

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

Ref No : 07/18/02 / 11 Jul 2018 /

Embargo : Not for publication or broadcast before 1500 hours on Wednesday 11 July 2018

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.25 percent.

The global economy continues to expand albeit with some divergence across economies while global trade sustained its growth momentum. In the advanced economies, rising income and policy support, particularly in the US, will continue to drive growth. Growth in Asia will be supported by sustained domestic activity and external demand. However, the balance of risks to the outlook has tilted to the downside. The intensification of global trade tensions could affect sentiments and weigh on trade, investment and consumption. Coupled with ongoing monetary policy normalisation in the advanced economies, shifting investor expectations and sentiments could lead to further capital outflows and financial market adjustments in some emerging economies.

The Malaysian economy continued to expand in the first half of 2018, supported by private sector activity with additional impetus from net exports. The positive growth performance is expected to be sustained, driven by both domestic and external demand. Private consumption will be underpinned by continued wage and employment growth, with an additional lift from higher household spending due to the tax holiday. Investment activity is projected to be supported by capacity expansion mainly in the export-oriented industries and ongoing infrastructure projects, particularly in the transport and utilities sub-sectors. The external sector will continue to benefit from the sustained global growth momentum. The growth outlook will be further supported with greater certainty in domestic policy in the coming months. Overall, the Malaysian economy is expected to remain on a steady growth path.

Headline inflation for 2018 is projected to be lower than earlier forecast taking into consideration the impact of recent policy measures on domestic cost factors. The impact of these measures on inflation, however, is transitory. Headline inflation is likely to turn negative in some months and remain low in the first half of 2019 before trending upwards as these transitory effects lapse. Core inflation is nevertheless expected to remain relatively stable in line with sustained domestic demand.

The positive domestic economic outlook, sound financial sector and improving current account surplus of the balance of payments will continue to support Malaysia's fundamentals. Domestic financial markets have remained resilient despite non-resident portfolio outflows. The ringgit

exchange rate would be more reflective of the underlying fundamentals of the economy when the external and domestic uncertainties recede. Notwithstanding the heightened financial market volatility, the domestic monetary and financial conditions remain supportive of economic growth. Bank Negara Malaysia's monetary operations continue to ensure sufficient liquidity to support the orderly functioning of money and foreign exchange markets and intermediation activity.

At the current level of the OPR, the degree of monetary accommodativeness is consistent with the intended policy stance. The MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

Bank Negara Malaysia

11 Jul 2018

© Bank Negara Malaysia, 2018. All rights reserved.