

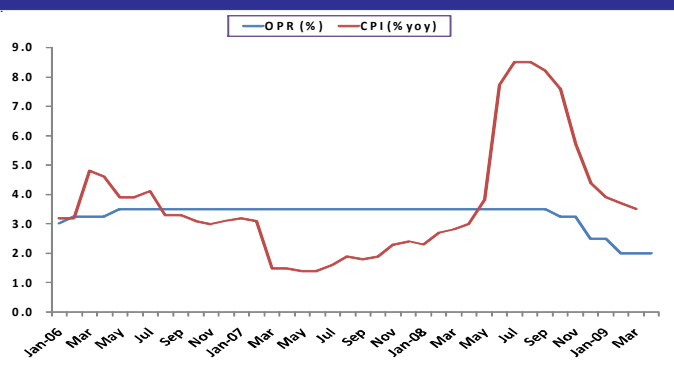
Interest Rates

OPR - sufficiently stimulative?

30 APRIL 2009

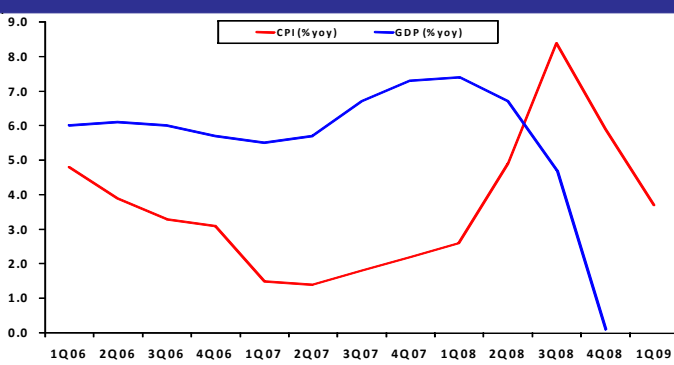
2009/0017

MALAYSIA'S CPI (%yoy) vs OPR



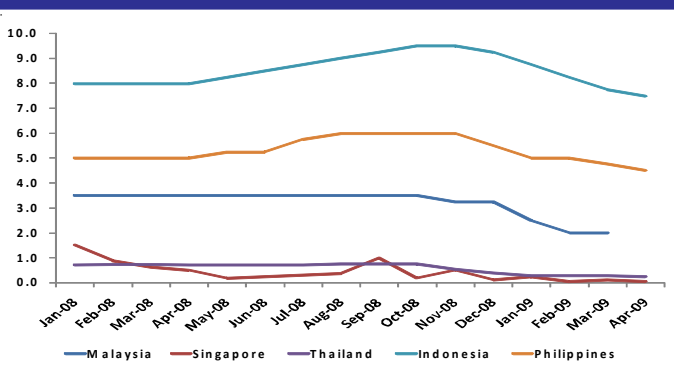
Source: Bank Negara Malaysia & Department of Statistics Malaysia

MALAYSIA'S CPI (%yoy) vs GDP (%yoy)



Source: Bank Negara Malaysia & Department of Statistics Malaysia

MALAYSIA'S OPR vs REGIONAL INTEREST RATES



Source: Department of Statistics Malaysia

Schedule of BNM Monetary Policy Committee Meetings (2009)

No.	Date	OPR (%)
1st	21 January 2009 (Wednesday)	2.50
2nd	24 February 2009 (Tuesday)	2.00
3rd	29 April 2009 (Wednesday)	2.00
4th	26 May 2009 (Tuesday)	
5th	29 July 2009 (Wednesday)	
6th	25 August 2009 (Tuesday)	
7th	28 October 2009 (Wednesday)	
8th	24 November 2009 (Tuesday)	

- Bank Negara Malaysia (BNM) kept its Overnight Policy Rate (OPR) unchanged at 2.00% after three consecutive cuts totalling 150 basis points (bps) since November last year. This was in line with our expectation but against the consensus view of a 25 bps reduction. It was also consistent with BNM's hint that an overly low interest rate environment is not constructive and the present level is sufficiently accommodative.
- The latest BNM action (or rather non-action) is a reflection of several economic parameters at work together presently.
- Firstly, it signals the monetary authority's confidence that, while the worst may not be over yet, tentative signs of recovery could emerge as early as in the middle of this year. The plunge in both export and production figures have appeared to be slowing down in March. Exports recorded a 15.9% yoy drop from 27.9% yoy in February while production shrank 14.7% yoy in March as compared to 19.8% in the previous month.
- Secondly, it also reflects the Central Bank's confidence that the earlier successive interest rate cuts unloaded between November 2008 to February 2009 are sufficient and potentially could stimulate domestic demand and credit growth while at the same time avoid the rise in NPLs. Loan growth in March was still expanding on a double digit based, albeit the slight deceleration from 11.6% in January to 10.9% in both February and March. The rise was supported by higher loans for the purchase of residential properties and the usage of credit cards. On the sector wise, loan disbursements were higher for the real estate, transport, storage and communication, and community, social and personal services sectors. Net NPL remained at a low level of 2.2%, indicating that the banking system health remained sound and stable despite the current global financial condition.
- Thirdly, it reflects the BNM concern that any further reduction in interest rate would enlarge the negative yield already suffered by depositors. Given inflation growth at 3.5% in March and 3-month fixed deposit rate remained at 2.04%, the current yield to deposits is at -1.46%. The negative yield has been prevalent since May 2008 and to address this predicament, the government has issued a total of RM5 billion Sukuk Simpanan Rakyat at the rate of return of 5.0% per annum.
- Fourthly, the central bank reluctance to lower the interest rate could help support the ringgit which has depreciated against selective major currencies and also to curb further outflow in external reserves. As at April 2009, the external reserves stood at USD87.7 billion compared with USD91.3 billion in January, 09.
- Moving forward, we are of the view that barring any sharp deterioration in the incoming economic indicators or external shocks, BNM will keep the OPR unchanged at 2.00% for the rest of the year. The basis of our view is due to the expectation of lower inflation rate in the 2H09. Hence, we expect inflation to average between 1.0-2.0% for the whole year. We opine that the prevailing interest rate level and the two fiscal stimulus packages will revive the economy beginning 2H of the year.