

Global Markets Research
Malaysia - Economics

Neutral BNM signals unchanged OPR ahead

OPR stayed pat at a record low of 1.75% as expected

Global growth risks have slightly abated whilst domestic growth is expected to improve in 2Q

Maintain our view for an OPR pause in 2021; barring further escalation in downside risks

Summary

BNM maintained the Overnight Policy Rate (OPR) at a record low of 1.75% for a fourth consecutive meeting. The decision was in line with ours as well as market expectations. Despite reaffirmation of prevailing downside risks, the policy statement is neutral in our view, offering more sense of confidence over recovery prospects going forward. We therefore reiterate our view for OPR to stay unchanged at the current level this year, based on our decent growth projection of 5.0%.

The global economy is gathering steam

BNM sounded a tad more upbeat on the global economy, highlighting global economic recovery is gaining momentum, albeit unevenly, supported by steady improvement in manufacturing and trade activity. Vaccine roll-out and continued policy support will remain crucial to facilitate improvement in private demand and labour market conditions. While the balance of risks remains tilted to the downside, due primarily to uncertainties surrounding the Covid-19 pandemic and efficacy of vaccination programmes, BNM assessed that risks to growth outlook has abated slightly.

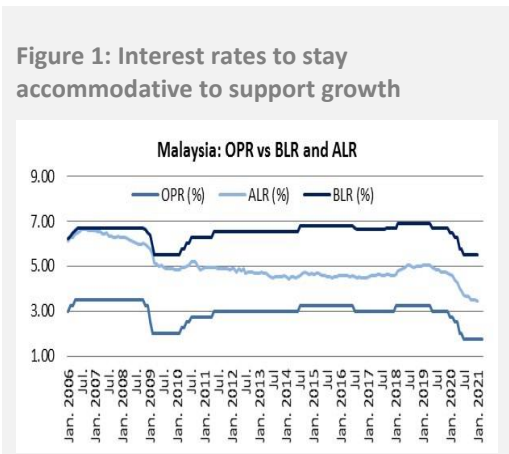
The Malaysian economy to improve from 2Q onwards

Domestically, BNM expect growth to improve from 2Q21 onwards, shrugging off the adverse impact of MCO 2.0 on growth in 1Q21. We project another small contraction in 1Q21 GDP before rebounding to double-digit growth pace in 2Q skewed by base effect. Growth is expected to normalize thereafter in 3Q and 4Q.

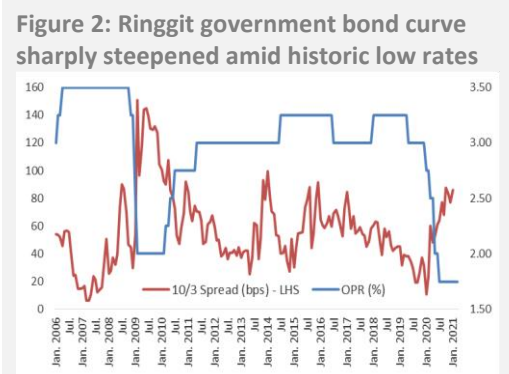
Recovery in external demand, increased public and private consumption supported by continuous policy measures, are expected to be the main growth catalysts. In addition, higher production from existing and new facilities notably from the E&E and primary-related clusters, as well as oil & gas sector, will provide added impetus to growth. The roll-out of the national vaccination programme in end-February is also expected to lift sentiments and eventually translate into improved economic activities. That said, BNM acknowledged that ongoing uncertainties surrounding the development of the pandemic and vaccine programme, will remain the wild card posing downside risk to the recovery outlook.

Outlook

Today's neutral policy statement prompted us to reaffirm our house view that BNM would keep OPR unchanged at 1.75% this year, barring any escalation in downside growth risks. The MPC statement continued to reiterate that the stance of monetary policy is "appropriate and accommodative", suggesting BNM is comfortable with the current degree of monetary accommodativeness. That said, BNM maintained that the monetary policy stance going forward will continue to be determined by new data and information and their implications on the overall outlook for inflation and domestic growth outlook, hence offering hints that it will not hesitate to act if the situation warrants a move.



Source: BNM, HLBB



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Side by Side Comparison of BNM Monetary Policy Statement

20-January-2021	4-March-2021
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75 percent.</p> <p>The global economy continues to recover, led by improvements in manufacturing and export activity. However, the recent resurgences of COVID-19 cases and the subsequent containment measures have affected economic activity in several major economies. The expedited roll-out of mass vaccination programmes, together with ongoing policy support, are expected to lift global growth prospects going forward. Financial conditions also remain supportive. The overall outlook remains subject to downside risks, primarily if there is further resurgence of COVID-19 infections and delays in mass inoculation against COVID-19.</p> <p>For Malaysia, the resurgence in COVID-19 cases and the introduction of targeted containment measures has affected the recovery momentum in the fourth quarter of 2020. As a result, growth for 2020 is expected to be near the lower end of the earlier forecasted range. For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new manufacturing and mining facilities. The roll-out of vaccines in the coming months will also lift sentiments. Downside risks to the outlook remain, stemming mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the roll-out of vaccines both globally and domestically.</p> <p>In line with earlier assessments, the average headline inflation is expected to be negative in 2020 due mainly to the substantially lower global oil prices. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.</p> <p>The MPC considers the stance of monetary policy to be appropriate and accommodative. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75 percent.</p> <p>The global economic recovery, while uneven, is gaining momentum, supported by steady improvements in manufacturing and trade activity. The ongoing roll-out of vaccination programmes in many economies, together with policy support, will further facilitate an improvement in private demand and labour market conditions. While financial markets have experienced bouts of volatility, financial conditions remain supportive of economic activity. Risks to the growth outlook have abated slightly, but remain tilted to the downside, primarily due to uncertainty over the path of the COVID-19 pandemic and effectiveness of the vaccination programmes.</p> <p>For Malaysia, latest indicators point to improvements in external demand and continued consumer spending. While the re-imposition of containment measures will affect growth in the first quarter, the impact is expected to be less severe than that experienced in the second quarter of 2020. Going forward, growth is projected to improve from the second quarter onwards, driven by the recovery in global demand, increased public and private sector expenditure amid continued support from policy measures and more targeted containment measures. Growth will also be supported by higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related sub-sectors, as well as oil and gas facilities. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and economic activity. The growth outlook, however, remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic, and potential challenges that might affect the roll-out of vaccines both globally and domestically.</p> <p>Headline inflation in 2021 is projected to average higher, primarily due to higher global oil prices. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of 2021 due to the lower base from the low domestic retail fuel prices in the corresponding quarter of 2020, before moderating thereafter. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.</p> <p>The MPC considers the stance of monetary policy to be appropriate and accommodative. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will continue to be determined by new data and information, and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.</p>

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