



From the Desk
of the
Chief Economist

BANK ISLAM

BNM MAINTAINED OPR AT 1.75% DURING ITS FINAL MEETING OF THE YEAR

3 NOVEMBER 2021

ECONOMIC RESEARCH

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Bank Negara Malaysia (BNM) has decided to maintain the Overnight Policy Rate (OPR) at 1.75% during the Monetary Policy Committee (MPC) meeting on 3 November 2021 (Consensus: 1.75%, Bank Islam: 1.75%).

Schedule of MPC Meetings for 2022

| MPC Meeting No | Date |
|-----------------|----------------------|
| 1 st | 19 & 20 January 2022 |
| 2 nd | 2 & 3 March 2022 |
| 3 rd | 10 & 11 May 2022 |
| 4 th | 5 & 6 July 2022 |
| 5 th | 7 & 8 September 2022 |
| 6 th | 2 & 3 November 2022 |

Global

- ✓ According to the accompanying statement, global economy continued to recover mainly supported by upturn in manufacturing and services activities.
- ✓ In addition, global demand continued to pick up which resulted in supply bottleneck, higher commodity prices and labour shortages and therefore inflationary pressure has also risen.
- ✓ Meanwhile, vaccination progress and relaxation of restriction measures would remain as engines of growth.
- ✓ On the other hand, the ongoing supply chain disruptions, as well as volatility in financial market following adjustment in monetary policies in major economies could pose a risk to the economic outlook.

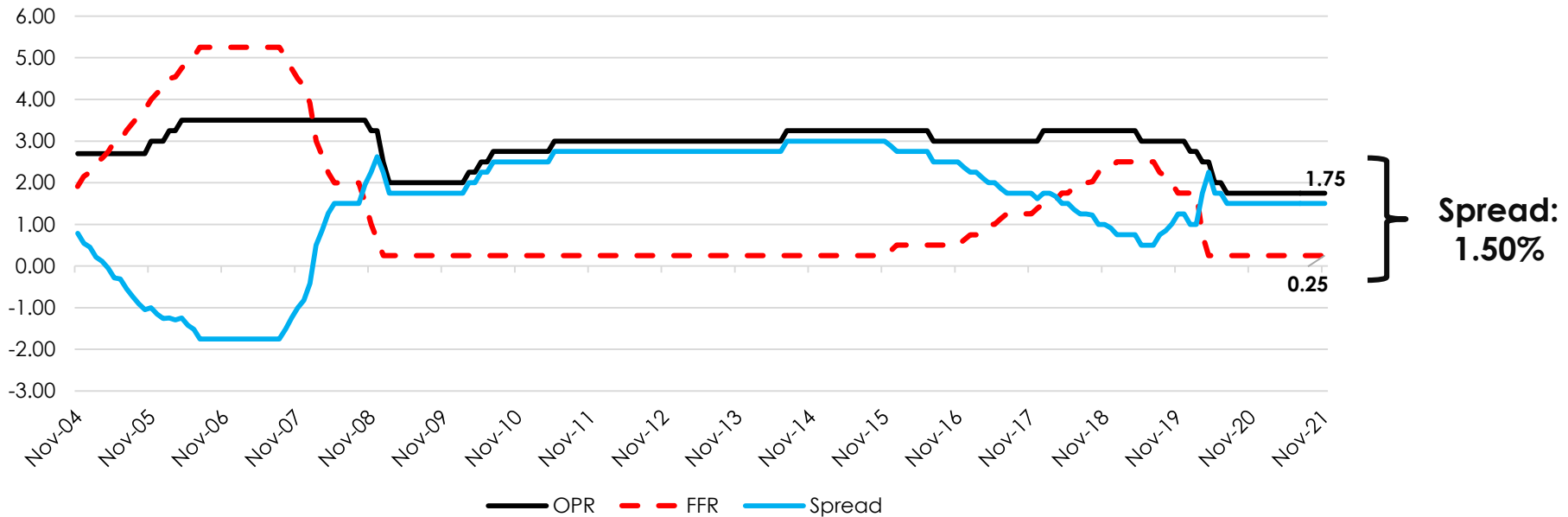
Domestic

- ✓ On domestic front, latest economic data pointed that economic activities has gained its momentum which is in tandem with gradual reopening of the economy.
- ✓ Following this, the BNM is of the view that economic growth to improve further going into 2022 underpinned by stronger global demand and higher private consumption.
- ✓ Meanwhile, the headline inflation is projected to average between 2.0% and 3.0% for 2021 while the core inflation is expected to fall below 1.0% for 2021.
- ✓ Moving into 2022, headline inflation is projected to remain moderate and the core inflation is expected to lift upwards but remain benign given the continued spare capacity in the economy and slack in the labour market.

All in all, the MPC considers the stance of monetary policy to be appropriate and accommodative. BNM remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.

OVERNIGHT POLICY RATE (OPR) VS. FEDERAL FUND RATE (FFR)

OPR vs. FFR, %



Sources: CEIC, Bank Islam

- ✓ At the current juncture, Malaysia's OPR spread against the U.S. Federal Fund Rate (FFR) stood at 150 basis points (bps) (1.75% minus 0.25%).
- ✓ This implies that BNM still has room for a possible OPR reduction if such decision is solely based on the interest rate differentials with the FFR.
- ✓ On 29 October 2021, the country has unveiled its biggest budget ever for year 2022, amounting RM332.1 billion, surpassing its Budget 2021's allocation of RM322.54 billion. The spending was planned to drive its recovery as it emerged from pandemic and is on track to reopen fully by early 2022.
- ✓ Following to the tabling of Budget 2022 which is set to continue spurring positive sentiment towards the Malaysian economy, we are of the view that BNM will begin to increase the OPR somewhere in 3Q2022.

CENTRAL BANK POLICY RATES

| Policy rates | Nov-20 | Dec-20 | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21* |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Advanced countries | | | | | | | | | | | | | |
| US (Fed Fund Rate) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Japan (Policy Balance Rate) | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 |
| Euro Zone (Main Refinancing Rate) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| UK (Bank Rate) | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| Canada (ON Lending Rate) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 |
| Latin America | | | | | | | | | | | | | |
| Mexico (ON Rate) | 4.25 | 4.25 | 4.25 | 4.00 | 4.00 | 4.00 | 4.00 | 4.25 | 4.25 | 4.50 | 4.75 | 4.75 | 4.75 |
| Brazil (Selic Rate) | 2.00 | 2.00 | 2.00 | 2.00 | 2.75 | 2.75 | 3.50 | 4.25 | 4.25 | 5.25 | 6.25 | 7.75 | 7.75 |
| Argentina (LELIQ 7D Notes Rate) | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 | 38.00 |
| Eastern Europe | | | | | | | | | | | | | |
| Russia (Key Rate) | 4.25 | 4.25 | 4.25 | 4.25 | 4.50 | 5.00 | 5.00 | 5.50 | 6.50 | 6.50 | 6.75 | 7.50 | 7.50 |
| Ukraine (Discount Rate) | 6.00 | 6.00 | 6.00 | 6.00 | 6.50 | 7.50 | 7.50 | 7.50 | 8.00 | 8.00 | 8.50 | 8.50 | 8.50 |
| Turkey (1W Repo Rate) | 15.00 | 17.00 | 17.00 | 17.00 | 19.00 | 19.00 | 19.00 | 19.00 | 19.00 | 19.00 | 18.00 | 16.00 | 16.00 |
| Asia | | | | | | | | | | | | | |
| China (1Y Loan Prime Rate) | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 | 3.85 |
| India (Repo Rate) | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 | 4.00 |
| Indonesia (7D Repo Rate) | 3.75 | 3.75 | 3.75 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| Thailand (1D Repo Rate) | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| South Korea (Base Rate) | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 |
| Philippines (O/N Lending Rate) | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| Australia (Cash Rate) | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| New Zealand (Cash Rate) | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 |
| Malaysia (OPR) | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |



Source: Bloomberg
*As at 3 November 2021

- ✓ Thus far, few central banks have started to increase their benchmark interest rate to contain the inflationary pressure such as Brazil's central bank which had raised its interest rate three times this year. Meanwhile, for most emerging market central banks, they are holding their key rate steady and just keeping the rate low amid ongoing uncertainties on economic prospects.
- ✓ Recently, the Reserve Bank of Australia (RBA) left its cash rate at a record low of 0.10% for 12 consecutive months on 2 November and confirmed plans to taper the purchase of government bonds to AUD4.0 billion a week until at least mid February next year. In addition, the RBA noted on the decision to end the yield target of 10 bps for the April 2024 bond following to economic improvement and the earlier-than-expected progress over the inflation target.

- ✓ **Economic sectors have started to pick up-** The latest economic data signaled sign of improvement in tandem with the relaxation of containment measures and reopening of the state borders effective from 11 October. In addition, financing growth in few sectors have also risen. For instance, financing activities for Manufacturing and Wholesale, Retail Trade, Hotels & Restaurant were higher by 7.78% (August: 7.12%) and 7.13% (August: 6.86%) during September. These combination of factors suggest that the domestic consumption and business activities continued to strengthen. However, the recovery remains uneven.
- ✓ **Balance of risks are still tilted to the downside-** The latest statements from the MPC suggests a cautionary tone in respect to the evolving economic outlook. While the committees admitted that the prevailing condition has improved, the balance of risks are still leaning towards the downside. They have cited range of possible downside risks such as weaker global growth, worsening supply chain and reimposition of MCO.
- ✓ **Supply bottleneck could pose a risk on economic outlook-** Globally, consumers and business are challenged by the prolonged supply chain disruptions. Companies with deep pockets could attempt to circumvent the problem but for smaller business are still bearing the brunt of the raw materials shortages. Therefore, businesses might need a buffer period to reconfigure their cost structure to sustain profitability.
- ✓ **In that sense, keeping the OPR at the present level may seem to be the best option-** This is particularly true when the BNM's MPC sees that the risks of higher inflation is moderate next year. Perhaps, the BNM is still guarded and therefore, the odds for OPR to stay unchanged in 1H2022 has become elevated. Nonetheless, they reiterated that their decision will be based on the incoming data. On that score, they might change their course depending on the evolving outlook. But for now, the OPR would stick around at 1.75% for a while.

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A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A prominent road with traffic is visible in the foreground. The overall mood is warm and appreciative.

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Thank You

- ✓ At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 1.75 percent.
- ✓ The global economy remains on a recovery path, driven by expansion in manufacturing and services activity. Amid continued strength in global demand, supply chain disruptions, higher commodity prices and labour shortages, inflation has also risen. Nevertheless, global growth prospects will be supported by further progress in vaccination coverage and relaxation of containment measures. In several major economies, sizeable fiscal and monetary policies will continue to support the recovery momentum. Overall, the balance of risks to the global growth outlook remains tilted to the downside. This is attributed mainly to uncertainty surrounding the emergence of variants of concern, the risk of more prolonged global supply chain disruptions, and potential risk of heightened financial market volatility amid adjustments in monetary policy in major economies.
- ✓ For Malaysia, economic activity weakened in the third quarter, amid the imposition of nation-wide containment measures to curb the resurgence in COVID-19 cases. However, in line with the relaxation of restrictions, latest high frequency indicators show that economic activity has recovered from the trough in July. Going into 2022, the growth momentum is expected to improve, supported by expansion in global demand, higher private sector expenditure in line with the resumption of economic activity and continued policy support. Risks to the growth outlook, however, remain tilted to the downside due to external and domestic factors. These include a weaker-than-expected global growth, a worsening in supply chain disruptions, and the re-imposition of containment measures due to the impact of new COVID-19 variants of concern.
- ✓ In line with earlier assessments, headline inflation is likely to average within the projected range of between 2.0% and 3.0% for 2021, having averaged 2.3% year-to-date. Underlying inflation, as measured by core inflation, is expected to average below 1.0% for the year. Moving into 2022, headline inflation is projected to remain moderate. As economic activity normalises, core inflation is expected to edge upwards but remain benign given the continued spare capacity in the economy and slack in the labour market. The outlook, however, continues to be subject to global commodity price developments and some risk from prolonged supply-related disruptions.
- ✓ The MPC considers the stance of monetary policy to be appropriate and accommodative. In addition, fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity. Given the uncertainties surrounding the pandemic, the stance of monetary policy will continue to be determined by new data and information and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.
- ✓ The meeting also approved the schedule of MPC meetings for 2022. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year. The meetings will be held over two days, with the Monetary Policy Statement released at 3 p.m. on the second day of the MPC meeting.