

#whatwethink: BNM determined to support growth

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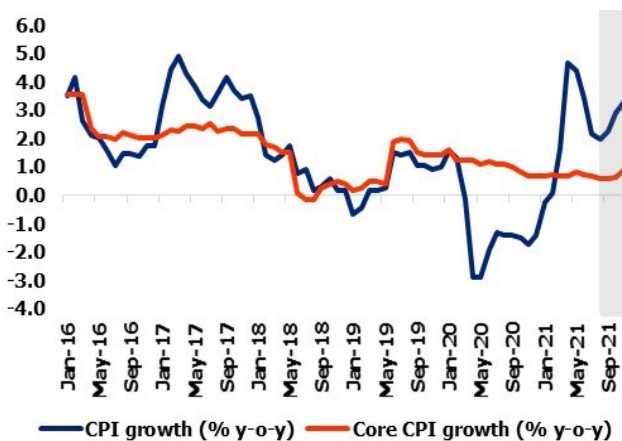
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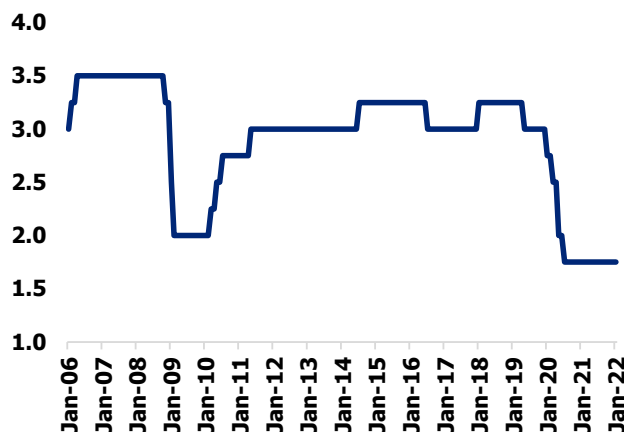
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Chart 1: Consumer price index (CPI)



Sources: Department of Statistics Malaysia (DOSM), CEIC Data

Chart 2: OPR (%)



Sources: BNM, CEIC Data

- The first Monetary Policy Committee (MPC) meeting of 2022 saw Bank Negara Malaysia (BNM) holding the overnight policy rate (OPR) unchanged at the record low of 1.75%. BNM has been on status quo since July 2020. The decision is in line with our expectation as we deem the current accommodative monetary settings as still necessary to support the economy's fragile recovery.
- While anticipating domestic growth to gain momentum in 2022, BNM appears to be taking a cautious stance amid persistent downside risks. BNM reiterated its scenario of concerns for Malaysia in its latest monetary policy statement (MPS), which include "a weaker-than-expected global growth, a worsening in supply chain disruptions, and the re-imposition of containment measures due to the impact of new COVID-19 variants of concern." We caution that the downside risks, if these materialise, could further complicate the conduct of monetary policy.
- This scenario is true when inflationary pressure is gathering pace as the economy normalises amid higher input costs and rising domestic demand. Nevertheless, BNM envisages the underlying inflation to remain modest, with upside risk being contained by continued slack in the economy and labour market. We concur with BNM's inflation outlook as we also expect the government to suppress rising prices via subsidies and price control mechanisms to tame inflation. These will provide some comfort for BNM to maintain the OPR at a low level for longer to give some breathing space for the economy to recover meaningfully.
- BNM has thus far, provided little clues on its future monetary policy moves but reiterated that "fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity." We believe this implies that abrupt changes in the monetary policy are unlikely and the monetary settings will remain sufficiently accommodative for some time.
- We opine that a higher interest rate would only be possible with a drastic change in the external environment or a speedier pace of pass-through amid rising input costs. Otherwise, we maintain our view that BNM's lift-off would only occur during 2H2022 and the quantum of rate increases would be gradual.

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