

BUFF/20/6

February 4, 2020

Statement by the Staff Representative on Malaysia
Executive Board Meeting
February 7, 2020

The information below has become available following the issuance of the staff report (SM/20/29). It does not alter the thrust of the staff appraisal.

On January 22, 2020, Bank Negara Malaysia (BNM) reduced the Overnight Policy Rate (OPR) by 25 basis points to 2.75 percent. In its monetary policy statement, the BNM stated that “the adjustment to the OPR is a pre-emptive measure to secure the improving growth trajectory amid price stability.” The statement also indicates that BNM continues to expect growth to be within its projected range of 4.3-4.8 percent in 2019 and to gradually improve in 2020. Nonetheless, the statement mentions downside risks to growth including trade-related uncertainty, geopolitical risks, weaker-than-expected growth in major trade partners, heightened volatility in financial markets, and domestic factors such as weakness in commodity-related sectors and delays in the implementation of projects. Analysts have portrayed the main motivation for the rate cut as buying insurance against the downside risks.

Staff Assessment: Staff support the rate cut in view of the recent drop in inflation expectations seen in the January consensus forecasts. The cut is consistent with staff advice that monetary policy should remain data dependent. With the recent drop in inflation expectations, the cut implies that monetary policy remains appropriately broadly neutral according to staff’s assessment. The rate cut also helps bring risks to the outlook, assessed in the staff report to be to the downside, closer to balance.

Implications for the Staff Report: The rate cut does not alter the thrust of the staff appraisal.