Interest rate cut to 2pc

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By : Rupa Damodaran </p><p>�</p><p>KUALA LUMPUR: Bank Negara Malaysia has cut its benchmark interest rate again, this time down to two per cent to help lower borrowing costs and support domestic demand. </p><p>In a statement yesterday, the central bank said the Overnight Policy Rate (OPR) -- which determines banks' lending rates -- would be reduced by another 50 basis points while the ceiling and floor rates of the OPR have been reduced to 2.25 per cent and 1.75 per cent respectively. </p> <p>Bank Negara said the Statutory Reserve Requirement (SRR) had also been cut from two per cent to one per cent effective March 1. </p><p>This will see more liquidity injected into the system, enabling banks to increase their financing activities. </p><p>Yesterday's cuts caught the market by surprise, as it was less than a month ago when the central bank announced a 75 basis points reduction in the OPR. </p><p>Explaining the move, Bank Negara said the Malaysian economy had been adversely impacted by global developments as downside risks to the global economic outlook increased significantly. </p><p>It noted that exports and industrial production had declined steeply, while private investment activities had slowed down in recent months as businesses scaled back their spending. </p><p>Consumer sentiment, it added, has also been affected by the weakening conditions in the labour market. </p><p>"The domestic economic conditions are expected to continue to remain challenging in the coming quarters with the continued deterioration in the global economy. </p><p>"While this has raised the risk of an economic contraction in 2009, the prospects remain intact for an economic recovery once global conditions stabilise given that the economy is not over-leveraged, the financial system remains sound, and the external position is healthy," it added. </p><p>With inflation on a moderating trend, Bank Negara said, the task of macroeconomic policy is to support domestic demand until conditions in the global economy start to normalise. </p><p>It said further measures would be introduced to ensure continuous access to credit and to minimise the impact of the economic downturn on specific affected groups. </p><p>Standard Chartered Bank economist Alvin Liew said the Malaysian authorities had so far been proactive in dealing with the crisis -- including guaranteeing all ringgit and foreign-currency deposits, a RM7 billion stimulus package as well as having 150 basis points OPR cuts. </p><p>"Now with the next monetary policy meeting scheduled in April, we should expect fiscal policy to lift domestic demand while monetary policy takes a backseat." </p><p>Standard Chartered Bank, however, does not believe that the central bank is done with cutting rates. </p><p>Liew expects the central bank to cut the OPR by another 50 basis points in the second quarter of 2009, bringing the rate down to 1.50 per cent and maintain it for the rest of the year. </p><p>Kenanga Investment Bank economist Wan Suhaimi Saidi said the latest move by the central bank proved that it was not underestimating the impact of the slowdown of the US economy. </p><p>Neither does it want to be "behind the curve" this time, as central banks in the region have all continued with aggressive easing in the interest rates to boost growth in their economies. </p><p>"The impact of any cut that is announced would take about three to six months lag to be felt. We need the impact of the cut to be expedient, that is, sooner," he said. </p><p>Source:http://www.nst.com.my/Current_News/NST/Wednesday/National/2488949/Article/index_html</p>