

BNM MPC Decision

Policy rate unchanged, no change in tone on risk to growth outlook

- Bank Negara Malaysia (BNM) expectedly kept the overnight policy rate (OPR) at 1.75%. Monetary Policy Committee (MPC) retains its downside risk to the growth outlook for the rest of the year

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.75% (+0.25%)	South Korea	Base Rate	Aug-21
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
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

- Policy statement: Little change from previous meeting but hinted on better growth prospects for 2022

– “Delays in the easing or re-imposition of broad-based containment measures due to the impact of new COVID-19 variants of concern and a weaker-than-expected global growth recovery,” it stated are key domestic and external factors that “risks to the growth outlook remain tilted to the downside.”

– However, the MPC foresees that “the further easing of containment measures, rapid progress of the domestic vaccination programme and continued expansion in global demand will support the growth momentum going into 2022.”

– While it concedes that the last re-imposition of nation-wide containment measures to curb the resurgence in COVID-19 cases had slowed the growth recovery momentum, “the recent gradual relaxations for more economic sectors to operate, along with higher adaptability of firms to the new operating environment and continued policy support, would partly mitigate the impact and allow the economy to resume its recovery path,” BNM added.

– CPI outlook: Headline inflation to average between 2.0% and 3.0% for 2021 (KIBB: 1.8%; YTD: 2.3%; 2020: -1.2%). Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, on the back of spare capacity in the economy but that may change subject to global commodity price developments. Underlying inflation, however, is expected to remain relatively subdued in 2022.

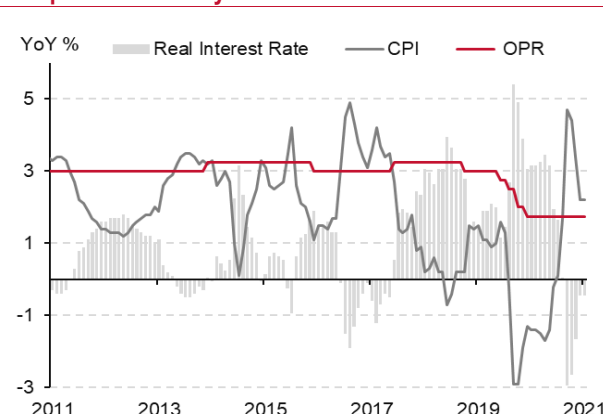
- BNM OPR outlook: To remain unchanged till year end and the probability of a rate cut diminishes with the gradual easing of containment measures

– Given that its monetary policy outlook has not changed that much from the previous MPC meeting and the growth outlook is slightly improving, we continue to believe that the OPR will remain unchanged at 1.75% till year end and the possibility of a rate cut gradually diminish.

– As uncertainty still lingers on the external front as well as domestically over the path of the pandemic amid the emergence of new virulent variants and heightened financial market volatility amid adjustments in monetary policy in major economies, we still think there is room for BNM to lower both the OPR and the Statutory Reserve Requirement.

– This is also contingent on the increasingly limited fiscal space and debt headroom to raise funds to finance the deficit as well as various financial-related measures to support the SMEs, and the hospitality sector could be limited or ineffective.

Graph 1: Inflationary Trend and the OPR



Source: BNM, Department of Statistics, Kenanga Research

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 checked="" type="checkbox"/>	No change	No change
5th	8 and 9 September (Wed and Thu)	<input checked="" type="checkbox"/>	No change	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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