

# The Bank's Policy Considerations

## Highlights of the November MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the November 2023 MPC meeting.
- The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth.



### Monetary policy remains supportive of the economy

The MPC decided to maintain the OPR at 3.00% over the third quarter in its September and November 2023 MPC meetings.

At the recent November MPC meeting, the MPC assessed that the global economy continues to expand, driven by domestic demand amid strong labour market conditions. Some signs of recovery are emerging in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the shift in spending from goods to services, and ongoing trade restrictions. Global growth is weighed down by persistently elevated inflation and higher interest rates, with several major economies experiencing slowing growth momentum. There are early signs of improvement in China's growth, though its property market

remained weak. Global headline inflation edged up partly due to higher commodity prices, while core inflation continued to moderate. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions.

As at the November MPC meeting, the advance GDP estimate had pointed to an improvement in domestic economic activity in the third quarter. The MPC assessed that growth in 2024 will be driven mainly by resilient domestic expenditure, with some support emanating from the expected recovery in E&E exports. Continued employment and wage growth remain supportive of household spending. Tourist arrivals and spending are expected to improve further. Investment activity would be supported by continued progress of multi-year infrastructure projects, and implementation of catalytic initiatives under the national master plans. Measures under Budget 2024 will also provide additional impetus to economic activity. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger and protracted declines in commodity production. Meanwhile, upside risks to growth mainly emanate from stronger-than-expected tourism activity, a stronger recovery from the E&E downcycle, and faster implementation of existing and new projects.

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As expected, both headline and core inflation have moderated, mainly due to easing cost pressures. In the third quarter, headline and core inflation averaged at 2.0% and 2.5%, respectively. Going into 2024, inflation is expected to remain modest. Risks to the inflation outlook remain highly subject to changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments. Of note, the Government's intention to review price controls and subsidies in 2024 will affect the outlook for inflation and demand conditions.

The expectations of a higher-for-longer interest rate environment in the US, and increased concerns over the escalation of geopolitical tensions have contributed to a persistently strong US dollar. This has affected other major and emerging market currencies, including the ringgit. Nevertheless, these developments are not expected to derail Malaysia's growth prospects. Bank Negara Malaysia will continue to manage risks of heightened volatility, including to provide liquidity, to ensure the orderly functioning of the domestic foreign exchange market. Financial institutions continue to operate with strong capital and liquidity buffers, with domestic financial conditions remaining conducive to sustain credit growth.

At the current OPR level, the MPC deemed that the monetary policy stance remains supportive of the economy and is consistent with the current assessment of the inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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