

The Bank's Policy Considerations

Highlights of the January MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the November 2023 and January 2024 MPC meetings.
- 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

At the November 2023 and January 2024 MPC meetings, the MPC maintained the OPR at 3.00%.


At the latest MPC meeting in January, the MPC assessed that the global economy continues to expand, driven by domestic demand amid strong labour market conditions. There are further signs of recovery in the electrical and electronics (E&E) sector, but global trade remains soft partly due to the continued shift in spending from goods to services, and ongoing trade restrictions. While China's economy continues to show signs of improvement, its recovery remains modest given the weakness in the property market. Global headline and core inflation edged downwards in recent months but continue to be above average. On the global front, while the monetary policy stance is likely to remain tight in

the near term, the tightening cycle has peaked for most central banks. The growth outlook remains subject to downside risks, mainly from an escalation of geopolitical tensions, higher-than-anticipated inflation outturns, and heightened volatility in global financial markets.

At the January MPC meeting, the fourth quarter advance estimates for GDP affirmed that the overall growth of the Malaysian economy for 2023 expanded within expectations. Moving forward, the MPC assessed that domestic growth is expected to improve in 2024, supported by the recovery in exports and resilient domestic expenditure. 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 projects in both the private and public sectors, and implementation of catalytic initiatives under the national master plans. The growth outlook remains subject to downside risks stemming from weaker-than-expected external demand and larger declines in commodity production. Meanwhile, upside risks to growth mainly emanate from greater spillover from the tech upcycle, stronger-than-expected tourism activity and faster implementation of existing and new projects.

As expected, both headline and core inflation continued to moderate in the fourth quarter, mainly due to lower cost pressures amid stabilising demand conditions. Overall, both

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headline and core inflation for 2023 are within expectations, averaging for the year at 2.5% and 3%, respectively. In 2024, inflation is expected to remain modest, broadly reflecting stable cost and demand conditions. 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 recent ringgit movements as at the January MPC meeting were assessed to be primarily driven by external factors, and not reflective of the current domestic economic performance and prospects. As the risk of heightened volatility in the global financial and foreign exchange markets remains, Bank Negara Malaysia will continue to ensure sufficient liquidity to support 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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