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OPR maintained at 3%

ECONOMY

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PETALING JAYA: In an effort to remain supportive of the economy moving into 2024, Bank Negara has decided to keep its overnight policy rate (OPR) unchanged at 3%.

The move, incidentally, is in tandem with the US Federal Reserve's (Fed) maintenance of its funds target rate at 5.25% to 5.5%, as Bånk Negara commented that the current OPR level is conducive to holding up the economy, consistent with the current assessment of inflation and growth prospects.

Over the last few weeks, however, there have been calls for the central bank to consider raising the OPR as a quick-fix measure to the weakening of the ringgit, which remains on the list of the 10 worst-performing major Asian currencies this year.

However, economic experts have argued against such a move, as Bank Muamalat chief economist Mohd Afzanizam Abdul Rashid said recently that this would only lead to higher household and business costs – hence dampening domestic demand – of which, the domestic economy can ill-afford given the lacklustre export scenario.

Thus, it is understandable that Bank Negara is walking a tightrope, trying to balance the need to support economic growth amid its acknowledgement that inflation has moderated, although it cautioned that the government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.

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Geoffrey Williams

Giving a nod to Bank Negara's decision yesterday, Malaysia University of Science and Technology (MUST) economics professor Geoffrey Williams said the decision to hold the OPR rate is correct, as it signals that the central bank has followed the right policy and has been effective in bringing down headline inflation, while supporting underlying growth and financial stability in a difficult global economic environment.

He told *StarBiz*: "It will add confidence to the markets that Bank Negara is sticking to its mandate and that economic growth in the coming year will not be harmed by higher interest rates.

"It should be a relief to borrowers that borrowing costs are not higher and it will support consumer spending which is good when external factors are difficult."

Furthermore, he believes the 3% OPR is supportive of growth and investment overall, especially since real interest rates are now positive with inflation below the OPR.

More importantly, in view of the ringgit, Williams remarked that confidence, clarity and consistency of policy is more important than interest rate differentials.

"This good image has already had a positive effect on the ringgit which is RM4.75 against the US dollar today compared to RM4.79 two days ago," he added.

Professor of economics at Sunway University Yeah Kim Leng opined that the central bank's unchanged OPR decision was widely expected and appropriate, given the current conditions of soft growth and easing inflation amidst rising global uncertainties.

He pointed out that while other regional central banks such as the Philippines and Indonesia have raised rates to bolster their currencies, Malaysia's decision to refrain from following suit posed less risk to the ringgit now that the Fed has decided to keep its fund rate on hold.

"The ringgit will, therefore, face less downward pressure as the interest rate differential remains unchanged," he said.

Meanwhile, looking at matters from a wider perspective, Centre for Market Education (CME) chief executive Carmelo Ferlito concurred that increasing the OPR would not be supportive of the ringgit, and instead, an interest rate that is not determined by the central bank but by competitive market forces should emerge.

He mentioned a number of factors, both domestically and externally, that have contributed to the weakness of the local currency.

These include the resilience of the US economy, the pivotal role of the greenback as the reserve note in a climate of world uncertainty, and Malaysia's seemingly conflicting policy indications.

"This is coupled with the strong link between Malaysia and China that is now weighing negatively on the country, as China's weaker-than-expected performance is an effect of its long lockdowns.

"The effect is stronger on Malaysia due to the small domestic market," he explained.

In tune with Williams, Ferlito said the improvement in policy consistency and strategy was crucial in committing the country to attract foreign investments and build the right ecosystem.

He believes the dollar will continue to see strength, and as such, smaller economies like Malaysia can defend their currencies by speeding up on free trade agreements and pro-market reforms, and by sending out consistent policy signals.

Notably, Williams is also more optimistic about the Fed's position, commenting that it is a "back to normal" stance with regards to interest rates, and a much more comfortable place to be in for the moment with lower inflation.

"Hopefully we will see the ringgit return to more normal levels now," he said.

On its part, Bank Negara said in a statement that its Monetary Policy Committee will remain vigilant to ongoing developments for the assessment of domestic inflation and growth outlook, on top of ensuring that the monetary policy stance remains conducive for sustainable growth amid price stability.