

Evolution of the Monetary Policy Committee of Bank Negara Malaysia: Key Milestones over the Years

Bank Negara Malaysia's Monetary Policy Committee (MPC) had its first meeting fourteen years ago. Since then, it has evolved and enhanced its effectiveness as the sole body responsible for the formulation of Malaysia's monetary policy and policies for the conduct of monetary policy operations. This box article summarises the key milestones in the evolution of the MPC from its formation.

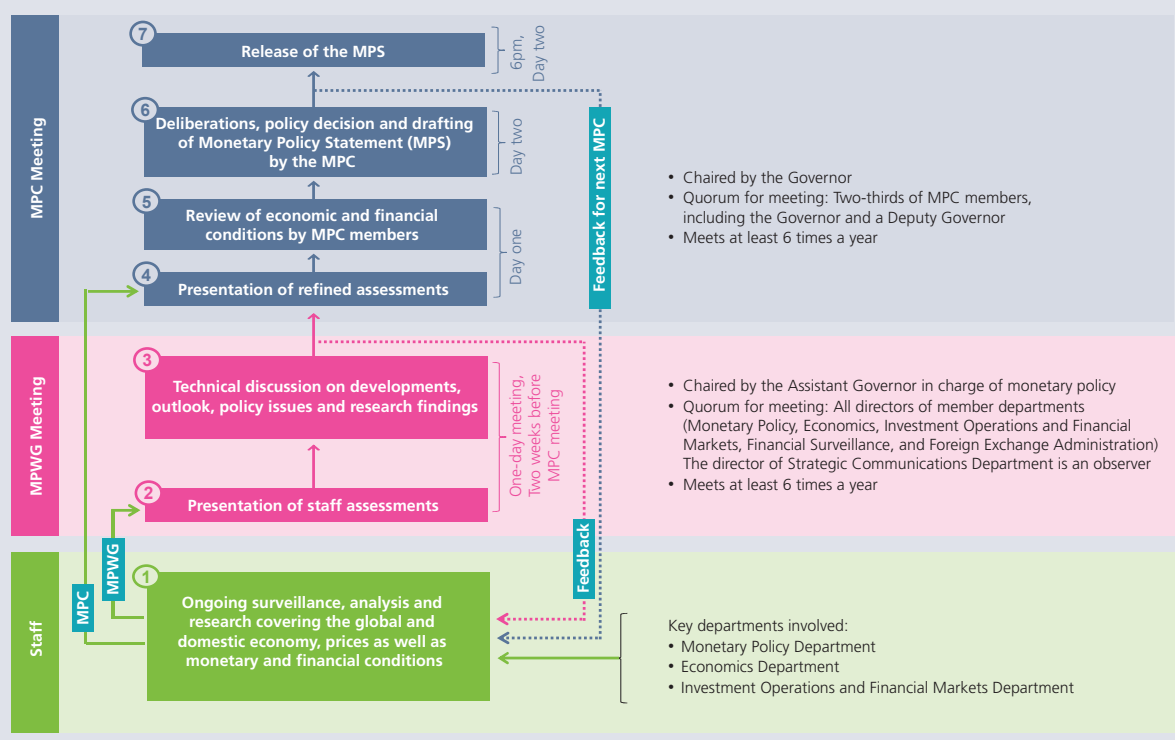
2002 to 2008: Laying the Foundations

The MPC was formed in 2002. In its initial form, it was an advisory committee comprising of the senior management of Bank Negara Malaysia (the Bank) that supported the Governor, who was the single decision-maker on monetary policy. The MPC meetings typically took place for a day, starting with staff presentations, followed by discussions among the committee members and ending with a decision by the Governor on the stance of monetary policy. The MPC met at regular intervals, to consistently assess the state of the economy and ensure that the monetary policy stance was appropriate given the changes to the outlook for growth and inflation.

An integral part of the monetary policy decision-making process is the internal processes leading up to the MPC meeting. In this regard, the Monetary Policy Working Group (MPWG) plays an essential role. The MPWG was established in 2002 as an internal forum to discuss staff assessments on the latest economic, monetary and financial market developments and outlook, policy issues and research findings before the presentations are prepared for the MPC. Apart from its quality control function, the MPWG also ensures that the views of all relevant parts of the Bank are taken into account and considered carefully. The MPWG is chaired by the Assistant Governor in charge of monetary policy

Diagram 1

Monetary Policy Process at Bank Negara Malaysia



Note: Numbering reflects the sequencing of the monetary policy process
Source: Bank Negara Malaysia

and the members are the directors of departments covering the areas of monetary policy, economics, investment operations and financial markets, financial surveillance, and foreign exchange administration. Initially, the MPWG met at least once a month, but this was subsequently changed to eight times a year in 2005 and six times a year in 2010, corresponding to the frequency of the MPC meetings.

An important component in the conduct of monetary policy is the communication of the policy decision to the public and the financial markets. For the MPC, the main policy communication tool is the Monetary Policy Statement (MPS). The first MPS was issued in August 2003, and was initially scheduled for release four times a year, coinciding with the release of Malaysia's quarterly GDP performance. The release dates were subsequently changed to coincide with the MPC meeting dates beginning in December 2005, which also saw for the first time the release of an advance calendar of the MPC meetings for the year ahead. The MPS is a forward-looking statement, outlining the monetary policy stance and the rationale for the policy decision.

2009: Autonomy and Institutionalisation

The year 2009 marked a very important milestone in the evolution of the MPC, with the enactment of the Central Bank of Malaysia Act 2009¹ (the Act). The Act stipulates that monetary policy shall be autonomously formulated and implemented by the Bank and legally recognises the MPC as the body responsible for formulating monetary policy and the policies for the conduct of monetary policy operations in the country. The Act also institutionalised and provided greater clarity to some established aspects of the conduct of monetary policy by the Bank. These include, for example, the objective of monetary policy, namely maintaining price stability while giving due regard to developments in the economy, and the formal requirement to publish an MPS following each meeting.

Beyond that, the Act introduced important governance procedures that would serve to provide the framework to improve the robustness of not only the monetary policy decision-making environment, but would also allow the MPC to further evolve in the future. The governance of the monetary policy process is also guided by the MPC by-laws, which amongst others, provide a set of practices for efficient and robust policy decision-making; define the roles, responsibilities and accountability of MPC members; and define the monetary policy decision-making cycle. The by-laws include provisions such as the need for an optimal mix of representation of constituencies in the composition of the MPC to mitigate biasness, the approach to decision-making and the structure of the MPC meetings.

The MPC developed into a collegial decision-making committee in which decisions are made by consensus, with the Governor, as the Chair, having the role in leading the discussions and deliberations, as well as building a consensus among the MPC members. The membership criteria of the MPC also became more clearly defined in the Act. The overarching consideration to being nominated to the MPC is having the expertise and experience relevant to the responsibilities and functions of the MPC; and being a person of probity, competence and sound judgement. The Governor and the Deputy Governors remain as members of the MPC for so long as they hold office. The other members are appointed by the Bank's Board of Directors from amongst senior officers at the Bank with relevant expertise, on the recommendation of the Board Governance Committee of the Bank². The Board Governance Committee may recommend external members to the Minister of Finance for their appointment to the MPC.

The duration of each MPC meeting was also extended to two days. This was to allow sufficient time for in-depth presentations by staff and for the MPC members to appraise and discuss the implications

¹ For a detailed account, refer to "White Box: Monetary Policy Process under the Central Bank of Malaysia Act 2009", in Chapter 3 of Bank Negara Malaysia's Annual Report 2009.

² The Board Governance Committee assists the Board of Directors in its oversight role, whose members are non-executive directors. The Board Governance Committee is responsible for recommending the persons to be appointed to the MPC and other Committees of the Bank, among other responsibilities. For further details refer to "White Box: The Central Bank of Malaysia Act 2009", in Chapter 5 of Bank Negara Malaysia's Annual Report 2009.

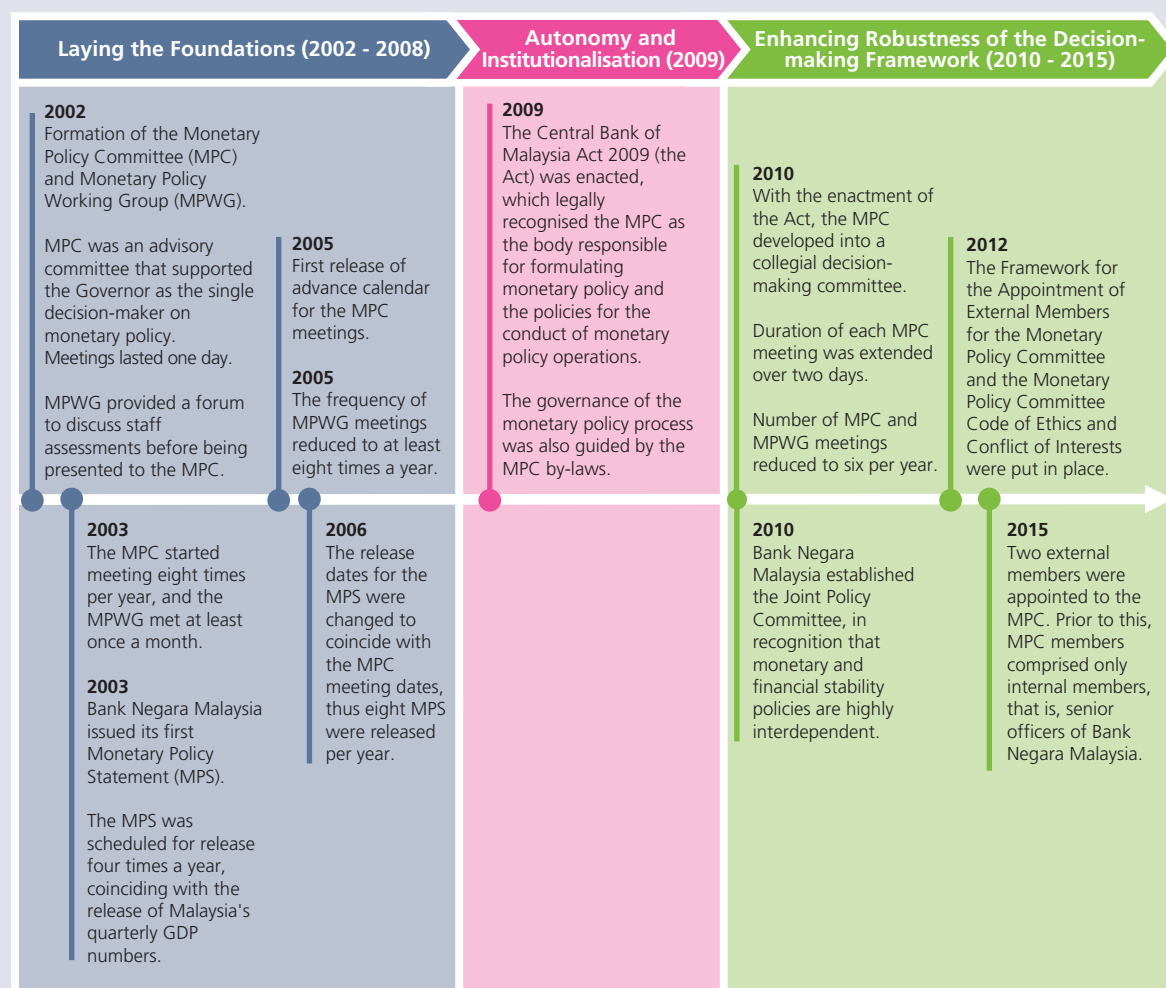
of new developments. The additional time also enabled the evolvement of a consensus view of the policy direction, and finally the drafting of the MPS. The Act also specified that the MPC should meet six times a year, with the flexibility to convene additional meetings should it become necessary.

2010 to 2015: Enhancing Robustness of the Decision-making Framework

In the years after the global recession, the policy environment of the Bank continued to be challenging, arising in large part from the significant developments and uncertainties in the global economic and financial market environment. During this period, the Bank made a number of efforts to further strengthen its policy decision-making framework. The Bank established the Joint Policy Committee in 2010, a high-level policy committee that consists of members from both the MPC and the Financial Stability Committee of the Bank³. This is in recognition of the fact that monetary and financial stability policies are highly interdependent, such that effective coordination of these policies is critical for preserving macroeconomic and financial stability. The Joint Policy Committee facilitates broader surveillance and a more comprehensive risk assessment of issues by combining macroeconomic

Diagram 2

Evolution of the Monetary Policy Committee of Bank Negara Malaysia



Source: Bank Negara Malaysia

³ Further discussion on the Joint Policy Committee can be found in "Box Article: Bank Negara Malaysia's Joint Policy Committee", in Chapter 3 of Bank Negara Malaysia's Annual Report 2012.

surveillance with micro-level analysis of the financial sector. This allows the Bank to deliberate on cross-cutting issues and to ensure the effective coordination of policies that may have an impact on both the financial system and the broader economy.

In 2012, the process further evolved when the Monetary Policy Committee Code of Ethics and Conflict of Interests (Code) was put in place. The Code established guidelines to preserve the integrity of decision-making by the MPC by seeking to minimise and manage any conflict of interest. In addition, an internal Framework for the Appointment of External Members for the Monetary Policy Committee (Framework) was developed in 2012. The Framework provides guiding principles, based on the criteria set out in the Act and the MPC by-laws, to facilitate the Bank's Board Governance Committee in assessing the suitability of the external candidates to be recommended as members of the MPC. The Framework strengthens safeguards already in place, such as specifying that in recommending any person to be a member of the MPC, the Board Governance Committee should be satisfied that the person will strengthen the diversity of expertise and experience available within the MPC, and requiring external members to include disclaimers in views expressed in members' professional capacity elsewhere so as to distinguish these views from those of the MPC.

Two external members were appointed to the MPC in April 2015. The inclusion of external members is a significant milestone. It reflects the ongoing progress of the MPC as a decision-making committee, with the external members bringing additional diversity of views and relevant expertise to the monetary policy decision-making process.

Conclusion

The foundations put in place over the last fourteen years of its existence, in particular the governance framework and established processes, provide the MPC with a solid platform to effectively discharge its responsibility of formulating monetary policy and policies for the conduct of monetary policy operations in Malaysia.