The Bank's Policy Considerations

HIGHLIGHTS

- The MPC maintained the OPR at 1.75% at the January 2021 MPC meeting, as the MPC considered the stance of monetary policy to be appropriate and accommodative.
- The Bank extended the flexibility for banking institutions to use MGS and MGII to meet the SRR requirement until 31 December 2022.

The OPR remains accommodative

At the November 2020 and January 2021 Monetary Policy Committee (MPC) meetings, the Overnight Policy Rate (OPR) was maintained at 1.75%.

The MPC assessed that the global economy continues to recover, despite the resurgence in COVID-19 cases and the subsequent containment measures affecting economic activity in several major economies. The expedited rollout of mass vaccination programmes, together with ongoing policy support, are expected to lift global growth prospects. The outlook remains subject to downside risks, mainly from further resurgence of COVID-19 infections and delays in mass inoculation.

For Malaysia, while near-term growth in 2021 will be affected by the re-introduction of stricter containment measures, the growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new manufacturing and mining facilities. The rollout of vaccines in the coming months will also lift sentiments. Downside risks to the outlook stem mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the rollout of vaccines both globally and domestically.

Headline inflation in 2021 is projected to average higher, primarily due to higher global oil prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.

The MPC considers the stance of monetary policy to be appropriate and accommodative. The cumulative 125 basis points reduction in the OPR last year will continue to provide stimulus to the economy. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward will continue to be determined by new data and information, 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.

The Bank extended the flexibility for banking institutions to use MGS and MGII to meet the SRR requirement

On 20 January 2021, The Bank announced the extension of the flexibility for banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the Statutory Reserve Requirement (SRR) requirement until 31 December 2022. This flexibility, which was previously announced on 5 May 2020, will expire after 31 May 2021. The Statutory Reserve Requirement (SRR) ratio remains unchanged at 2.00%.

The decision to extend this flexibility is part of Bank Negara Malaysia's continuous efforts to ensure sufficient liquidity to support financial intermediation activity. Since March 2020, the reduction in the SRR ratio by 100 basis points and flexibility to recognise MGS and MGII as part of SRR compliance have released approximately RM46 billion worth of liquidity into the banking system.

The SRR is an instrument to manage liquidity and is not a signal on the stance of monetary policy. The OPR is the sole indicator used to signal the stance of monetary policy, and is announced through the Monetary Policy Statement released after the MPC meeting.