The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC maintained the policy rate in March and May, as the degree of monetary accommodativeness was deemed consistent with ensuring a steady growth path amid lower inflation.**

The OPR remained accommodative

In January 2018, the Monetary Policy Committee (MPC) normalised the degree of monetary accommodation by raising the Overnight Policy Rate (OPR) by 25 basis points to 3.25%. Malaysia's strong growth performance in 2017 was expected to be sustained through 2018, amid more broad-based, entrenched and synchronised global economic expansion. Headline inflation was expected to average lower in 2018, on expectations of a smaller effect from global cost factors, while a stronger ringgit exchange rate compared to 2017 would mitigate import costs. Importantly, the adjustment does not constitute a tightening of monetary conditions, but rather a normalisation of the degree of monetary accommodation that would contribute towards the sustainability of growth.

At the subsequent meetings in early March and May, the MPC kept the OPR unchanged, assessing that the degree of monetary accommodativeness after the normalisation to the degree in January was consistent with the policy stance to ensure that the domestic economy continues on a steady growth path amid lower inflation. In late March, the Bank had released its 2018 forecast for sustained growth of within 5.5% – 6.0%, and for lower headline inflation within the range of 2.0% – 3.0%.

Although there are downside risks to global growth prospects from potential worsening trade and geopolitical tensions and subsequent volatility in the international financial markets, risks to the global growth outlook remained balanced. However, the MPC will continue to monitor closely the evolving balance of risks to the economic outlook, including the impact of the OPR adjustment in January 2018.

Despite the recent intermittent volatility due to external developments, domestic financial markets have remained resilient. The financial sector is strong and monetary, financing and financial conditions are supportive of economic growth in the post-election environment. The Bank's monetary operations will continue to ensure that domestic liquidity conditions remain sufficient to support the orderly functioning of the domestic financial markets.

Other policy highlights

In view of the proliferation of digital currencies in Malaysia and its associated risks, the Bank has issued a policy document setting out the obligations of digital currency exchangers (DCE) as reporting institutions under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA). This aims to support surveillance activities and provide effective safeguards against money laundering/ terrorism financing (ML/TF) risks associated with the use of digital currencies. It also serves to increase the transparency of digital currency activities in Malaysia. The list of new reporting institutions is published on the Bank's website.

A key development to foster an enabling environment for the wider adoption of mobile payments to complement debit cards in displacing cash is the issuance of the Interoperable Credit Transfer Framework (ICTF) by the Bank, which will be effective on 1 July 2018. The ICTF promotes collaborative competition (co-opetition) between banks and non-bank e-money issuers by fostering collaboration at the infrastructure level to expand network reach and lower costs, while promoting competition at the product level to enhance service levels and customer experience. Payments Network Malaysia Sdn Bhd (PayNet), the operator of the country's shared payment infrastructure, will provide banks and eligible non-bank e-money issuers with open and fair access to its payment and clearing infrastructure. This will be facilitated by the Real-time Retail Payments Platform (RPP) targeted to be launched by PayNet in 3Q 2018, which would enable payments to be made conveniently between bank accounts and e-money accounts through the use of common identifiers (e.g. mobile phone numbers, NRIC numbers or business registration numbers) and a common Quick Response (QR) code.

The Bank also issued strengthened requirements on the management of credit risk by financial institutions in January 2018. The revised standard aims to further elevate credit risk management practices across the industry given an increased diversity of product offerings, overseas expansion of financial institutions' operations and the growing role of capital markets as an alternative source of financing particularly for large corporates. Requirements under the enhanced standard will take effect on 1 July 2018 for banking institutions. These requirements will also be made applicable, for the first time, to financial holding companies, insurers and takaful operators, with a longer transition period until 1 July 2019 and 1 January 2021 to comply with the standard.

As part of efforts to encourage and preserve a strong and ethical culture within financial institutions, beginning 1 July 2018, financial institutions are required to undertake mandatory screening of prospective new hires. This involves employment reference checks with past and current employers of new hires, and an obligation placed on all financial institutions to investigate conduct breaches by their employees, maintain records and disclose relevant information in response to reference checks. Improved transparency on conduct histories of individuals is intended to facilitate financial institutions in making informed hiring decisions.