

KERATAN AKHBAR

TARIKH : 5 JULAI 2023
AKHBAR : NEW STRAITS TIMES
MUKA SURAT : 19

Bank Negara to maintain OPR at 3pc?

TIGHTENING CYCLE

BANK NEGARA TO MAINTAIN OPR AT 3pc?

Economists polled by Reuters cite easing inflation, slowing growth momentum

AZANIS SHAHILA AMAN
AND S. JOAN SANTANI
KUALA LUMPUR
bt@nst.com.my

BANK Negara Malaysia will most likely leave the Overnight Policy Rate (OPR) unchanged tomorrow due to the slowing growth momentum and easing inflationary pressures.

All but three of 25 economists polled by Reuters between June 27 and Monday expect the central bank to hold OPR steady at the pre-Covid-19 pandemic level of three per cent.

They also expect the key rate to be kept there for the rest of the year, marking the end of Bank Negara's modest tightening cycle.

The central bank had surprised the market by raising the OPR by 25 basis points (bps) to three per cent in May after having kept it unchanged since January.

Putra Business School economic analyst Associate Professor Dr

Ahmed Razman Abdul Latiff said he expected the OPR to remain at three per cent after latest data showed that inflation eased to 2.8 per cent in May.

"Additionally, the recent decision by the United States Federal Reserve (Fed) not to raise its interest rate could ease the pressure on Bank Negara to do so," he told the *New Straits Times*.

Bank Muamalat Malaysia Bhd chief economist and social finance head Dr Mohd Afzanizam Abdul Rashid emphasised that in respect of OPR, the consideration had always been about the domestic economy, especially on investment and consumption.

He said while external factors had impacted Malaysia's exports, the inflation rate had fallen.

"There is less urgency to raise the OPR and, perhaps, it is best to keep it steady at three per cent for the rest of the year," he said.

OCBC senior Asean economist Lavanya Venkateswaran said the weaker incoming activity data since May 3 pointed to a slower



Bank Negara Malaysia had surprised the market in May by raising the Overnight Policy Rate by 25 basis points to three per cent, after having kept it unchanged since January. PIC BY ASWADI ALIAS

growth momentum in the second quarter.

"We assign a 70 per cent probability for Bank Negara to maintain its policy rate on July 6 (tomorrow) and a 30 per cent probability to a second consecutive 25bps hike."

She said on the domestic front, April wholesale and retail sales growth slowed to 3.2 per cent and 12.9 per cent year-on-year, respectively.

"Growth momentum is slowing and the incoming data is broadly consistent with our forecast for GDP growth to slow to 4.9 per cent in the second quarter from 5.6 per cent in the preceding quarter," she added.

However, Centre for Market Education chief executive officer Dr Carmelo Ferlito said he expected an OPR hike due to the risk of an

economic slowdown and the lack of a clear economic direction from the government.

He stressed that only an improved pro-market policy could help strengthen the ringgit.

"The potential consequences of a weak ringgit, such as an increase in the food import bill, could prompt Bank Negara to intervene."

"Signs from Europe and China are unfavourable, and the central bank would consider the potential depressive effect of a further rate hike on the Malaysian economy," said Ferlito.

Maybank Investment Bank Bhd also expects another 25bps hike in the OPR to 3.25 per cent during the Monetary Policy Committee meeting on Thursday.

Its regional head of equity research, Anand Pathmakanthan,

said this was due to the revised federal funds rate outlook, as well as a worryingly weak ringgit that prompted Bank Negara last week to openly say it will intervene in foreign exchange markets to "stabilise" the local currency.

Investment platform OctaFX said considering the resilient state of the economy, it expected Bank Negara to raise the OPR by 25bps as well.

It said the potential hike was to support capital markets and stabilise the foreign exchange rate.

"If the Monetary Policy Committee leaves the rate unchanged, the US dollar and ringgit could hit a multi-year high of 4.75 quickly. However, it is more likely that the OPR will be raised and, thereby, supporting the ringgit," it added.