Bank Negara holds rate on expectation of higher inflation

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PETALING JAYA: Bank Negara is maintaining the benchmark overnight policy rate (OPR) at 3% on expectation that inflation will average higher this year due to stronger oil prices.

Inflation as measured through the consumer price index was up 1.8% in December from the same month a year ago and slightly lower than economists' expectations. Headline inflation averaged 2.1% last year.

However, the central bank said despite the higher oil prices, there would be no significant spillovers to the broader price trends, given the stable domestic demand conditions. It cut the OPR by 25 basis points to the current level last July.

"Underlying inflation, as measured by the core inflation index, is therefore expected to remain stable," it said in a statement following a meeting of the monetary policy committee.

It added that the ringgit, along with other emerging-market currencies, has seen a reduction in volatility since the sharp adjustments experienced towards the end of 2016. "The implementation of financial market development measures have provided stability to the domestic foreign exchange market," it said.

"Latest indicators point to continued expansion in the fourth quarter of 2016."

Bank Negara cautioned that uncertainties in the global economy, the policy environment and geopolitical developments may result in bouts of volatility in the regional financial and foreign exchange markets.

"These risks could also lead to episodes of increased financial market volatility," it said, adding that economic activity in the major advanced economies has improved while in Asia domestic demand continues to support growth amid some recovery in external demand.

Bank Negara expects the global economy to expand at a slightly faster pace with more emphasis on the use of fiscal policy in the developed economies leading to a more balanced policy environment supporting growth.

"For Malaysia, latest indicators point to continued expansion in the fourth quarter of 2016. Going forward, private-sector activity will remain the key driver of growth. Private consumption is expected to be sustained by continued wage and employment growth, with support from various policy measures to raise disposable income.

"Investment activity, although moderating, will be supported by ongoing infrastructure development projects and capital spending in the manufacturing and services sectors. On the external front, the expected improvement in exports will provide some support to growth. Overall, the economy remains on track to expand as projected," it said.