

The Bank's Policy Considerations

HIGHLIGHTS

- The MPC reduced the OPR by 25 basis points to 1.75% at the July 2020 MPC meeting and subsequently kept the OPR unchanged at the September and November 2020 MPC meetings.
- In total, the MPC has reduced the OPR by 125 basis points this year.

The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy

The Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by 25 basis points to 1.75% in July 2020. The OPR reduction was intended to provide additional stimulus, in addition to the previous cumulative OPR reductions of 100 basis points earlier in the year, to accelerate the pace of economic recovery. Following the gradual re-opening of the economy in early May, domestic economic activities had begun to recover from the trough in the second quarter of 2020.

At the subsequent meetings in September and November 2020, the MPC kept the OPR unchanged at 1.75%. The cumulative 125 basis points reduction in the OPR this year will continue to provide stimulus to the economy. At this level of the OPR, the MPC considers the stance of monetary policy to be appropriate and accommodative.

The MPC assessed that the global economy continues to recover, with latest indicators showing that economic activity picked up in most advanced and regional economies, with a more pronounced recovery momentum in PR China. Growth of the Malaysian

economy for the year 2020 is expected to be within the earlier forecasted range. For 2021, domestic economic activity is projected to improve, underpinned by the recovery in global demand, and turnaround in public and private sector expenditure. The global and domestic economic outlook, however, remain subject to downside risks, particularly from ongoing uncertainties surrounding the course of the pandemic. In terms of inflation, in line with earlier assessments, headline inflation is likely to average negative in 2020 given the substantially lower global oil prices, and average higher in 2021. The outlook, however, will continue to be significantly affected by global oil and commodity prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy.

The MPC will continue to assess evolving conditions and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to create enabling conditions for a sustainable economic recovery.

Other policy highlights in the third quarter of 2020

Policy highlight	Salient details
Exposure Draft (ED) on Merchant Acquiring Services	<ul style="list-style-type: none"> • The ED was issued on 17 July 2020, setting out the Bank’s proposed requirements on merchant acquirers in areas of governance, risk management, outsourcing and IT security. • The ED aims to- <ul style="list-style-type: none"> • ensure the safety and reliability of merchant acquiring services provided by merchant acquirers; and • preserve users’ and merchants’ confidence in using or accepting payment instruments for goods and services.
Policy Document (PD) on Financial Reporting for Development Financial Institutions	<ul style="list-style-type: none"> • The PD was issued on 28 July 2020 to clarify the minimum expectations on the application of Malaysian Financial Reporting Standards by a prescribed development financial institution (DFI). • The PD aims to strengthen disclosures by DFIs, improve comparability of their financial statements and facilitate users’ assessment of a DFI’s financial position and developmental or mandate achievements.
Policy Document (PD) on Standing Facilities	<ul style="list-style-type: none"> • The PD sets out the operational procedures to access the Bank’s standing facilities and the list of eligible collaterals accepted by the Bank. • The PD was revised on 30 July 2020 to expand the eligible collateral for standing facilities operations to include corporate bonds and sukuk with minimum domestic rating of A3 by RAM or A- by MARC.
Exposure Draft (ED) on Transitional Arrangements for Regulatory Capital Treatment of Accounting Provisions for Banking Institutions and for Development Financial Institutions	<ul style="list-style-type: none"> • The EDs were issued on 25 September 2020 and 30 September 2020 respectively. The EDs set out the transitional arrangements that banking institutions and DFIs can avail of for the treatment of accounting provisions for regulatory capital compliance. • The proposals in the EDs are consistent with the guidance issued by the Basel Committee on Banking Supervision on “Regulatory treatment of accounting provisions - interim approach and transitional arrangement” (March 2017). • Banking institutions and DFIs which elect to apply the transitional arrangements are allowed to add back a portion of the Stage 1 and Stage 2 provisions for expected credit losses (ECL) to Common Equity Tier 1 Capital over a four-year period from financial year beginning 2020 or a three-year period from financial year beginning 2021.