The Bank's Policy Considerations

HIGHLIGHTS

- **The OPR was maintained at the prevailing level of 3.00%, amid positive growth momentum and moderating headline inflation.**
- **Existing macroprudential measures and other measures to manage associated risks emanated from household and business sectors, and property market continue to remain relevant.**

The MPC maintained the OPR at 3.00%

At the May and July Monetary Policy Committee (MPC) meetings, the MPC maintained the Overnight Policy Rate (OPR) at 3.00%.

By mid-year, there was firmer indication that the Malaysian economy would register higher growth in 2017. The global economy continued to strengthen, with more synchronised growth across economies driven by sustained private consumption growth. This stronger domestic and global demand conditions, together with improved sentiments, are supporting a more favourable investment outlook globally. For Malaysia, the positive spillovers from the stronger external sector performance have been felt through both the income and investment channels. The sustained private expenditure growth will remain supported by higher wages and employment, and new and ongoing infrastructure projects. Headline inflation is expected to continue moderating in the second half of the year after peaking in March, mainly reflecting the waning effect of global cost factors. Underlying inflation, as measured by core inflation, is expected to be sustained by the more robust domestic demand. Nevertheless, underlying inflation is expected to remain contained, after increasing from 2.1% in 2016 to 2.5% in the first half of 2017.

Monetary and financial conditions remained resilient and supportive of economic activity. The ringgit has remained stable with a more balanced demand and supply of foreign currencies following the implementation of the two financial market development measures. Liquidity conditions have improved, with an increase in net banking system liquidity following the net portfolio inflows during the quarter.

The MPC is cognisant of the recent positive growth developments and will continue to assess the sustainability of this growth momentum, which is dependent on incoming information. At the same time, the MPC will continue to monitor for any signs of demand-pull inflationary pressures. In this regard, the MPC will assess the balance of risks surrounding the outlook for domestic growth and inflation.

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

The 51st FSC meeting was held on 1 August 2017. During the quarter, the FSC observed that key sources of risks to domestic financial stability stemmed from heightened credit risk in certain business segments and an oversupply of high-end condominiums and commercial property, which in the view of FSC, required increased vigilance.

Overall debt repayment capacity of households was assessed to remain intact. This was despite a slight deterioration in credit quality for vulnerable households. Household debt continued to expand with a more moderate growth of 5.1%. The risk outlook of the financial system remains stable while liquidity conditions continue to be supportive of domestic financial intermediation. The domestic financial market is expected to remain orderly amidst uncertainty in the global environment.

Other policy highlights in the second quarter of 2017

During the quarter, the Bank implemented several initiatives to preserve financial stability and provide a conducive environment for the sustainable growth of the economy:

- To curb the growth of illegal financial schemes, financial institutions have been directed to strengthen controls to prevent the facilitation of illegal fund movements. An inter-agency initiative led by the Attorney General Chambers under the National Coordination Committee to Counter Money Laundering will assess the current legal framework and take joint enforcement action on any financial fraud and scams. The public was also urged to stop participating in such schemes.

- The Bank continued to promote higher standards of stress testing and sound risk management practices for all banking institutions.

- The motor tariff liberalisation came into effect on 1 July 2017, with the premium for motor insurance products now determined by individual insurers and takaful operators in a more risk sensitive methodology. On the same date, the policy to diversify distribution channels for life insurance and family takaful products to promote greater accessibility became effective.

- The migration to PIN & PAY was successfully implemented. Close to 23 million payment cards in Malaysia have been replaced with PIN-enabled cards. All payment card terminals deployed in Malaysia, including outdoor payment terminals at petrol stations, have also been upgraded to support the use of PIN.