The Bank's Policy Considerations

HIGHLIGHTS

- **Monetary policy will ensure the sustainability of growth prospects.**
- **Current macroprudential measures to manage financial imbalances emanating from households, businesses and property market remained appropriate.**

The OPR remained accommodative at 3.00%

At the July and September Monetary Policy Committee (MPC) meetings, the Overnight Policy Rate (OPR) was maintained at 3.00%. At the most recent meeting in November, the MPC also decided to leave the policy rate unchanged. At this level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity.

The Malaysian economy continued on a positive growth momentum, amid further strengthening of global growth conditions. Growth was higher than anticipated, leading to an improved outlook for the domestic economy. The more positive outlook is supported by stronger spillovers from the external sector to the domestic economy. Domestic demand will be supported by improving labour market conditions and sustained investments, particularly in the manufacturing and services sectors. While downside risks have receded, risks from the external environment remain from political and policy developments in major economies and geopolitical risks. A materialisation of these risks would have ramifications on both global growth and the financial markets.

Headline inflation is expected to be at the upper end of the forecast range of 3 - 4% for the year. Headline inflation is projected to moderate in 2018 on expectations of smaller effects from global cost factors. The trend of headline inflation will, however, continue to be dependent on movements in global oil prices. Underlying inflation, while sustained by the robust domestic demand, is expected to be contained as continued expansion in productive capacity will allow the economy to meet the higher demand.

Monetary and liquidity conditions remained stable and supportive of economic activity. The ringgit strengthened over the quarter to better reflect the economic fundamentals. The growth of financing to the private sector has been sustained and total banking system liquidity remained sufficient. The risks of destabilising financial imbalances remained contained, with the prevailing macroprudential measures effective in managing any incipient risks.

The strength in global and domestic macroeconomic conditions has allowed greater flexibility for the MPC to reassess the degree of monetary accommodation. This is to ensure the sustainability of the growth prospects of the Malaysian economy.

The Bank's Financial Stability Committee assessed that domestic financial stability remains preserved

The 52nd Financial Stability Committee (FSC) meeting was held on 7 November 2017. The FSC assessed that domestic financial stability continues to be preserved and well-supported by sound financial institutions. The FSC observed that key sources of risks to domestic financial stability continued to stem from highly leveraged borrowers and oversupply of office space, shopping complex and high-end high-rise residential property.

The FSC assessed that the risks to financial stability associated with household debt and corporate sector leverage are largely contained, with current macroprudential measures remaining appropriate. Oversupply of office space and shopping complexes is expected to be exacerbated by an influx of incoming supply. Together with the increasing number of unsold high-end condominiums, this could pose risks to macroeconomic and financial stability if left unchecked. Currently, banks are assessed to be able to withstand a slowdown in the property market as direct exposures are limited with low and stable impairment. Financing activity remain supportive of economic growth due to favourable funding and liquidity conditions in the banking system.

The outlook for domestic financial stability is expected to remain stable going into 2018. The Bank will continue to assess the effects of the motor tariff liberalisation and migration to PIN & PAY. In addition, the Bank will remain vigilant against risks from cyber security, illegal financial schemes and market conduct developments. Beginning January 2018, the names of financial institutions subject to enforcement actions due to non-compliance with the Bank's regulations will be published in line with greater transparency and disclosure.

Other policy highlights in third quarter of 2017

The FSC activated the SME Disaster Relief Facility of RM500 million on 8 November 2017 to alleviate the financial burden of SMEs affected by the flood in the northern states of Peninsular Malaysia and to assist the resumption of their business operations[8].

During the quarter, the Bank revised the eligibility criteria for companies to apply for assistance from the Corporate Debt Restructuring Committee (CDRC). The revision provides support to a broader range of companies, particularly those that persistently face challenging business conditions in specific economic sectors. The revision aims to ensure viable companies continue to be able to contribute to real economic growth.

[8] http://www.bnm.gov.my/index.php?ch=en_press&pg=en_press&ac=4538&lang=en