

ECONOMIC REVIEW | March 2020 BNM MPC**Countering External Headwinds with Expansionary Monetary & Fiscal Policies**

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- *Based on the current developments and indicators, we foresee Malaysian economy to continue expanding in 2020 but at a slower pace in the range of 3.5-4.0%yoy compared to 4.3%yoy for year 2019.*
- *We expect no more rate cut in 2020. Our initial estimate for another rate cut of 25 basis points after Jan-20 should come in May-20. Hence, we view one cut made last year and two cuts in 2020 are enough to support Malaysia's economic growth especially via private consumption and investment.*

Another OPR cut. BNM has cut again its OPR by 25 basis points to 2.50%, in line with market expectation. We had recently anticipated another OPR reduction to follow the Jan-20 cut due to prolonged and intensifying impact from Covid-19. However, the timing of the cut was a surprise to us as we opined that BNM will let the economic stimulus package to have an effect first. Nevertheless, we believe that this cut as promising, in order to support domestic economic growth in 2020 especially due to escalating headwinds on the external front amid Covid-19 fear effects. Global uncertainties over virus outbreak, trade war, geopolitical risks and volatility commodity prices may affect the trajectory of Malaysia's external trade performance. Hence, expansionary monetary policy would boost private consumption and investment activities in 2020.

Economic moderation projected in 2020. Growth of the Malaysian economy in 2020 will be influenced by various internal and external factors such as trajectories of global trade, threat of protectionism, loss of growth momentum of world's major economies, global financial stability, commodity prices, inflationary pressure, labour market as well as the latest outbreak of Covid-19. Based on the current developments and indicators, we foresee Malaysian economy to continue expanding in 2020 but at a slower pace in the range of 3.5-4.0%yoy compared to 4.3%yoy for year 2019. Consumption and investment are expected to continue improving on the back of OPR cuts, continuation of blanket fuel subsidy and the government stimulus package.

Business confidence at 1-year low. Based on the Business Tendency Survey, overall business confidence further weakened to -2.1% in the first quarter of 2020. It is the lowest point since 1Q19. The slump in business confidence indicates 1Q20 GDP to remain below 4%yoy amid challenging economic environment from both external and domestic fronts. Despite Phase One trade deal boosted positive sentiment globally, the outbreak of Covid-19 had reduced any momentum the global economic activity might have had. This also had an effect to commodity prices which struggled to move up. Domestically, we view political instability to continue due to the marginal seats difference between the current government and opposition sides. Nevertheless, we think the RM20

billion stimulus packages will be continued as it is aimed to alleviate the economy from the negative impacts of Covid-19. In fact, the newly appointed government may add more fiscal spending in order to support the economy.

Private consumption to remain solid. Rakyat-centric measures announced in the stimulus particularly the reduction in the minimum EPF contribution by employees from 11% to 7% would mean there will be more disposable income for the employees to spend, contributing to the growth through private consumption. In addition, earlier pay-out of the BSH to Mar-20 from the initial schedule in May-20 would be supportive to the consumption. Prior to that, stable inflationary pressure and 18% discount rate toll charges would encourage domestic spending. These in particular will help to offset some of the negative impacts of Covid-19 and protectionism on our external trade performances for the 1H20. Private consumption will continue to be the biggest contributor the overall economic growth in 2020.


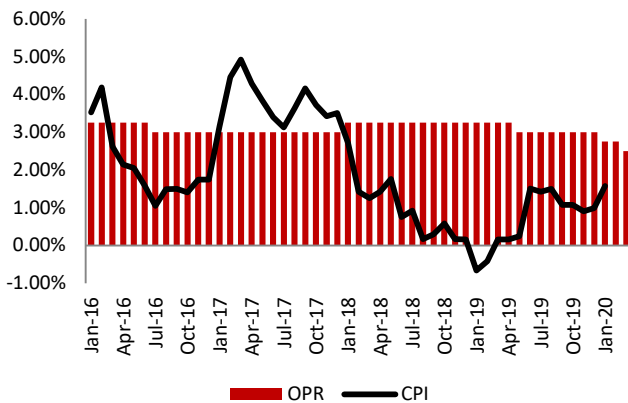
We expect no more rate cut in 2020. Our initial estimate for another rate cut of 25 basis points after Jan-20 should come in May-20. Hence, we view one cut made last year and two cuts in 2020 are enough to support Malaysia's economic growth especially via private consumption and investment. On top of easing monetary and expansionary fiscal policies, we opine the stable job market and low inflationary pressure would pave a steady upward trajectory for the economy. The risk comes from the external front, is expected to remain amid Covid-19, trade tension, volatility in commodity prices and USA Presidential Election in Nov-20. 

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

	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.50
Indonesia	5.75	5.50	5.25	5.00	5.00	5.00	5.00	5.00	5.00
Philippines	5.00	4.75	4.50	4.50	4.50	4.50	4.50	4.50	4.50
Thailand	1.75	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25
Vietnam	6.25	6.25	6.00	6.00	6.00	6.00	6.00	6.00	6.00
South Korea	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.25
India	5.75	5.40	5.40	5.15	5.15	5.15	5.15	5.15	5.15
Japan	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)
UK	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
EU	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50

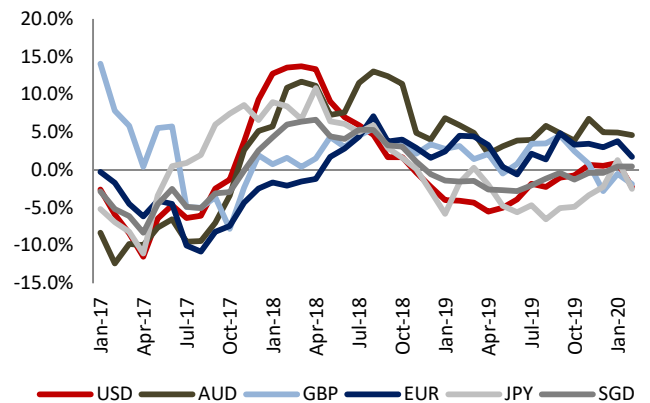
Source: CEIC, MIDFR

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



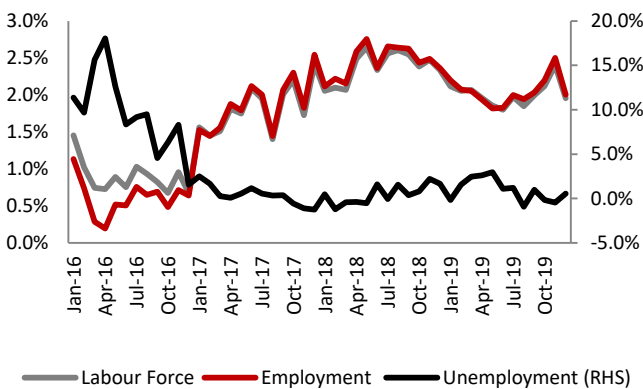
Source: CEIC, MIDFR

Chart 2: MYR Against Selected Currencies (YoY%)



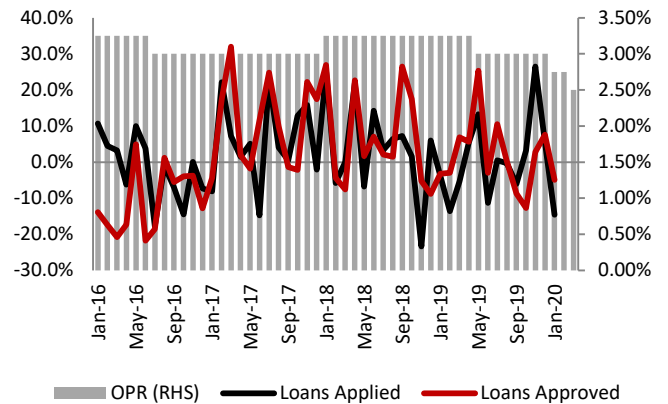
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



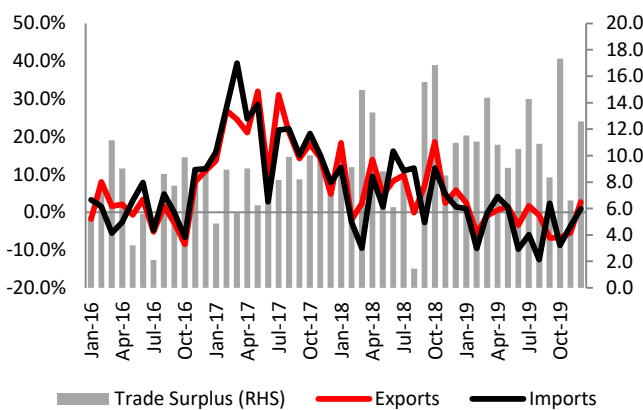
Source: CEIC, MIDFR

Chart 4: OPR (%) vs Loans Growth (YoY%)



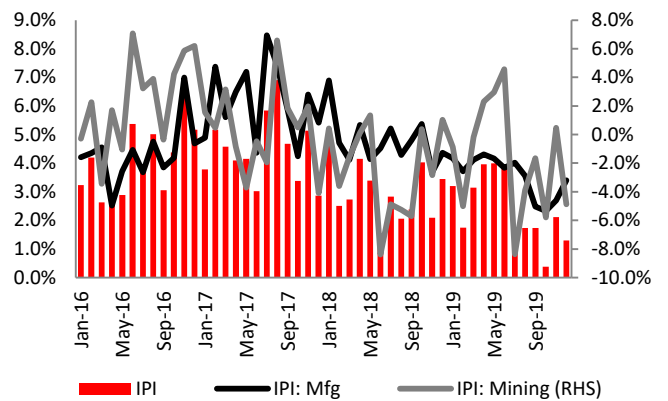
Source: CEIC, MIDFR

Chart 5: External Trade Performance (YoY% & Rmb)



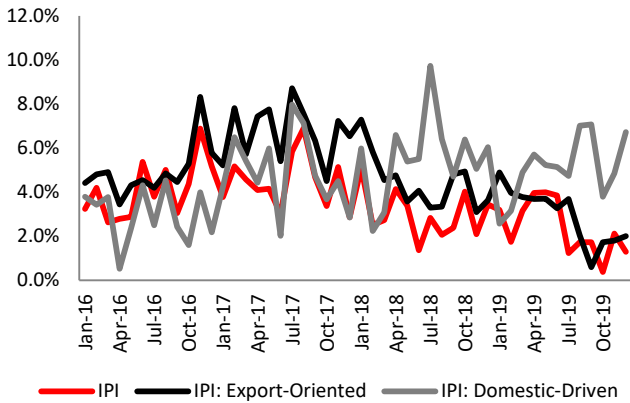
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



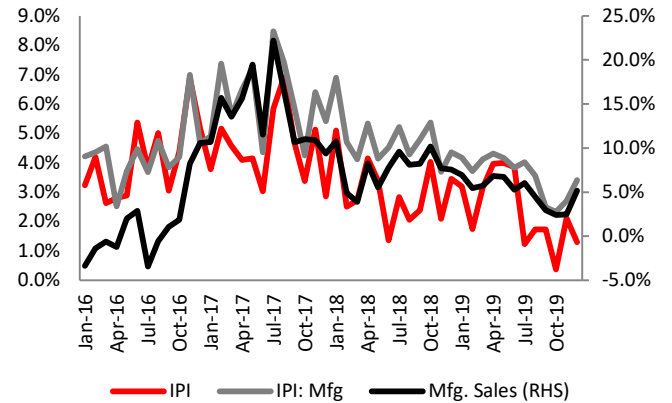
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



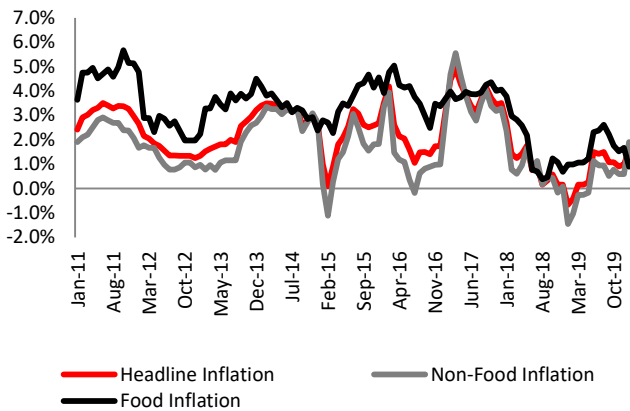
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



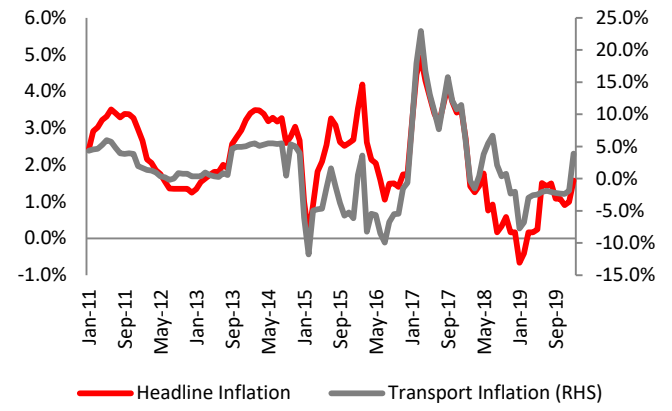
Source: CEIC, MIDFR

Chart 9: Headline vs Food & Non Food Inflation (YoY%)



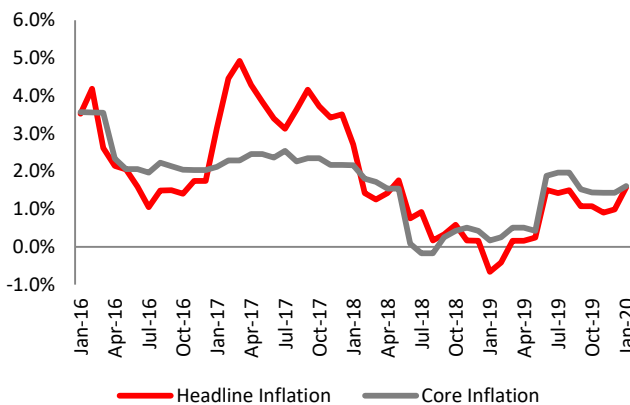
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



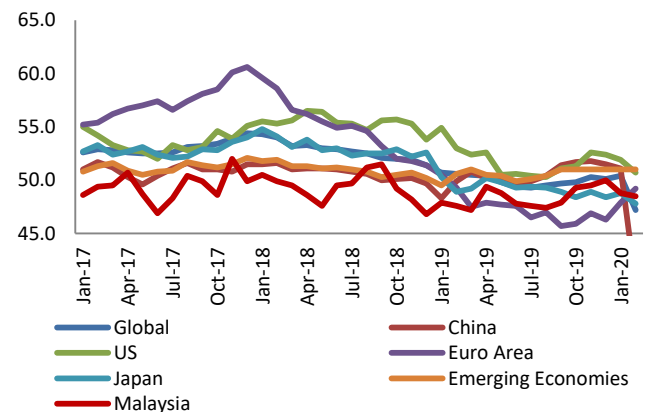
Source: CEIC, MIDFR

Chart 11: Headline vs Core Inflation (YoY%)



Source: BLOOMBERG, MIDFR

Chart 12: Manufacturing PMI (Points)



Source: CEIC, MIDFR
 *(>50:Expansionary, <50: Contractionary)

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