REVIEW AND OUTLOOK OF THE Malaysian Economy

Developments In 2008

Global Economy

The global economy faced immense challenges during 2008 due to the global financial crisis, triggered by the US sub-prime mortgage and credit crisis. In spite of a favourable first half, principally led by China and India, world economic growth for the whole of last year slowed to 3.2% from 5.2% in 2007 as the advanced economies fell into recession during the second half. On average, growth rate in advanced economies eased considerably to 0.9% in 2008 from 2.7% in 2007. The US saw its economy growing at a slower 1.1% last year compared with 2.0% in 2007, while growth in the Euro area moderated to 0.9% from 2.7%. Japan in turn charted a contraction of 0.6% in 2008 from a growth of 2.4% in the preceding year.

The emerging and developing economies also slowed down in 2008 with a growth of 6.1% against 8.3% in 2007. China and India continued to perform strongly with 9.0% and 7.3% growth last year, but moderated from 13.0% and 9.3% in 2007.

The effect of a sharp downturn in advanced economies had depressed global trade, investment and capital flows in 2008. Growth in world trade of goods and services moderated to 3.3% last year from 7.2% in 2007, while net private capital flows to the emerging and developing economies fell substantially to USD109.3 billion in 2008 from USD617.5 billion in the preceding year.

Inflation was the primary global macroeconomic concern during the first half of last year as prices of food and other commodities surged in the world market. However, the prices of oil and other commodities eased sharply in the final part of last year following a deceleration in world demand. The price of crude oil tumbled to USD44.60 a barrel at the end of 2008 with the effect to moderate global inflation. Nonetheless, on average global inflation rate for the whole of 2008 was higher at 6.4% compared with 4.3% in 2007.

The global financial markets had suffered the most as a consequence of the financial and economic crisis. According to a study commissioned by the Asian Development Bank, losses on global financial markets in 2008 amounted to USD50 trillion. The developing Asia recorded the biggest loss relative to the other parts of developing world amounting to USD9.6 trillion as the region's market have expanded much more rapidly.

The International Monetary Fund ("IMF") in turn reported that global write-downs of toxic debts among banks and other financial institutions in the US, Europe and Japan could reach USD4.1 trillion, with banks to write-down about USD2.8 trillion.

Another significant issue affecting global economy in 2008 is the rising unemployment rate. The rate showed a sharp upturn particularly during the second half as retrenchments accelerated. On average, global unemployment rate rose to 6.0% last year from 5.7% in 2007.

Aggressive interventions by governments are necessary to help stabilise the financial system, ensure credit flow and support economic growth. In particular, the governments of US and European countries had to bail out banks and other financial institutions as well as ease monetary policy by injecting liquidity and lowering interest rate to near zero. The emerging and developing economies similarly had cut interest rates.

The advanced as well as emerging and developing economies have also introduced fiscal stimulus packages to prevent further deterioration in the economy and stimulate recovery. The announced total stimulus package till April 2009 amounted to USD2.3 trillion or about 3.5% of global GDP. China had announced USD586 billion or close to 7.0% of GDP fiscal stimulus package in November 2008, while the US unveiled a package of USD787 billion or 5.5% of GDP in February 2009. Other countries that embarked on large fiscal stimulus package include Japan, Germany and Spain.

The Malaysian Economy

The Malaysian economy experienced mixed developments during 2008. The first half was characterised by high growth with inflation trending upward principally due to rising cost pressure. Exports accelerated during the January-June period, contributed by both the manufacturing and primary commodities and together with continuing robust consumption spending; the overall real GDP rose strongly by 7.1%. However, growth momentum moderated during the second half following weakening export performance as major economies experienced greater difficulties following the deepening of global financial crisis. The income and cost effects had also slowed domestic spending during the second half of 2008 and real GDP growth for this period had moderated to 2.4%, with the final quarter growth rate hitting a low of 0.1%. Consequently, growth for the whole of 2008 moderated to 4.6% from 6.3% in the preceding year. This is also the slowest growth rate for the economy since 2001.

Meanwhile, domestic inflationary pressures continued to build up till the third quarter, before descending in the final quarter, as prices of food and fuel sustained an upturn. For the whole of 2008, Malaysia's inflation rate averaged 5.4%, the fastest in 26 years (1982: 5.8%). However, the monetary authority did not embark on a tightening policy. Instead, it had moved down interest rates and kept the banking system flushed with liquidity as concerns on growth escalated.

Generally, the Malaysian financial system continued to see stability in 2008 with liquidity condition remaining ample. Despite withdrawals of portfolio capital from the domestic financial system, the rate of reduction in the country's external reserves was cushioned by the continuing large surplus in the current account of balance of payments. The current account surplus in 2008 amounted to RM129.4 billion or 17.5% of GDP compared with RM100.4 billion or 15.6% of GDP in 2007. The external reserves at the end of 2008 amounted to RM317.4 billion or USD91.5 billion as opposed to RM335.7 billion or USD101.3 billion in 2007.

Demand Conditions

Domestic demand condition remained strong in the first half of 2008, contributed principally by buoyant consumption spending. While private consumption increased by 8.4%, final public spending had expanded by 6.5%. The high commodity prices, stable labour market condition and favorable financing environment had supported higher passenger car sales, credit card spending and imports of consumption goods during the first half of last year.

The second half of the year saw a slow down in private consumption following slowing income growth and rising cost of living as inflationary pressures escalated. Growth in private consumption in the second half of 2008 had moderated to 6.7%. However, the average rate of expansion in private consumption for the whole of 2008 remained firm at 8.4% compared with 10.8% in 2007. The contribution by private consumption to the overall real GDP growth last year had declined to 4.3 percentage points (pps) from 5.2 pps in 2007.

Real GDP By Demand Aggregate

% Change	2004	2005	2006	2007	2008	2009f
Consumption	**9.4**	**8.5**	**6.1**	**9.9**	**9.1**	**4.3**
Public	*7.6*	*6.5*	*4.9*	*6.6*	*11.6*	*7.5*
Private	*9.8*	*9.1*	*6.5*	*10.8*	*8.4*	*3.5*
Investment (ex-stock)	**3.6**	**5.0**	**7.9**	**9.6**	**1.1**	**-8.5**
Public	*-21.5*	*6.8*	*8.9*	*7.5*	*0.7*	*n.a.*
Private	*46.5*	*3.3*	*7.0*	*12.3*	*1.5*	*n.a.*
Agg. Domestic Demand	**7.7**	**7.6**	**6.6**	**9.8**	**6.9**	**1.1**
Public	*-7.8*	*6.6*	*6.8*	*6.9*	*6.5*	*n.a.*
Private	*15.6*	*7.6*	*7.0*	*11.8*	*7.1*	*n.a.*
Exports	16.1	8.3	7.0	4.2	1.5	-17.6
Imports	19.6	8.9	8.5	5.4	2.2	-16.8
Real GDP	**6.8**	**5.3**	**5.8**	**6.3**	**4.6**	**-2.0**

Capital spending witnessed a sharper slowdown during 2008, especially in the second half. Both the private and public sector contributed to the slowdown. Against a growth of 9.6% in 2007, total investment had increased only marginally by 1.1% last year. The second half saw investment spending contract by 3.6%.

Private investment rose at a slower rate of 1.5% in 2008 from 12.3% in 2007, particularly to reflect weaknesses in the manufacturing sector following the deterioration in global economic condition. The downturn in private investment spending was most visible during the final quarter as companies deferred and cancelled investments on concerns of worsening global economic prospects. Imports of capital goods declined sharply by 12.4% in the fourth quarter after posting a weak increase of 0.2% in the preceding three months. Loans extended by the banking system to the manufacturing and construction sectors also contracted by 3.3% and 0.9% respectively compared to the levels in the preceding quarter. The amount of funds raised by the private sector via the capital market also charted a downturn, particularly in the final three months of last year.

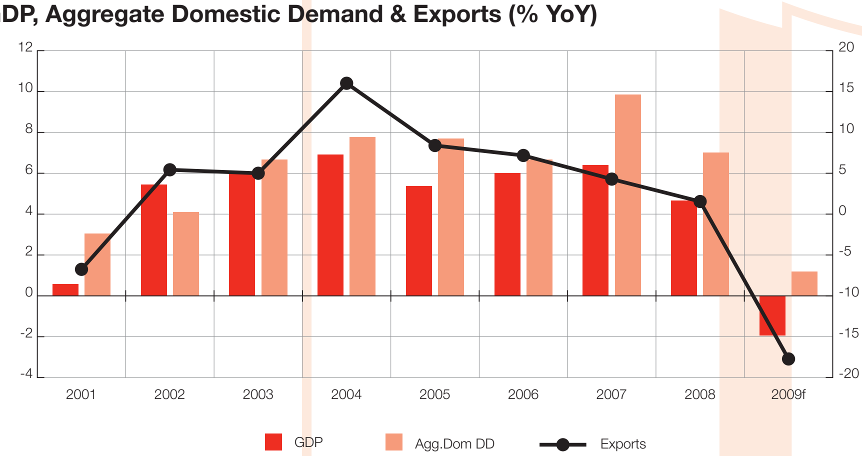
Growth in public investment also slowed sharply to 0.7% in 2008 from 7.5% in 2007, reflecting the impact of rising cost, amidst the need to contain the size of fiscal deficit of the Federal Government. Overall, investment contribution to real GDP declined to 0.3 pp from 2.2 pps in 2007.

The external sector had been impacted the most by the global economic downturn especially during the second half of 2008. In the final quarter, total exports and services measured in constant 2000 prices fell by 10.2%. For the whole of last year, exports had only charted a modest 1.5% increase compared with a growth of 4.2% in 2007.

However, measured in current prices, exports of goods and services charted a faster growth of 8.4% last year compared with 5.6% in 2007. This was attributed principally to the sharply higher commodity prices, including oil and gas, palm oil and rubber.

Imports had also decelerated during 2008, in response to slowing external and domestic demand. However, the rate of import growth for the whole of last year was slightly higher than exports at 2.2%, thus resulting in net exports contracting by 3.8%. Net exports continued to record a negative contribution of 0.5 pp to the overall GDP growth in 2008 compared with -0.6 pp in 2007.

GDP, Aggregate Domestic Demand & Exports (% YoY)



Supply Conditions

The performance by sectors was generally mixed in 2008. While growth of the manufacturing sector had slipped to 1.3% from 3.1% in 2007 arising from the global economic downturn, the agriculture sector expanded at a faster rate of 3.8% from 2.2% for the two years under comparison. However, the mining sector charted a fall of 0.8% last year after posting 3.3% rise in 2007. The services sector continued to lead the economy last year, but grew at a slower 7.3% pace compared with 9.7% in 2007. Nonetheless, all sectors showed a steep deceleration in the fourth quarter.

In the final three months of last year, the manufacturing, mining and construction sectors reported contraction, while the services and agriculture saw sliding growth momentum. The manufacturing sector fell by 8.8% in the final three months of 2008, as it was severely affected by falling world demand for the E&E.

Meanwhile, the mining sector contracted by 5.7% in the fourth quarter of last year, principally following lower output of oil and gas as the country was already gaining significantly from the escalating international prices of the commodity. The construction sector had reported a decline of 1.6% in the last year's final quarter mainly as a result of weakening activity in the private residential and commercial sector. However, the overall performance of this sector was partly cushioned by activity in the public sector from the implementation of projects under the Ninth Malaysia Plan ("9MP") as well as projects in the oil and gas industry.

The services sector had shown a deceleration in the fourth quarter, but it remained as the fastest growing sector of the economy. The sector chartered a growth of 5.6% in the final three months of 2008, moderating from 7.1% in the preceding quarter, mainly supported by continuing strong activity in sub-sectors such as wholesale and retail trade, finance and insurance, communication, transport and storage, real estate, business services and accommodation and restaurant.

The agriculture sector also decelerated in the last year's final quarter with a growth of 0.5% against an increase of 3.0% in the preceding quarter.

Consequently, all sectors with the exception of agriculture contributed less to the overall GDP growth in 2008 compared with the preceding year. While the contribution of manufacturing sector fell to 0.4 pp last year from 1.0 pp in 2007, the mining sector contributed a negative 0.1pp from a positive contribution of 0.3pp for the two years under comparison. The construction sector had retained a small 0.1pp contribution last year.

Contribution To Growth – Demand

% Points	2004	2005	2006	2007	2008	2009f
Consumption	5.4	5.1	3.7	6.1	5.8	3.2
Public	*1.0*	*0.8*	*0.6*	*0.9*	*1.5*	*1.0*
Private	*4.4*	*4.2*	*3.1*	*5.2*	*4.3*	*2.3*
Investment (ex-stock)	0.8	1.1	1.7	2.2	0.3	0.1
Public	*-3.1*	*0.7*	*1.0*	*0.8*	*0.1*	*n.a.*
Private	*3.9*	*0.4*	*0.8*	*1.4*	*0.8*	*n.a.*
Stocks	0.8	-1.7	0.7	-1.3	-0.8	0.2
Agg. Domestic Demand	6.2	6.2	5.5	8.2	6.0	1.0
Public	*-2.1*	*1.5*	*1.6*	*1.7*	*0.9*	*n.a.*
Private	*8.4*	*4.4*	*4.2*	*7.1*	*5.0*	*n.a.*
Exports	17.7	10.0	8.6	5.2	1.8	-20.9
Imports	18.0	9.1	9.0	5.8	2.4	-17.7
Net Exports	-0.2	0.8	-0.4	-0.6	-0.5	-3.2
Real GDP	**6.8**	**5.3**	**5.8**	**6.3**	**4.6**	**-2.0**

The services sector had retained a large contribution of 3.9 pps to the overall GDP growth in 2008, but declined from 5.0 pps in 2007. However, the sector's share of total GDP was larger at 55.0% compared with 53.6% in 2007. Meanwhile, the contribution of agriculture to the overall GDP growth in 2008 increased slightly to 0.3 pp from 0.2 pp in 2007 as it gained a faster expansion.

Prospects In 2009

Global Economy

The global economic conditions continued to worsen during the first half of 2009, as recessions deepened and became more widespread. Although there are signs of moderation emerging, the International Monetary Fund ("IMF") – in its April report – projected global economy to contract by 1.3% in 2009 in light of the significant financial strains and loss of investor and consumer confidence. This is the deepest global recession since the Great Depression. In March, the World Bank predicted global output to shrink by a larger 1.7% this year. The advanced economies are forecast to chart an average contraction of 3.8% in 2009, with Japan to fall by a steep 6.2%. The US economy is projected to contract by 2.8% this year, while the economy of Euro zone could decline by 4.2%.

The emerging and developing economies as a group could see growth decelerating sharply to 1.6% in 2009 from 6.1% in 2008. The slowdown principally results from slowing global trade and investment as the advanced economies slipped into more severe economic difficulties.

The world economy may recover in 2010. The IMF has projected global output to record a moderate increase of 1.9% next year, mainly following expansion in the emerging economies, while the advanced economies would stabilise. However, the downside risks to growth remain significant unless the functionality of financial systems, especially in the US and Europe, are restored and problems in credit markets resolved.

According to IMF, banks worldwide will require additional capital of between USD775 billion to USD1.5 trillion in 2009-2010 following larger write-downs of loans and securities amounting to an estimated USD2.8 trillion triggered by the financial and economic crises. The US banks would require additional capital up to USD500 billion in the two years following further write-downs of up to USD550 billion. Subsequently, the prospects of emerging economies recovering to help pull up global growth could also be limited following strains in accessing external financing.

The Malaysian Economy

Malaysia has been feeling the effect of global economic downturn, particularly in the last quarter of 2008. Exports and investment had contracted during the period, which consequently caused real GDP growth to decelerate sharply to a marginal 0.1%.

In the face of rising global economic difficulties, the Government had announced the second Stimulus Package of RM60 billion in March 2009 to prevent the domestic economy from falling into a deep recession. The package is to be implemented over 2009 and 2010 that would also help address issues relating to employment, private sector investment and consumption as well as providing social safety net. In November 2008, the Government had announced the first stimulus package amounting to RM7.0 billion. The fiscal stimulus packages are to compliment expansionary monetary policy to help support domestic spending and overall economic growth.

The Government recently revised downward the country's GDP forecast for 2009 to between minus 5.0% and minus 4.0% from its earlier projection of minus 1.0% to 1.0%. The revision was made after first quarter 2009 GDP shrank a worse-than expected 6.2%. This is the first decline since third quarter of 2001 (-0.4%).

The severe slowdown in the first quarter was largely due to the drop in external demand. Gross exports fell sharply by 20.0% following a significant contraction in manufactured exports due to lower demand for E&E and non-E&E products as well as a decline in commodity exports arising from lower prices and weaker demand.

During the quarter, domestic demand shrank 2.9% as households and businesses adopted a more cautious spending amidst deteriorating economic and business conditions. In particular, gross fixed capital investment fell 10.8%, due to weakening private investment activity. However, higher public sector capital spending helped to mitigate the adverse impact of external developments on the domestic economy.

On the supply side, with the exception of construction, all economic sectors recorded contraction in the first quarter. In particular, the manufacturing sector declined significantly while the services sector registered a mild contraction largely affected by sub-sectors closely linked to the manufacturing sector.

Despite registering the sharper than expected contraction in the first quarter, there are signs of stabilisation emerging in the economy. In particular, the manufacturing sector, which contributes one-third to GDP and over 70.0% to industrial production index posted a smaller decline of 15.7% in April as compared to -17.0% in March. On month-on-month basis, manufacturing output expanded by 1.5% in April after registering a 3.5% growth in March.

Meanwhile, the impact of the first and second stimulus packages should be seen in the third and final quarters of this year, in terms of raising aggregate domestic demand, particularly through public spending and private consumption. While the domestic economy would remain in contraction in the second quarter and third quarter, it might recover in the last quarter of 2009. Therefore, for the whole of 2009 real GDP is estimated at -2.0% as opposed to the official forecast of between -5.0% and -4.0%.

Demand Conditions

Domestic demand is projected to moderate significantly in 2009 with a growth of 1.1% compared with 6.9% in 2008 mainly following falling investment spending, amidst slowing consumption spending. Private consumption is projected to expand moderately by

3.5% largely following weaker labour market conditions and less favourable job opportunities, particularly in the manufacturing sector. Several measures introduced by the Government as contained in the stimulus packages, such as the reduction of EPF contribution from 11.0% to 8.0%, and increased car loans for civil servants could help moderate the slide in growth of private consumption.

The public consumption is also projected to show a slower increase, but to remain steady at 7.5%, mainly in response to increased emoluments and purchases of supplies and services. Consequently, total consumption spending would grow by an estimated 4.3% in 2009, decelerating from 9.1% in 2008. Thus, the contribution by consumption to the overall GDP growth this year is expected to decline to 3.2 pps from 5.8 pps in 2008.

The condition on private investment spending would be more depressing following contraction in global demand and softening domestic spending. The weakening of business sentiment and rising risk aversion among investors consequently would cause a sharp decline in private investment of up to 18.0% this year after charting a marginal growth of 1.5% in 2008. The manufacturing sector is most likely to experience a significant drop in investment this year as foreign direct investment inflow is expected to drop. Meanwhile, the implementation of new investment projects and expansion programs would likely be delayed until clearer signs of recovery emerge.

On the other hand, public investment is expected to record a stronger increase this year as the Government embarks on implementing counter-cyclical measures under the stimulus packages to mitigate the impact of global economic downturn on the domestic economy.

On the external front, real exports of goods and services is also projected to record a sharp decline of 17.6% this year following a marginal rise of 1.5% in 2008 as global demand especially for manufactured goods slumps. The exports of primary commodities such as oil and gas, palm oil and rubber and resourced based manufactured products are also expected to weaken further largely due to falling prices, following price correction which started in the second half of 2008. The export performance is expected to be worse during the first half before moderating gradually during the second half. Exports would record a negative contribution of 20.9 pps to the overall GDP growth in 2009.

Similarly, imports would contract in 2009 by a projected 16.8%, following falling exports and weakening domestic demand. However, as a result of a sharper contraction in exports compared with imports, the negative contribution by net exports to the overall GDP growth in 2009 is forecast to widen to 3.2 pps from -0.5 pp in 2008.

Supply Conditions

All sectors of the economy, with the exception of construction, would be affected more adversely this year following the deepening of global recession. The manufacturing, trade and tourism related services sectors in particular are expected to report large contractions especially during the first half as a consequence of falling global demand.

The manufacturing sector is envisaged to decline sharply by 12.5% in 2009 from 1.3% growth last year mainly depressed by falling output of export-oriented industries, particularly E&E. The performance of domestic-oriented industries is also expected to ease following the deceleration in domestic consumption and investment demand. In the first three months of this year, the sector had charted a contraction of 15.6% mainly caused by a 41.4% decline in E&E output.

The mining sector is also projected to chart a fall this year. In the first quarter, the sector had reported a 5.4% drop due to reduced production of oil and gas. The whole of 2009 may see the sector contracting by 5.3%.

The services sector will remain as the main driver of the domestic economy this year, but it will grow more slowly at an estimated 3.7% from 7.3% last year. This is mainly in response to slowing performance of sub-sectors such as trade, transport and storage, utilities, finance and insurance, wholesale and retail, communication, accommodation and restaurants.

On the other hand, the construction sector will register a stronger growth of 4.1% compared with 2.1% in 2008. This is chiefly in response to aggressive implementation of projects under the two stimulus packages and the 9MP. However, private construction activity on residential and commercial projects may continue to decline as the weakening of consumer sentiment causes contractors to defer launches of new projects.

The agriculture sector is also to chart a sharp downturn this year as production in palm oil and rubber is likely to contract following the significant slide in prices. However, the production of other products particularly livestock, fisheries and vegetables may continue to expand following increases in domestic demand. Overall, the agriculture sector may record a decline to 2.3% in 2009 after a favorable 3.8% growth in 2008.

External Balance And Monetary Policy

Malaysia's external balance posted a contraction in 2008 and is projected to fall further in 2009 following the worsening of global economic conditions. In 2008, total external reserves fell to RM317.4 billion or USD91.5 billion from RM335.7 billion or USD101.3 billion as the deficit in financial account widened to RM123.9 billion from -RM37.7 billion in 2007 mainly caused by large outflow of portfolio capital during the second half. This was despite the larger current account surplus of RM129.4 billion or 18.1% of GNP compared with RM100.4 billion or 16.0% of GNP in 2007.

More capital had flowed out during the first quarter of 2009 triggered by the deterioration in global financial markets and economic condition. As at end of March, the external reserves were lower at RM320.7 billion or USD87.8 billion compared with the level at end-December 2008. While portfolio capital flow into the domestic financial markets would resume following the stabilisation of global financial markets to help narrow the deficit in financial account, the overall balance in 2009 may continue to chart a decline as a consequence of a significantly smaller current account surplus. The external reserves are projected to decline to RM303.4 billion in 2009 as opposed to RM317.4 billion as at end of 2008.

The surplus in the current account may narrow sharply to RM50 billion or 8.7% of GNP in 2009 compared with RM130 billion or 18.1% of GNP last year, principally due to a substantially smaller merchandise surplus. The lower surplus in the current account in turn mirrors the smaller resource balance or saving-investment surplus of the economy in 2009.

Real GDP By Sector

% Change	2004	2005	2006	2007	2008	2009f
Agriculture	4.7	2.6	5.4	2.2	3.8	-2.3
Mining	4.1	-0.4	-2.7	3.3	-0.8	-5.3
Manufacturing	9.6	5.2	7.1	3.1	1.3	-12.5
Construction	-0.9	-1.5	-0.5	4.6	2.1	4.1
Services	6.4	7.2	7.3	9.7	7.3	3.7
Real GDP	**6.8**	**5.3**	**5.8**	**6.3**	**4.6**	**-2.0**

Balance Of Payments

RM billion	2005	2006	2007	2008	2009f
Current Acc. Balance	78.4	93.5	100.4	129.4	50.0
% of GNP	15.7	16.8	16.0	18.1	8.7
Merchandise Balance	128.9	134.6	127.7	170.1	80.0
Services Balance	-9.6	-6.9	2.4	1.7	-1.2
Income Balance	-23.9	-17.3	-13.9	-25.4	-11.0
Net Transfer	-17.0	-16.9	-15.7	-17.0	-18.2
Real GDP (% YoY)	**5.3**	**5.8**	**6.3**	**4.6**	**-2.0**

Despite the drop in external reserves, domestic liquidity position had remained ample throughout 2008. Private sector liquidity as measured by broad money or M3 in fact charted a firmer expansion of 11.9% last year compared with 9.5% in the preceding year, largely on account of strengthening loan growth. At the end of 2008, loans outstanding showed a 12.8% increase compared with 8.6% in 2007.

However, growth in private sector liquidity had shown a moderation in the first quarter of 2009 to 7.7%, mainly caused by the further outflow of portfolio capital but supported by continuing steady rise in loans of 10.9%. Thus excess liquidity remained large in the financial system, but reduced to RM173.4 billion as end-March from RM184.1 billion as at end of December 2008. The liquidity condition for the whole of 2009 is likely to remain ample, but reducing from the level in 2008 as a consequence of smaller current account surplus and capital inflows.

The ample liquidity condition to a significant extent had cushioned the impact of global financial and economic crises on the country's financial system and real economy in 2008 and the current year. On the other hand, the presence of excess liquidity demands for regular interventions by the monetary authority in money market to help stabilise the banking system and interest rates. The excess liquidity had reached a high of RM287.4 billion in April of last year, amidst rising inflationary pressures. However, interest rate was not raised as concerns on growth elevated following increased uncertainties in world economic prospects as the US financial crisis spread quickly around the globe.

The rate of inflation in 2008 had hit a high of 8.5% in July, before decelerating to 4.4% in December. On average, Malaysia charted a significantly higher inflation of 5.4% in 2008 compared with 2.0% in 2007. This is the highest rate since 1982 (5.8%).

As global economy experienced a more severe downturn, and the downside risks on domestic economy rising, Malaysia's monetary policy focus was shifted to support economic growth. Consequently, on 24 November 2008 Bank Negara Malaysia ("BNM") cut the overnight policy rate by 25 basis points to 3.25%. It also reduced the statutory reserve requirement ratio ("SRR") for banks by 50 basis points to 3.5%.

Monetary easing programs continued through March 2009 with the OPR reduced to 2.0% and the SRR cut to 1.0% to help lower borrowing cost and ensure adequate liquidity to support domestic demand. Decelerating inflationary pressure has facilitated the conduct of accommodative monetary policy. Inflation eased to an average of 3.7% in the first quarter of this year, as fuel prices in particular declined following lower world crude oil prices. Inflation is expected to decelerate further in the coming quarters and is projected to average between 2.0-3.0% for the whole of 2009.

On the exchange rate front, the Ringgit performance was mixed last year. In the early part of 2008 the Ringgit strengthened, driven by significant inflows of portfolio funds and large trade surplus following surging commodity prices. It was also supported by the falling US Dollar, due to concerns on weakening US economic prospects following the financial crisis. The local unit appreciated by 10.6% to a high of RM3.13 against the US Dollar on April 23 last year, the strongest level since the removal of fixed exchange regime in July 2005.

However, the Ringgit showed a downtrend against the US Dollar and Yen after the second quarter triggered by outflow of capital from the domestic financial markets back to home markets and markets with most liquid and safe government securities. The green back had also appreciated following its reduced supply in the international markets after the reported troubles of several large banking institutions in the US and Europe. The Ringgit had touched a low of RM3.64 against the US Dollar on December 12 last year, but it had ended the year stronger at RM3.46. Against the Yen, the Ringgit fell to a low of 3.83 at the end of 2008 from 2.95 at end-December 2007.

On the other hand, the Ringgit recorded a marked decline against the Euro during the first half of 2008, but it rebounded during the second half as the Euro falls in the international markets in response to interest rate cuts in the Euro zone. The local currency had weakened to a low of 5.15 against the Euro at the end of second quarter, but it recovered to 4.89 at the end of 2008. However, the Ringgit strengthened significantly against the UK pound in 2008 and ended the year at 5.0 from 6.60 at the end of 2007.

The Ringgit movement continued to fluctuate, mainly mirroring the movement of the US Dollar during the first half of 2009. While it slipped to a low of RM3.69 in February and stayed at the 3.60 levels in the next two months, the local unit had improved in May. The Ringgit may stabilise at around 3.50-3.60 against the US Dollar in the coming months till the end of the year.

Conclusion

The Malaysian economy recorded a moderation in 2008 affected by the sharp deterioration in global economy as the US sub-prime mortgage problems evolved into a full-blown global financial crisis. The deterioration in external demand had adversely affected the country's export and investment performance, while slowing down spending on consumption.

The global economic condition has been worsening with the advanced and a number of emerging economies falling into deep recessions. The expectation is for recovery to begin during the late part of this year, following wide-ranging monetary and fiscal policy actions. However, the downside risks to growth remain significant and the global economic recession may be prolonged if problems of banks and financial institutions in the advanced countries are not effectively addressed and confidence in the financial sector is not fully restored.

As an open economy, Malaysia is experiencing the stronger impact of global economic crisis this year and the country's real GDP could also slip into recession after posting a moderate 4.6% growth last year. A number of monetary and fiscal policy measures have also been announced by the Government to help support the economy. While the fiscal stimulus involves high budgetary cost to the Government, and the fiscal deficit will significantly expand, the expansionary policy responses are necessary to help prevent the economy from sliding into a deeper downturn. However, the positive effects of these policy measures can only be achieved following their quick and effective implementation.