

KERATAN AKHBAR

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BNM likely to keep key rate at 3% for rest of 2023: BMI

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PETALIN JAYA: Bank Negara Malaysia (BNM) has reached the end of its hiking cycle and will leave the overnight policy rate (OPR) at 3.0% for the rest of 2023, said BMI.

The research firm, which is a unit of Fitch Solutions, said BNM would increasingly turn its focus to supporting growth over the coming months as inflation continues to moderate domestically.

"This view is supported by a statement released by the central bank, where it believes the current monetary policy stance is slightly accommodative and remains supportive of the economy," BMI said in a note yesterday.

It also expects the central bank to leave its policy rate on hold at its next meeting in July for two reasons.

► Fitch Solutions unit believes Bank Negara will increasingly turn its focus to supporting economic growth over the coming months

First, headline inflation continued to ease to 3.4% year-on-year in March from 3.7% in February, marking the slowest pace in nine months.

The brokerage firm noted that inflation would continue to moderate in the coming months due to base effects and softer commodity prices.

Second, BMI expects the ringgit to continue range trading over the coming months, which means that currency volatility would not pose a major concern for BNM.

"Following the US Federal Reserve's (Fed) latest meeting on May 3, our global team expects the Fed Funds Rate to be raised only marginally further to a peak of 5.50% by the first half of 2023, from 5.25% currently.

"Even if BNM leave rates on hold for the rest of 2023, this is unlikely to trigger significant portfolio outflows as the divergence in interest rate differentials would be small," BMI said, adding that headline inflation

to moderate to 2.5% by the end of 2023, bringing the average inflation to 2.9% compared with 3.4% last year.

Meanwhile, BMI expects Malaysia's economic growth to moderate over the coming quarters to 4.8% in the first quarter of 2023 and 4.0% in the second quarter of the year from 7.0% in the last quarter of 2022, and this would be below the pre-pandemic average of 4.6% recorded between 2018 and 2019.

"We expect pent-up demand to fade and the slowdown in external demand to also filter through to other parts of the economy.

"In its monetary policy statement, BNM is also of the view that exports are due to moderate," it added. - Bernama