

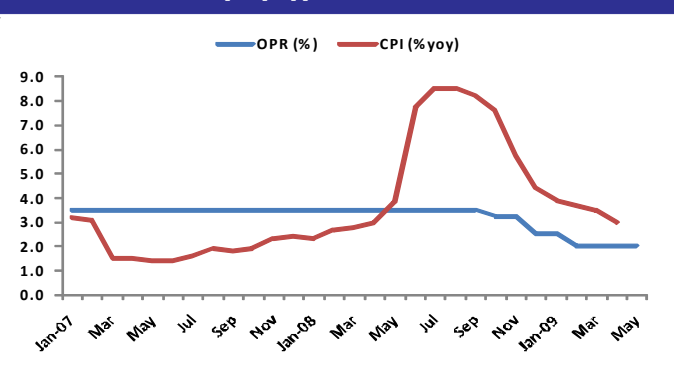
Interest Rates

OPR - within expectations

27 MAY 2009

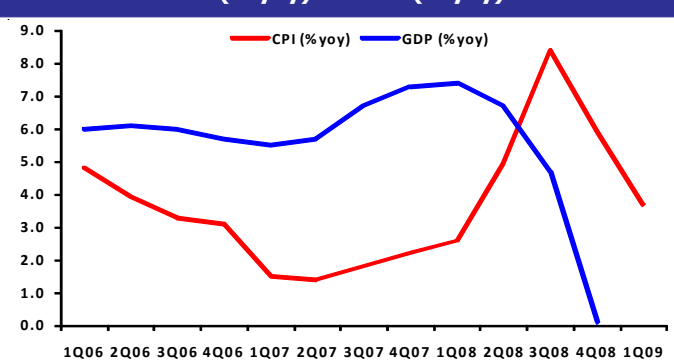
2009/0021

MALAYSIA'S CPI (%yoy) vs OPR



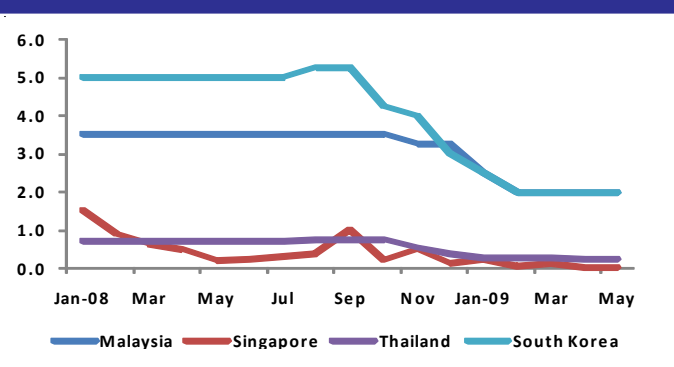
Source: Bank Negara Malaysia & Department of Statistics Malaysia

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)	2.00
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 the Overnight Policy Rate (OPR) unchanged at 2.00%. This is the second consecutive meeting in which BNM had kept the OPR unchanged, following its frontloaded cut of 150 basis points from November 08 to March 09. Invariably, the decision is within consensus and our expectations.
- The decision clearly indicates that BNM remains optimistic on the improvement of the economic conditions in the 2H09. The recent tentative signs of the global recovery, although came with mixed views on whether this could be sustained, will at least bring some confidence on the domestic economy. At this stage, signs of bottoming out were reflected by higher trade and industrial production recorded in March 09. Month-on-month figures showed an upturn for the manufacturing sector while exports posted double-digit growth. These, coupled with rising commodity prices, have also helped boosting sentiments in the equity market.
- The authority seems to have confidence on future economic recovery based on its statement that *the stabilization in the external environment in the 2H09 is also supported by the accelerated implementation of fiscal measures*. The impact of the stimulus packages, in our view, is expected to fully kick in during the final quarter of this year. Other measures such as the liberalization of the services and financial sectors as well as the launching of Danajamin (a financial guarantee insurer) in order to increase credit access will support the economy to recover in the 2H09.
- Another factor that contributes to the decision is that BNM foresee that the current rate is sufficient to promote lending activities. Despite the increase in loan activities, loan approval continued to decline in March 09, confirming financial institutions' concerns over the possibility of higher default rate by borrowers in the midst of the economic slowdown. Also, the vehicle sales continued to drop in April 09 as hire-purchase interest rates increased. On that basis, the main concern of the central bank was the wider and continuous access to lending and efforts to bring down the intermediary costs, instead of further reducing the OPR. Recent comments made by BNM that *"too low interest rates are not constructive"* demonstrates the stance of BNM not to cut interest rates further, but BNM will continue to ensure ample liquidity in the financial system.
- On balance, BNM left the key OPR unchanged as inflationary risk receded. Inflation softened further from the record high of 8.5% recorded in July 08 to as low as 3.0% in March 09. We envisage that BNM will hold the rate at the 2.00% level until the end of this year despite the expectation of deflationary risk in the 2H09. The lower inflation data will be largely attributed to the high base effect amidst moderation in demand. Moving forward, any monetary policy stance taken by the central bank would be depending on the sustainability of the economic recovery over the coming months and how fast the stimulus packages will filter through the domestic economy.