



Media Release

Central bank of Malaysia

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MONETARY POLICY STATEMENT

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to increase the Overnight Policy Rate (OPR) by 25 basis points to 3.25 percent. The floor and ceiling rates of the corridor for the OPR are correspondingly raised to 3.00 percent and 3.50 percent respectively.

The global economy has strengthened further, with growth becoming more entrenched and synchronised across regions. Global trade continues to sustain strong growth performance. In the advanced economies, diminishing labour market slack and additional policy support will provide further impetus to growth. In Asia, growth is driven by sustained domestic activity and strong external demand. Globally, financial markets have remained stable. Global growth is projected to experience a faster expansion in 2018. In this environment, risks to the global growth outlook are more balanced, pointing towards continuity in the current phase of global economic expansion.

For the Malaysian economy, latest indicators reaffirm the strength in exports and domestic activity. Looking ahead, the strong growth momentum is expected to continue in 2018, sustained by the stronger global growth and positive spillovers from the external sector to the domestic economy. Domestic demand will remain the key driver of growth, underpinned by favourable income and labour market conditions. The outlook for investment activity is also positive, driven by new and on-going infrastructure projects and capital spending by both export- and domestic-oriented firms. The external sector will provide additional impetus to the economy. Overall, growth is expected to remain strong in 2018.

Headline inflation averaged at 3.7% in 2017. Inflation is expected to average lower in 2018, on expectations of a smaller effect from global cost factors. A stronger ringgit exchange rate compared to 2017 will mitigate import costs. Global energy and commodity prices are expected to trend higher in 2018. However, the trajectory of headline inflation will be dependent on future global oil prices which remain highly uncertain. Underlying inflation, as measured by core inflation, remains moderate.

The domestic financial markets have 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.

With the economy firmly on a steady growth path, the MPC decided to normalise the degree of monetary accommodation. At the same time, the MPC recognises the need to pre-emptively ensure that the stance of monetary policy is appropriate to prevent the build-up of risks that could arise from interest rates being too low for a prolonged period of time. At the current level of the OPR, the stance of monetary policy remains accommodative. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

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