

ECONOMIC REVIEW | September 2024 BNM MPC

BNM Maintained OPR at 3.00% as Price Pressures Remained Under Control

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- *Robust growth in export and domestic demand to support the economy. BNM foresees Malaysia's economy to continue improving supported by the recovery in external trade and resilient domestic demand. Exports are projected to grow due to the global tech upcycle and also the resilient growth in non-E&E segments.*
- *No change to OPR in 2024. We maintain our projection that BNM will keep OPR at 3.00% in 2024. While the focus of BNM is to ensure growth remains sustainable, we see less need for any change in monetary policy setting thanks to the moderate inflation pressures.*

OPR stays at 3.00%. As expected, BNM decided to maintain the Overnight Policy Rate (OPR) at 3.00% after the fifth Monetary Policy Meeting this year. In the Monetary Policy Statement (MPS), BNM highlighted that the expansion in the global economy is expected to continue, supported by positive labour market conditions, easing inflation and reduced monetary policy restrictiveness. BNM also reiterated that the global trade will continue to recover driven by increased external demand for both E&E and non-E&E products. Unlike in the previous MPS which inflation was a major concern, BNM indicated in the Sep-24 MPS that the downside risks to global growth outlook could come from heightened geopolitical tensions, more volatile conditions in the financial markets, and weaker growth in major economies. We believe this may be linked to slower growth momentum in China and recent concerns over recession risk in the US.

Robust growth in export and domestic demand to support the economy. BNM foresees Malaysia's economy to continue improving supported by the recovery in external trade and resilient domestic demand. Exports are projected to grow due to the global tech upcycle, considering Malaysia's involvement in the semiconductor supply chain, and also the resilient growth in non-E&E segments. BNM also foresees the tourist spending to keep growing, while increases in employment and wages and government policy measures will help to support household spending. Investment activity is expected to stay strong, thanks to the implementation of both public and private sector projects and key initiatives under the national master plans as well as the positive effects of approved investments. Higher imports of materials and equipment will also boost exports and investments. The growth prospects can be more encouraging if the tech upcycle and tourism activity turn out to be more robust, in addition to greater investment activities. On the other hand, weaker external demand and lower commodity production are highlighted as downside risks that may weigh down on the country's economic growth.

Malaysia's inflation to be influenced by policy shifts. BNM foresees the effective mitigation and enforcement measures taken by the government have successfully limited the possible inflationary effects of diesel price hike on the broader market. BNM expects both headline and core inflation will remain below 3% in 2024, generally staying within BNM's existing forecast ranges. Nonetheless, domestic policy measures (e.g. subsidies and price controls) will play a crucial role in shaping the inflation outlook. For example, inflation could

turned higher if further adjustments towards targeted subsidies in the latter part of the year were to lead to broader price increases. In addition, the future price developments may also be affected by shifts in financial markets and global commodity prices.

Expectations for lower interest rates in major economies supported ringgit. The shift in market expectations towards policy easing by major central banks, particularly by the US Fed, has been the major reason supporting the recent strengthening of Malaysian ringgit. This was further boosted by Malaysia's strong economic performance. Looking forward, the ringgit is expected to continue to be supported by several factors i.e. Malaysia's promising economic prospects, the structural reforms in the country and continuous efforts to encourage greater conversion into the local currency. We believe all these factors will be supportive of the ringgit to continue strengthening, in contrast to the US dollar which is expected to weaken with the Fed moving closer to policy easing.


No change to OPR in 2024. We maintain our projection that BNM will keep OPR at 3.00% in 2024. While the focus of BNM is to ensure growth remains sustainable, we see less need for any change in monetary policy setting thanks to the moderate inflation pressures. Although domestic demand continues to grow, the underlying demand pressures remain under control, looking at still low core inflation. On that note, we expect BNM will be more focused on supporting the economy as the near-term growth outlook may be constrained by slow growth in China, the recent escalation in geopolitical risks in the Middle East and Europe, and potential slowdown in the advanced economies, constrained by the tight financial conditions. On the other hand, BNM has sufficient room to adjust monetary policy to address any destabilizing risks that could affect the stability of Malaysia's economic outlook such as a renewed price pressures and continued uptrend in household indebtedness. 

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

	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Jul-24	Aug-24	Sep-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.00	6.25	6.25	6.25	6.25	6.25	6.25	6.25
Philippines	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.50	2.50	2.50	2.50	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	0.00 - 0.10	0.00 - 0.10	0.00 - 0.10	0.00 - 0.10	0.25	0.25	0.25	0.25
Euro area	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
USA	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50

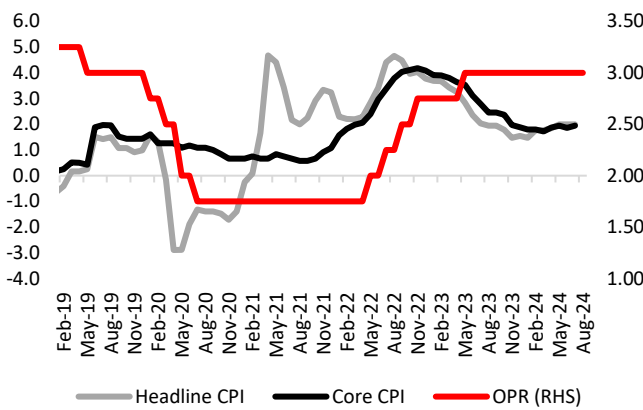
Source: Macrobond, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2023

	Date	Decision
1st Meeting	23 – 24 January	No change
2nd Meeting	6 – 7 March	No change
3rd Meeting	8 – 9 May	No change
4th Meeting	10 – 11 July	No change
5th Meeting	4 – 5 September	No change
6th Meeting	5 – 6 November	

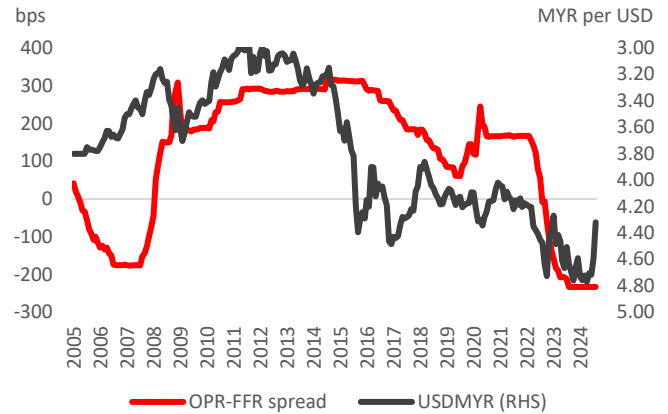
Source: BNM, MIDFR

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



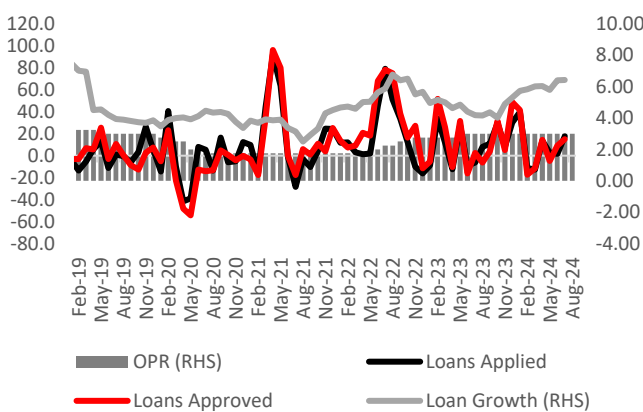
Source: Macrobond, MIDFR

Chart 2: OPR-FFR Differentials (bps) & USDMYR



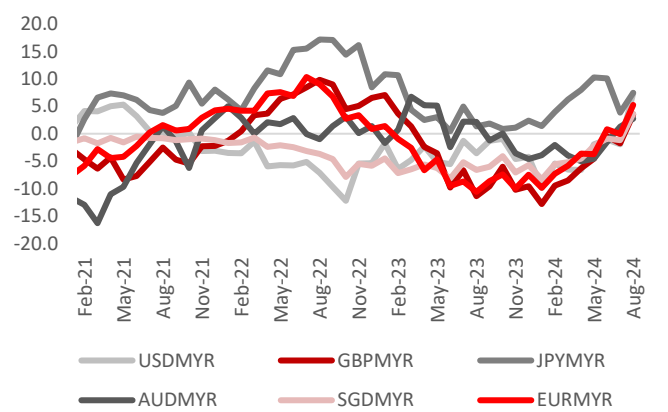
Source: Macrobond, Bloomberg, MIDFR

Chart 3: OPR (%) vs Loan Growth (YoY%)



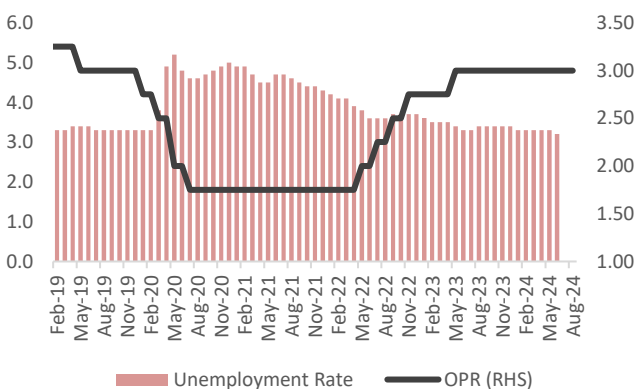
Source: Macrobond, MIDFR

Chart 4: MYR against selected currencies (YoY%)



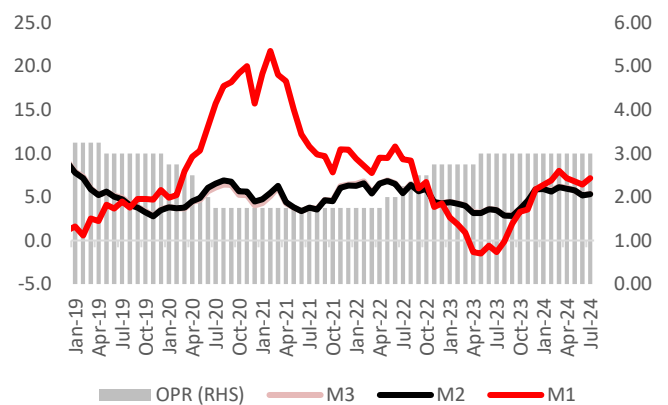
Source: Macrobond, Bloomberg, MIDFR

Chart 5: OPR vs Unemployment Rate (%)



Source: Macrobond, MIDFR

Chart 2: Money Supply (YoY%) vs OPR (%)



Source: Macrobond, MIDFR

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