

ECONOMIC REVIEW | March 2024 BNM MPC

No Change to OPR as BNM Keeps Monetary Policy Supportive of Malaysia's Economic Growth

- *No change to OPR as expected. BNM kept the Overnight Policy Rate (OPR) at 3.00% after its second Monetary Policy Meeting in 2024, in line with ours and market expectations. BNM highlighted that the global economy remains expansionary underpinned by domestic demand and pick-up in external trade.*
- *Recovery in exports and resilient domestic expenditure. BNM foresees Malaysia's economy to improve further amid external trade recovery and resilient domestic demand. Domestic economic activities remain on expansionary momentum supported by improving labour market conditions, steady income growth, higher tourist arrivals and realisation of multi-year and infra projects.*
- *OPR is expected to stay status quo throughout 2024. BNM's monetary policy setting focuses on ensuring a sustainable growth momentum of Malaysia's economy. External trade is expected to recover but external environment stays challenging in 2024 amid ongoing geopolitical tensions and potentially slower global growth. Domestic economic outlook is predicted to remain vigilant and resilient underpinned by steady domestic demand. We believe the stabilisation of core inflation and challenging external environment may influence BNM to keep OPR at current levels throughout 2024.*

No change to OPR as expected. BNM kept the Overnight Policy Rate (OPR) at 3.00% after its second Monetary Policy Meeting in 2024, in line with ours and market expectations. In the Monetary Policy Statement (MPS), BNM highlighted that the global economy remains expansionary underpinned by domestic demand, amid positive labour market conditions, and pick-up in external trade. The MPS reiterated that global trade will grow especially due to recovery in the global E&E sector and challenges in the property will result in modest economic recovery in China. In terms of policy direction, central banks will likely move to cut rates in 2H CY24 as global inflation continues to ease, although the tight monetary policy will be kept for now as inflation remains elevated. BNM continued to highlight several downside risks to the global economy such as worsening of the geopolitical tensions, potentially higher-than-expected inflation pressure and more volatile conditions in the global financial market.

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

BNM expects inflation to stay modest in 2024. On the price developments, BNM foresees inflation to remain modest this year given the demand stability and limited cost pressures. However, the risks to inflation would come from changes in the domestic policy (e.g. subsidies and price controls). On the same note, we opine the revision to utility tariffs and targeted subsidies will affect the trajectory of inflation especially after 2Q CY24. Moreover, movements in the global commodity prices and financial markets will also affect price outlook this year.

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. Ringgit stayed on depreciation path as the Fed kept on delaying its interest rate pause. Moreover, contractionary external trade performance dragged the recovery for Ringgit in 2023. BNM stated in the MPS that Ringgit is undervalued and the recent strengthening of Ringgit was supported by measures to encourage public companies (i.e. GLCs and GLICs) to bring back investment income from abroad. In 2024, we believe Ringgit is in a good position to strengthen, supported by upbeat domestic economy and the country being a net commodity exporter (of oil & gas 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 its monetary stance from hawkish towards dovish, and thus interest differentials would narrow in 2024. We expect USDMYR to average at RM4.38 and reach RM4.20 by year-end 2024.


OPR is expected to stay status quo throughout 2024. The focus of BNM’s monetary policy setting is to ensure a sustainable growth momentum in Malaysia’s economy. Even though we expect external trade to recover, external environment stays challenging in 2024 amid ongoing geopolitical tensions and potential slower global growth. Domestic economic outlook is predicted to remain vigilant and resilient underpinned by steady domestic demand. However, we believe the stabilisation of core inflation 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 post-pandemic policy rate normalization provides room for BNM to better manage 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

	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	5.75	5.75	6.00	6.00	6.00	6.00	6.00	6.00
Philippines	6.25	6.25	6.50	6.50	6.50	6.50	6.50	6.50
Thailand	2.25	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	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
Euro area	4.25	4.50	4.50	4.50	4.50	4.50	4.50	4.50
UK	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
US	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

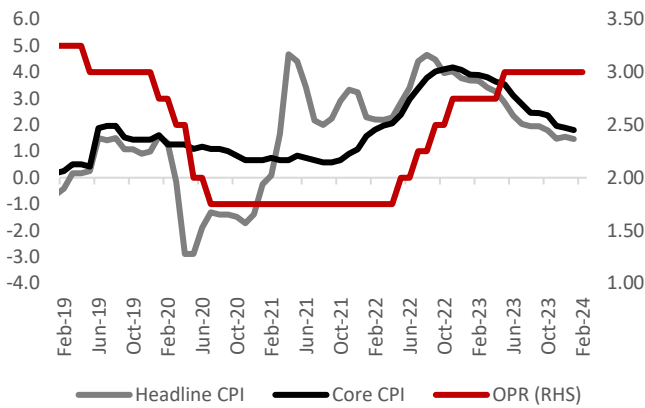
Source: Macrobond, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2023

	Date
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

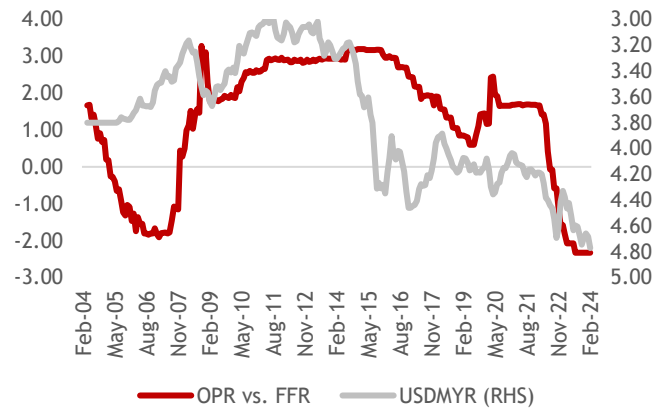
Source: BNM, MIDFR

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



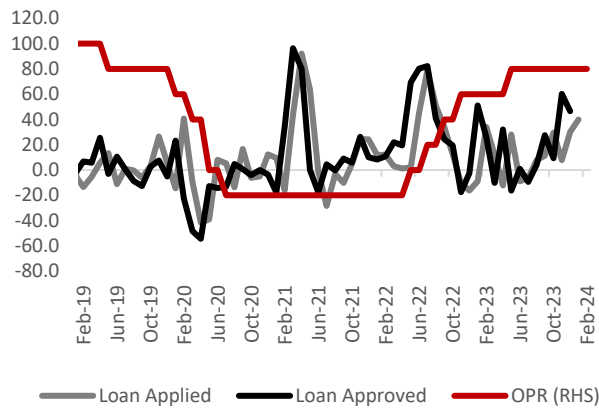
Source: Macrobond, MIDFR

Chart 4: OPR-FFR Differentials & USDMYR



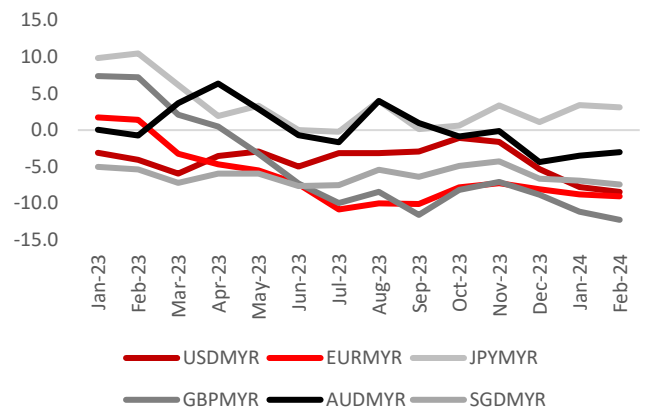
Source: Macrobond, MIDFR

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



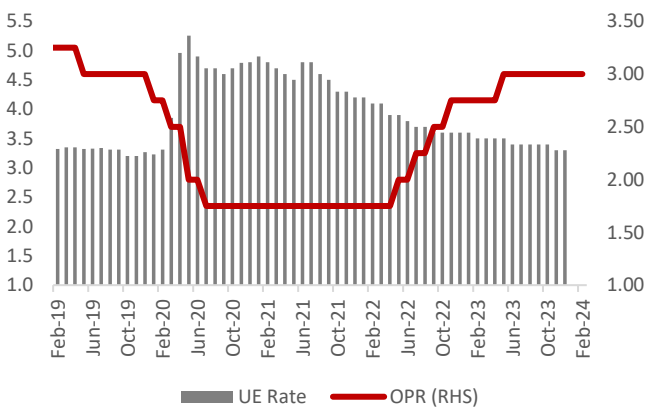
Source: Macrobond, MIDFR

Chart 5: MYR against selected currencies (YoY%)



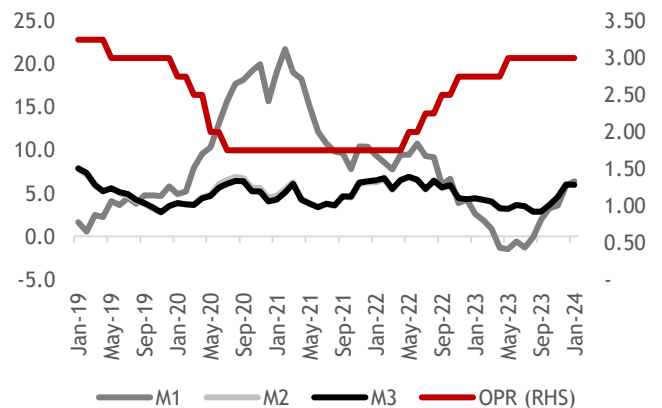
Source: Macrobond, MIDFR

Chart 3: OPR vs Unemployment Rate (%)



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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