09 March 2023

ECONOMIC REVIEW | March 2023 BNM MPC

BNM Maintained OPR at 2.75% as Recovery Domestic Economy Continues

- *No rate hike, in line with market consensus. BNM maintained the Overnight Policy Rate (OPR) at 2.75%, in its second Monetary Policy Meeting of 2023. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by escalation of geopolitical tensions, higher-than-expected inflationary pressure and sharper tightening of financial market conditions.*
- *Inflation to stay at elevated levels. On the price developments, BNM foresee headline and core inflation to moderate but remain at elevated levels amid lingering demand and cost pressures. The current inflation pressure is partly absorbed by existing price controls and fuel subsidies. The risks to inflation are much dependent on domestic policy on subsidies and global commodity price developments.*
- *We keep our view of OPR normalisation. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to restore its monetary bullets to pre-pandemic levels to 3.00% in 1HCY23.*

No rate hike, in line with market consensus. BNM maintained the Overnight Policy Rate (OPR) at 2.75%, in its second Monetary Policy Meeting of 2023. In the Monetary Policy Statement, BNM highlighted that the global economy continues to be pressured by escalation of geopolitical tensions, higher-than-expected inflationary pressure and sharper tightening of financial market conditions. Central banks across the globe to continue embarking contractionary monetary policy even though with slower pace as to manage inflationary pressure particularly driven by resilient domestic demand. The central bank also highlighted positive developments from China's reopening and better performances of domestic demand in major countries. We opine that BNM is taking a wait-and-see approach to assess the market performances after +100bps increase made last year. However, we believe the possibility for further normalisation of monetary policy still remains given that domestic economic data still showing upbeat momentum.

Moderation in domestic economic growth for 2023. After registering +8.7% GDP growth in 2022, BNM expect Malaysian economic growth to moderate this year. Household spending continue to be supported by improving labour market conditions and steady income growth. BNM also highlighted investment prospects to be supported by the realisation of multi-year and infra projects and further pick-up in tourism-related activities. The retabling of Budget 2023 may provide upside risks to domestic growth outlook. On downside risks, BNM highlighted on weaker-than-excpected global growth, higher risk aversion in global financial markets, aggressive tightening of monetary policy in major economies, escalation of geopolitical conflicts and supply chain disruptions.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

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The Fed is causing MYR volatility. Strong USD has been the main factor for depreciation of most currencies in 2022, on the back of faster-than-expected pace of interest rate hikes by the Fed. As the central bank hinted higher-than-expected Fed funds rate in 2023, we saw the appreciation trajectory of other currencies including MYR reversed course since Feb-23. Fundamentally, MYR is in good position as domestic economy stays on upbeat momentum and as net exporter of crude petroleum, LNG and palm oil, Malaysia stands to benefit from the elevated global commodity prices. On top of that, the retabling of Budget 2023 provided a clearer fiscal direction of the country especially under the new coalition government. Moving forward, we foresee MYR to average higher at RM4.20 per USD1 and ending the year 2023 at RM4.00.

We keep our view of OPR normalisation. We believe the current focus of BNM's monetary policy setting is to ensure a sustainable growth momentum of Malaysia's economy. With the rising core inflation trend and stronger-than-expected domestic demand, we expect the central bank to restore its monetary bullets to pre-pandemic levels to 3.00% in 1HCY23. In addition, we opine the central bank to normalize its Statutory Reserve Requirement (SRR) from 2.00% to 3.00% this year. The SRR rate was reduced to 2.00% since Mar-20. However, 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

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Malaysia	2.25	2.25	2.50	2.50	2.75	2.75	2.75	2.75	2.75
Indonesia	3.50	3.75	4.25	4.75	5.25	5.50	5.75	5.75	5.75
Philippines	3.25	3.75	4.25	4.25	5.00	5.50	5.50	6.00	6.00
Thailand	0.50	0.75	1.00	1.00	1.00	1.25	1.50	1.50	1.50
Vietnam	4.00	4.00	5.00	6.00	6.00	6.00	6.00	6.00	6.00
India	4.90	5.40	5.90	5.90	5.90	6.25	6.25	6.50	6.50
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	0.50	0.50	1.25	1.25	2.00	2.50	2.50	3.00	3.00
UK	1.25	1.75	2.25	2.25	3.00	3.50	3.50	4.00	4.00
US	2.25-2.50	2.25-2.50	3.00-3.25	3.00-3.25	3.75-4.00	4.25-4.50	4.25-4.50	4.50-4.75	4.50-4.75

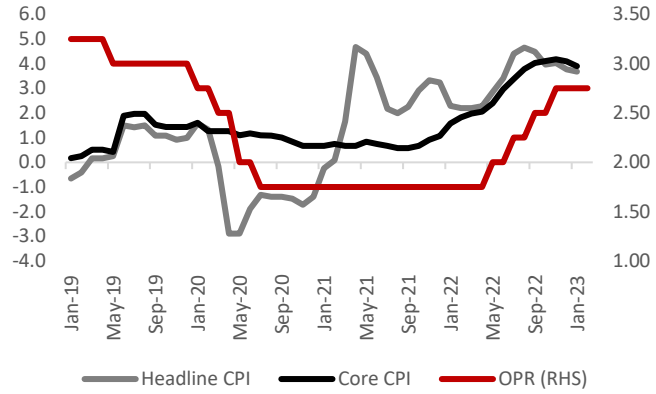
Source: MACROBOND, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2023

	Date
1st Meeting	18 – 19 January
2nd Meeting	8 – 9 March
3rd Meeting	2 – 3 May
4th Meeting	5 – 6 July
5th Meeting	6 – 7 September
6th Meeting	1 – 2 November

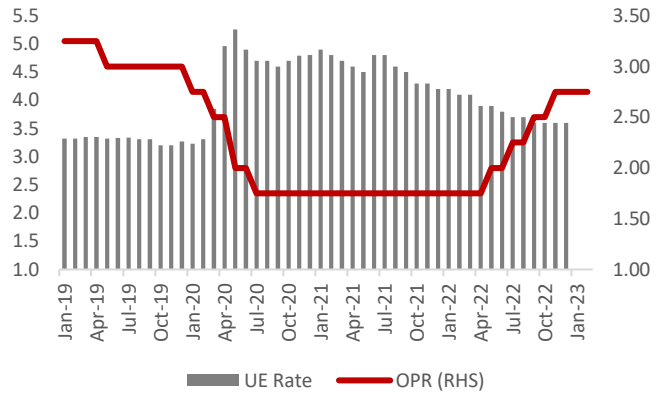
Source: BNM, MIDFR

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



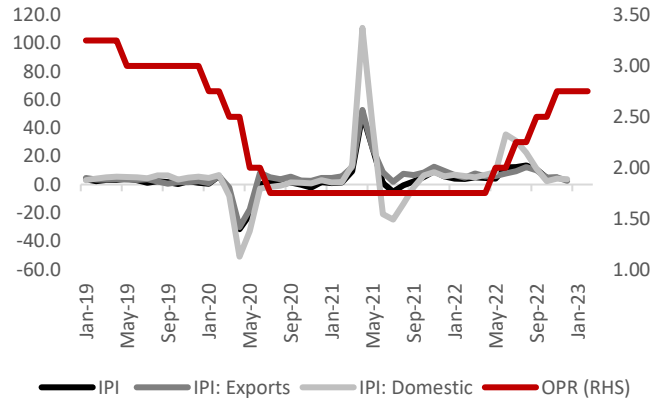
Source: MACROBOND, MIDFR

Chart 2: OPR (%) vs. Unemployment Rate (%)



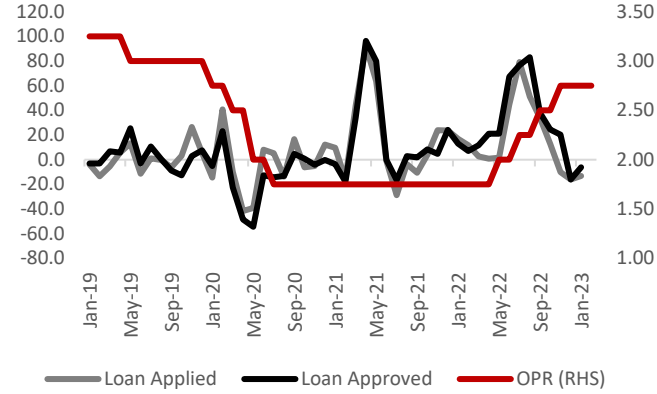
Source: MACROBOND, MIDFR

Chart 3: OPR (%) vs. IPI (YoY%)



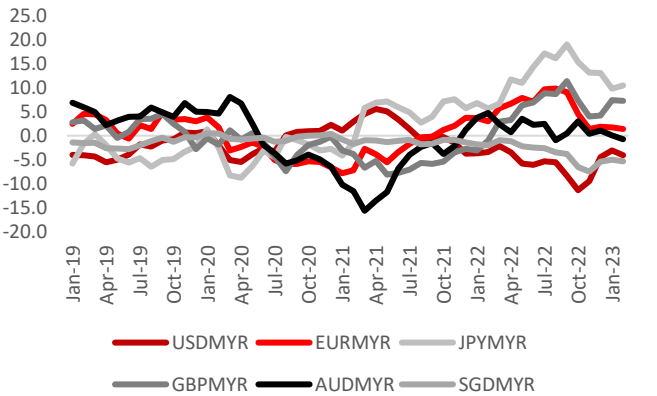
Source: BLOOMBERG, MIDFR

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



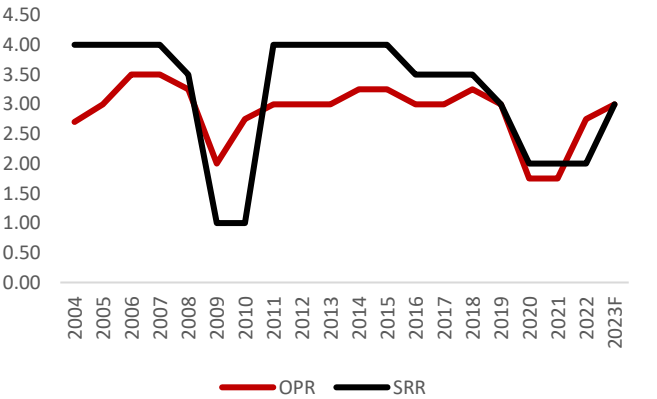
Source: MACROBOND, MIDFR

Chart 5: MYR against selected currencies (YoY%)



Source: MACROBOND, MIDFR

Chart 6: OPR & SRR forecasted at 3.00% & 3.00%



Source: BLOOMBERG, MIDFR

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