

ECONOMIC REVIEW | November 2024 BNM MPC**No Change to OPR as Inflation Remained Under Control Amid Sustained Economic Growth**

- *No change to OPR, still supportive of growth. As widely anticipated, BNM kept the Overnight Policy Rate (OPR) at 3.00% after the Nov-24 Monetary Policy Meeting as the current policy setting remains supportive of sustained economic growth.*
- *Strong economic growth amid rising exports and investments. BNM's assessment of the domestic economy generally remains unchanged. BNM stated the sustained growth in the domestic economy has been supported by resilience in the domestic demand and increased exports.*
- *OPR to remain at 3.00% in 2025. We maintain our forecast that BNM will keep OPR at 3.00% next year. The economy will continue to grow underpinned by both increases in domestic and external demand. Although the effect of policy changes on inflation has been mild, we believe the main source of inflation next year will come from changes on the supply side.*

No change to OPR, still supportive of growth. As widely anticipated, BNM kept the Overnight Policy Rate (OPR) at 3.00% after the Nov-24 Monetary Policy Meeting as the current policy setting remains supportive of sustained economic growth. In the Monetary Policy Statement (MPS), BNM reiterated the sustained expansion in the global economy, which is expected to continue underpinned by positive labour market conditions, easing price pressures and central banks switching to policy easing (to reduce policy restrictiveness). BNM continues to expect recovery in the global trade following increased external demand for both E&E and non-E&E commodities. Like in the previous MPS, BNM indicated downside risks to global growth outlook could be triggered by heightened geopolitical tensions, more volatile financial market conditions, and weaker growth in major economies. We share the similar view because sentiment in the market has been swayed by these factors, namely the ongoing geopolitical conflicts in the Middle East and Europe as well as concerns over slowing growth momentum in China.

Strong economic growth amid rising exports and investments. BNM's assessment of the domestic economy generally remains unchanged. BNM stated the sustained growth in the domestic economy has been supported by resilience in the domestic demand and increased exports. The global tech upcycle is expected to boost exports, in addition to growing external demand for non-E&E products and increased spending by foreign tourists. Meanwhile, BNM foresees growing employment and wages as well as policy measures (e.g. cash assistance) by the government will support growing household consumption. Investment activity is set to remain strong backed by the implementation of construction projects by both private and public sectors, the realization of approved investments and the success of initiatives in the national master plans. The growth outlook is also further bolstered by planned spending in the government's Budget 2025. On one hand, Malaysia's growth outlook may be constrained by weak external demand and lower production of primary commodities. In contrast, the upside to growth outlook could come from stronger tech upcycle, more encouraging activity in the tourism sector and better progress in the investment projects.

Inflation to remain in check in 2025. Given the modest headline and core inflation, BNM expects inflation will remain under control in 2025, supported by easing global cost pressures and reduced inflationary pressures from strong domestic demand. Nonetheless, the implementation of further domestic policy measures (e.g. targeted subsidies, increased taxes and higher minimum wage) will play a pivotal role in shaping the inflation outlook.

Apart from the policy changes, future price developments may also be influenced by fluctuations in financial markets and global commodity prices.

Positive outlook for ringgit to gain further. On the assessment of ringgit, BNM maintained its view that changes on the external front have been the major factor affecting ringgit performance, which includes potential volatility in the short run triggered by the result of the presidential election in the US. Nevertheless, the ringgit outlook remains positive as BNM reiterated expectations that the narrowing interest rate gaps with advanced economies and positive prospects for Malaysia’s economy will support the ringgit to strengthen. While we also anticipate for the ringgit to appreciate as major central banks adopt policy easing, the recent weakening of ringgit suggests possible downside risk to the ringgit outlook as demand for US dollar could increase again due to risk-off sentiment and persistently elevated inflation outlook.


OPR to remain at 3.00% in 2025. We maintain our forecast that BNM will keep OPR at 3.00% next year. The economy will continue to grow underpinned by both increases in domestic and external demand. Although the effect of policy changes on inflation has been mild, we believe the main source of inflation next year will come from changes on the supply side vis-à-vis still modest underlying price pressures, in view of still low core inflation. Nevertheless, BNM has sufficient policy flexibility to ease monetary policy to counter future economic slowdowns. We do not expect BNM to ease monetary policy simply to follow decisions made by other central banks. Changes to OPR setting will be decided based on the domestic economic condition and price development in Malaysia. 

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

	May-24	Jun-24	Jul-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.25	6.25	6.25	6.25	6.00	6.00
Philippines	6.50	6.50	6.50	6.50	6.25	6.25	6.00	6.00
Thailand	2.50	2.50	2.50	2.50	2.50	2.50	2.25	2.25
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.50	3.50	3.50	3.25	3.25
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	0.25	0.25	0.25	0.25	0.25	0.25
Euro area	4.50	4.25	4.25	4.25	4.25	3.65	3.40	3.40
UK	5.25	5.25	5.25	5.25	5.00	5.00	5.00	5.00
USA	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	4.75 - 5.00	4.75 - 5.00	4.75 - 5.00

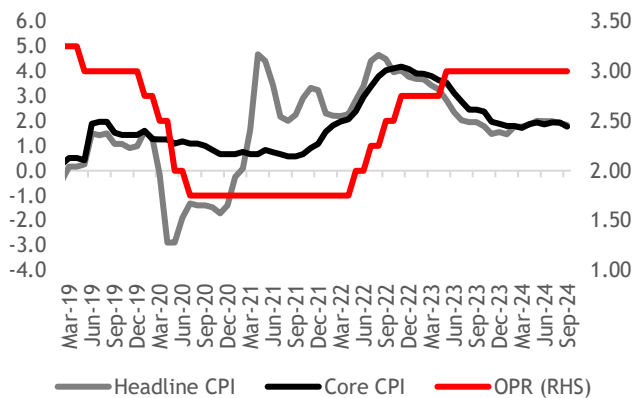
Source: Macrobond, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2024

	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	No change

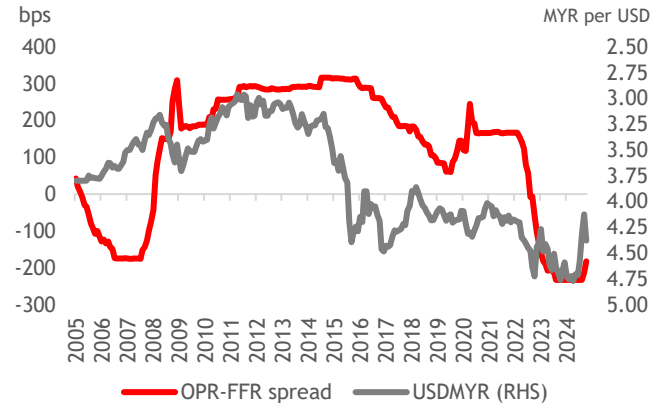
Source: BNM, MIDFR

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



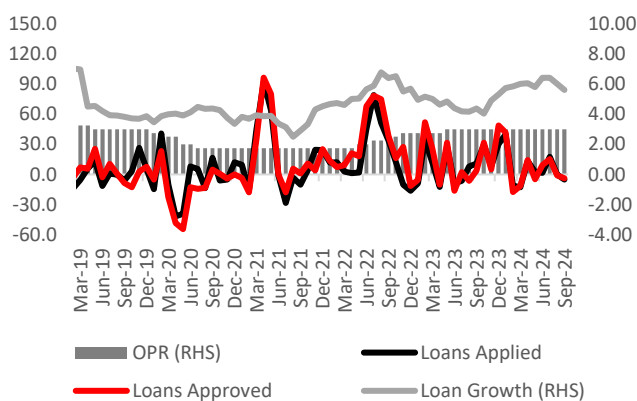
Source: Macrobond, MIDFR

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



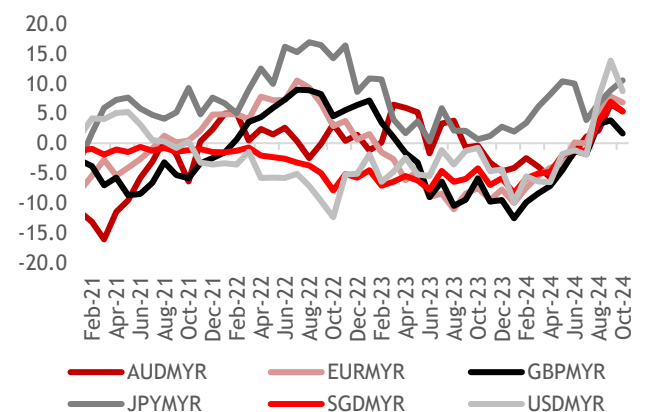
Source: Macrobond, MIDFR

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



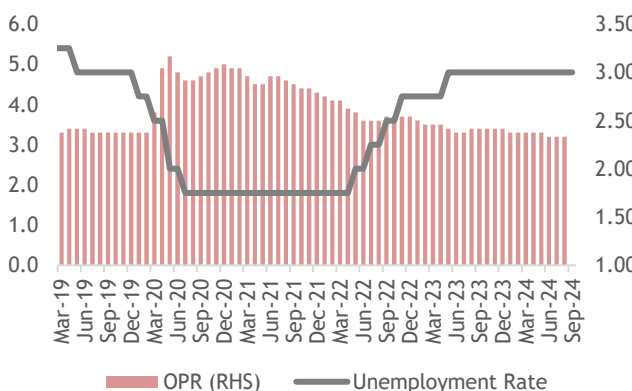
Source: Macrobond, MIDFR

Chart 4: MYR against selected currencies (YoY%)



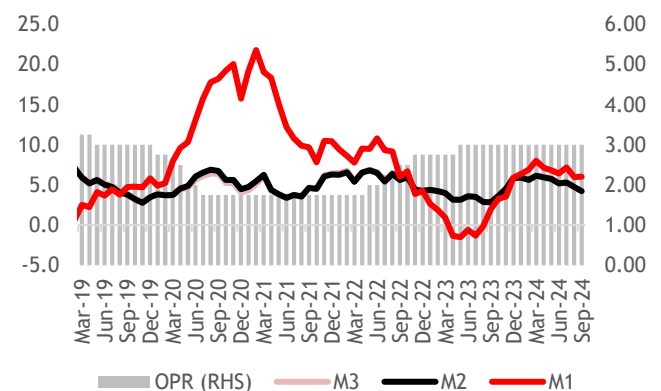
Source: Macrobond, MIDFR

Chart 5: OPR vs Unemployment Rate (%)



Source: Macrobond, MIDFR

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



Source: Macrobond, MIDFR

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