

BNM MPC Decision

No change on policy rate, risk to growth up on pandemic resurgence

- As expected, Bank Negara Malaysia (BNM) retained its overnight policy rate (OPR) at 1.75%.
- Policy statement: Raises cautionary outlook on domestic economy though it continues to acknowledge the strengthening of global economic recovery.**

- However, the Monetary Policy Committee (MPC) stated that “the recovery trajectory in some economies could be disrupted by a retightening of containment measures to curb COVID-19 resurgences.”
- Cognisant of the uncertainty arising from the resurgence of the pandemic, BNM reiterated its concern that “risks to the growth outlook remains tilted to the downside.”

- Domestically, BNM hinted to an improvement in economic activity in the 1Q21 and into April. On this basis, we had earlier revised our 1Q21 GDP growth estimate to 2.1% (4Q20: -3.4%) from -0.4%.
- On the recent reimposition of Movement Control Order (MCO) in selected major locations, BNM expect it will affect economic growth in the short term albeit “less severe as almost all economic sectors are allowed to operate.”
- The growth trajectory, BNM noted, “is projected to improve, driven by stronger recovery in global demand and increased public and private sector expenditure,” along with “the progress of COVID-19 vaccine programme.”
- BNM, however, noted with concern that growth outlook, “remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic.” BNM sees GDP growth of between 6.0% to 7.5% for the year (KIBB: 6.5%).

- Rate outlook: Likely to hold policy rate steady in 2021.**

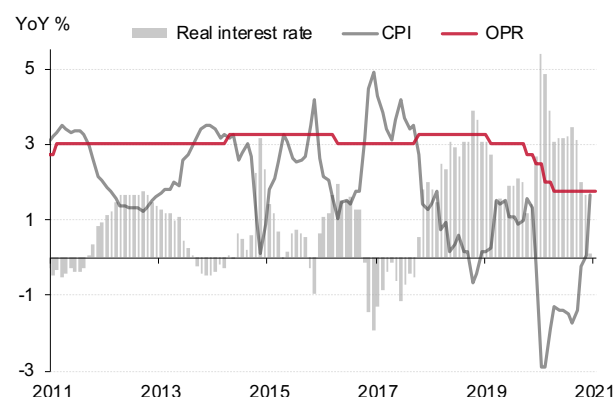
- Arguably BNM monetary policy stance is still in transition from being dovish to neutral as the economic outlook improves along with a gradual rise in inflation.
- But that steady growth recovery could be disrupted if the ongoing uncertainties in developments related to the pandemic, according to BNM, escalate, along with potential challenges that might affect the rollout of vaccines both globally and domestically.
- Meanwhile, BNM projects headline inflation in 2021 “to average higher between 2.5% and 4.0%, primarily due to the cost-push factor of higher global oil prices.” The trajectory, BNM added, “will be transitory as headline inflation is projected to moderate thereafter as this base effect dissipates.” Our CPI forecast for 2021 is 1.4% (2020: -1.2%).
- BNM sees underlying inflation or core inflation to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy. This, however, is subject to global oil and commodity price developments.
- Unless there is a major risk to the financial market because of the negative spillover from the pandemic, we reckon BNM would save its bullets and let fiscal policy take the lead to support the economy. For now, BNM is expected to hold the OPR at 1.75% for the rest of the year.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
3.50% (-0.25%)	Indonesia	7-Day Reverse Repo Rate	Feb-21
2.00% (-0.25%)	Philippines	Overnight Reverse Repurchase	Nov-20
0.10% (-0.15%)	Australia	Cash Rate	Nov-20
1.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-20
0.50% (-0.25%)	South Korea	Base Rate	May-20
4.00% (-0.40%)	India	Repo Rate	May-20
0.50% (-0.25%)	Thailand	Repo Rate	May-20
3.85% (-0.20%)	China	Loan Prime Rate	Apr-20
0.25% (-0.75%)	New Zealand	Official Cash Rate	Mar-20
1.125% (-0.25%)	Taiwan	Discount Rate	Mar-20
0.00-0.25% (-1.00%)	USA	Funds Rate Target	Mar-20
-0.10% (-0.10%)	Japan	Complementary Deposit Facility	Jan-16

Source: Bloomberg, CEIC, Kenanga Research

Graph 1: Inflationary Trend and the OPR



Source: BNM, Department of Statistics, Kenanga Research

07 May 2021

Table 2: MPC Meeting Schedule for 2021/ KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	19 and 20 January (Tue and Wed)	<input checked="" type="checkbox"/>	25 bp cut	No change
2nd	3 and 4 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	5 and 6 May (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4th	7 and 8 July (Wed and Thu)	<input type="checkbox"/>	No change	
5th	8 and 9 September (Wed and Thu)	<input type="checkbox"/>	No change	
6th	2 and 3 November (Tue and Wed)	<input type="checkbox"/>	No change	

Source: Bank Negara Malaysia, Kenanga Research

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