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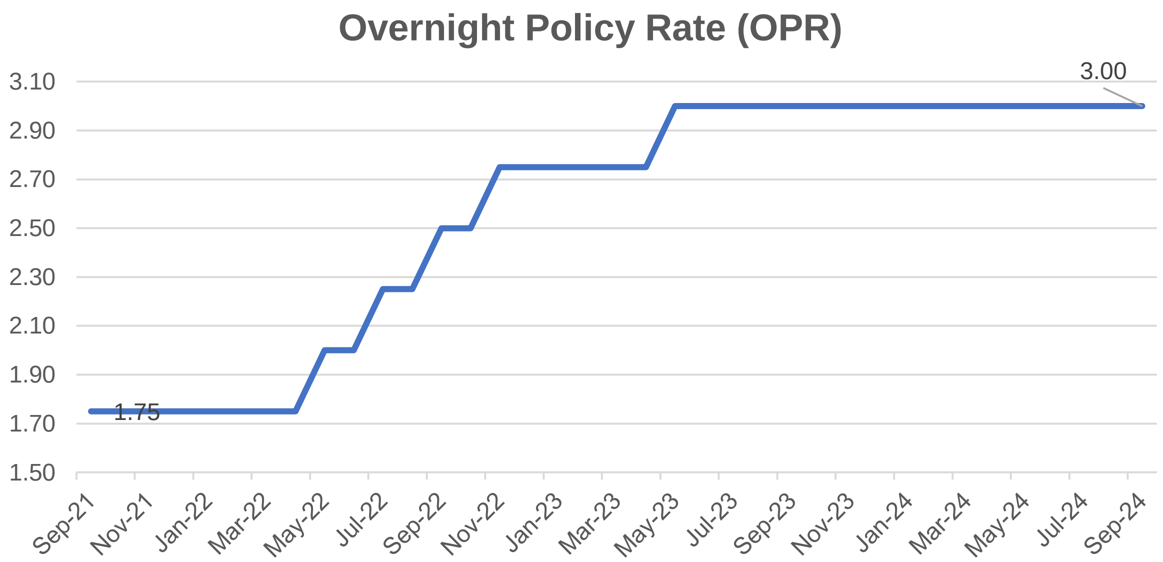
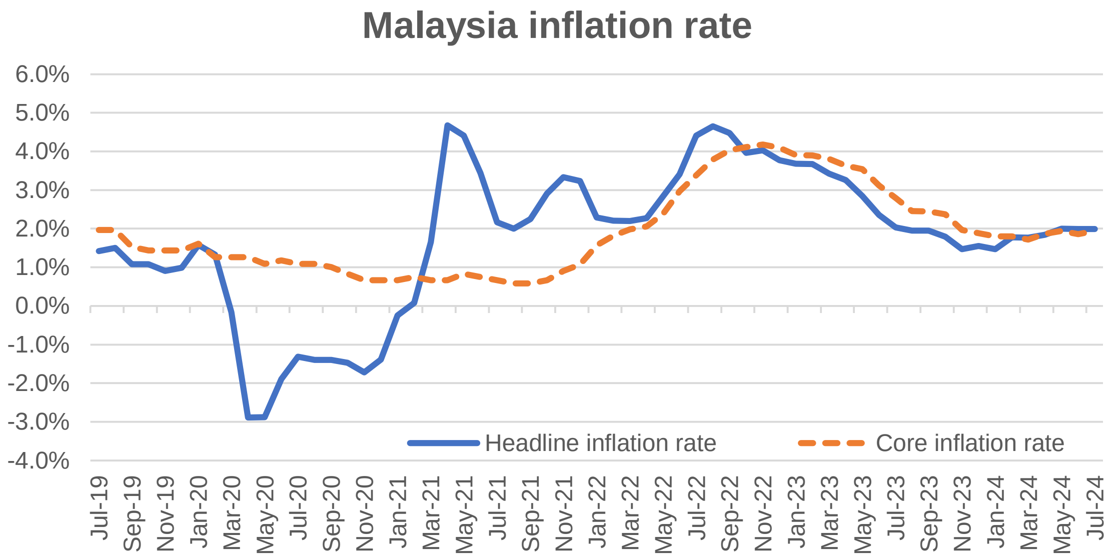
6 SEPTEMBER 2024

OPR stays at 3.00%.





Sources: BNM, DOSM & CEIC

Bank Negara Malaysia's Monetary Policy Committee (MPC) has opted to maintain the Overnight Policy Rate (OPR) at 3.00%, in line with economists' expectations. The central bank noted that while global economic conditions continue to support international trade, downside risks remain highly visible. Domestically, the economy remains robust, driven by strong tourist spending, household consumption, and both public and private sector investments.

What stands out most in the accompanying statement is the clear indication that the inflation rate is expected to remain below 3.00% this year. This suggests that the government is holding off on its plans to rationalise RON95 fuel subsidies, at least for the time being. We see this as a positive development, especially since the government has been implementing a series of fiscal consolidation measures since the start of the year.

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Fiscal reforms remain high on the agenda

Revenue enhancements

- **Sales tax** on imported LVGs sold online
- **Services tax** Higher rate & larger coverage
- **E-invoicing** For large companies
- **Capital gains tax** on foreign-sourced income and unlisted shares
- **Excise duties Higher for chewing tobacco & sugared beverages**

Expenditure optimisation

- **Electricity and water tariff revision**
- **Subsidy rationalisation Rationlisation of subsidies for diesel and fresh food (chicken)**

Governance

- **Public Finance & Fiscal Responsibility Act 2023**
- **National Anti-Corruption Strategy. 2024 - 2028**

Completed

Upcoming

- **Medium-Term Revenue Strategy (MTRS)** Minimise revenue leakages and broaden tax base
- **Expenditure Optimisation Measures** Further subsidy rationalisation, streamlining, and consolidation of agencies
- **Government Procurement Act**

Source: MOF

In our opinion, the timing and order of reform measures are just as crucial to prevent any self-inflicted economic disruptions.

Consumer spending is expected to remain resilient

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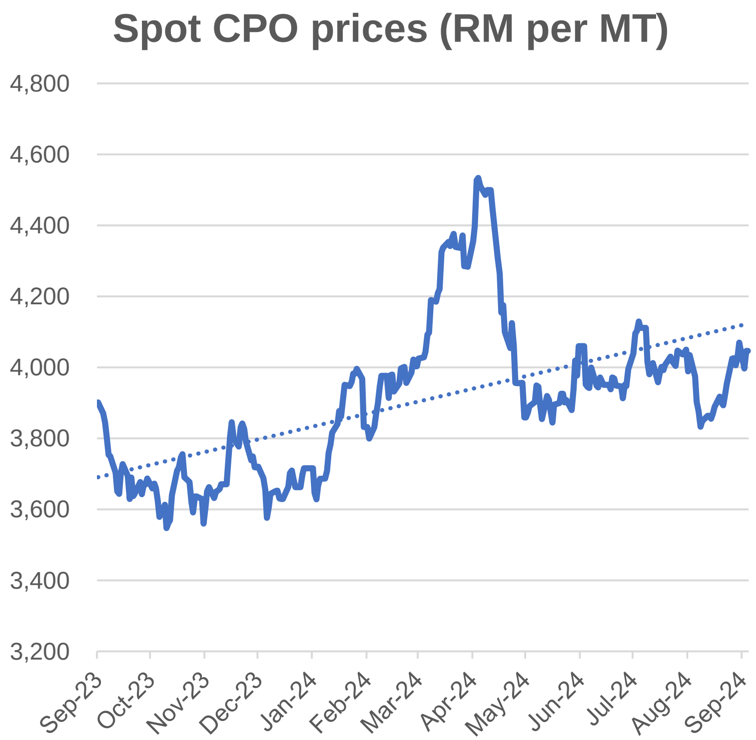

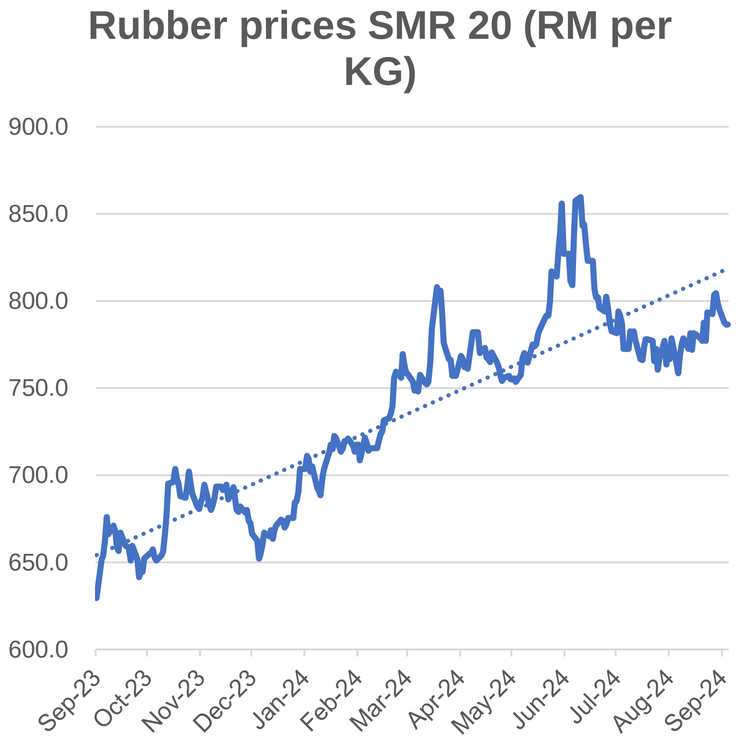

Sources: CEIC & Bloomberg

Tourist arrivals surged to 11.8 million in the first half of this year, compared to 9.2 million in the same period last year. The average prices of CPO and SMR20 (rubber) for the first eight months of the year were RM4,013 per metric ton and RM767 per kilogram, respectively, up from RM3,907 per metric ton and RM597 per kilogram during the same period last year. Both urban and rural consumption are anticipated to trend upward in the second half of 2024. Additionally, household consumption in both areas is likely to receive a boost from programs like Sumbangan Tunai Rahmah (STR), Sumbangan Asas Rahmah (SARA), and the EPF Flexible Account Withdrawal scheme, which will continue to act as catalysts for spending.

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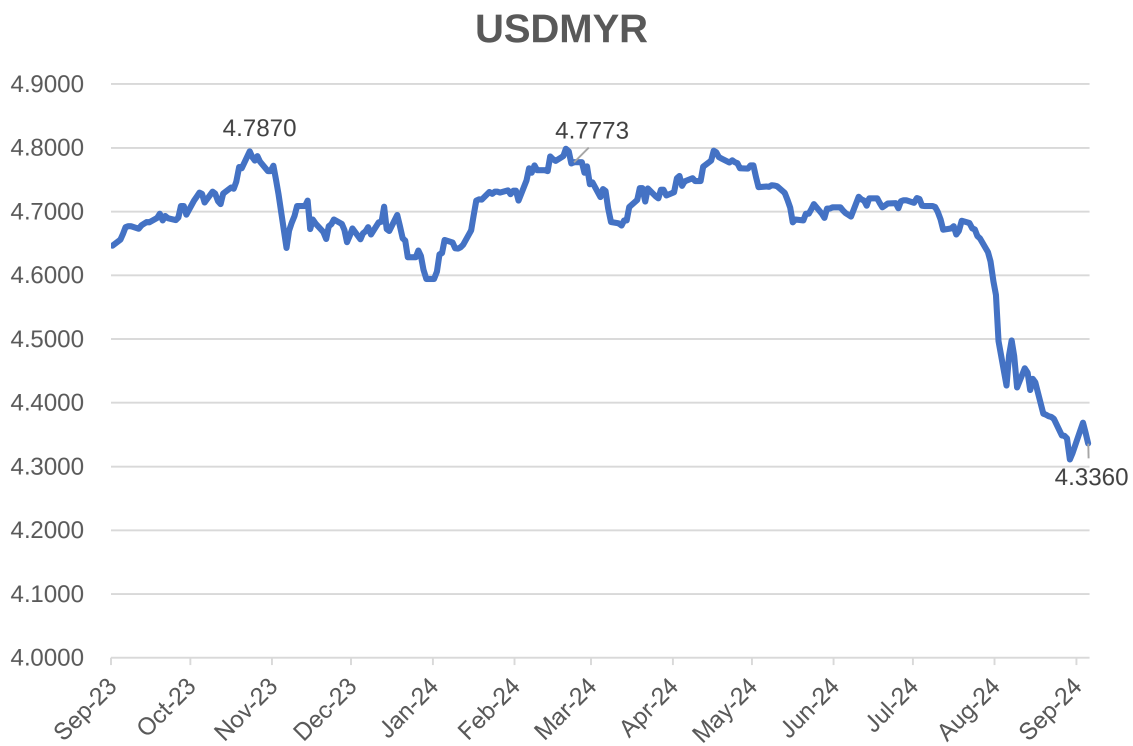
Expect OPR to stay unchanged for the rest of 2024.



Sources: CEIC & Bloomberg

We anticipate that Bank Negara Malaysia (BNM) will likely maintain the OPR at 3.00% through the rest of 2024 and potentially into 2025. Although the rationalization of fuel subsidies for RON95 might be temporarily halted, we expect it to resume in the near term. Keeping the OPR unchanged could help bolster the ringgit, particularly as the U.S. Federal Reserve might adopt a more aggressive monetary easing stance. The latest data on job openings, which fell to 7.673 million—significantly below the consensus forecast of 8.09 million—indicates a softening demand for labor. With interest rate futures suggesting a potential 50-basis point rate cut by the Fed, this scenario could be favorable for the ringgit. A narrowing interest rate gap between the Fed Fund Rate and OPR would enhance the attractiveness of ringgit-denominated assets.

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Appendix - Monetary Policy Statement (MPS).

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%.

The global economy continues to expand amid resilient labour markets and continued recovery in global trade. Looking ahead, global growth is expected to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade recovery is expected to continue, supported by both electrical and electronics (E&E) as well as non-E&E products. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions, volatility in global financial markets, and slower growth momentum in major economies.

The Malaysian economy expanded by 5.1% in the first half of 2024. The latest indicators point towards sustained strength in economic activity driven by resilient domestic expenditure and higher export activity. Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-E&E goods. Tourist spending is expected to continue to increase. Employment and wage growth, as well as policy measures, remaining supportive of household spending. The robust expansion in investment activity would be sustained by the 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 approved investments. The higher intermediate and capital imports will further support export and investment activity. The growth outlook is subject to downside risks from lower-than-expected external demand and commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects.

Both headline and core inflation averaged 1.8% in the first half of 2024. The spillovers from the diesel price adjustment to broader prices have been contained, given effective mitigation and enforcement measures to minimise the cost impact on businesses. For the year as a whole, average headline and core inflation are expected to remain within the earlier projected ranges and are unlikely to exceed 3%. Nevertheless, the inflation outlook remains highly subject to the implementation of further domestic policy measures. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments.

The recent recovery in the ringgit is driven by the shift in expectations of lower interest rates in major economies, particularly the US, as well as Malaysia's strong economic performance. Looking ahead, Malaysia's positive economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories going into 2025. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.