Malaysia Outlook

BNM holds rate but highlights risks

Thursday, November 08, 2018

Highlights

- **Bank Negara Malaysia (BNM) held the benchmark rate as expected at 3.25%.**
- **The central bank highlighted quite a number of risks to growth**
- **BNM made no mention of a growth projection for 2019 in the statement itself.**
- **We believe though that growth will come out moderate at 4.8% yoy for 2019.**
- **We still see BNM holding the rate for 2019 as they choose to remain cautious and monitor the situation instead.**

- **The central bank held the overnight policy rate (OPR) as expected at 3.25%.** However, BNM did highlight a few potential risks to the economy. Externally, the central bank sees “trade tensions continuing to be a key source of downside risk”. Domestically, they pointed out “prolonged weakness in the mining and agriculture sectors” whilst they expect that public sector spending “is likely to weigh on growth, amid continued reprioritization of expenditure by the government”. Interestingly though, they believe that “exports are projected to provide an additional lift to growth” while at the same time “investment activity is projected to be sustained by continued capacity expansion in key sectors, driven by positive demand and efforts to enhance automation”. As expected, they also stated that “private consumption will remain the driver of growth”. The central bank though made no mention of a growth projection for 2019 in the statement.

- **For 2019, we are expecting growth to remain moderate at 4.8% yoy (see table 1).** Growth is expected to continue to be driven by private consumption but this may not be as strong as in 2018. Investment activity may still exhibit strength although there are certainly risks that could depress sentiment including but not limited to slower global growth and an escalating trade war. The latter though could still work in Malaysia’s favour if businesses relocate operations to Malaysia. Exports growth would probably be slower amid the slowdown in global growth. Government spending would probably be slower given the drive for fiscal consolidation although, it is yet to still be seen how effective government cost reduction measures would be.

- **That said, we still expect that BNM would hold the rate for 2019.** The central bank doesn’t immediately face the pressure to raise rates as inflation will most probably remain moderate next year at 2.0% yoy. As for cutting rates, the central bank would probably choose to monitor the situation first. On the growth side, we believe that BNM will most probably continue to ascertain the extent to which the effects of the trade war would impact Malaysia. They may choose to wait and see how investment activity materializes despite their optimism regarding it. However, “efforts to enhance automation” as they mentioned may provide some support to investment activity. Whatever the case maybe, monetary policy committee will

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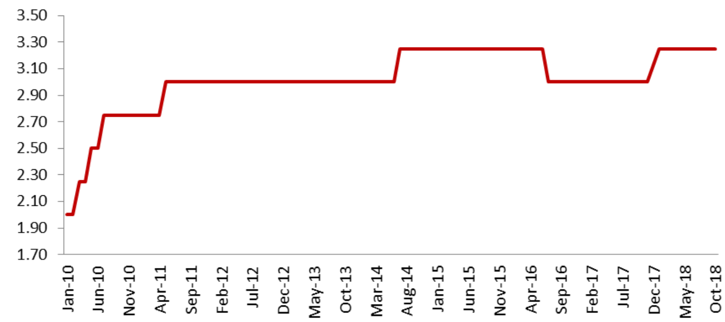
"continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation".

Chart 1: BNM OPR, %



Source: Bloomberg and OCBC

Table 1: 2018 and 2019 GDP Growth, % yoy

Components	2018	2019
Real GDP Growth	4.8	4.8
Private Consumption	7.0	6.7
Govt Consumption	1.3	1.0
Gross Fixed Capital Formation	2.0	2.0
Exports, Goods and Services	3.6	3.4
Imports, Goods and Services	3.4	3.0

Source: OCBC calculations based on CEIC data

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