The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC reduced the OPR by 25 basis points to 3.00% at the May 2019 MPC meeting. The adjustment was intended to preserve the degree of monetary accommodativeness.**
- **Subsequently, the MPC kept the OPR unchanged at the July 2019 MPC meeting. At this prevailing level, the stance of monetary policy is accommodative and supportive of growth and inflation.**

The MPC reduced the OPR by 25 basis points to 3.00% at the May MPC meeting and kept the OPR unchanged at the July MPC meeting

In May 2019, the Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by 25 basis points to 3.00%. Against the backdrop of a challenging global environment, the Malaysian economy was expected by the MPC to grow within the projected range of 4.3% — 4.8% in 2019. However, there were downside risks to domestic growth from heightened uncertainties in the global and domestic environment, trade tensions and extended weakness in commodity-related sectors. While domestic monetary and financial conditions have remained supportive of economic growth, there were some signs of tightening of financial conditions. The adjustment to the OPR was therefore intended to preserve the degree of monetary accommodativeness.

At the subsequent meeting in early July 2019, the MPC kept the OPR unchanged at 3.00%. At this prevailing level, the stance of monetary policy is accommodative and supportive of growth and inflation.

Average headline inflation is expected to be broadly stable in 2019 compared to 2018. The trajectory of headline inflation will, however, continue to be dependent on global oil prices and policy measures such as the timing of the lifting of the price ceiling on domestic retail fuel prices. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.

The MPC will continue to assess the balance of risks to domestic growth and inflation, to ensure that the monetary policy stance remains conducive to sustainable growth amid price stability.

Other policy highlights in the second quarter of 2019

Policy highlights	Salient requirements
Trade Credit Insurance/Trade Credit Takaful (TCIT) – Policy Document (PD)	• The PD came into force on 3 May 2019, setting out regulatory expectations on the offering of TCIT, including requirements surrounding the approval process and information submission. • The enhanced regulatory clarity is intended to increase the availability of trade facilitation products, including Shariah compliant products, that will facilitate the growth of Malaysian halal business. • The offering of TCIT will also contribute towards portfolio diversification for licensed insurers and takaful operators.
Framework for Electronic Trading Platforms (ETP) – Exposure Draft (ED)	• The ED was issued on 14 June 2019, setting out the Bank's requirements and expectations on market participants that offer ETP services in the Malaysian money and foreign exchange markets. • The ED aims to ensure that ETP services offered to Malaysian participants are secure, efficient and robust, to maintain orderly market conditions and to safeguard the integrity of the financial market. • In particular, platform operators must– o obtain the Bank's prior approval; and o have in place adequate operational and governance capacities to ensure clear segregation of responsibilities and accountabilities across its Management and Board of Directors.
Insurance and Takaful Aggregation Business Registration – ED	• The ED was issued for public consultation on 18 June 2019, setting out proposed expectations for the registration of insurance and takaful aggregators as a new category of business under the Financial Services Act 2013. • The ED aims to provide clarity on the regulatory treatment of such non-advisory services, including registration procedures and business conduct obligations to be observed by a registered insurance and takaful aggregator at all times.
Takaful Operational Framework – PD	• The PD sets out strengthened parameters governing the management of takaful funds and shareholders fund by licensed takaful operators and retakaful operators. • The revised policy aims to enhance the operational efficiency of takaful business and sustainability of takaful funds by– o allowing flexibility in the adoption of new Shariah contracts subject to adherence to certain safeguards; and o strengthening the Bank's expectations on the robustness of internal policies to manage additional takaful funds, internal controls on inter-fund cross trading activities and requirements for the separate management of savings and investment funds. • The policy will come into force on 1 July 2020.