

# Bloomberg

## Malaysia to Hold Key Rate as Virus Curbs Eased: Decision Guide

Malaysia is set to keep its benchmark interest rate at a record low Thursday, maintaining support for the economy as it reopens in stages under a new government that's prepared to live with the virus.

Bank Negara Malaysia will maintain the overnight policy rate at 1.75% at its second-last meeting of the year, according to 23 of 24 economists surveyed by Bloomberg; one expects a 25-basis point reduction. The central bank has been on hold all year after lowering rates by 125 basis points in 2020 as the country grappled with a recession sparked by the pandemic.

Thursday's meeting comes as fully-vaccinated patrons are allowed to return to Malaysia's long-shuttered cinemas and theaters, a bid to boost the billion-dollar creative industry. Prime Minister Ismail Sabri Yaakob said last week he was prepared to relax virus curbs in the Klang Valley, a region that includes Kuala Lumpur and is the biggest contributor to gross domestic product. Days later he eased movement restrictions in more states and announced plans to reopen the tourist haven of Langkawi island.

The central bank may not begin raising rates until May as the outlook improves, Lim Yee Ping, economist at CGS-CIMB, wrote in a research note: "We foresee a total of 75 basis points in rate increases by end-2022."

Here's what to watch for in the central bank's announcement:

### Growth Outlook

Thursday will mark Bank Negara Malaysia's first policy statement since the change of government last month, and may include updated assessments that reflect the new administration's approach to the virus. Since Prime Minister Ismail took office the government has rolled back containment measures in parts of the country and shifted vaccination priorities.

The measures appear to have borne fruit. The virus' effective reproduction rate, or R-naught, has remained below 1 nationwide for the first time in months, and nearly half the population is fully vaccinated. That's good news for an economy that fell back into contraction in the second quarter amid protracted lockdowns.

Even so, high Covid caseloads have dimmed prospects for stronger performance in the third quarter, Chief Statistician Mohd Uzir Mahidin said in an August report. Malaysia added 19,733 cases Wednesday and is on track to breach 2 million confirmed Covid cases by next week.

The central bank lowered this year's economic growth forecast for a second time last month -- to 3%-4% -- due to the outbreak and containment measures. The forecast assumes that all

economic and social sectors will have reopened by the final quarter of the year, Finance Minister Tengku Zafrul Abdul Aziz said last week.

## **Policy Stance**

Record-low interest rates will continue to provide stimulus for the economy, but the central bank has more policy space to act if needed, Bank Negara Malaysia governor Nor Shamsiah Yunus said last month.

### ***What Bloomberg Economics Says...***

*"Malaysia's vaccine program has gained significant momentum, putting an 80% vaccination rate and fuller reopening in reach for mid-October. International oil and gas prices have held on to gains, and Malaysia's key trading partner, China, quickly contained its recent outbreak -- keeping its strong growth outlook for 2021 largely intact."*

*-- Tamara Mast Henderson, Asean economist*

In January, Bank Negara Malaysia extended banks' ability to use sovereign bonds toward statutory reserve requirements until the end of 2022. It later announced additional funds for its targeted relief and recovery facility, established a disaster-relief facility and allowed non-resident banks to trade ringgit-denominated interest-rate swaps without holding underlying positions.

## **Inflation**

Malaysia's CPI registered its first month-on-month decline since last November, just as the central bank lowered this year's headline inflation forecast to 2%-3%. Headline inflation is expected to moderate in the near term as base effects from last year dissipate, Bank Negara Malaysia said.

Weak private consumption and subdued underlying price pressures will mean lower inflation in the third quarter, according to MIDF Research.

"We expect the gradual recovery in domestic spending following the relaxation of restrictions for fully-vaccinated individuals and reopening of states in Phase 2 and 3 of the National Recovery Plan will eventually contribute some upward pressure on prices in the latter part of the year," MIDF Research analysts wrote in a note.

<https://www.bloomberg.com/news/articles/2021-09-08/malaysia-to-hold-key-rate-as-virus-curbs-eased-decision-guide>