

KERATAN AKHBAR

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Bank Negara surprises by raising OPR to 3%



KUALA LUMPUR: Bank Negara Malaysia in a surprised move has raised the overnight policy rate (OPR) by 25 basis points (bps) to 3%, the first hike since November 2022. The central bank raised the benchmark lending rate by 100bps last year.

A Reuters poll of 25 economists had largely expected Bank Negara to hold its OPR at 2.75% for a third straight meeting.

Bank Negara said the ceiling and floor rates of the corridor of the OPR are correspondingly increased to 3.25% and 2.75%, respectively.

OPR Decision and Statement

Date	Change in OPR (%)	New OPR Level (%)
03 May 2023	+0.25	3.00
09 Mar 2023	0	2.75
19 Jan 2023	0	2.75
03 Nov 2022	+0.25	2.75
08 Sep 2022	+0.25	2.50
06 Jul 2022	+0.25	2.25
11 May 2022	+0.25	2.00
03 Mar 2022	0	1.75
20 Jan 2022	0	1.75

The central bank said the global economy continues to be driven by resilient domestic demand supported by strong labour market conditions, and a stronger-than-expected rebound of China's economy.

Nevertheless, the global economy continues to be weighed down by elevated cost pressures and higher interest rates.

"Headline inflation continued to moderate, but core inflation has persisted above historical averages. For most central banks, the monetary policy stance is likely to remain tight," it said.

The central bank said growth outlook remains subject to downside risks, mainly 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.

“For the Malaysian economy, latest developments point towards further expansion in economic activity in the first quarter of 2023 after the strong performance in 2022.

“While exports are expected to moderate, growth in 2023 will be driven by domestic demand. Household spending remains resilient, underpinned by better labour market conditions as unemployment continues to decline to pre-pandemic levels,” it said.

Domestic financial conditions also remain conducive to financial intermediation, with no signs of excessive tightening affecting consumption and investment activities. Risks to the domestic growth outlook are relatively balanced.

“Upside risks mainly emanate from domestic factors such as stronger-than-expected tourism activity and implementation of projects including those from the re-tabled Budget 2023, while downside risks stem from weaker-than-expected global growth and more volatile global financial market conditions,” Bank Negara said.

“Both headline and core inflation are expected to moderate over the course of 2023, averaging between 2.8% – 3.8%,” it said, adding that core inflation would remain at elevated levels amid firm demand conditions.

“Existing price controls and fuel subsidies will continue to partly contain the extent of upward pressures to inflation. The balance of risk to the inflation outlook is tilted to the upside and remains highly subject to any changes to domestic policy including on subsidies and price controls, financial market developments, as well as global commodity prices,” it said.

With the domestic growth prospects remaining resilient, the MPC judges that it is timely to further normalise the degree of monetary accommodation.

The MPC has withdrawn the monetary stimulus intended to address the Covid-19 crisis in promoting economic recovery.

“In light of the continued strength of the Malaysian economy, the MPC also recognises the need to ensure that the stance of monetary policy is appropriate to prevent the risk of future financial imbalances.

“At the current level, the monetary policy stance is slightly accommodative and remains supportive of the economy. The MPC will continue to ensure that the monetary policy stance remains consistent with the outlook of domestic inflation and growth,” it said.

Monetary Policy Statement (MPS) Snapshot: May 2023



What did we decide?

We raised the OPR from 2.75% to 3.00%

- The Malaysian economy is showing strength
- At this level, the OPR is back to pre-crisis levels and is more aligned with the stronger state of the economy

What's happening in the economy?

The Malaysian economy will continue to expand this year

- Unemployment is coming down closer to pre-crisis levels, and this will support household spending
- Even more tourists have visited, which supports local businesses
- Large projects are progressing well
- Despite some challenges, global growth is supported by the strong job market and the rebound of China's economy



Inflation trended lower in recent months but remains elevated amid firm demand



How do we see the economy in the future?

The Malaysian economy will remain resilient. Inflation will moderate but remain elevated

- It's important to ensure that our OPR is at the right level to prevent problems that can arise from long periods of low interest rates (e.g., too much borrowing)
- We will ensure that our OPR supports sustainable growth while keeping inflation in check



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA