

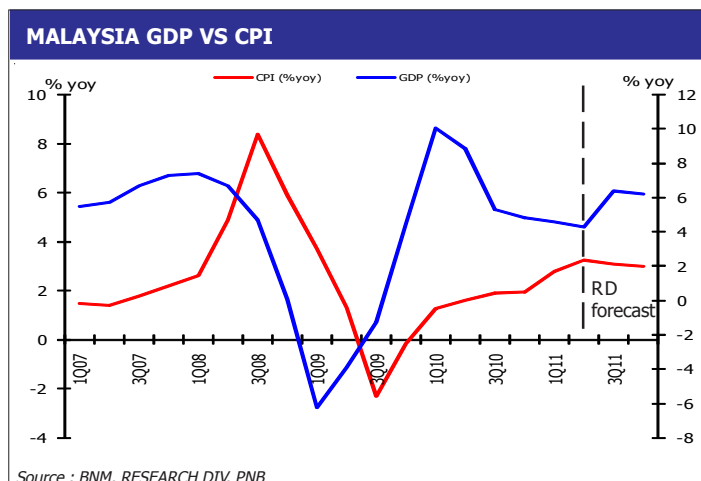
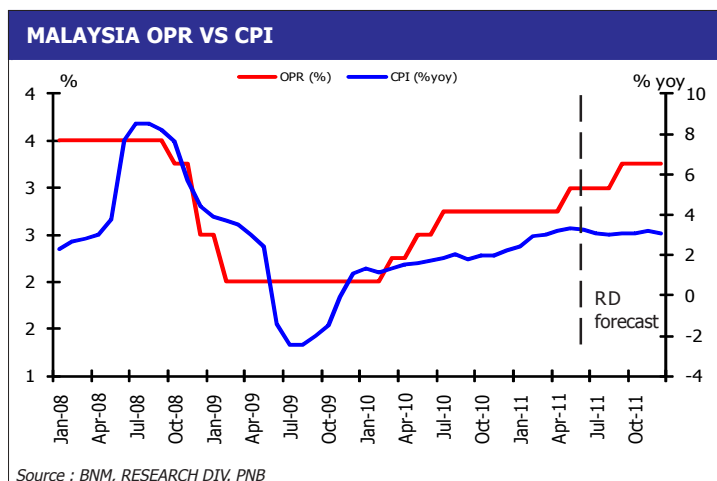
- **Bank Negara Malaysia at its monetary policy committee (MPC) meeting on July 7, 2011 decided to maintain the benchmark interest rate at 3.00%, bucking our and most economists' expectations of a 25 bps hike in the Overnight Policy Rate (OPR). Meanwhile, the Statutory Reserve Requirement (SRR), as expected, will be increased by one percentage point to 4% with effect from 16 July 2011.**
- Concerns over the rising inflation risks remained, but the assessment of the heightened external risks and the increased downside risks to growth of domestic economy had moved BNM to retain the OPR. The decision to raise the SRR on the other hand, is a further preemptive measure to manage the significant build-up of liquidity. At the MPC meeting on May 8, 2011, BNM had announced the increase of OPR by 0.25% to 3.00% and the SRR by 1.0% to 3.00% with effect from 16 May 2011.
- The risks face the global economy has increased and world economic growth is slowing. The slide in Malaysia's export growth in May signals a weakening external demand, thus a slowing domestic growth during the second quarter. The slump in export demand was most pronounced in the electronics sector, that is likely to remain weak and fragile during the coming months, partly also caused by supply chain disruptions. It is without exception, domestic demand must be sustained which otherwise could erode significantly the growth prospect.
- Bank Negara had again made a clear assessment of the upside risks on inflation with the pressures to continue emanating from the supply and demand side.

BNM MONETARY POLICY MEETINGS 2011

No.	Date	%
1st	27 January 2011 (Thursday)	2.75
2nd	11 March 2011 (Friday)	2.75
3rd	5 May 2011 (Thursday)	3.00
4th	7 July 2011 (Thursday)	3.00
5th	8 September 2011 (Thursday)	3.25f
6th	11 November 2011 (Friday)	3.25f

Source : BANK NEGARA MALAYSIA, f - RESEARCH DIVISION FORECAST

- The decision to retain the benchmark rate is seen to deviate the policy actions taken by other regional economies. Thailand, Taiwan, South Korea and India had again raised their benchmark interest rates in June to contain price increases. The latest hike was made by China (July 6), with the 25 bps hike in its benchmark lending and deposit rates to 6.56% and 3.5% respectively. The hikes signal the greater concern on inflation risk.
- On the domestic front, BNM had embarked on the rate hike ahead of the other economies and further tightening would be pursued following a better assessment of the growth prospect. BNM in its statement is committed to safeguard price stability.
- With the food and commodity prices likely to stay at high levels and the strengthening of domestic demand to exert upward price pressures, we can expect Bank Negara to resume its interest rate normalisation exercise. The 25 bps rise in the OPR would be pursued in the next MPC meeting on Sept. 8, 2011. With another hike in the OPR,



the real rate of return may also reverse from the current negative to positive.

- On the SRR front, a further increase could not be discounted if the significant build-up of excess liquidity continues which can cause financial imbalances and financial market instability. To a significant extent, foreign capital inflows have contributed to the large increase in liquidity in the domestic financial system. This is indicated by the high international reserves

(up by RM13 billion to RM406.3b/USD134.3b as at end-June from RM129.9b/USD129.9b end-April). Potentially, the inflow will continue in the coming months in the light of continuing easy monetary policy (low interest rate) in the US and other advanced economies to support growth. The issues of large capital inflows are also confronting many other emerging market economies which to a great extent have benefited the equity markets.

BANK NEGARA MONETARY POLICY COMMITTEE MEETING (MPCM) STATEMENT

7 JULY 2011

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3.00%.

The global economic recovery in the second quarter of the year was affected by supply disruptions arising from natural disasters and geopolitical developments, the impact of fiscal consolidation measures, the more uncertain conditions in the global financial markets and the higher commodity prices. Going forward, global growth will remain highly uneven across regions, with increased downside risks. For the region, growth is expected to be sustained by robust domestic demand, increased investment activity and intra-regional trade.

In the domestic economy, the latest indicators point to a moderation in growth in the second quarter, due primarily to slower external demand, greater than expected disruptions in the global manufacturing supply chain and lower than projected public sector investment. Private consumption and investment have, however, continued to be important drivers of growth. Going forward, growth is expected to improve, underpinned by continued strength in private consumption and private investment. This growth prospect however, could be affected by the heightened external risks.

Domestic headline inflation increased to 3.3% in May on account of higher food and fuel prices. Supply factors continue to be the key determinant affecting consumer prices with global commodity and energy prices projected to remain elevated. There are also some signs that domestic demand factors could exert upward pressure on prices in the second half of the year.

The MPC's assessment is that the risks to inflation are on the upside. While the outlook for growth remains positive, there are heightened uncertainties arising from global developments that have created higher downside risks to growth. The MPC will assess carefully the evolving economic conditions and to the extent that the growth momentum is sustained, further normalisation of monetary conditions will be considered to safeguard price stability.

5 MAY 2011

At the Monetary Policy Committee (MPC) meeting today, Bank Negara Malaysia decided to raise the Overnight Policy Rate (OPR) by 25 basis points to 3.00%. The floor and ceiling rates of the corridor for the OPR are correspondingly raised to 2.75% and 3.25% respectively.

The global economic recovery has continued in the first quarter of the year, but the growth has been highly uneven across regions. Growth in the advanced economies during this period has remained modest. In the region, despite some moderation, the growth has remained strong, supported by robust domestic economic activity.

Global inflation has, however, increased on account of rising energy and commodity prices. In several countries, further upward pressure on inflation has been exerted by domestic demand conditions. Although the global recovery is expected to continue going forward, downside risks have increased, arising from the potential for higher energy and commodity prices, possible supply disruptions following developments in Japan, and the heightened volatility in capital flows to emerging economies.

In the domestic economy, the latest indicators point towards the continued strengthening of private investment and sustained private consumption expenditure in the first quarter. The export performance also improved, supported by regional demand.

Going forward, the assessment is for the Malaysian economy to remain firmly on a steady growth path, with growth improving gradually during the course of the year. Growth will be underpinned by the firm expansion of domestic demand. Sustained employment conditions and income growth is expected to provide support to private consumption, while private investment is projected to strengthen amidst the improved investment environment. The developments in Japan are expected to have a limited impact on the overall domestic economy. Positive prospects for the region and strong demand for commodities are expected to continue to support the Malaysian economy.

Domestic headline inflation has continued to increase, rising to 3% in March to average 2.8% for the first quarter of 2011. The increase was mainly due to higher food and fuel prices. The assessment is that supply factors will continue to be a key determinant affecting consumer prices. Global commodity and energy prices are projected to remain elevated during the year, with inflation in major trading partners also expected to rise further. There are also some signs that domestic demand factors could exert upward pressure on prices in the second half of the year.

With the economy firmly on a steady growth path, the MPC decided to adjust the degree of monetary accommodation. At the current OPR level, the stance of monetary policy remains supportive of growth. The future stance of monetary policy will depend on the assessment of the risk to growth and inflation prospects.