

**PRESS RELEASES****Monetary Policy Statement**

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At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00 percent.

The global economy continued to grow at a moderate pace. Economic activity in the major advanced economies has improved. In Asia, growth is supported by domestic demand amid some recovery in external demand. For 2017, the global economy is projected to expand at a slightly faster pace. The prospect of a shift towards progressive use of fiscal policy in the developed economies could lead to a more balanced policy environment that would support growth. Nevertheless, heightened uncertainty and downside risks to global growth remain, arising from risks of protectionism, geopolitical developments and commodity price volatility. These risks could also lead to episodes of increased financial market volatility.

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 on-going 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.

Headline inflation averaged 2.1% in 2016 and is expected to average higher in 2017, amid the prospect of higher global oil prices. These cost factors are not expected to cause significant spillovers to the broader price trends, given the stable domestic demand conditions. Underlying inflation, as measured by the core inflation index, is therefore expected to remain stable.

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 has provided stability to the domestic foreign exchange market. Uncertainties in the global economy, the policy environment and geopolitical developments may, however, result in bouts of volatility in the regional financial and foreign exchange markets. In this regard, Bank Negara Malaysia will continue to provide liquidity to ensure the orderly functioning of the financial markets. Banking system liquidity remains

ample. Financial institutions continue to operate with strong capital and liquidity buffers and the growth of financing to the private sector is consistent with the pace of economic activity.

At the current level of the OPR, the degree of monetary accommodativeness is consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid a stable core inflation, supported by sustained financial intermediation in the economy. While the risks of destabilising financial imbalances are contained, the MPC will monitor these risks to ensure the sustainability of the overall growth prospects. The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

**Bank Negara Malaysia**

**19 Jan 2017**

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