

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

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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 economic expansion is continuing, albeit with increasing divergence across economies and signs of a slower momentum. In the advanced economies, growth will remain underpinned by strong labour market conditions and policy support. In Asia, growth will be supported by sustained domestic activity and external demand. Although global growth is currently sustained, risks to growth have increased. Trade tensions continue to be a key source of downside risk. Greater volatility in the international financial markets and monetary policy normalisation in the advanced economies could lead to further capital outflows and financial market adjustments in emerging economies.

For Malaysia, supply disruptions in the mining and agriculture sectors led to more moderate growth in the second quarter of 2018. On the demand side, growth remained supported by private sector activity with further impetus from net exports. Looking ahead, private consumption, which was boosted by the tax holiday, will continue to be driven by steady wage and employment growth. Investment activity is projected to be underpinned by continued capacity expansion in key sectors, particularly in the export-oriented industries, driven by favourable demand and efforts to enhance automation. Public sector spending however is expected to weigh on growth as the Government embarks on reprioritisation of expenditure. The external sector will continue to benefit from the sustained global growth momentum. In the immediate term, the economy faces downside risks stemming from heightened trade tensions, prolonged weakness in the mining and agriculture sectors and some domestic policy uncertainty. On balance, the Malaysian economy is expected to remain on a steady growth path.

Headline inflation was at 0.9% in July 2018. Going forward and continuing into 2019, headline inflation is expected to edge upwards taking into consideration the impact of policy measures on domestic cost factors. The impact of the changes in the consumption tax policy on headline inflation will be transitory and lapse towards the end of 2019. Underlying inflation is nevertheless expected to remain relatively stable.

In line with regional economies, the domestic financial markets continue to experience non-

resident portfolio outflows due to ongoing global developments. Despite these adjustments, domestic financial markets remain resilient with domestic monetary and financial conditions supportive of economic growth. The financial sector remains sound, with financial institutions continuing to operate with strong capital and liquidity buffers. In addition, the domestic economy maintains its underlying fundamental strength, with steady economic growth, low unemployment and current account surplus of the balance of payments. Bank Negara Malaysia's monetary operations will 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**

**05 Sep 2018**

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