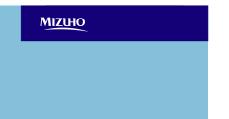
## Mizuho Flash: Malaysia

Economics & Strategy | Asia ex-Japan

May 11, 2022 | Lavanya Venkateswaran, Market Economist



## BNM Starts Reducing Monetary Policy Support With a 25bp Hike

<u>In a nutshell:</u> Surprising consensus but in line with our expectations, BNM hiked it policy rate by 25bp taking it 2%. It cited building global inflationary pressures and consequent central bank action alongside relatively a sustained domestic economic recovery as the main factors driving it to reduce monetary policy accommodation. Looking ahead, we expect another 50bp in rate hikes from BNM in 2022.

- BNM raised in policy rate by 25bp, in line with our expectations but surprising consensus. The official policy statement was clear that "the unprecedented conditions that necessitated" a reduction of the policy rate to a historical low of 1.75% has "abated" and hence "the MPC decided to begin reducing the degree of monetary accommodation".
- Improvements on the domestic economic front with an easing of social restrictions allowed BNM to focus on rising inflationary pressures, on the external and domestic fronts. The consequence of which is leading "several (global) central banks...to adjust their monetary policy settings at a faster pace to reduce inflationary pressures".
- Ostensibly, this implies that BNM is cognisant of the vulnerabilities arising from capital
  outflows as Fed-BNM rate differentials shift; compounded by mounting domestic inflationary
  pressures (albeit blunted by price buffers afforded by oil revenues) will hurt macro stability.
- Specifically, on domestic inflation, BNM noted that it core inflation is "expected to trend higher" reflecting "the improvement in economic activity amid lingering cost pressures".
- Accordingly, we expect will deliver another 50bp in rate hikes in H2, taking cumulative hikes
  the year to 75bp. The BNM's challenge will be to strike the right balance between sufficient
  accommodation given nascent, uneven recovery and enough calibration to pre-empt macrostability risks form tighter global liquidity conditions amidst a sharp price pressures.

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