The Bank's Policy Considerations

Highlights

- **The MPC reduced the OPR by 25 basis points to 1.75% in July.**
- **In total, the MPC has reduced the OPR by 125 basis points in 2020.**

The MPC reduced the OPR to provide support to the economic environment and to accelerate the pace of economic recovery

The Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by a cumulative 125 basis points on four occasions in 2020. This has brought the OPR to the current level of 1.75%. The ceiling and floor rates of the corridor for the OPR were correspondingly reduced to 2.00% and 1.50%, respectively.

The OPR reduction of 25 basis points in January 2020 was a pre-emptive measure to sustain growth amid price stability. At that point in time, although the global economy was expected to continue expanding, uncertainty from various trade negotiations, geopolitical tensions, and heightened volatility in financial markets posed downside risks to the outlook. There were also downside risks to the domestic economy emanating from domestic factors that included weakness in the commodities sector and delays in the implementation of projects.

As the COVID-19 outbreak in PR China evolved into a global pandemic, measures taken to contain the pandemic had a significant impact on both global and domestic economic activity. The OPR adjustments at the March and May 2020 MPC meetings, by 25 basis points and 50 basis points, respectively, were thus intended to cushion the economic impact of the COVID-19 pandemic on businesses and households. Further ahead, the easier monetary conditions would also support the improvement in economic activity amid the gradual easing of the Movement Control Order (MCO) from early May 2020.

More recently, at the July 2020 MPC meeting, the OPR was reduced by a further 25 basis points to 1.75%. Economic activity has begun to recover from the trough in 2Q 2020. In 2H 2020, growth is expected to be supported by the resumption in economic activity across the various sectors as Malaysia gradually exits from the movement restriction orders, a gradual improvement in sentiments, and positive effects from the fiscal stimulus packages. The projected improvement in domestic economy is expected to be further supported by a gradual recovery in global growth conditions. The pace and strength of the domestic economic recovery, however, remain subject to downside risks emanating from both domestic and external factors. These include the prospect of secondary outbreaks of the pandemic leading to reimpositions of containment measures, more persistent weakness in labour market conditions, and a weaker-than-expected recovery in global growth. This OPR reduction is therefore intended to provide additional policy stimulus to accelerate the pace of economic recovery. The MPC will continue to assess evolving conditions and their implications on the overall outlook for inflation and domestic growth.

The reductions in the OPR were swift and sizeable, given the fast-moving nature of this unprecedented public health crisis and the consequent impact to the economy. The OPR reductions would lend broad-based support to the economy. In particular, in an environment where households' and businesses' incomes are being affected by lower economic activity, the OPR reductions would ease debt servicing burdens, total borrowing costs, and thus cash constraints, for households, SMEs, and corporates. The lower interest rates would also lower the cost of financing and thus lend support to credit expansion and fund-raising activity.

These OPR adjustments complement other monetary and financial measures undertaken by Bank Negara Malaysia, as well as fiscal measures implemented. These include financial relief measures, regulatory and supervisory measures, lending facilities for SMEs, and adjustments to the Statutory Reserve Requirement (SRR) in March and May 2020. In particular, the adjustments to the SRR, which include both the reduction in the SRR ratio from 3.00% to 2.00%, and flexibility to all banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to fully meet the SRR compliance, were part of the Bank's continuous efforts to ensure sufficient liquidity to support financial intermediation activity. The Bank will continue to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.

Other policy highlights in the second quarter of 2020

Policy highlight	Salient details
Policy Document (PD) on Electronic Know-Your-Customer (e-KYC)	• The PD was issued on 30 June 2020 with objectives to: ▪ promote the safe and secure application of e-KYC technology in the financial sector; ▪ maintain effective AML/CFT control measures; and ▪ pave the way for greater innovation and complete end-to-end offering of digital financial services for consumers. • The PD sets out standards and expectations on: ▪ desirable outcomes in the use of e-KYC; and ▪ requirements, best practices and parameters on risk identification, monitoring and reporting to ensure integrity of the on-boarding process for customers.