

The Bank's Policy Considerations

Highlights

- The MPC maintained the OPR at 1.75% at the January and March 2021 MPC meetings, and most recently also at the May 2021 MPC meeting.
- The MPC considers the stance of monetary policy to be appropriate and accommodative. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery

The OPR remains accommodative

At the January and March 2021 Monetary Policy Committee (MPC) meetings, and most recently also at the May 2021 MPC meeting, the MPC maintained the Overnight Policy Rate (OPR) at 1.75%.

The MPC assessed that global economic recovery continues to strengthen, particularly in the major economies, supported by improvements in manufacturing and trade activity, although the pace may vary across countries. The ongoing roll-out of vaccination programmes and sizeable fiscal stimulus measures in the US as well as policy support in other major economies will further facilitate an improvement in domestic demand. However, a re-tightening of containment measures to curb COVID-19 resurgences could disrupt the recovery trajectory in some economies. Recent financial market volatility has somewhat receded, and financial conditions remain supportive of growth. The balance of risks to the growth outlook remains tilted to the downside, due mainly to uncertainty over the path of the pandemic as well as potential risks of heightened financial market volatility.

For Malaysia, latest indicators point to better-than-expected improvements in economic activity in the first quarter. While the recent re-imposition of containment measures in select locations will affect economic activity in the short term, the impact will be less severe as almost all economic sectors are allowed to operate. The growth trajectory is projected to improve, driven by the stronger recovery in global demand and increased public and private sector expenditure amid continued support from policy measures. The progress of the domestic COVID-19 vaccine programme will also lift sentiments and contribute

towards the recovery in economic activity. The growth outlook, however, remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic, and potential challenges that might affect the vaccine roll-out both globally and domestically.

Headline inflation in 2021 is projected to average higher between 2.5% and 4.0%, primarily due to the cost-push factor of higher global oil prices. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of 2021, due particularly to the lower base from the low domestic retail fuel prices in the corresponding quarter of 2020. However, this will be transitory as headline inflation is projected to moderate thereafter as

this base effect dissipates. Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, 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. 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 foster enabling conditions for a sustainable economic recovery.

Other policy highlights in the first quarter of 2021

Policy highlight	Salient details
<p>Liberalisation of Foreign Exchange Policy (FEP)</p>	<ul style="list-style-type: none"> • The FEP liberalisation measures aim to enhance Malaysia’s position as a foreign direct investment (FDI) destination and a global supply chain hub as well as to widen global investors’ access into the onshore financial market: <ol style="list-style-type: none"> 1. Removal of export conversion rule; 2. Exporters can settle domestic trade in foreign currency with other residents operating in global supply chain; 3. Exporters can net-off or write-off export proceeds against permitted foreign currency obligations; 4. Exporters are allowed to extend the repatriation of export proceeds beyond 6 months for reasons beyond exporters’ control; 5. Corporates can undertake non-FX derivatives hedging directly with non-resident counterparties; and 6. Non-resident banks can trade ringgit interest rate swap (IRS) without underlying commitment with any onshore bank or its appointed overseas office (AOO). • All the measures above are effective on 15 April 2021 (except for Measure No. 6 which is effective on 15 March 2021).
<p>Shariah Ruling on the Adoption of Risk-Free Rate as an Alternative Benchmark Rate to London Interbank Offered Rate (LIBOR)</p>	<ul style="list-style-type: none"> • The Shariah Advisory Council of Bank Negara Malaysia ruled that the adoption of risk-free rate (RFR) as an alternative benchmark rate to LIBOR or as a fallback benchmark replacement rate after the permanent cessation of LIBOR is permissible. • This ruling aims to facilitate the orderly transition to the alternative RFR by Islamic financial institutions with the cessation of LIBOR. • This ruling came into effect on 22 March 2021.
<p>Policy Document (PD) on Statutory Reserve Requirement (SRR)</p>	<ul style="list-style-type: none"> • Since 16 May 2020, banking institutions have been allowed to use Malaysian Government Securities and Malaysian Government Investment Issues to fully meet SRR compliance. • The PD was updated on 16 March 2021 to reflect the extension of the flexibility granted to banking institutions to 31 December 2022.
<p>Exposure Draft (ED) on Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) (Supplementary Document No.1) - Money Services Business</p>	<ul style="list-style-type: none"> • The ED was issued on 15 March 2021, setting out measures that ensure effective and robust Anti-Money Laundering and Counter Financing of Terrorism control measures and systems are in place to safeguard the safety and integrity of money services business. • The ED outlines the proposed minimum requirements and standards that approved remittance service providers and money changers must observe when implementing non-face-to-face verification processes to on-board corporate customers for the conduct of remittance and money changing business. • The ED was opened for consultation until 15 April 2021 and requirements will come into effect upon issuance of the final document.