The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC maintained the Overnight Policy Rate at 3.25% in July, September and November, assessing that the current monetary policy stance remains supportive of economic activity.**

The OPR remained accommodative

The Monetary Policy Committee (MPC) kept the Overnight Policy Rate (OPR) unchanged at 3.25% at the July, September and November 2018 meetings. At this level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity.

The Malaysian economy is expected to remain on a steady growth path, with private consumption the main driver of growth, investment activity sustained and exports providing an additional lift to growth, albeit to a lesser extent. Underlying economic factors are providing continued support to domestic economic growth, including low unemployment and a surplus in the current account of the balance of payments.

Headline inflation is expected to increase going forward, primarily due to higher projected global oil prices and the prospective floating of fuel prices. Underlying inflation, which excludes the impact of consumption tax policy changes, is expected to remain contained in the absence of strong demand pressures.

Risks to the global growth outlook remain tilted to the downside, which could cause headwinds to the domestic economy. These include any further escalation in trade tensions; and spillover effects to emerging economies in an environment of greater volatility in the international financial markets and a faster pace of monetary policy normalisation in the advanced economies. Domestically, risks remain from prolonged weakness in the mining and agriculture sectors.

In line with regional economies, the domestic financial markets continue to experience non-resident portfolio outflows due to global developments. Nevertheless, the financial markets remain orderly with domestic monetary and financial conditions supportive of economic growth. Exchange rate flexibility plays an important role as a shock absorber for the domestic economy. The financial sector is sound, with financial institutions operating with strong capital and liquidity buffers. Monetary operations will continue to ensure sufficient liquidity to support the orderly functioning of money and foreign exchange markets and intermediation activity.

Other policy highlights in the third quarter of 2018

Given advancements in technology, coupled with the pace of product innovation by financial institutions, the Bank has issued an exposure draft on Risk Management in Technology. The exposure draft provides a foundation for the development of an effective technology risk management programme, necessary for assessing and mitigating risks identified within technology systems. It is aimed at enabling financial institutions to better manage technology risks and enhance technology resiliency.

The Bank further refined the proposals on Outsourcing taking into consideration feedback received during the first round of consultation in 2017. Given material changes in the requirements, the Bank had issued a second exposure draft on Outsourcing in September 2018 for a one-month consultation period. The feedback received is currently being assessed, the outcomes of which will be incorporated in the final document, which is expected to be issued by end-2018.

The Bank has issued 3 consultative documents to facilitate the practical adoption of Value-based Intermediation (VBI). The Implementation Guide for VBI provides examples of banking practices that illustrate the underpinning thrusts of VBI and highlights key implementation challenges together with potential solutions. The VBI Financing and Investment Impact Assessment Framework (VBIAF)[11] aims to facilitate the implementation of an impact-based risk management system for assessing financing and investment activities of Islamic banking institutions in line with their respective VBI commitment. Meanwhile, the VBI Scorecard[12] covers key assessment components and the proposed measurement methodology for assessing the performance of Islamic banking institutions advancing the VBI agenda.

The Bank has extended the observation period for the Net Stable Funding Ratio (NSFR) reporting by one year to 31 December 2019. During the extended observation period, the Bank will conduct further assessments to validate the maturity and robustness of liquidity and funding practices of banks. At present, all banks maintain adequate liquidity buffers against short-term liquidity stress, with most banks already reporting NSFR levels above the minimum 100% based on observation data.

[11] The paper is jointly developed with the World Bank and INCEIF.
[12] The paper is jointly developed with the Global Alliance for Banking on Values.