KERATAN AKHBAR

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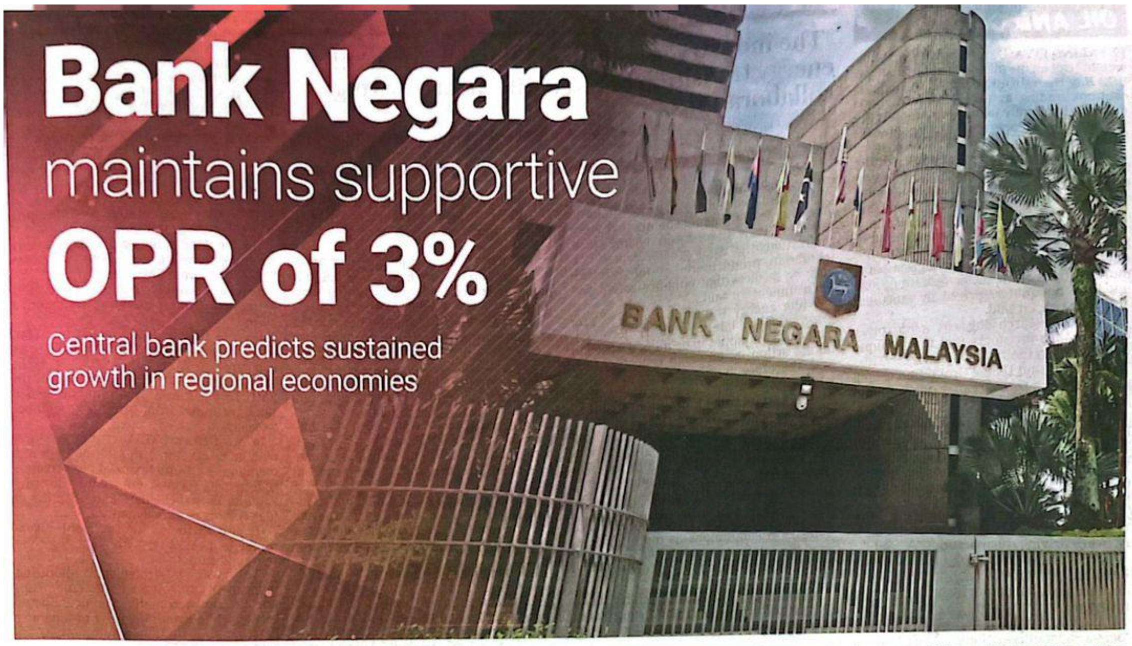
Bank Negara maintains supportive OPR of 3%



ECONOMY

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PETALING JAYA: As widely expected, Bank Negara kept the overnight policy rate (OPR) unchanged at 3%, which it says is a level supportive of Malaysia's economy and consistent with its current assessment of the inflation and growth prospects.

The central bank reported that an improvement in global trade activity, backed by domestic demand, has helped the global economy to expand moderately, as favourable market conditions in some countries have lent support to consumption.

It is predicting sustained growth in regional economies, although China's expansion is likely to remain modest given continued weakness in its property market.

"Global trade is expected to strengthen as the global technology upcycle gains momentum. Global headline and core inflation edged downwards in recent months with prospects of monetary easing in some countries in the second half of the year," Bank Negara observed.

Nevertheless, it said the global monetary policy stance is likely to remain tight in the near term, as inflation remains above average.

Furthermore, the central bank concedes that growth outlook remains subject to downside risks, mainly from an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and volatility in global financial markets.

Perhaps more notably, it is adamant that the ringgit is currently undervalued given Malaysia's economic fundamentals and growth prospects, which may have explained its stance in not utilising the OPR to improve demand for the local note.

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>
> Yeah Kim Leng

It added: "The government and the central bank are taking coordinated actions to encourage repatriation and conversion of foreign investment income by government-linked companies and government-linked investment companies.

"These actions are contributing to greater inflows, lending support to a firmer ringgit. Over the medium term, ongoing structural reforms will provide more enduring support to the ringgit."

Veteran economist at Sunway University Yeah Kim Leng lauded Bank Negara's initiatives to shore up the ringgit through encouraging inflows to the foreign exchange market, as this could counter currency hoarding and self-centred behaviour that characterise financial markets.

Moreover, he said the consumer price index data from January had affirmed the prevailing low and stable inflation situation that does not warrant policy tightening as the economy recovers from last year's below-potential growth of 3.7%.

"It would be premature to raise interest rates given the early and tentative signs of economic recovery as well as the downside risks of weaker-than-expected external demand and declines in commodity production flagged by the central bank," he told *StarBiz*.

As such, Yeah said consumers and businesses with borrowings can breathe easier, putting their debts into productive use as their aggregate consumption and investment will enable the economy to perform better than last year.

Going into a deeper analysis, Centre for Market Education chief executive Carmelo Ferlito stressed that monetary policy is not a magic wand that triggers automatic adjustments.

He emphasised that various parties may interpret differently the same action or signal taken by monetary policy authorities.

He explained: "In cases of high inflation, even in presence of elevated interest rates, we may observe an increase in consumer spending rather than the opposite if consumers expect inflation to get worse."

On the flipside, should the OPR be lowered, Ferlito told *StarBiz* that one potential interpretation is that money has become cheaper, and this would eventually call for more investment.

However, he cautioned that it is not the only possible interpretation, as market players may conversely think that the central bank is worried about the present status of the economy and therefore they may become even more conservative and hold back.

"In a nutshell, the economy is made by billions of individual actions linked by signal interpretations; in such a system, nothing is automatic, the result of an action is open-ended by nature," he opined.

Ferlito said with inflation under control in Malaysia, the economy would not benefit from higher OPR rates, while recognising the consensus view that an increase in the OPR would not produce any sensible effect on the strength of the ringgit either.

Commenting on inflation, the central bank pointed out that inflation in 2024 is expected to remain moderate, broadly reflecting stable demand conditions and contained cost pressures.

However, it reiterated that the placid outlook continues to be heavily dependent on the implementation of domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

Separately, Bank Negara is expecting economic growth in Malaysia to improve this year, led by the recovery in exports and resilient domestic expenditure.

It said tourist arrivals and spending are poised to rise further, and continued employment and wage growth remain supportive of household spending.

"Meanwhile, investment activity would be supported by the ongoing progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of investments," it said.