The Sun - Bank Negara Keeps Key Rate At 3% On Stronger Economy, Moderating Inflation

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PETALING JAYA: Bank Negara Malaysia's Monetory Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 3% in its meeting yesterday, citing stronger economic growth this year with a moderation in inflation.

The central bank said in a statement that at the current level of 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."

BNM noted that the Malaysian economy recorded a higher growth in the second quarter of 2017, driven by firmer domestic activity and exports.

Looking ahead, it said growth will be sustained by the more positive global outlook and stronger spillovers from the external sector to the domestic economy. "Overall, growth in 2017 will be stronger than earlier expected."

BNM noted that headline inflation continued its moderating trend, declining to 3.2% in July, mainly due to the drop in domestic fuel prices. Headline inflation is projected to moderate on expectations of a smaller effect from global cost factors.

The central bank said the domestic financial markets have been resilient and 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 noted that the global economy continues to strengthen, with growth becoming more entrenched and synchronised across countries, while global trade has picked up.

MIDF Research said the central bank's decision to maintain the OPR is expected, as industrial and trade activities across major as well as emerging economies remain on an upward trajectory.

The research reiterated its view that BNM will keep the OPR unchanged for the rest of the year.

However, OCBC Bank cautioned that there are risks to the growth trajectory, especially from any unexpected negative developments in major economies and geopolitical risks.

"Furthermore, Malaysia's household debt is one of the highest in the region at 86.7% in Q1 17, which could dissuade policymakers in cutting rates further unless necessary."

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