

Monetary Policy Statement

Embargo : Not for publication or broadcast before 1130 on Monday, 24 November 2008

24 Nov 2008

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to reduce the Overnight Policy Rate (OPR) to 3.25 percent. The ceiling and floor rates of the corridor for the OPR are correspondingly reduced to 3.50 percent and 3.00 percent respectively.

Since the previous MPC meeting, the outlook for global growth has deteriorated further. Several major advanced economies are now in recession amid severe stress in their respective financial systems. The sharp slowdown in global demand, the significant fall in commodity prices and the substantial decline in equity prices have exerted greater downward pressure on the growth prospects of regional economies. In this environment, global inflation has begun to recede and this downward trend is expected to continue. These global developments have prompted authorities to provide significant liquidity support to the financial system, undertake financial sector resolution measures, as well as fiscal stimulus and monetary easing to support economic growth. The impact of these measures will however take some time to be fully realised.

The adverse global developments have already affected the Malaysian economy, as evidenced by the slowdown in export performance and lower equity prices. While domestic demand remains resilient, there are indications of slower private sector activity amid some softening in the labour market conditions and a more challenging business environment. Under these conditions, sustaining domestic demand is key to ensuring that growth in 2009 remains positive.

The risk to domestic price stability is now substantially reduced. Inflation has begun to moderate from its peak in the third quarter of 2008. Going forward, the lower cost pressures and the slowdown in demand are expected to exert a greater dampening influence on inflation. Inflation is, therefore, expected to moderate significantly, particularly in the second-half of 2009.

Given the heightened downside risks to growth and the diminishing inflationary pressures, the reduction in the OPR is a pre-emptive measure aimed at providing a more accommodative monetary environment. To further reduce the cost of intermediation, the MPC also decided to reduce the Statutory Reserve Requirement (SRR) from 4% to 3.5%, with effect from 1 December 2008.

Going forward, the global economic and the international financial conditions are expected to continue to remain volatile and uncertain. Bank Negara Malaysia will monitor closely the evolving developments and will undertake the appropriate policy response to avoid a severe economic downturn.

The meeting also approved the schedule of MPC meetings for 2009. The Monetary Policy Statement will continue to be released at 6:00 p.m. on the same day as the MPC meeting.

Schedule of Monetary Policy Committee Meetings for 2009	
No.	Date
1st	21 January 2009 (Wednesday)
2nd	24 February 2009 (Tuesday)
3rd	29 April 2009 (Wednesday)
4th	26 May 2009 (Tuesday)
5th	29 July 2009 (Wednesday)
6th	25 August 2009 (Tuesday)
7th	28 October 2009 (Wednesday)
8th	24 November 2009 (Tuesday)

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