

Policy Considerations

Highlights of the July MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the May and July 2024 MPC meetings.
- The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories.

Monetary policy remains supportive of the economy

The MPC maintained the OPR at 3.00% over the second quarter in its May and July 2024 MPC meetings.

At the latest meeting in July, the MPC assessed that the global economy continues to expand amid resilient labour markets and continued recovery in global trade. Looking ahead, global growth is expected to be sustained, as headwinds from tight monetary policy and reduced fiscal support will be cushioned by positive labour market conditions and moderating inflation. Global trade continues to strengthen as the global tech upcycle gains momentum. Global headline and core inflation continued to edge downwards in recent months with some central banks commencing monetary policy easing. The growth outlook remains subject to downside risks, mainly from further escalation of geopolitical tensions,

higher-than-anticipated inflation outturns, and volatility in global financial markets.

For the Malaysian economy, the latest indicators as at the July MPC meeting pointed towards sustained strength in economic activity in the second quarter of 2024, driven by resilient domestic expenditure and better export performance. Going forward, exports are expected to be further lifted by the global tech upcycle given Malaysia's position in the semiconductor supply chain, as well as continued strength in non-electrical and electronics goods. Tourist arrivals and spending are also poised to rise further. Continued employment and wage growth, as well as policy measures, will continue to support household spending. Investment activity would be supported by the ongoing progress of multi-year projects in both the private and public sectors, the implementation of catalytic initiatives under the national master plans, as well as the higher realisation of approved investments. The growth outlook is subject to downside risks 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, more robust tourism activity, and faster implementation of existing and new projects.

Both headline and core inflation averaged 1.8% in the first five months of the year. As expected, inflation will trend higher in the second half of 2024, amid the recent rationalisation of diesel subsidies. Nevertheless, the

Policy Considerations

increase in inflation will remain manageable given the mitigation measures to minimise the cost impact on businesses. Going forward, the upside risk to inflation would be dependent on the extent of spillover effects of further domestic policy measures on subsidies and price controls to broader price trends, as well as global commodity prices and financial market developments. For the year as a whole, headline and core inflation are expected to average within the earlier projected ranges of 2.0% – 3.5% and 2.0% – 3.0% respectively.

The ringgit continues to be primarily driven by external factors, namely expectations of major economies' monetary policy paths and ongoing geopolitical tensions. The positive impact of the coordinated initiatives by the Government and Bank Negara Malaysia (BNM) with the Government-

Linked Companies (GLCs) and Government-Linked Investment Companies (GLICs), and corporate engagements have continued to cushion the pressure on the ringgit. BNM will continue to manage risks arising from heightened financial market volatility. Over the medium term, domestic structural reforms will provide more enduring support to the ringgit.

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 inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth trajectories. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.