

BNM MPC Meeting (2 - 3 May)

A surprise 25 bps rate hike to 3.00%, downside risk to growth remains

- **Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) raised the overnight policy rate (OPR) by 25 basis points (bps) to 3.00%, surpassing expectations**

- The ceiling and floor rates of the OPR corridor were correspondingly increased to 3.25% and 2.75%, respectively.

- **Policy statement: upbeat on the domestic and global economies following China's recovery with the inflation outlook being susceptible to policy changes**

- **Global:** The MPC sees the economy being supported by resilient domestic demand amid strong labour market conditions and a stronger-than-expected rebound of China's economy. However, it reiterates that the downside risks to the growth outlook mainly derived from "an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and a sharp tightening in financial market conditions including from further stress in the banking sector".

- **Domestic economy:** The MPC expects further expansion in economic activity in the 1Q23 and throughout the year despite a moderating exports growth. It expects growth to be driven by domestic demand, supported by resilient household spending, an increase in tourist arrivals, the progress of infrastructure projects and favourable domestic financial conditions. Although the MPC maintained its downside risk to the growth outlook, it states that "risks to the domestic growth outlook are relatively balanced".

- **Inflation:** The MPC maintained its inflation forecast between 2.8% - 3.8% in 2023 (2022: 3.3%), with core inflation remaining elevated due to strong demand conditions. Nevertheless, BNM reiterated that "the balance of risk to the inflation outlook is tilted to the upside and remains highly subjected to any changes to the domestic policy, including on subsidies and price controls, financial market developments as well as global commodity prices".

- **BNM OPR outlook: may have completed its policy normalisation**

- Given the surprise decision by BNM in May's MPC meeting, we believe BNM might have reached its policy normalisation target for now. Nevertheless, there seems to be room for rate adjustments, as the MPC stated that it "will continue to ensure that the monetary policy stance remains consistent with the outlook of domestic inflation and growth". Though we have revised our 2023 headline inflation forecast upwards to 2.9% from 2.5% earlier, considering the prospect of potential subsidy rationalisation, we believe the current policy rate is sufficient to achieve moderate inflation and sustainable growth. This is also premised on the assumption that domestic growth is susceptible to external risk amid the heightened global economic slowdown as a result of tighter financial conditions in the advanced economies.

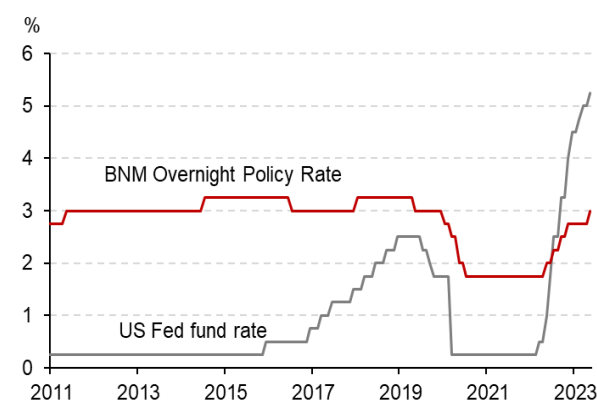
- Barring any external shock to the growth and inflation outlook, we expect BNM to keep OPR steady at 3.00% for the rest of the year. Likewise, we maintain our 2023 GDP growth forecast of 4.7% (2022: 8.7%) on the anticipation that domestic demand will remain resilient despite tighter financial conditions following further monetary policy tightening by BNM, mainly supported by the steady labour market and the improvement in tourism.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
5.00% - 5.25% (+0.25%)	USA	Funds Rate Target	May-23
3.00% (+0.25%)	Malaysia	Overnight Policy Rate	May-23
3.85% (+0.25%)	Australia	Cash Rate	May-23
5.25% (+0.50%)	New Zealand	Official Cash Rate	Apr-23
1.875% (+0.125%)	Taiwan	Discount Rate	Mar-23
6.25% (+0.50%)	Philippines	Overnight Reverse Repurchase	Mar-23
3.50% (+0.50%)	Euro Area	Fixed Rate	Mar-23
4.25% (+0.25%)	UK	Base Rate	Mar-23
1.75% (+0.25%)	Thailand	Repo Rate	Mar-23
5.75% (+0.25%)	Indonesia	7-Day Reverse Repo Rate	Jan-23
3.50% (+0.25%)	South Korea	Base Rate	Jan-23
3.65% (-0.05%)	China	Loan Prime Rate (1Y)	Aug-22
-0.10% (-0.20%)	Japan	Complementary Deposit Facility	Jan-16

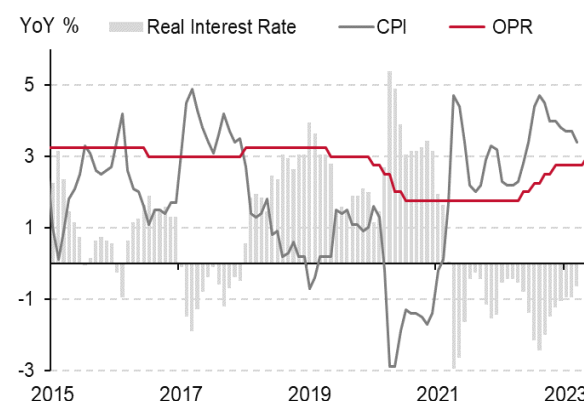
Source: Bloomberg, Kenanga Research

Graph 1: US Fed Funds Rate and BNM OPR



Source: Bloomberg, Kenanga Research

Graph 2: Malaysia Real Interest Rate and BNM OPR



Source: Bloomberg, Kenanga Research

05 May 2023

Table 3: MPC Meeting Schedule for 2023 / KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	18 and 19 January (Wed and Thu)	<input checked="" type="checkbox"/>	+25 bps	No change
2nd	8 and 9 March (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	2 and 3 May (Tue and Wed)	<input checked="" type="checkbox"/>	No change	+25 bps
4th	5 and 6 July (Wed and Thu)	<input type="checkbox"/>	No change	-
5th	6 and 7 September (Wed and Thu)	<input type="checkbox"/>	No change	-
6th	1 and 2 November (Wed and Thu)	<input type="checkbox"/>	No change	-

Source: Bank Negara Malaysia, Kenanga Research

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