

ECONOMIC REVIEW | July 2020 BNM MPC**Additional Monetary Easing to Support Economic Recovery**

- *Another monetary easing. BNM decided to reduce the OPR by 25 basis points to 1.75%, a move that was widely anticipated by the market, also in line with MIDF's expectation. This brings the cumulative rate cuts to 125 basis points, since January 2020. The additional easing in monetary policy will provide additional support the economy, which is expected to recover gradually coming out from the Movement Control Order (MCO).*
- *Signs of recovery as economy reopened. Recent macroeconomic releases showed that there are signs of recovery from the sharp declines which was jolted by the MCO. The recovery in activities can be attributed to the move by the Government to allow more economic activities to reopen and resume operations, particularly since the Conditional MCO from May 2020. Activities in the manufacturing rebounded to expansionary level in June after the contraction slowed in May, as reflected in the latest PMI report (Jun-20: 51.0; May-20: 45.6; Mar-31.3)*
- *We expect no more rate cut in 2020. With the rate cut today, we do not foresee any need for additional monetary easing. Despite the uncertainty and the downside risk to growth, the current level of policy rate is deemed accommodative for the recovery in economic activities to pick up further in coming months.*

Another monetary easing. BNM decided to reduce the OPR by 25 basis points to 1.75%, a move that was widely anticipated by the market, also in line with MIDF's expectation. This brings the cumulative rate cuts to 125 basis points, since January 2020. The additional easing in monetary policy will provide additional support the economy, which is expected to recover gradually coming out from the Movement Control Order (MCO). In the monetary policy statement, BNM shared that the impact of Covid-19 outbreak had been severe on the global economy, with global growth for the year 2020 predicted to be in negative. On the domestic economy, economic activities had contracted sharply in 2Q20 due to the imposition of MCO. Economic outlook is expected to improve supported by the monetary and fiscal stimulus, but BNM warns against the downside risks to growth from sluggish global growth recovery, another wave of Covid-19 outbreak and prolonged weakness in the job market.

Growth to decline in 2020. We expect the Malaysian economy in 2020 will contract by -2.1%, impacted by the outbreak of Covid-19. This is in view of the weaker demand condition as a result of the Movement Control Order (MCO) imposed by the government from mid-March 2020. The abrupt decline in the domestic economic activities, as businesses halted its operations and workers adjusting to working from home, will translate into weaker growth numbers especially during the first few months after the MCO. On the outlook for exports, we forecast that the overseas demand will also fall as economic activities in other parts of the world declined due to the spread of Covid-19 cases.

Signs of recovery as economy reopened. Recent macroeconomic releases showed that there are signs of recovery from the sharp declines which was jolted by the MCO. The recovery in activities can be attributed to the move by the Government to allow more economic activities to reopen and resume operations, particularly since

the Conditional MCO from May 2020. Activities in the manufacturing rebounded to expansionary level in June after the contraction slowed in May, as reflected in the latest PMI report (Jun-20: 51.0; May-20: 45.6; Mar-31.3). Vehicle sales have also rebounded strongly in May, supported by discounts and sales tax exemption. Incentives provided by the government through Wage Subsidy Programme and allocations to support hiring and recruitment will eventually help to cushion the impact of economic slowdown on the domestic labour market. Despite signs of recovery in the economy, we have yet to see any improvement in the labour market after the unemployment rate spiked to a record high of 5% in April (Mar-20: 3.9%).


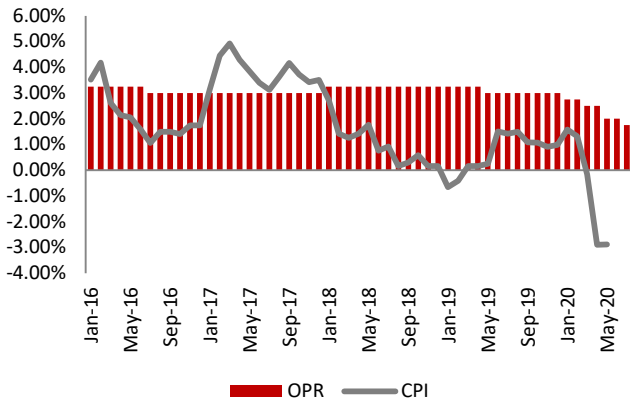
We expect no more rate cut in 2020. With the rate cut today, we do not foresee any need for additional monetary easing. Despite the uncertainty and the downside risk to growth, the current level of policy rate is deemed accommodative for the recovery in economic activities to pick up further in coming months. Measures to support employment will be positive for consumer spending, and the growing confidence in the economy while businesses reopen and adjusting to the new normal will provide additional boost to the country's economic recovery. The external demand could remain as a drag to growth, depending on the pace of recovery and stabilization in foreign demand. 

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

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Malaysia	3.00	3.00	3.00	2.75	2.75	2.50	2.50	2.00	2.00
Indonesia	5.00	5.00	5.00	5.00	4.75	4.50	4.50	4.50	4.25
Philippines	4.50	4.50	4.50	4.50	4.25	3.75	3.25	3.25	2.75
Thailand	1.50	1.25	1.25	1.25	1.00	0.75	0.75	0.50	0.50
Vietnam	6.00	6.00	6.00	6.00	6.00	5.00	5.00	4.50	4.50
South Korea	1.25	1.25	1.25	1.25	1.25	0.75	0.75	0.50	0.50
India	5.15	5.15	5.15	5.15	5.15	4.40	4.40	4.00	4.00
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	0.10	0.10	0.10	0.10
Euro area	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
USA	1.83	1.55	1.55	1.55	1.58	0.63	0.05	0.05	0.08

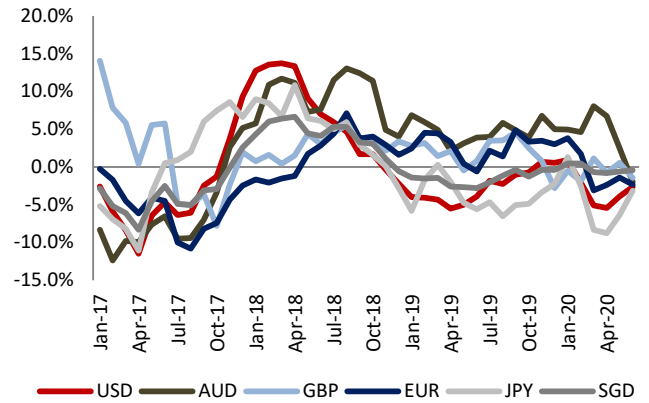
Source: CEIC, MIDFR

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



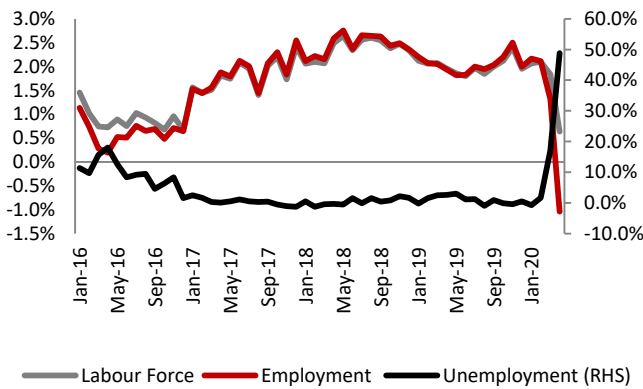
Source: CEIC, MIDFR

Chart 2: MYR Against Selected Currencies (YoY%)



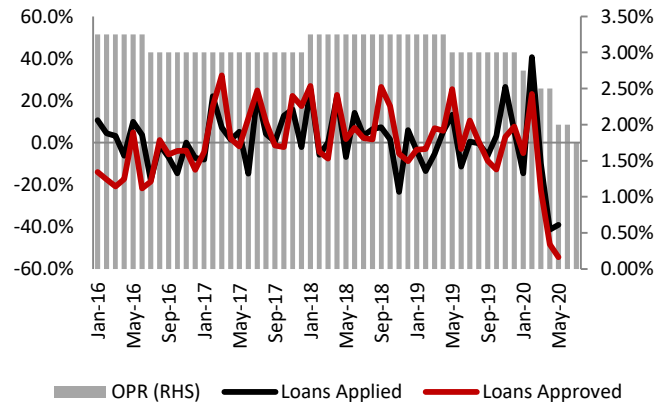
Source: CEIC, MIDFR

Chart 3: Labour Market Performance (YoY%)



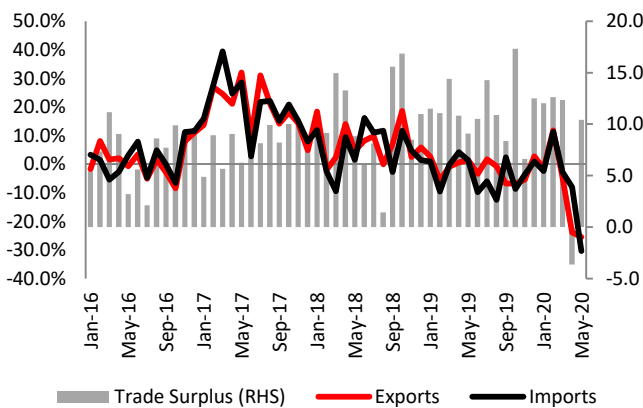
Source: CEIC, MIDFR

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



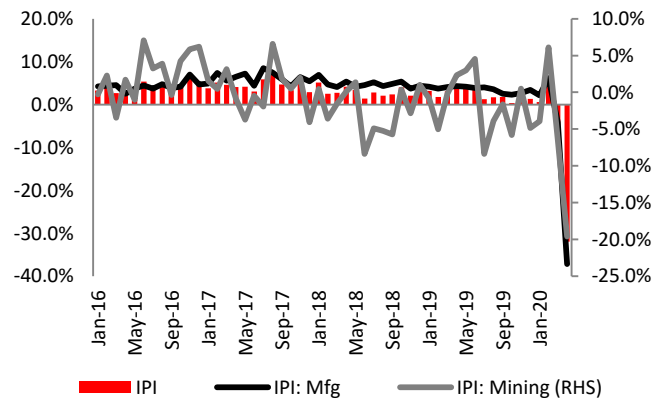
Source: CEIC, MIDFR

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



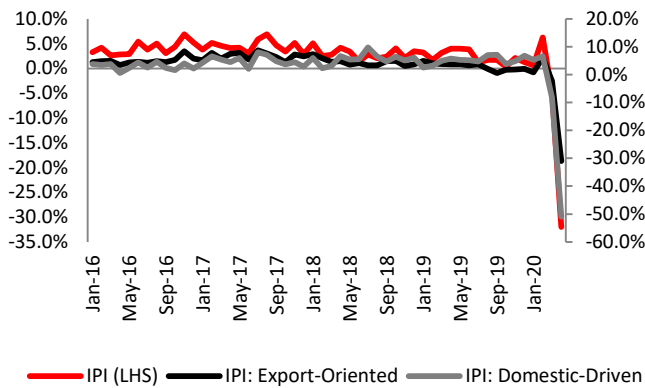
Source: CEIC, MIDFR

Chart 6: Industrial Productions Performance (YoY%)



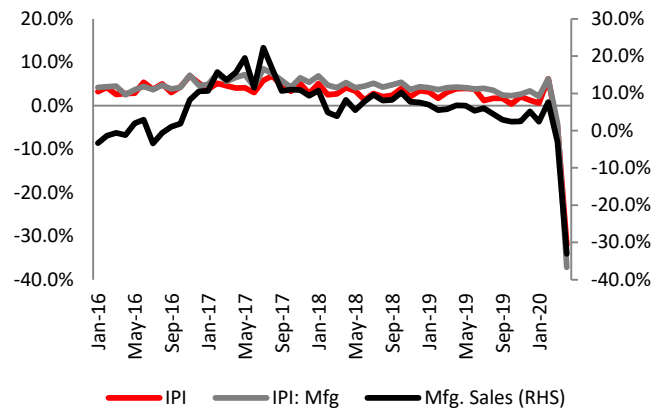
Source: CEIC, MIDFR

Chart 7: IPI Performance (YoY%)



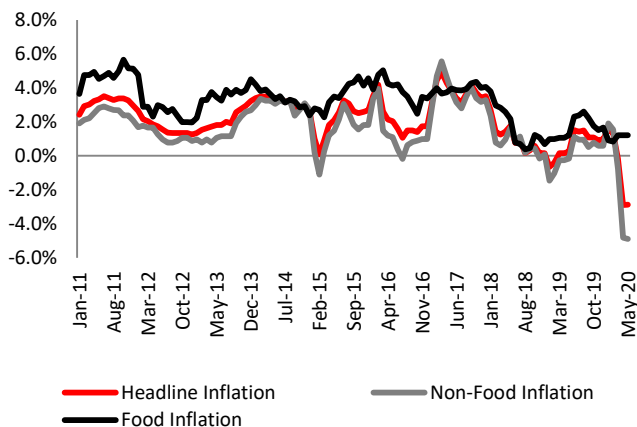
Source: CEIC, MIDFR

Chart 8: IPI vs Manufacturing Performances (YoY%)



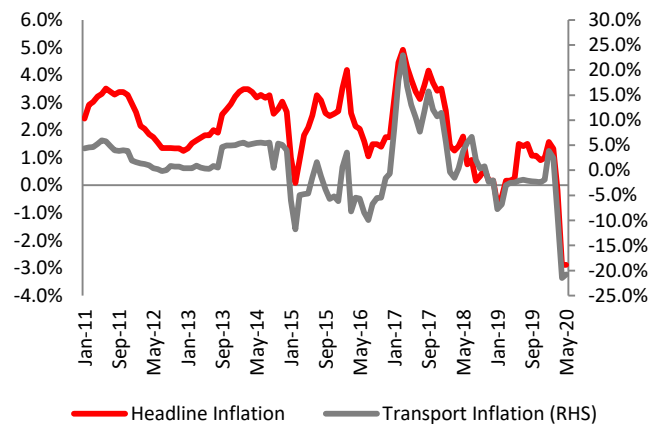
Source: CEIC, MIDFR

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



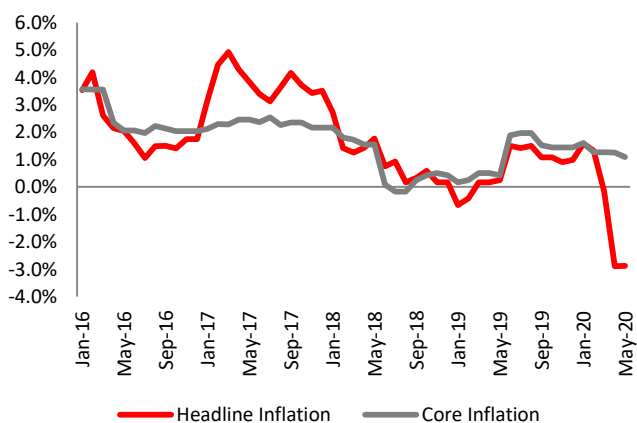
Source: CEIC, MIDFR

Chart 10: Headline vs Transport Inflation (YoY%)



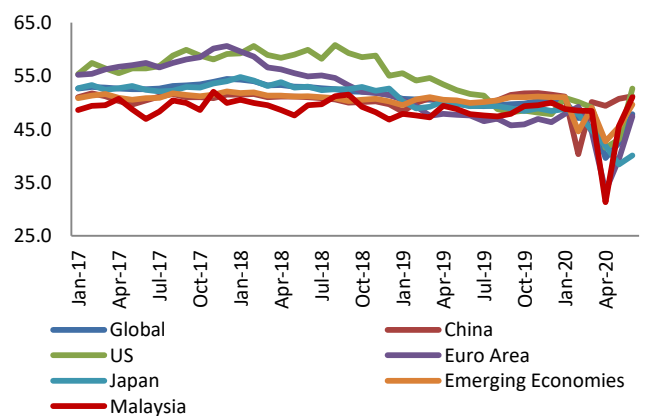
Source: CEIC, MIDFR

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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