

**ECONOMIC REVIEW | JANUARY 2024 BNM MPC****BNM Kept OPR Status Quo amid Low Core Inflation Environment**

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- *Recovery in exports and resilient domestic expenditure. BNM foresee Malaysia's economy to improve further amid external trade recovery and resilient domestic demand. Domestic economic activities to stay on expansionary momentum, supported by improving labour market conditions, steady income growth, higher tourist arrivals and realisation of multi-year and infra projects.*
- *OPR to stay status quo throughout 2024. The focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. Even though recovery mode, external environment to stay challenging in 2024 amid geopolitical tensions and potential slower global growth. Domestic economic outlook is predicted to stay vigilant and resilient underpin by steady domestic demand. However, stabilisation of core inflation rate and challenging external environment may influence BNM to keep OPR at current levels throughout 2024.*


**BNM kick-off with no change made.** BNM kept the Overnight Policy Rate (OPR) at 3.00%, in its first Monetary Policy Meeting of 2024, which is in line with market expectations. In the Monetary Policy Statement, BNM highlighted that the global economy remains expansion underpin by domestic demand amid strong labour market conditions. Global trade on improving trend especially recovery in E&E sector. China's recovery still modest amid property slump. Global inflation on downward trends but still above long-term average and monetary policy to remain tight in the near term. The global economy is still surrounded with downside risks among others geopolitical tensions, higher-than-expected inflation pressure and tightening of financial market conditions.

**Recovery in exports and resilient domestic expenditure.** BNM foresee Malaysia's economy to improve further amid external trade recovery and resilient domestic demand. Domestic economic activities to stay on expansionary momentum, supported by improving labour market conditions, steady income growth, higher tourist arrivals and realisation of multi-year and infra projects. On a flip side, the downside risks to domestic economy stemming from weaker-than-expected external trade and lower output from primary sectors.

**BNM foresee inflation to stay modest in 2024.** On the price developments, BNM foresee headline and core inflation to remain modest this year. However, the risks to inflation are much dependent on domestic policy on subsidies and global commodity price developments. In addition, revision of utilities tariffs and targeted-subsidies will affect the trajectory of inflation especially after 2QCY24.

**Bright prospects for MYR.** Strong US dollar has been the main factor for the depreciation of most currencies since early 2022 due to the aggressive interest rate hikes by the Fed. MYR stays on depreciation path as the Fed keep on delaying its interest rate pause. Also, contractionary external trade performances dragged the recovery

for ringgit in 2023. Fundamentally, ringgit is in a good position to strengthen in 2024 as the domestic economy stays on upbeat momentum and as a net commodity exporter (of crude petroleum, LNG and palm oil), Ringgit stands to gain from the supportive global commodity prices and sustained trade surplus. Most importantly, the Fed and other major central banks have shifted their monetary stance from hawkish to dovish and most likely to cut rates in 2024. We expect USDMYR to average at RM4.38 and reach RM4.20 by year-end 2024.

**OPR to stay status quo throughout 2024.** The focus of BNM’s monetary policy setting is to ensure a sustainable growth momentum of Malaysia’s economy. Even though recovery mode, external environment to stay challenging in 2024 amid geopolitical tensions and potential slower global growth. Domestic economic outlook is predicted to stay vigilant and resilient underpin by steady domestic demand. However, stabilisation of core inflation rate and challenging external environment may influence BNM to keep OPR at current levels throughout 2024. The decision will be subjected to the stability of economic growth, the pace of price increases and further improvement in macroeconomic conditions, particularly a continued recovery in the labour market and growing domestic demand. From a medium-term perspective, the policy rate normalization is needed to avert risks that could destabilize the future economic outlook such as persistently high inflation and a further rise in household indebtedness. 

**Table 1: Central Bank Policy Rate (%) for Selected Countries**

	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	5.75	5.75	5.75	6.00	6.00	6.00
Philippines	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50
Thailand	2.00	2.00	2.00	2.25	2.50	2.50	2.50	2.50
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	3.75	4.00	4.00	4.25	4.50	4.50	4.50	4.50
UK	4.50	5.00	5.00	5.25	5.25	5.25	5.25	5.25
US	5.00-5.25	5.00-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50	5.25-5.50

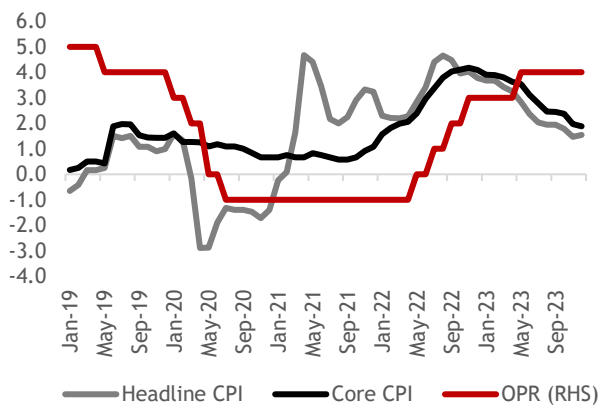
Source: MACROBOND, MIDFR

**Table 2: Monetary Policy Meeting Schedule for 2023**

	Date
1st Meeting	23 – 24 January
2nd Meeting	6 – 7 March
3rd Meeting	8 – 9 May
4th Meeting	10 – 11 July
5th Meeting	4 – 5 September
6th Meeting	5 – 6 November

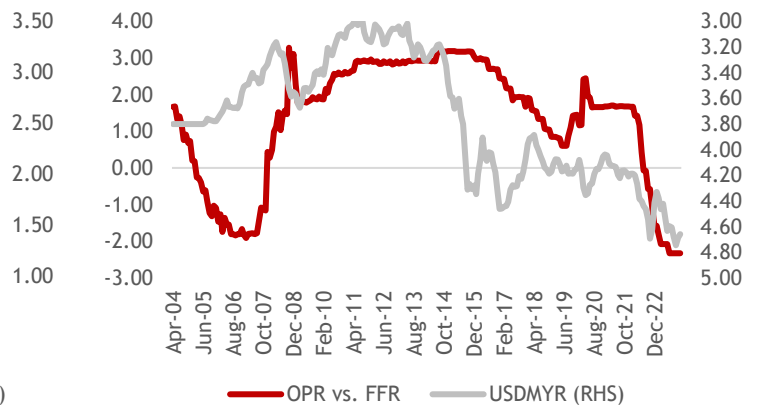
Source: BNM, MIDFR

**Chart 1: Monetary Policy (%) vs Inflation (YoY%)**



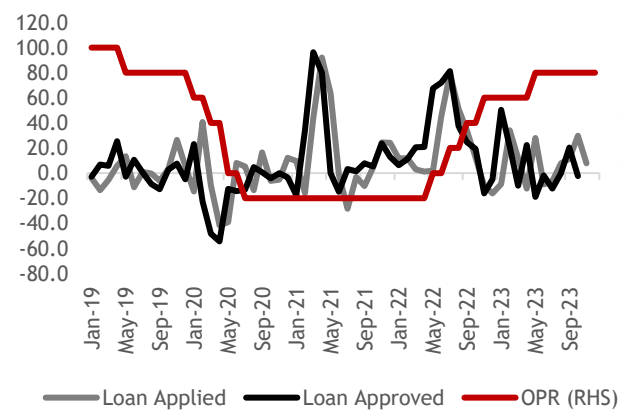
Source: MACROBOND, MIDFR

**Chart 4: OPR-FFR Differentials & USDMYR**



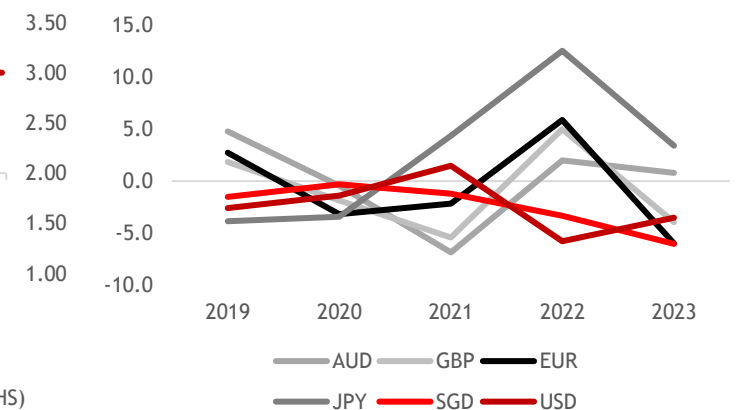
Source: MACROBOND, MIDFR

**Chart 2: OPR (%) vs Loan Growth (YoY%)**



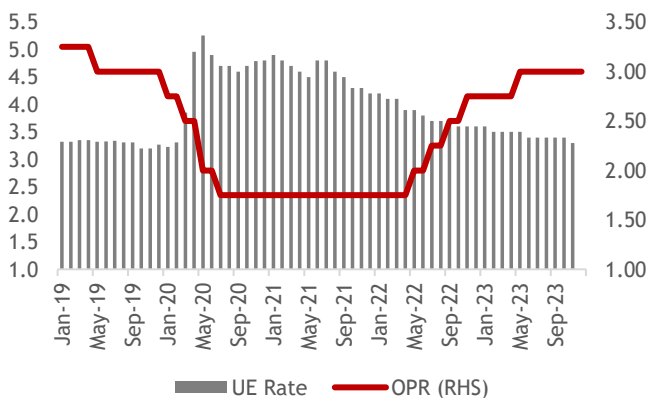
Source: MACROBOND, MIDFR

**Chart 5: MYR against selected currencies (YoY%)**



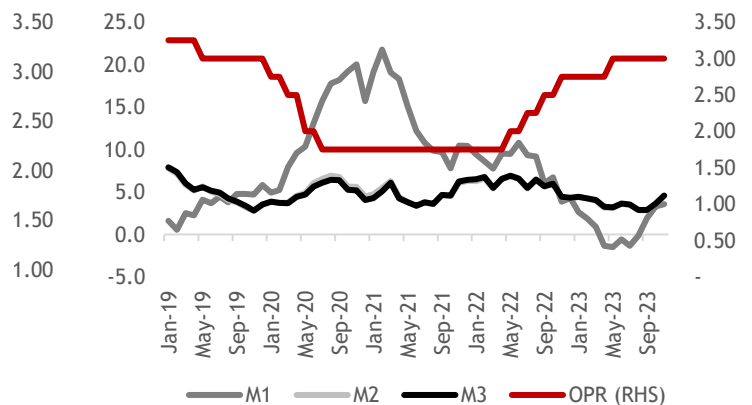
Source: MACROBOND, MIDFR

**Chart 3: OPR vs Unemployment Rate (%)**



Source: MACROBOND, MIDFR

**Chart 6: Money Supply (YoY%) vs OPR (%)**



Source: MACROBOND, MIDFR

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