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Bank Negara expected to hold key rate at meeting this week amid, among others, external risks and slowing growth momentum

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PETALING JAYA: Research houses think Bank Negara Malaysia's (BNM) Monetary Policy Committee will maintain the Overnight Policy Rate (OPR) at 3% when it meets on Thursday.

Experts have cited various factors, including external downside risks, moderating growth momentum, slow consumption drivers, need to avoid risks of overspending and overborrowing, inflation moderation and a focus on sustaining growth.

UOB Economics and Market Research said that while the May monetary policy statement indicated that BNM remains open to further rate increases, the likelihood of another hike is diminishing.

"This is because as external downside risks linger or escalate, growth momentum moderates and consumption drivers slow, weighed by prospects of higher costs amid adjustments in domestic subsidy policies," it explained.

MIDF Research also expects the OPR to stay at 3%. With BNM having raised the OPR to the pre-pandemic level of 3%, they foresee the policy rate will be kept unchanged.

"We opine that inflation (which has not been as high as in other countries) will continue to moderate and BNM will keep its focus on sustaining growth. In addition, improved supply and reduced cost pressures shall keep inflation under control. Nevertheless, high demand pressures, given the core inflation persistently exceeding headline inflation, is one of the upside risks to OPR outlook," it said.

In May, BNM increased the OPR by 0.25% to 3%. It was the first time this year that the OPR was raised, after being kept at 2.75% twice in January and March.

Bank Islam Malaysia Bhd commented that the 25-basis point hike in May was more of a "now or never" situation considering that the second half of the year could be challenging from the growth perspective.

It added that Malaysia's inflation rate continued to trend down (April: 3.3% against March: 3.4%), marking the lowest print since March last year, though the core inflation is still trending higher than the headline rate at 3.6% in April.

"Unlike in many parts of the world, Malaysia's inflation reading gives limited clues on the trajectory of the monetary policy. In our view, labour market recovery means the OPR should progressively return to its new terminal level as it correlates more strongly with the unemployment rate rather than inflation (-86%).

"At the current rate, we do not rule out the possibility of another OPR hike during the second half of 2023 should the unemployment rate steadily improve, reaching 3.3% in August when the official data released in October, a month before the scheduled final MPC meeting in 1-2 November 2023. Failing which, the OPR may rest at 3% until the year-end," it stated.