Monetary Policy Loosened in Malaysia

- **Bank Negara Malaysia lowered its benchmark interest rate by 25 basis points to 2.75% following today's monetary policy meeting.**
- **The rate cut was a pre-emptive move to support Malaysia's economic recovery amid low inflationary pressures.**
- **We expect the central bank to adopt an extended wait-and-see stance in order to assess the impact of the cut on the economy's growth prospects.**

Malaysia's monetary conditions continue to ease as a response to uncertain economic growth prospects and muted inflation dynamics. Following today's monetary policy meeting, Bank Negara Malaysia (BNM) lowered the Overnight Policy Rate by 25 basis points to 2.75%, marking the second cut since the beginning of the easing cycle in May 2019 (chart 1). The consensus, Scotiabank included, had expected the policy rate to be left unchanged at 3.0%.

We anticipate the BNM to keep the benchmark interest rate on hold over the coming quarters as monetary authorities monitor the domestic economy's recovery momentum amidst various downside risks to growth. The BNM's Monetary Policy Committee (MPC) adopted a neutral policy stance, highlighting that it assesses the current stance to be appropriate in sustaining economic growth with price stability. Accordingly, we do not expect additional interest rate cuts in the foreseeable future, yet we note that the BNM has monetary policy space left should the economy need further support.

The MPC highlighted that the decision to loosen monetary policy was a pre-emptive move to provide support to the domestic economy's nascent recovery. Nevertheless, the uncertain global economic environment is a concern for the monetary authorities, who pointed to lingering geopolitical tensions, uncertainty related to trade policies, financial market volatility, and such domestic factors as weakness in commodity-related sectors and delays in investment project implementation.

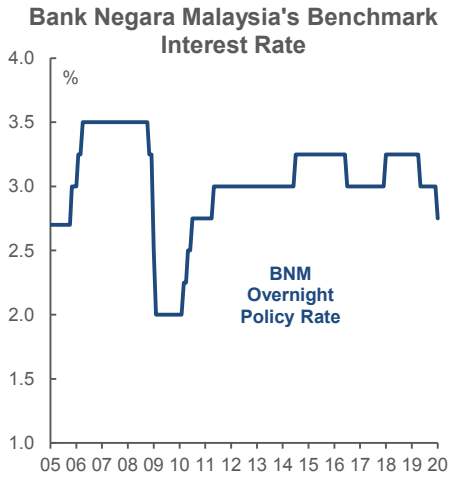
Despite the numerous downside risks, the BNM expects the Malaysian economy to gradually improve in 2020, driven by household spending and a recovery in fixed investment and external sector performance. We remain somewhat more cautious. Following an estimated expansion of 4.4% in 2019, we forecast Malaysia's real GDP growth to average 4.2% y/y and 4.5% in 2020 and 2021, respectively.

Malaysian inflationary pressures remain contained. Headline inflation closed 2019 at 1.0% y/y (chart 2), allowing the BNM to focus on stimulating the economy. The central bank foresees only slightly stronger inflation in 2020. We agree with the BNM's view and expect demand-driven price pressures to remain largely absent in the medium term, with headline inflation staying below 2.0% y/y through 2020.

CONTACTS

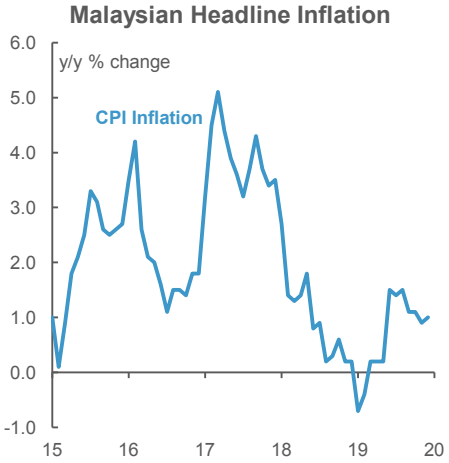
Tuuli McCully, Head of Asia-Pacific Economics
65.6305.8313 (Singapore)
Scotiabank Economics
tuuli.mccully@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Bloomberg.

Chart 2



Sources: Scotiabank Economics, Bloomberg.