Economic Research

MARC

Malaysian Rating Corporation Berhad
199501035601 (364803-V)

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#whatwethink: No policy surprise, BNM maintains OPR

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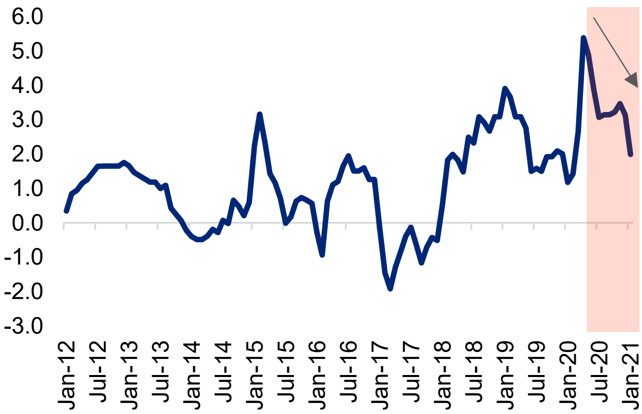
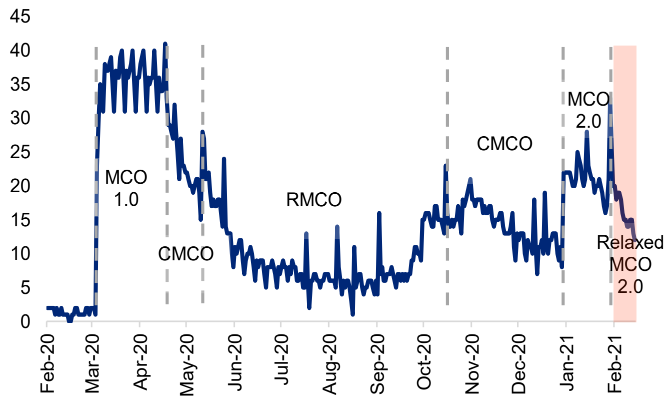
Chart 1: Real interest rate (%)



Sources: BNM, MARC Research

Chart 2: Duration of time spent at home (% change from the baseline*)



**Baselines represent a normal value for that day of the week, given as the median value over the period between January 3 and February 6, 2020.*

Sources: Google COVID-19 Community Mobility Report, MARC Research

- Bank Negara Malaysia (BNM) today left its benchmark overnight policy rate (OPR) unchanged at 1.75%. It marked the second meeting in a row this year where it left the OPR unchanged. There was little indication in BNM's Monetary Policy Statement (MPS) that it is in any hurry to adjust its policy setting anytime soon.

- Striking a fairly optimistic tone, the MPS cited the improving global economy. It expects the ongoing global rollout of vaccines and policy support to further boost growth momentum. On the domestic front, it cited improving external demand and continued consumer spending. It expects the domestic growth outlook to remain subject to uncertainties related to the pandemic and the rollout of vaccines, both globally and domestically.

- BNM's decision to keep the OPR unchanged is in line with our projection, and we expect it to be kept at the current level for the rest of the year. For 2021, we maintain our view that Malaysia's real GDP growth will come in at 5.6%, thanks largely to the low base effect.

- The gradual reopening of the economy, besides encouraging recovery momentum that was affected by MCO 2.0, should also assist in the rollout of vaccines. While mobility restrictions and an elevated unemployment rate will continue to pose an immediate threat to growth, improving external demand should continue to lend growth support.

- BNM's decision is not a surprise given that inflation is expected to rise in 2021, driven by higher global oil and commodity prices. This is because rising inflation will push the real policy rate lower.

- While we see some light at the end of the long tunnel, there remain many downside risks. Even if the domestic rollout of vaccines is smooth, for example, Malaysia may not fully benefit from it because of events abroad. The distribution of vaccines abroad has been unexpectedly slow and there have been supply shortfalls. Additionally, emerging new strains of the coronavirus will likely pose further setbacks.

- GDP growth will likely contract again in 1Q2021 because of MCO 2.0. Going forward, the situation should improve with the relaxation of containment measures, as well as the rollout of vaccines. However, recovery to pre-pandemic levels will likely take a while. This is because of the damage already inflicted upon the economy and the fact that the unemployment rate has risen to a level not seen in almost three decades (December 2020: 4.8%).

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