

BNM Starts Reducing Monetary Policy Support With a 25bp Hike

In a nutshell: Surprising consensus but in line with our expectations, BNM hiked its policy rate by 25bp taking it to 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 its 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 cognizant 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 its 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 macro-stability risks** from tighter global liquidity conditions amidst a sharp price pressures.

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