

Malaysia Reserve - BNM Maintains OPR At 3%, Inflation To Increase In 2017

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BNM maintains OPR at 3%, inflation to increase in 2017

At 3%, the monetary policy stance is accommodative and supportive of economic activity, says BNM

by NG MIN SHEN

BANK Negara Malaysia (BNM) is maintaining the Overnight Policy Rate (OPR) at 3% based on expectations that the domestic economy will continue showing growth in 2017, although headline inflation will rise due to higher global oil prices.

The central bank said the Monetary Policy Committee (MPC) made the decision at its meeting yesterday.

"At the current OPR level, the monetary policy stance is accommodative and supportive of economic activity. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation," BNM said in a statement yesterday.

Affin Hwang Investment Bank Bhd chief economist Alan Tan said BNM's stance reflected growing optimism on the external and domestic growth outlook.

"The recent improvement in major economic indicators, such as the global Purchasing Managers' Index, shows that Malaysia's exports are supportive of economic growth this year. Therefore, BNM is likely to maintain the OPR at 3% throughout 2017," he told *The Malaysian Reserve* yesterday.

The central bank also projected higher headline inflation in 2017, primarily due to the pass through impact of higher global oil prices on



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domestic retail fuel prices.

"Headline inflation will remain relatively high in the first-half of the year (1H17) before moderating thereafter," BNM noted.

However, the projected trajectory of domestic headline inflation will be dependent on future trends in global oil prices which remains highly uncertain.

"The inflationary rates going forward are reflective of higher oil prices, if global oil prices continue to trend higher it will put pressure on domestic retail petrol prices," Tan cautioned.

Despite rising inflation rates applying pressure on OPR, the central bank will maintain its stance as inflation is cost-driven, Tan said.

"Inflation numbers will likely come in at the upper end of the official forecast, around 2% to 3.5%, in 1H17. However, as inflation is not based on higher demand, the rates should normalise to around 2.5% to 3% in 2H17," Tan said.

He added that the domestic inflation rate for the full year is expected to average 3%.

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It noted economic activity in advanced and emerging economies has continued to improve, while

global trade has also showed signs of recovery.

"In this environment, the Asian economies are benefitting from stronger external demand amid sustained domestic activity. For 2017, the global economy is projected to expand at a slightly faster pace," it said.

The central bank cautioned risks to global growth arising from threats such as protectionism, geopolitical developments, heightened volatility in financial markets and downtrends in prices of key commodities still remain.

The Malaysian economy expanded by 4.2% in 2016, slower than 5% growth recorded in 2015.

Growth was underpinned by private sector activity, with additional support from turnaround in net exports and the momentum would be sustained this year.

It said the ringgit has continued to stabilise, while financial market development measures have positively affected domestic financial markets and banking system liquidity remains sufficient.

"The growth of financing to the private sector is consistent with the pace of economic activity," it added.

Tan said the ringgit will remain at current levels against the US dollar for the first six months of 2017, with possible recovery afterwards.

"Measures such as BNM's requirement of exporters to convert 75% of export proceeds into ringgit will lead to a higher current account surplus position, thus lending some support to the fundamentals and leading to appreciation of the ringgit against the greenback in 2H17," he said.

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