The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC maintained the Overnight Policy Rate at 3.25% in January 2019, as the degree of monetary accommodativeness is consistent with the intended policy stance and supportive of economic activity.**

The OPR remained accommodative

At the November 2018 and January 2019 Monetary Policy Committee (MPC) meetings, the Overnight Policy Rate (OPR) was maintained at 3.25%. The Malaysian economy is expected to remain on a steady growth path with domestic demand as the key driver of growth. Headline inflation is expected to average moderately higher in 2019.

The MPC assessed that risks to both global and domestic growth were tilted to the downside and will be dominated by several challenges. These include slower growth in the major economies, escalation of trade tensions, tighter global financial conditions amid an uncertain pace and timing of monetary policy normalisation in the US, heightened political and policy uncertainty, and commodity-related shocks. Going forward, the MPC will continue to monitor and assess these challenges for the potential adverse impact to domestic growth and inflation.

Domestic financial markets have remained resilient despite bouts of global financial market volatility. Domestic monetary and financial conditions remain orderly and supportive of economic growth. 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 fourth quarter of 2018

The Bank issued the finalised policy document on Outsourcing in December 2018. The policy aims to strengthen safeguards to ensure that outsourcing risk does not impair the safety and soundness of financial institutions and supervisability by the Bank. In particular, the requirements accord added emphasis on the institutions' governance and risk management, due diligence of service providers, data confidentiality protection and business continuity planning, and are complemented by an approval requirement for material outsourcing arrangements. The standard came into effect on 1 January 2019, with transitioning arrangements until 1 July 2022 for financial institutions to bring existing outsourcing arrangements into compliance with the new requirements.

Given the growing demand of end-users for immediate payments and the increasing net debit exposures in real-time retail payment systems. Supervisory expectations on intraday liquidity management would be incorporated in the Liquidity Risk Management exposure draft, which is planned for issuance in 2019.

In view of the increasing sophistication and complexity of cyberattacks relating to payments, financial institutions have been encouraged to deploy control measures that would be effective in an 'assumed breached' environment, including the means to detect out-of-policy or suspicious payments and to stop fraudulent in-flight transactions. Such measures should complement existing defences to counter cyberattacks.