



**Bank Negara raised its OPR rate by 25 basis points for the first time since 2011: Impact to Iskandar Malaysia**



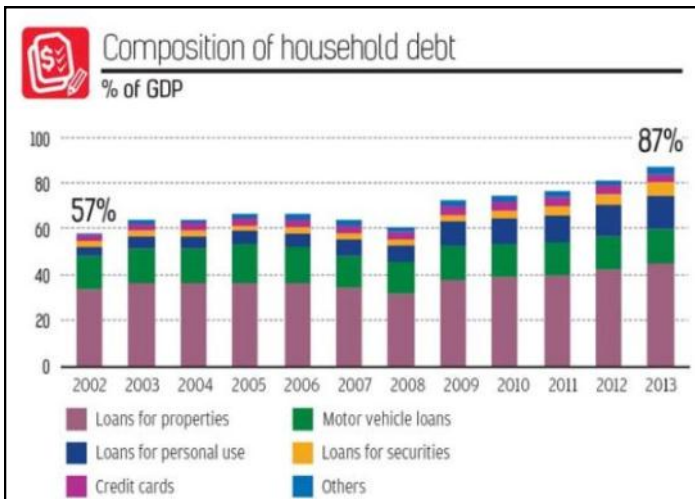
“The ratio of household debt-to-GDP is expected to remain elevated over the next few years as demand for credit is likely to remain strong, particularly from the relatively young labour force and more affluent population setting in urban centres,” Bank Negara governor Tan Sri Dr Zeti Akhtar Aziz said at the press briefing on 10 July 2014



**Highlights**

- Interest rates are set to rise with Bank Negara having raised the benchmark overnight policy rate (OPR) by 25 basis points (bps), or 0.25%, to 3.25% as part of measures to curb rising household debt.
- This normalisation of monetary conditions also aims to mitigate the risk of broader economic and financial imbalances that could undermine the growth prospects of the Malaysian economy.
- This would be the first time since May 2011 that Bank Negara has raised the OPR.
- The economy grew by 6.2% in the first quarter, with inflation stood at 3.2% in May, moderating from 3.4% in April.

- However, the prolonged period of low interest rates had resulted in household debt rising to 86.8% of gross domestic product at the end of last year.
- Malaysia’s current household debt ratio of 86.8% is among the highest in Asia.
- Malaysia’s household debt has risen more than 25% in just six years, as domestic consumption grew on loose credit.
- Property loans contributed the biggest chunk of the household debt, which is more than half of the cake, in line with the high properties prices, especially in the urban area.
- This is followed by motor vehicle loans and personal loans.
- Many analysts expect interest rates to rise one more time before the end of the year due to inflationary pressure and robust growth which could bring the OPR to 3.50%. The last time that the OPR was at 3.5% was in April 2006 and it stayed at 3.5% until Oct 2008 when Bank Negara reduced the OPR to stimulate the economy following the Asian financial crisis which hit the region in 2008.
- Elsewhere in ASEAN, the Philippines is expected to raise interest rates at the end of this month after more than six months of rising inflation. Indonesia held its key rates steady while Thailand kept its interest rate steady last month as its military government tries to get the economy back on track.

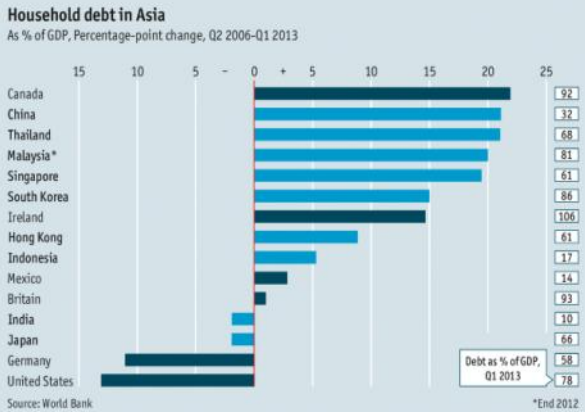


Source: Bank Negara Malaysia

**Bank Negara raised its OPR rate  
by 25 basis points for the first time since 2011:  
Impact to Iskandar Malaysia (cont.)**

**BizWatch**

BizWatch is of the opinion that the recent move by Bank Negara to increase the interest rates is timely given the excessive household debt to GDP ratio of close to 87% (end of 2013), which is the highest in Asia.



The move to increase is not only to control the excessive household debt to GDP ratio, but also to combat the inflationary pressure as a result of prolong low interest rate since 2011, aimed to spur the domestic economic growth resulting from the slowdown in the global economy arising from the European debt crisis.

The increase in interest rates would likely to soften new borrowings as cost of borrowings will be relatively higher than before. This will in turn lead to slower demand for big ticket items such as properties and cars.

As a result of the above, property prices are expected to gradually moderate in tandem with the slower demand. However, we would not expect the prices to come down given the rising cost of construction materials and the competition for labour in the construction industry.

Nonetheless, with the current strong economic growth registered by Malaysia in the first quarter of 2014 of 6.2% and the continued robust domestic growth underpinned by the private and public sector, BizWatch is of the view that the increase in interest rates will only have a marginal impact on public and private consumption in Malaysia.

The impact will be even smaller in Iskandar Malaysia given the strong committed investments received in the first half of 2014. Committed investments in Iskandar Malaysia are largely contributed by the property (mainly in high end development) and the manufacturing sectors and substantially large percentage is from investors overseas. However, increase in interest rate will impact more on the lower income group and there is an urgent need to look at affordable housing and other mitigating measures to alleviate the rising cost of living to the lower income group.

**S&P to maintain ratings on Malaysia**  
(extracted from The Star, July 15, 2014)



Standard & Poor's Ratings Services (S&P) has no intention of changing its current ratings on Malaysia for the next 12 months, noting in particular the country's efforts at reducing its subsidies and

household debt levels.

S&P is likely to maintain the A- (stable outlook) rating on Malaysia for the next 12 months.

However, S&P said that the country's fiscal position and government debt profile has constrained the sovereign rating of the country.

If the Government can further reduce the fiscal deficit level and control its debt-to-gross domestic product (GDP) ratio, it will have a positive impact.

To improve the fiscal position with the objective to cut the deficit to 3.5% of GDP this year (2013:3.9%), the Government has introduced several measures to address the fiscal deficit situation including reducing fuel subsidies.

**BizWatch**

The credit rating of a country is known as sovereign credit rating. This rating provides insight to investors into the level of risk associated in investing in a particular country. Obtaining a good sovereign credit rating is usually essential for a developing country to access funding in the international bond market and attract foreign investments.

In July 2013, S&P has maintained the rating of A- *(stable outlook)* while another international rating company Fitch's Ratings revised Malaysia's outlook to *negative* from *stable* reflecting its dim assessment on Malaysia's budgetary reforms and fiscal consolidation to address weaknesses in the public finances (eg Federal government debts). Since 2011, the Malaysia Government has persistently followed its plan to reduce the deficit. The target is a gradual reduction of budget deficit to 4.0% (2013), 3.5% (2014), 3.0% (2015) towards a balanced budget in 2020. The measures of removing and reducing sugar and petrol subsidies, amongst others saw a fiscal deficit of 3.9% in 2013, exceeding the target 4.0%.

Nonetheless, the subsidy rationalization especially petrol should be done gradually to avoid a sharp spike in inflation as prices of goods will increase as a result of the hike in petrol.

With GST of 6% to be implemented next year, BizWatch is of the opinion that the Malaysian government target to reduce its fiscal deficit will be achieved.

By then, our ratings should be revised upwards thus creating more confidence amongst investors to invest in Malaysia especially in Iskandar Malaysia.

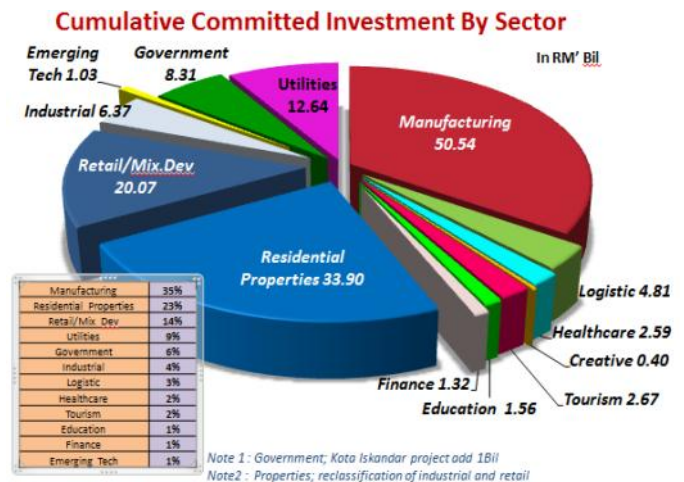
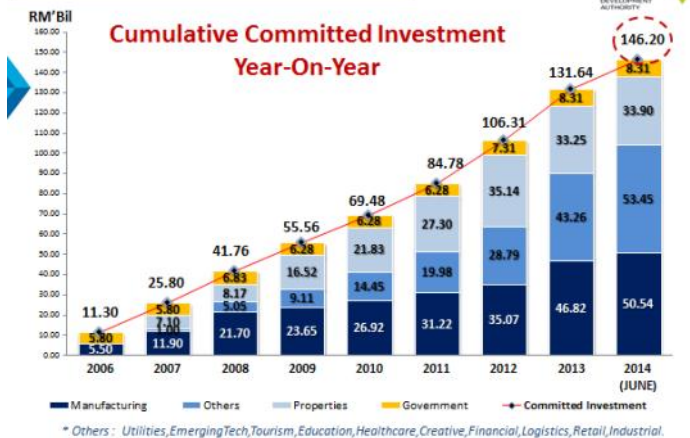
PRODUCT	2011 (As of 31/12/2011)	2012 (Estimates)
RON 95 Diesel	RM18 billion	RM17 billion
LPG		
Cooking Oil	RM1.6 billion	RM1.2 billion
ST15 Rice	RM488 million	RM486 million
Sugar	RM262.41 million	RM567 million
Wheat flour	RM129.04 million	RM150.09 million

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## Iskandar Malaysia records RM146.2 billion in Committed Investments (2006—30 June 2014)

### INVESTMENT UPDATE 2006 - JUNE 2014



### Investment Updates (June 2014)

The second quarter of 2014 saw Iskandar Malaysia securing RM9.72 billion in new investments which bring the total cumulative committed investments secured to RM146.2 billion.

Out of the total cumulative committed investments, RM69.53 billion or 48% has been realised.



Manufacturing sector contributed the bulk of the total investments with RM50.54 billion (35.0%) followed by residential properties with investments of RM33.90 billion (23%).

From information released by MIDA, Malaysia has attracted RM41.7 billion investments in the manufacturing sector for the period Jan—May 2014. In 2013, Malaysia attracted investments of RM52.1 billion. The leading source for foreign investments was Japan, China, Germany, Singapore and South Africa.

*Investments in Malaysia's manufacturing sector will likely surpass the RM55 billion target this year, said International Trade and Industry Minister Datuk Seri Mustapa Mohamed.*

Out of the RM41.7 billion investments (manufacturing sector-Jan-May 2014), investments coming into Johor amounted to RM14.9 billion, surpassing the total investments in the manufacturing sector of RM14.4 billion received by Johor in 2013. Of the RM14.9 billion of investments, RM10.8 billion investments are from domestic investments. Among the domestic investment projects are the investments from Petronas and Japan's Itochu in the Refinery and Petrochemical Integrated Development (RAPID) in Pengerang.

### Top Foreign Investors in Iskandar Malaysia

Country	RM' billion June 2014	RM' billion Dec 2013	RM' billion Dec 2012
Singapore	11.82	11.04	6.32
USA	6.23	3.98	0.77
Spain	4.18	4.18	4.18
Japan	4.06	3.93	3.74
Netherlands	2.88	2.84	2.84

Singapore remains the top foreign investor in Iskandar Malaysia with total cumulative investment of RM11.82 billion followed by the United States of America, Spain, Japan and the Netherlands.

Singapore investments are in the manufacturing, education, healthcare and industrial/residential property sectors.

Investments from the USA have made the top 5 in 2013 and continued in the first half of 2014. Investments from the USA are mainly in solar panels/cells related manufacturing and confectionary. The Hersheys Company will invest RM816 million in the state-of-the art facilities producing the Hershey's kisses, Reese's peanut butter cups and Hershey's bars in a 40 hectare site adjacent to the Senai Hi Tech Park, This will be their second largest plant outside the USA.

Investments from China featured strongly in 2013 and 2014 making it the sixth largest foreign investor with committed investments of RM2.8 billion.



## Highlights of Recent Events



Sultan of Johor, Sultan Ibrahim Sultan Iskandar officiated the opening of Pinewood Iskandar Malaysia Studios on 14th June 2014.



The Netherlands Maritime Institute of Technology held its first convocation at PERSADA on 17th June, representing a key milestone in the development of EduCity. Today, it has some 700 students at its city campus in Kotaraya.



The inaugural Congregation Ceremony on 28 June 2014 celebrated the graduation of the first cohort of 20 medical students from the Newcastle University Medicine Malaysia.

Newcastle University Vice-Chancellor Professor Chris Brink said: "The opening of an international branch campus for medicine and biomedical sciences saw the beginning of a new chapter in Newcastle's medical history. This graduation ceremony at NUMed marks our next exciting chapter as we celebrate the first of a new generation of medics trained by a UK university abroad."

## Iskandar.my

Iskandar Regional Development Authority  
Travel & Local

**Mobile app for  
Iskandar Malaysia**

Do you know that Iskandar Malaysia has a mobile app that covers the activities within the region especially on the travel and local activities.

The mobile app is called Iskandar.my

By installing the mobile app to the smartphones, users could instantly performed the following functions:

### Iskandar.my

#### Featured news

- Latest news, events, happenings in Iskandar Malaysia.

#### Featured attraction

- highlight promotions, attractions and other features by Iskandar Malaysia partners.

#### Event directory

- details on events organized by IRDA or Iskandar Malaysia partners.

#### Location service

- search location or show location to the desired venue.

#### Geo fencing

- what is available within the surrounding area, i.e. banks, restaurants and etc.

#### Recommended itinerary

- suggest a 1 day, 2 day or 3 day itinerary for prospective visitors / tourists to Iskandar Malaysia.

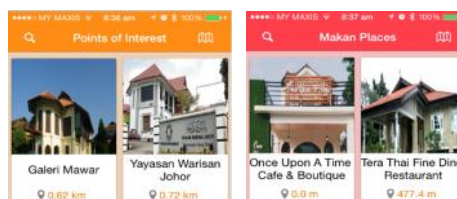
#### Citizen recommendations

- Warga Iskandar Malaysia recommended places within Iskandar Malaysia, i.e. hidden gems on food, travel locations, travel tips and etc.

#### Augmented reality

- Live, direct or indirect, view of the real world environment, in this case Iskandar Malaysia whose elements are augmented by content such as videos, pictures, animations and other types of multimedia contents.

Below are some of the pictorial snapshots of Iskandar.my app :



The app can be found in

- App store on iTunes or

- Androids apps on Google Play

### Editorial

Economics and Investment

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