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BNM makes surprise 25bps hike in OPR to 3%

KUALA LUMPUR (May 3): Bank Negara Malaysia (BNM) has raised the overnight policy rate (OPR) by 25 basis points (bps) to 3%, as the central bank believes the global economy continues to be driven by resilient domestic demand.

The rate hike, after two consecutive pauses in early 2023 at 2.75%, came as a surprise after most economists had predicted that BNM would maintain the OPR level to further assess the impact of the four straight increases to the key rate last year that raised it by a cumulative 100bps.

Following the quarter-percentage-point hike on Wednesday (May 3), the ceiling and floor rates of the corridor of the OPR are correspondingly increased to 3.25% and 2.75% respectively, BNM said in a statement.

“With the domestic growth prospects remaining resilient, the Monetary Policy Committee (MPC) judges that it is timely to further normalise the degree of monetary accommodation. With this decision, the MPC has withdrawn the monetary stimulus intended to address the Covid-19 crisis in promoting economic recovery,” BNM said.

“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.”

The latest hike has raised the OPR back to its pre-pandemic level seen in the second half of 2019. BNM previously cut it four consecutive times by a cumulative 125 bps, which brought the key rate to its record low of 1.75% by July 2020, to support the economy during the Covid-19 pandemic.

With the OPR level again at 3% now, BNM said "the monetary policy stance is slightly accommodative and remains supportive of the economy", adding the MPC will continue to ensure that the stance remains consistent with the outlook of domestic inflation and growth.

Ringgit strengthens slightly after latest OPR decision

The Malaysian ringgit strengthened slightly following the latest OPR adjustment. Against the US dollar, the ringgit firmed to 4.4515 from 4.4640, although still far off from its January strength of 4.2345 against the greenback.

The ringgit, like many other currencies, was badly hit following the relentless rise in US interest rate since last year, with the local currency sliding to as much as 4.7477 in November 2023. It then gradually strengthened until January, but weakened again as global interest rate hikes continued, led by the US.

While domestic demand has been resilient and supported by strong labour market conditions and a stronger-than-expected rebound of China’s economy, BNM noted that the global economy is still being weighed down by elevated cost pressures and higher interest rates. And most central banks are likely to remain in a tight monetary policy stance, it said, given that core inflation has persisted above historical averages despite moderating headline inflation.

The US Federal Reserve will confirm on Thursday (Malaysian time) whether there will be another hike on the US Fed Funds Rate, currently at 4.75%-5%, as the central bank continues its fight against elevated inflation. Analysts anticipate another 25 bps after the latest Federal Open Market Committee (FOMC) meeting. The European Central Bank will also announce its latest monetary policy decision on the same day.

“The (global) 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,” BNM said.

Back to the domestic front, BNM said the 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. The pickup in tourist arrivals is expected to lift tourism-related activities,” BNM said.

The central bank believes further progress of multi-year infrastructure projects will support investment activity.

“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,” it added.