

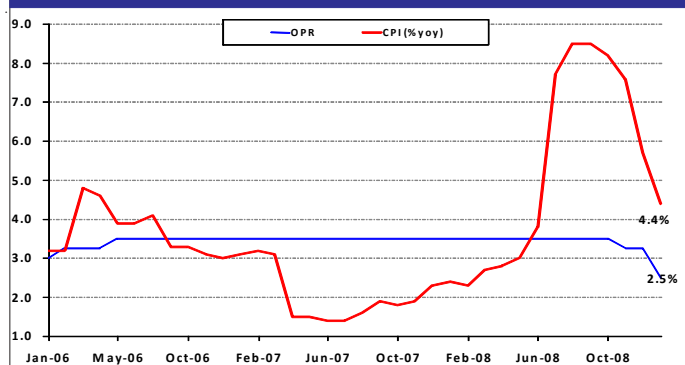
Interest Rates

OPR - cuts by an unprecedented 75 bps

22 JANUARY 2009

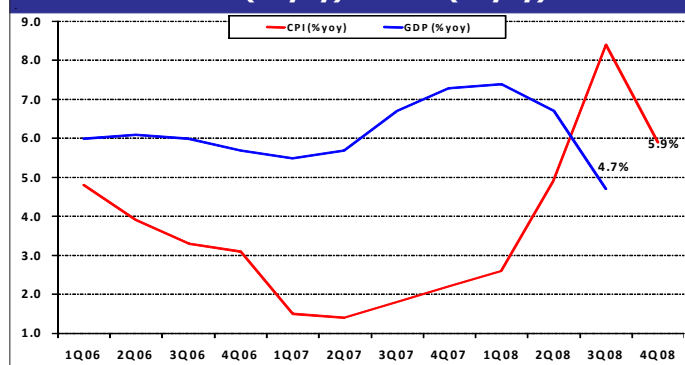
2009/0004

MALAYSIA'S CPI (%yoy) vs OPR



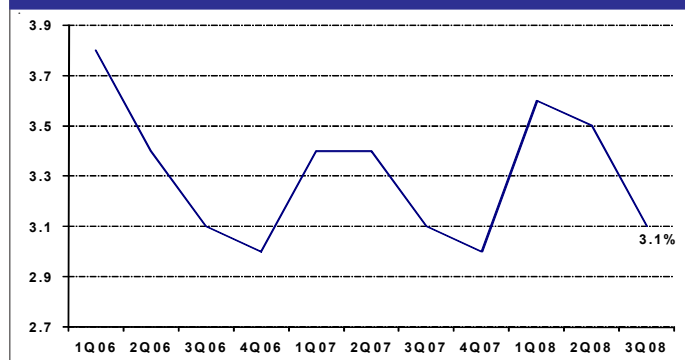
Source: Bank Negara Malaysia & Department of Statistics Malaysia

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



Source: Bank Negara Malaysia & Department of Statistics Malaysia

MALAYSIA'S UNEMPLOYMENT RATE



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)	
3rd	29 April 2009 (Wednesday)	
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) **slashed the OPR by 75 basis points to 2.50%** - the single largest cut since April 2004 - and **reduced the Statutory Reserve Requirement (SRR) for banks by 150 bps to 2.0%**, effective February 1. The SRR is the amount of reserve capital that banking institutions place with the central bank. In its monetary policy committee statement, the bank indicated that *with the heightened downside risks to growth, the magnitude of the reduction in the OPR and the SRR is aimed to be pre-emptive in providing a more supportive monetary environment for the domestic economy.*
- The central bank cut interest rate in a bid to cushion the impact of a weakening economy and to avert a downturn. Bank Negara admit the risks of slowing growth by citing that *the sharper deterioration of the global economy is expected to have a greater impact on the Malaysian economy.* GDP growth slowed to 4.7% y-o-y in the 3Q08 and the trend is expected to decline further due to the deepening in the global economic slump. Given heightened risks of slower growth which is currently affecting the labor markets, *the urgent implementation of policy measures, according to Bank Negara, will be a key toward ensuring that the Malaysian economy continued to experience positive growth in 2009.*
- Despite the strong growth posted during the 1H GDP growth last year, the worsening economic growth outlook for the final quarter of 2008 has prevailed, which underscored by the decline in exports data for two consecutive month in Oct and Nov last year. Simultaneously, the IPI also posted contraction, pointing to a downward pressure on the 4Q08 GDP growth. Economic growth for last year is expected to exceed the 5.0% level, but growth for this year is expected to drop further. The MIER, recently revised its GDP growth projection for 2009 to 1.3% from 3.4%, which is lower than the 3.5% projected by the government.
- The easing inflation growth from record high (in July and Aug, 08) has provided more rooms for Bank Negara to reduce the interest rates. In December, the CPI has slowed further to 4.4%, against the consensus forecast of 5.0%. Bank Negara foresees that *the deceleration is expected to continue with the weaker demand conditions and lower imported inflation.*
- Going forward, we reckon that the OPR will hold at least during the 1H09, depending on the condition of the global downturn and its impact on domestic demand as well as employment conditions. Several countries have slashed their interest rates to near zero levels recently, effectively making cheap money available as a means to stimulate their ailing economies. The US Federal Reserve pegged the interest rate at a range of 0 to 0.25% while Japan's central bank has its key interest rate slashed to 0.10%. Other central banks in India and Taiwan also lowered borrowing costs in recent months to spur economic growth. On the domestic front, the focus will be towards sustaining domestic demand to helped cushioning the impact of a slump in export growth. One of the key measures is to provide more liquidity in the banking system so as to support private spending and other industry players. *As such, the central bank efforts will continue to be directed towards ensuring access to credit to all sectors of the economy, and that reduction in interest rates would be reflected in lower borrowing costs.*