price adjustments from persistent aggregate inflation, but comprehension and subsequent decisions determine whether communication influences beliefs.

Publication of a statement does not establish anchoring, and formal targeting labels do not ensure uniform outcomes (Chang et al., 2022; Brandão-Marques, Gelos, et al., 2023; Bhalla et al., 2023). Malaysian testing should measure understanding, disagreement and persistence rather than presume a communication effect.

5.5 Supply shocks and administered prices

Monetary restraint cannot repair an initial supply shortage, but can limit its propagation through demand and expectations. BNM's analysis motivates a response conditional on persistence, demand and price-setting behaviour (Bank Negara Malaysia, 2025d).

Subsidies and administered prices can alter the initial measured impulse and its later pass-through, while their financing and household support affect demand. Their coverage and timing must therefore be explicit. The appropriate policy mix can combine monetary vigilance with targeted protection and supply measures (Bank Negara Malaysia, 2025a).

5.6 Fiscal conditions and policy consistency

Fiscal credibility can also condition expectations. Debt surprises have different effects across economy groups in Brandão-Marques, Casiraghi, et al. (2023); this motivates investigation, not a finding of fiscal dominance in Malaysia.

Coordination means compatible assumptions and information sharing while preserving monetary decision-making authority. Fiscal assistance, price reforms and supply investment should be appraised jointly with demand management, including differences in implementation lags (Bank Negara Malaysia, 2024b).

CONCEPTUAL FRAMEWORK AND PROPOSITIONS

6.1 Contribution relative to existing models

Conventional transmission analysis explains how rates influence financing and demand. Open-economy models can incorporate exchange rates and imported inflation, while heterogeneous-agent models explicitly address distributional responses. Expectations, fiscal interaction and state dependence also exist in the literature. The present framework therefore claims neither discovery of these channels nor superiority to fully specified structural models (Auclert et al., 2020; Borio et al., 2023; di Giovanni et al., 2022).

Its proposed contribution is a joint specification of causal role, intervention exposure and inflation horizon for Malaysia. First, it separates a policy-induced financing change from external-cost and administered-price changes. Second, it treats subsidy coverage, import intensity and debt repricing as observable conditions attached to particular pathways. Third, it distinguishes attenuation of the initial measured price impulse from containment of subsequent broadening and persistence. This permits a testable distinction: stronger price insulation may reduce initial headline sensitivity without eliminating later inflation in unprotected categories. Conversely, effective demand restraint may chiefly reduce propagation rather than the original imported cost. This conditional attribution extends the analytical organisation of the synthesis; it remains a hypothesis about the usefulness of the distinctions, not a new structural law.

The resulting identification discipline is the main advance over an undifferentiated rate-to-CPI chain. A low CPI reading during extensive price insulation cannot be assigned automatically to monetary success, and a one-off reform-related CPI rise cannot be assigned automatically to monetary failure. Table 3 compares selected emphases of existing approaches with the proposed integration; the comparison does not imply that advanced versions of those models omit these factors.

Table 3 : Existing approaches and the proposed Malaysian framework

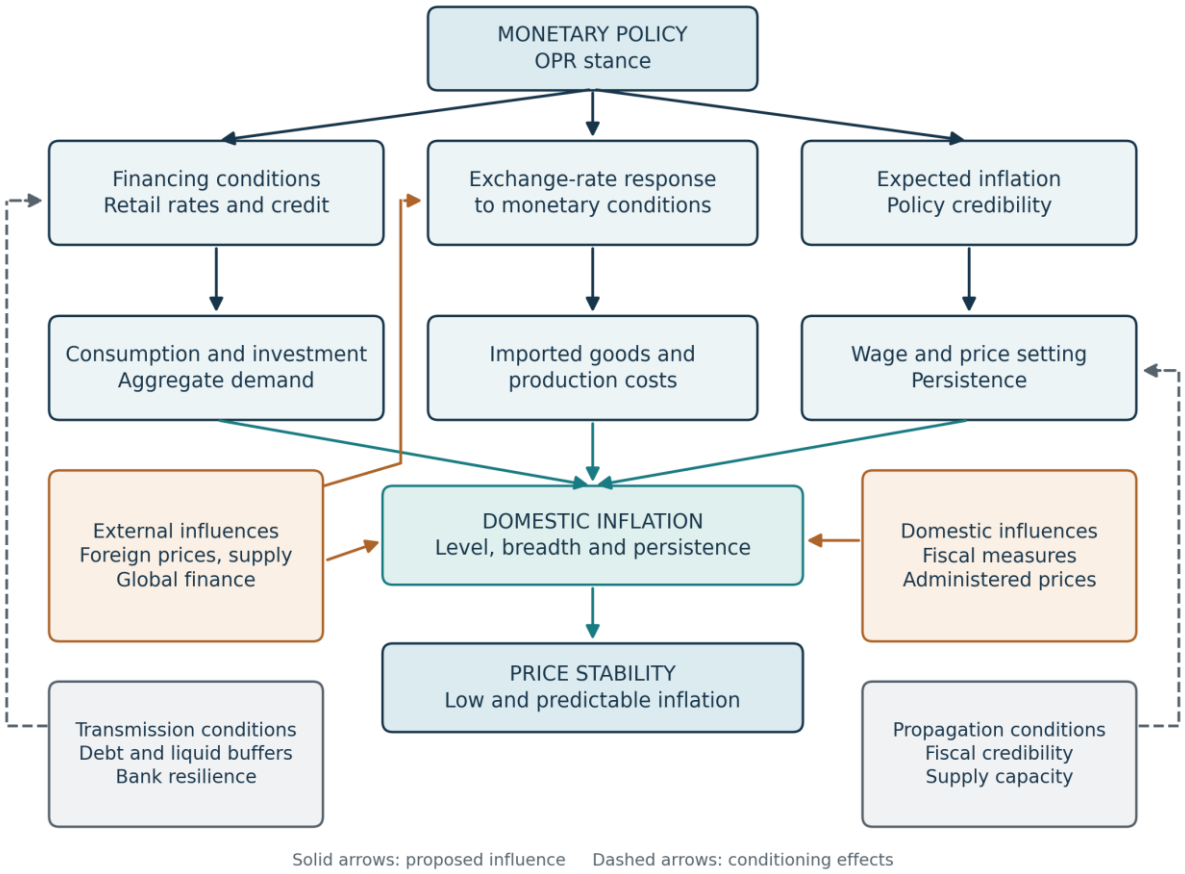
Approach or emphasis	Existing explanatory role	Proposed extension or distinction
Conventional rate and demand transmission	Financing costs influence expenditure and resource pressure.	Separate rate pass-through from price outcomes; test propagation after an identified policy shock.
Open-economy and production-network analysis	Exchange rates, imported inputs and capacity constraints influence prices.	Assign policy and external origins separately; condition sectoral effects on import and subsidy exposure.
Heterogeneous-agent analysis	Liquidity, debt and income exposure generate unequal responses.	Connect observable Malaysian repricing and liquid buffers to spending adjustment.
Expectations and inflation regimes	Credibility, beliefs and wage–price interaction affect persistence.	Test distributional expectations and price breadth after initial shocks; avoid presuming anchoring.
Fiscal and supply-shock analysis	Transfers, fiscal credibility and supply pressure interact with inflation.	Distinguish direct administered-price arithmetic from demand support and later pass-through.
Proposed integration	Brings established mechanisms into one Malaysian diagnostic map.	Jointly specify origin, exposure and horizon; compare its empirical value against a model without these distinctions.

Note. Author-developed comparison informed by Auclert et al. (2020), Borio et al. (2023), di Giovanni et al. (2022, 2023), and Bank Negara Malaysia (2023b, 2024b, 2025d). Rows describe selected emphases, not exhaustive model capabilities.

6.2 Framework pathways

Figure 1 distinguishes parallel monetary channels from direct inflation influences and transmission conditions. Financing affects spending; import costs can change prices independently of spending; expectations affect propagation. External and domestic influences have their own pathways. Solid arrows show proposed influences and dashed arrows conditioning effects; none denotes an estimated coefficient.

Figure 1 : Monetary policy and price stability in Malaysia



Note. Author-developed synthesis of (Bank Negara Malaysia, 2026d; Bank Negara Malaysia, 2023b; Bank Negara Malaysia, 2025d; Bank Negara Malaysia, 2024b; Borio et al., 2023; Auclert et al., 2020). Arrows indicate proposed relationships, not estimated causal effects. Conditioning connections apply to the adjacent channel or propagation stage. Policy assessment also responds to observed and expected inflation; that feedback is omitted for readability.

The outcome is low, predictable inflation rather than the minimum attainable CPI rate. Tightening can support stability under excess demand, while easing may do so under weak activity. The policy contribution must be evaluated conditional on the shock and the economy's state.

6.3 Conditional propositions

Table 4 converts the framework into six propositions. Their tests distinguish retail transmission, financial exposure, expectations, imported costs, the policy mix and subsequent persistence. The propositions specify conditions and possible contrary evidence rather than reporting empirical results.

Table 4 : Conceptual propositions and empirical tests

Proposition	Conditional relationship	Suggested empirical check
P1 Retail rates	An identified tightening that raises retail real financing costs restrains demand and subsequent demand-driven inflation.	Identify policy surprises; estimate retail real-rate and spending responses. Absent pass-through challenges this channel. (Bank Negara Malaysia, 2026d; Auclert et al., 2020)

Proposition	Conditional relationship	Suggested empirical check
P2 Financial exposure	Following tightening, households with repricing debt and limited liquid buffers reduce spending more than otherwise comparable, less exposed households.	Use contract and liquidity exposure in a household panel; a null exposure difference challenges the proposition. (Bank Negara Malaysia, 2026e)
P3 Expectations	Credible and understood policy reduces persistent expectation drift and broader price propagation.	Identify policy-information exposure; test comprehension, disagreement and persistent drift. No conditional change challenges the communication mechanism. (Brandão-Marques, Gelos, et al., 2023; Barrett & Adams, 2022; Hakamada & Walsh, 2024)
P4 Imported costs	Conditional on import intensity, price insulation reduces initial headline sensitivity to external costs, but does not necessarily remove later inflation in unprotected categories.	Compare sectoral pass-through by dated subsidy coverage and horizon. No exposure difference challenges the insulation prediction. (Bank Negara Malaysia, 2023b; di Giovanni et al., 2022)
P5 Policy mix	Fiscal demand support can offset restraint; administered-price changes also affect headline CPI directly.	Separate identified fiscal-demand innovations from reform-related CPI changes; assess whether demand support weakens restraint. (Bank Negara Malaysia, 2024b; di Giovanni et al., 2023; Brandão-Marques, Casiraghi, et al., 2023)
P6 Persistence	Monetary demand restraint has limited direct impact on the initial supply cost, but can limit subsequent propagation.	Compare initial component inflation with subsequent breadth, wages and core persistence. No distinction across horizons challenges the propagation mechanism. (Bank Negara Malaysia, 2025d; Borio et al., 2023; Bernanke & Blanchard, 2025)

Variables are assigned by causal role within each relationship. An exchange-rate change caused by policy is a mediator; an externally driven change is a separate shock. Subsidy coverage conditions pass-through, whereas an announced administered-price revision changes a CPI component directly. This role-based specification avoids treating one variable as an undifferentiated moderator throughout the system.

DISCUSSION AND POLICY IMPLICATIONS

The framework's policy value is diagnostic: similar headline inflation can conceal different persistence risks. It links the indicator being observed to the instrument capable of influencing it. These recommendations are proposals for Malaysian policy practice, not claims that the institutions currently lack these capabilities.

Consider two stylised cases with no assigned numerical values. If lower imported costs reduce headline inflation while underlying demand and expectations remain firm, the decline alone does not justify easing. If an administered-price revision raises headline inflation but demand is weak and broader expectations remain stable, the initial rise alone does not justify tightening. Persistence, breadth and wage dynamics distinguish these cases, drawing on the initial-shock versus propagation distinction in Bernanke and Blanchard (2025) and the supply-network literature (di Giovanni et al., 2022; Comin et al., 2023).

For inflation monitoring, BNM and DOSM should use a monthly dashboard separating headline and core rates, the share of CPI items with rising prices, salient food costs, import and producer prices, wages and demand indicators. A dated register of tax, subsidy and administered-price adjustments should accompany it. BNM analysts could compare price increases in highly exposed and less exposed sectors, using multiple decompositions rather than treating the output of a single model as definitive. The operational trigger for deeper assessment should be persistent broadening together with demand or expectation pressure, not one volatile

component; quantitative thresholds should be calibrated against Malaysian history (Bank Negara Malaysia, 2024c).

For communication, each MPC statement should distinguish the source of pressure, the expected adjustment horizon and the conditions that could change the stance. A short public explanation should clarify the difference between slower inflation and falling prices, and explain how subsidy revisions affect measured CPI. BNM could assess effectiveness through recurring household and business questions on comprehension, disagreement and expected persistence, disaggregated by income and debt exposure. Results should inform communication rather than constitute a new numerical target; food-price salience is a reason to test audience understanding (D'Acunto et al., 2021; Anesti et al., 2025).

For fiscal coordination, BNM and the Ministry of Finance should maintain a shared calendar and scenario appraisal of material subsidy, tax and administered-price changes before implementation. Each appraisal should distinguish direct CPI arithmetic, indirect production costs, compensating transfers and demand effects, alongside fiscal financing. Options for targeted, time-bound protection should be compared with broader assistance, with review dates and budget costs stated. A proposed post-implementation review within three to six months would assess pass-through, household burdens and wider price pressures; it is an evaluation interval, not a statutory requirement. The MPC would retain responsibility for monetary decisions (Bank Negara Malaysia, 2024b, 2025a).

For external-cost and credit risks, monitoring should pair import-intensive price categories with exchange-rate and commodity developments, and pair debt repricing with household liquidity and spending. Supply agencies should prioritise bottlenecks revealed by repeated cost increases, using procurement and logistics information to distinguish shortages from pricing changes. Recurrent shocks warrant scenario analysis for second-round effects; prudential responses to concentrated credit risks should complement the policy rate. Evaluation should examine both inflation persistence and activity, consistent with compatible monetary, fiscal and financial foundations (Bank for International Settlements, 2026).

The September 2026 statement presents the immediate application: inflation was contained, but external commodity costs remained a risk. The framework therefore prioritises tracking whether cost increases spread to non-administered categories, expectations and wages before inferring a need for a changed stance. It does not prescribe an OPR level; instrument choice requires forecasts and evidence on those pathways (Bank Negara Malaysia, 2026c).

Contribution Limitations And Future Research

The article offers conceptual specification rather than empirical validation. Its contribution will be useful only if the distinctions in Table 3 improve measurement, prediction or policy interpretation beyond a model without them. The framework does not establish a causal ranking of channels or an optimal stance.

Purposive source selection can omit relevant findings, and international mechanisms may not transfer unchanged. Official assessments supply context rather than independent policy counterfactuals. Subsidy coverage expected inflation and household liquid buffers may also be incompletely observed; estimated interactions would then be sensitive to measurement choices.

A feasible first stage would estimate monthly Malaysian retail-rate, credit and CPI responses over the longest consistent sample spanning several policy cycles, with the 2020–2026 episodes used as prespecified regime checks. OPR surprises should be identified using announcement-window market responses where reliable data exist; otherwise, a structural identification strategy should state its restrictions and compare alternatives. Monthly and quarterly variables must be aligned without interpreting interpolated output as independently observed monthly data.

The second stage would estimate sectoral inflation responses to identified policy and external-cost shocks, interacting the latter with import intensity and dated subsidy exposure. Models should separately test

administered and non-administered components, use headline and core outcomes, and compare persistence at prespecified horizons such as 6, 12 and 18 months. A baseline without these interactions provides the benchmark for added value. Household or bank panels would test repricing and liquidity conditions; expectation surveys would test comprehension and distributional change. Weakening or reversal of predicted differences, after alternative identifications and reform-period checks, would challenge the framework. No coefficients, significance levels or validation results are asserted here.

CONCLUSION

Monetary policy affects Malaysian price stability through financing, demand, exchange-rate responses and expectations. Imported costs and administered prices also influence inflation directly, with transmission and propagation conditioned by financial exposure and policy design. The framework's distinct contribution is to connect those roles to separate measurements of initial price impulses and subsequent persistence.

The comparison with existing approaches, six falsifiable propositions and an explicit validation design makes that contribution assessable. The immediate policy implications are a decomposed monitoring dashboard, conditional communication and joint appraisal of fiscal price reforms. Credible monetary action remains central, but observing low inflation alone cannot establish its effectiveness; empirical identification and complementary fiscal and supply policies remain necessary.

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