

## Current Economic Data & Analysis

### Malaysia

**KLSE index drop to a 6 month low** in mid August due to the US subprime mortgage problem. Second Finance Minister ensures that **Malaysia has sufficient tools and strengths** within its economy to withstand a slowdown in the global economy.

**Inflation rate moderated** to 1.6%. **Ringgit traded weak** around US\$1 = RM3.50. **Trade surplus fell 11.7%** to RM7.98bil from 9.04bil in 2006. **Non performing loans** in banking institutional **improved** to 3.8% in July. **Real GDP expanding by 5.7%** in the 2<sup>nd</sup> quarter of 2007.



## Current Global Economy Situation

### The U.S.

**Productivity grew at an annual rate of 1.8%** in second half 2007. **Central banks worldwide have supplied billions of funds to banks** over the past week to make cash available for lending and keep interest rates stable. **President Bush laid out a plan that aimed at helping sub-prime borrowers** avoid foreclosure and help mitigate the impact of the meltdown in the sub-prime market on the overall economy.

### Europe

**ECB pumps 95 billion euros** into the euro zone banking market. Second move is to provide an extra **61 billion euros** and third cash injection is **about 47.7 billion euros** in a week time. **BNP Paribas (French) withdraw from 3 investment fund worth 2 billion euros**, citing problems in the US subprime mortgage sector.

### China

China is considering using its **US\$1.33 trillion currency reserves** as a “bargaining chip”. China **cut tariffs on 5375 commodities** from ASEAN countries. The **average tariff has been reduced from 9.9% to 5.8%** since both sides signed the agreement on Trade in Goods in the China-ASEAN Free Trade Area (CAFTA) in July 2005. Under the agreement, all the products will enjoy **zero tariff rating by 2010** when the free trade area is established.

## Dialogue with the Industry

### COGA

Malaysian Chinese Oil & Gas Association (COGA) is currently in the **process to setup and register under the company act** with the help of INSAP. Four meeting have been held among the Chinese players to form the association with the objective of promoting career opportunities, industrial growth and participation in the Oil and Gas Sector.

### How Might the Subprime Mortgage Crisis Affect the Malaysian Economy

The subprime mortgage was first started as lenders to lure people with exotic mortgages such as no-doc loans, which don't required evidence of income or savings. The big banks buy the subprime loans, bundle it and sell them to Wall Street firms. In turn, the Wall Street banks would package subprime loans into mortgage-backed securities and collateralized debt obligations.

In mid August 2007, the subprime mortgage problems started to surface in the financial market. The mortgage lenders were unable to repay their debt since the housing price bubble busted and their mortgages became larger than the value of their houses. This problem has caused a credit crisis in the financial market, causing stocks to drops sharply around the globe. Fund managers began to withdraw from other markets to cover the shortfall. US and European central banks started to pump billions of money into their financial system to make sure that the financial system have enough liquidity in the system.

<b>Stock (17 August 2007)</b>	<b>Market</b>	<b>Drop (points)</b>	<b>Drop (%)</b>
Tokyo		- 327.12	- 1.99%
Dow Jones		- 167.45	- 1.29%
FTSE		- 202.10	- 3.31%
Hong Kong		- 703.33	- 3.29%
Shang Hai		- 104.43	- 2.14%
Singapore		- 121.09	- 3.70%
Malaysia		- 44.21	- 3.53%
Jakarta		- 120.45	- 5.94%
Manila		- 188.03	- 6.01%

It is said that the Malaysia's financial sector is well insulated against the US subprime mortgage fallout. We have ample liquidity and the situation is not closely tied as 1997, where Malaysians borrowed foreign dollar and faced credit crunch when people don't have money to pay back.

Although market observers are not worried of the impact of the US subprime market on the banking system, they are keeping a close watch on the situation. This is because Malaysian exports are closely tied to the US Economy. If the US Economy is slowed in anyway by the spillover problems in the subprime market, US demands for Malaysian goods could also slow. When US consumption falls, Malaysians exports would suffer. This will have a negative impact on the rest of the economy of Malaysia.

The subprime market is not likely to trigger of a financial crisis of 1997 nature because the source of the problem is different this time. The concern lies is how the subprime mortgage crisis could affect consumer demand in the U.S.