

## Malaysia: OPR - riding on a cautious mode

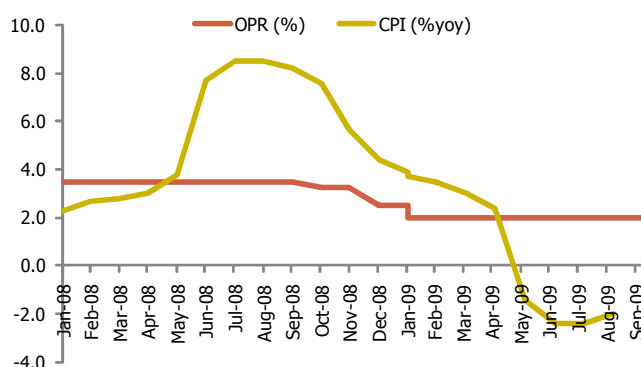
29 OCTOBER 2009  
2009/0054

### BNM MONETARY POLICY MEETINGS 2009

No.	Date	OPR (%)
1st	21-Jan-2009	2.50
2nd	24-Feb-2009	2.00
3rd	29-Apr-2009	2.00
4th	26-May-2009	2.00
5th	29-Jul-2009	2.00
6th	25-Aug-2009	2.00
7th	28-Oct-2009	2.00
8th	24-Nov-2009	2.00f

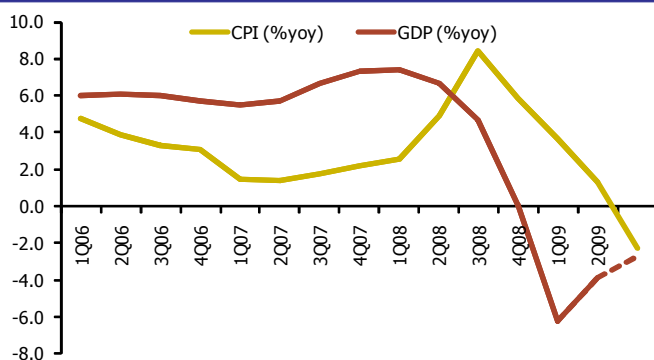
Source : Department of Statistics Malaysia, Bank Negara Malaysia  
f: Research Division forecast

### MALAYSIA CPI (% YOY) VS OPR (%)



Source : Department of Statistics Malaysia, Bank Negara Malaysia

### MALAYSIA CPI VS GDP (% YOY)



Source : Department of Statistics Malaysia, Bank Negara Malaysia  
Dotted lines: Research Division forecasts

- While Bank Negara kept the Overnight Policy Rates (OPR) unchanged at 2.00% on October 28, the market is still debating on the right timing for the government to tighten its monetary policy rate as economic recovery gains a stronger foothold.
- The decision was widely expected based on previous comments made by Bank Negara that interest rate is at appropriate levels and supportive of growth. The benchmark OPR was cut by 150 basis points from Nov 08 to Jan 09 and has been left unchanged in the subsequent five Monetary Policy Committee Meetings held this year.
- Globally, Australia became the first G20 nation to raise its benchmark interest (early October) since the start of the financial crisis. While most of the countries are still looking for the suitable time to implement an exit strategy, countries such as India and South Korea are already under pressure to normalize their interest rates. Of late, Norway became the first European country to follow Australia, citing a nascent rebound in the economy and inflationary pressures going forward.
- Locally, any changes in interest rate policy are very much dependent on the strength of the economic recovery and possibilities of a spike in the inflation rate in the short to medium term.
- On a positive note, Gross Domestic Product (GDP) in 2Q09 charted a positive growth of 4.8% q-o-q (1Q09: -7.8%), which resulted into a smaller 3.9% y-o-y decline (1Q09: -6.2%). Improvement was led by the positive growth in services and a slower decline in manufacturing. The uptrend was also supported by improvement in exports and domestic demand.
- Inventory accumulation by producers has supported the overall industrial sector. The Industrial Production Index showed further improvement in July and August, signaling a better GDP figure for the 3Q period this year. On the same vein, the pace of decline in exports eased further to -19.8% in August to mark the weakest drop registered in five months.
- While other economic indicators are pointing towards positive growth, we believe the monetary policy rate will be retained in the upcoming MPCM on November 24,

09. Our view on interest rate policy is based on several factors.

- Firstly, the global recovery is still weak due to the uncertain outlook in the US economy. Furthermore, improvement in the second quarter GDP by many economies were largely due to huge pump-priming measures, instead of the real recovery in economic activities. The actual rebound in global demand is hardly seen as indicated by the drop in Malaysia m-o-m exports data by 1.0% in August after growing in the previous three months.
- Secondly, the possible soft fiscal-exit by the government - given the big cut in operating and development expenditure to trim its fiscal deficit under the Budget 2010 – highlights the elevated major role of the private sector as an engine of growth in 2010. There is also a need for easy and accommodative monetary conditions to help boosting private spending in the midst of a slowdown in external demand.
- Thirdly, Malaysia lagged other countries in terms of growth. While we are expecting real GDP to post smaller negative y-o-y performance during the 3Q09, some regional economies have already resumed to record positive growth. The need for such an accommodative monetary policy to continue is therefore significant to ensure a full recovery is realized.
- Lastly, we are anticipating a further drop in annual CPI for October before making a turnaround in November and December 09. The inflation rate for September stood at -2.0%, marking the fourth straight month of deflation this year. As inflationary pressures are expected to remain subdued going into next year, Bank Negara still has ample room to leave interest rate at an accommodative level at least until the first half of 2010.
- At this juncture, there are minimal risks of inflation and asset bubbles in the economy. Nevertheless, a revision of monetary policy can be expected during the second half of the year in response to increased price pressure following firming of growth, escalating oil prices and rising imported inflation.