The Star - BNM Keeps OPR at 3%

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PETALING JAYA: A rate hike could be on the cards moving into 2018 after Bank Negara Malaysia (BNM) maintained the Overnight Policy Rate (OPR) at 3% at its last Monetary Policy Committee (MPC) meeting for the year yesterday.

The central bank said in a statement that it may consider reviewing the current degree of monetary accommodation given the strength of the global and domestic macroeconomic conditions.

"This is to ensure the sustainability of the growth prospects of the Malaysian economy," it noted.

BNM has been maintaining the OPR at 3% since July 2016. It said at the current level, the stance of monetary policy remains accommodative.

It opined that the Malaysian economy has become more entrenched, with both the domestic and external sectors registering strong performance. The country's gross domestic product (GDP) growth is estimated at 5.2% to 5.7% in 2017 and 5% to 5.5% in 2018.

"Growth momentum has been lifted by stronger spillovers from the external sector to the domestic economy as firms invest in productive capacity, raise wages and hire more workers."

The central bank expects domestic demand to remain the key source of growth for 2018 as private consumption will be the largest driver of growth, supported by continued improvements in income and overall labour market conditions.

It noted investment will be sustained by infrastructure projects and higher capital investment in the manufacturing and services sectors.

"The external sector will provide additional impetus to the economy. Overall, the assessment is for growth to remain strong in 2018."

MIDF Research is of the view that low base effect is among the major factors contributing towards the growth performance.

"We expect domestic economy will grow moderately in the second half this year. Therefore, we concurred with BNM's stance of keeping the OPR unchanged for the rest of 2017," it said in a report yesterday.

BNM foresees headline inflation to moderate in 2018 on expectations of a smaller effect from global cost factors, but its trend will be dependent on future global oil prices, which remain highly uncertain.

The central bank said the domestic financial markets have also been resilient.

"The ringgit has strengthened to better reflect the economic fundamentals. Banking system liquidity remains sufficient with financial institutions continuing to operate with strong capital and liquidity buffers. The growth of financing to the private sector has been sustained and is supportive of economic activity."

On the external front, BNM said the global economy continues to strengthen and global trade has picked up significantly.

"For 2018, the global economy is projected to experience sustained growth. While there are risks arising from geopolitical and policy developments in major economies, economic prospects are expected to remain favourable."

Meanwhile, the MPC also approved the schedule of its meetings for 2018, which will be held six times in accordance with the Central Bank of Malaysia Act 2009.

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