

The Sun - Bank Negara expected to keep policy rate at 3% for rest of 2017

 Monday, Mar 06 2017

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PETALING JAYA: Analysts expect Bank Negara Malaysia (BNM) to maintain the Overnight Policy Rate (OPR) at 3% for the rest of the year, on uncertainties and expectations of stronger growth and higher inflation.

At its Monetary Policy Committee (MPC) meeting last Thursday, BNM maintained the OPR at 3%, saying at the key rate's current level, monetary policy stance is accommodative and supportive of economic activity.

The central bank said the MPC will continue to assess the balance of risks surrounding the outlook for

domestic growth and inflation, adding it expects the economic growth momentum to be sustained in 2017.

In a report last Friday, AmBank Research said it believes that BNM will continue to keep the policy rate at 3% at least until September 2017, after the German elections.

The research house said by taking into account of the fundamentals and ongoing external noises, it saw a 30% chance for the central bank to raise rate by 25 basis points (bps) during the November MPC meeting.

In the meantime, AmBank

Research said it saw a 45% chance for a cut in the statutory reserve requirement (SRR), now at 3.5%.

"Part of our argument is that liquidity is tightening as reflected by the rising trend of the loans/deposit ratio since November. A cut in the SRR should release around RM5 billion-RM6 billion of funds into the banking system. The last time we saw an SRR cut was in January 2016 by 50 bps to relief the tightening liquidity," it noted.

Nevertheless, Hong Leong Investment Bank (HLIB) Research said despite high possibility of headline inflation

overshooting the official range of 2%-3%, it does not anticipate BNM to react to it as it continues to reflect costpush factors.

"As domestic liquidity concern has eased, we opine that BNM may now shelve the SRR cut option and only deploy one in the event of adverse external development (i.e. triggered by European politics).

"At the current level of OPR, the MPC said, the stance of monetary policy is accommodative and supportive of economic activity. We take this as a signal that BNM prefers to leave the OPR unchanged so long as outlook of GDP (gross domestic

product) growth and core inflation falls within the official projection range (4-5% GDP growth in 2017)," it added.

HLIB Research said it expects inflation to average 3.4% this year, following higher fuel prices (Brent crude assumption: US\$55 per barrel in 2017; average 2016: US\$44 per barrel), sustained food inflation and weaker ringgit.

However, it said there is a high possibility of the consumer price index overshooting 4% in early 2017 before moderating in the second half due to low base effect of oil prices in 2016.