The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC reduced the Overnight Policy Rate by 25 basis points to 3.00% at the May 2019 MPC meeting. The adjustment was intended to preserve the degree of monetary accommodativeness.**

The OPR remained accommodative

The Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by 25 basis points to 3.00% at the May 2019 meeting. The ceiling and floor rates of the corridor for the OPR were correspondingly reduced to 3.25% and 2.75%, respectively.

Although the global economy continues to expand, underlying economic conditions continue to suggest moderation going forward. Considerable downside risks to global growth remain, stemming from unresolved trade tensions and prolonged country-specific weaknesses in the major economies, further dampening global trade and investment activities. Heightened policy uncertainties could lead to sharp financial market adjustments, further weighing on the overall outlook.

Domestically, the baseline projection is for the Malaysian economy to grow within the projected range of 4.3% - 4.8%. However, there are downside risks to growth from heightened uncertainties in the global and domestic environment, trade tensions and extended weaknesses in commodity-related sectors.

Headline inflation is expected to be broadly stable in 2019 compared to 2018. In the immediate term, however, inflation is expected to remain low due mainly to the price ceiling on domestic retail fuel prices and the impact of the changes in consumption tax policy. The trajectory of headline inflation will, however, continue to be dependent on movements in global oil 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 domestic financial markets have remained resilient, despite periods of volatility primarily due to global developments. While domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness. This is consistent with the monetary policy stance of supporting a steady growth path amid price stability.

At this level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity. Going forward, the MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

Other policy highlights in the first quarter of 2019

The policy document on *Investment-linked (IL) Business* was issued in January 2019 to strengthen existing prudential and conduct requirements on IL business, and ensure policy owners/takaful participants are accorded fair treatment. The implementation of Minimum Allocation Rates (MAR) is a safeguard to protect customer account values concurrent with the removal of limits on commissions and agency-related expenses[5]. Additionally, requirements are set out to address gaps in existing industry practices and ensure an IL policy/certificate coverage is sustainable until the end of the policy/certificate contractual term[6]. Disclosure requirements[6] are also enhanced to aid consumer understanding on key risks and benefits of IL policies/certificates.

As part of efforts to spur the sharing of publicly available data[7], the Bank had, in January 2019, issued a policy document on Publishing Open Data using Open API. The policy document sets out the Bank's recommendations to the industry in developing and publishing Open Application Programming Interface (Open API) to facilitate access to publicly available data. The recommendations cover design considerations for Open APIs as well as security measures proportionate to the sensitivity of data being shared through Open APIs. This builds upon the Open Data API Specifications developed by the Open API Implementation Group (IG). Led by the Bank, the IG was formed in March 2018 to identify and develop standardised Open APIs for high-impact use cases. The IG has developed standardised specifications for Open APIs on product information in relation to SME financing, credit card and motor insurance/takaful. The Bank encourages financial institutions to adopt these specifications to ensure industry-wide publication of standardised Open Data API.

[5] Effective 1 July 2019 (for life insurers) and 1 July 2020 (for family takaful operators).
[6] Effective 1 January 2020 for life insurers and family takaful operators.
[7] Refers to publicly available and usable data that is published by financial institutions, including financial product information (i.e. key information on a financial product, such as those provided in product disclosure sheets, which facilitates customers in making informed decisions).