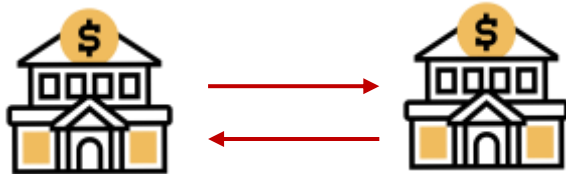


# Overnight Policy Rate (OPR)

*How OPR Cuts Affect Us?*





## WHAT IS OPR?

Because Interbank Lending usually occur **overnight**.

Overnight Policy Rate is the minimum interest rate charged on interbank lending and is set by Bank Negara Malaysia (BNM).



## WHY "OVERNIGHT"?

OPR is a tool used to reflect the **MONETARY POLICY** of the country and adjustments to OPR is how the government attempts to **CONTROL THE MOVEMENT OF PRICES** in the market (Karim and Karim, 2014).



## Public Bank to cut lending, FD rates by 50bps

BANKING

Wednesday, 06 May 2020

10:54 AM MYT

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## Maybank, CIMB reduce lending rates

By **NET Business** • May 9, 2020 @ 7:55pm

The Malaysian Reserve

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## Cheaper loans as Malaysia battles slowing econ

Home / **Business News**

## Banks reduce their base rates in line with BNM

Published on: Thursday, May 07, 2020

OPR cuts greatly influences **MARKET INTEREST RATES** e.g. Base Rate (BR) or Base Lending Rates (BLR) of commercial banks (Azman, 2020).

*This happened recently when news of local banks reducing rates immediately after BNM announced its third OPR cut flooded the headlines.*



## Why & When OPR normally gets cut?



OPR cuts are usually done as an effort to **Boost the Economy** and **Avoid Recession**.

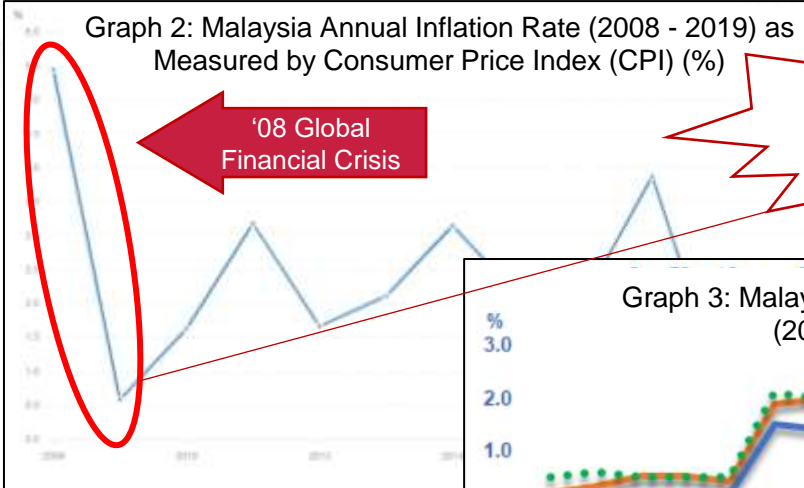
Also referred to as an **Expansionary Monetary Policy**.

An effective monetary policy influences **aggregate domestic demand and investment** via changes in base rates (BRs) or bank lending rates (BLRs).



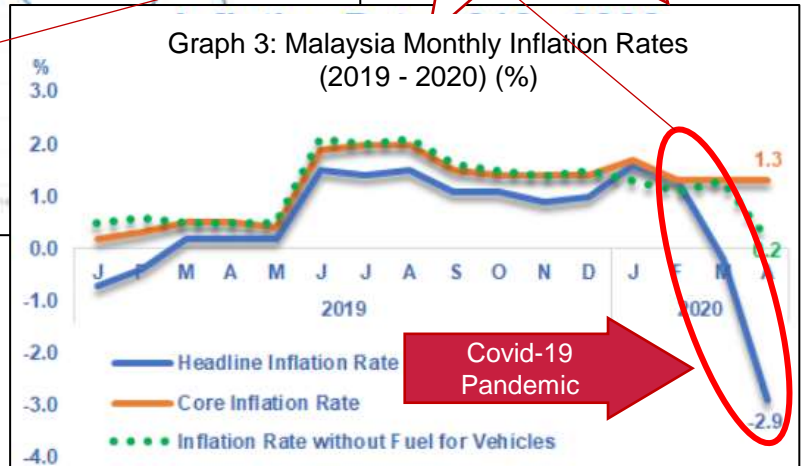


# CURRENT ECONOMIC CONDITIONS



Source: World Bank (2020)

Steep deflation reflects sharp falling of overall prices.



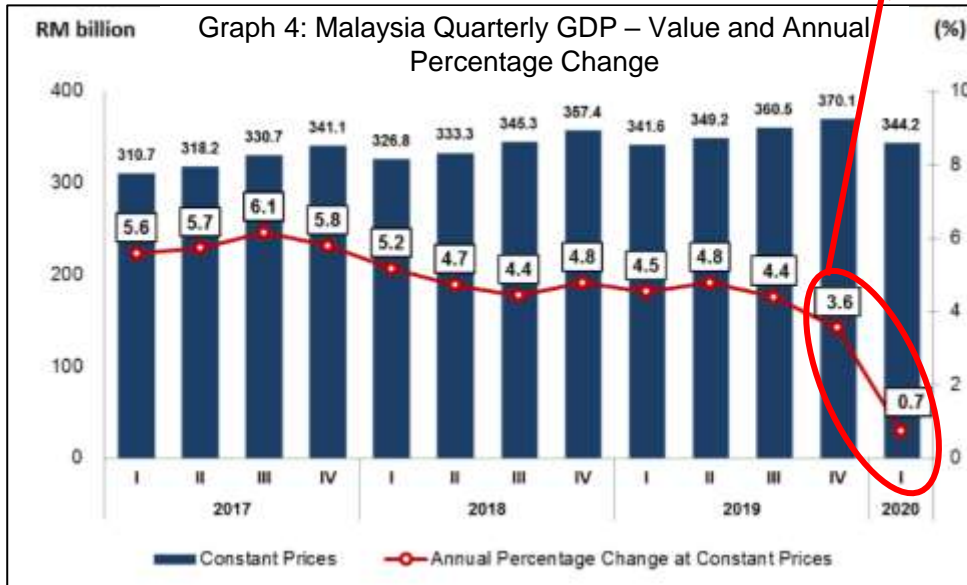
Source: DOSM (2020)

Following major economic crises, inflation rates have always gone **DOWN**, indicating that prices are low.



# CURRENT ECONOMIC CONDITIONS *(cont.)*

This falling trajectory indicates that **Growth has been slower than expected** hence, economy is indeed experiencing a downturn.



Source: DOSM (2020)

**LOW PRICES + SLOW GROWTH = ECONOMIC SLOWDOWN**





**OPR Cut**



**Lower Interest Rates**



**Cheaper  
Borrowing Costs**



**Less Returns  
from Savings**



**More  
Investments**



**More Domestic  
Spending**



**Greater Domestic  
Demand**



**Boost Economy!**





## How it Affects: INDIVIDUALS

### PROS

- ❖ Lower loan rates e.g. car/housing i.e. *You can buy a car at cheaper price now!*
- ❖ Existing housing loan costs less i.e. *Reduced monthly repayments*



### CONS

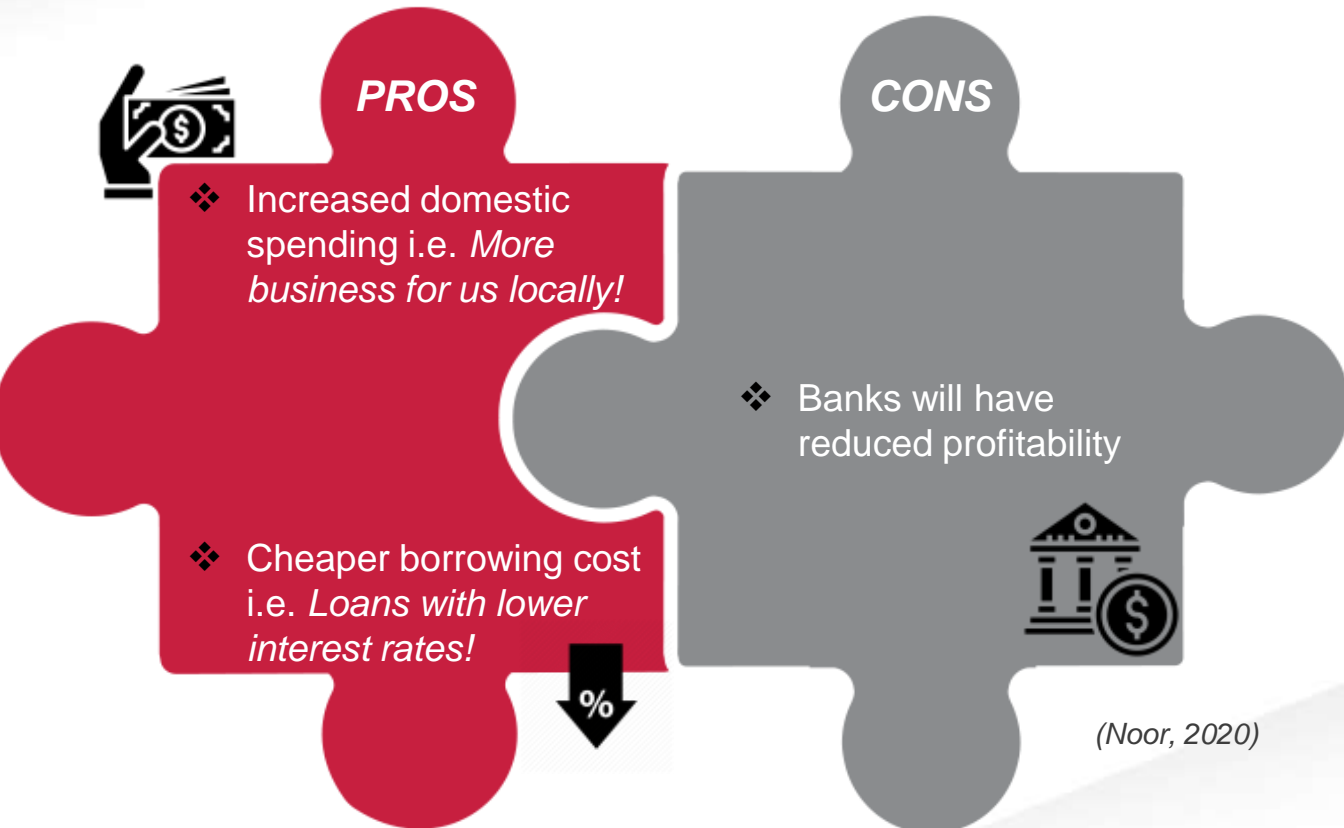
- ❖ Lower Savings and Fixed Deposit Rates i.e. *Lower returns from savings*
- ❖ Low rates weaken currency which means more expensive to travel internationally



(Noor, 2020)



## How it Affects: **BUSINESSES**



## How it Affects: ECONOMY

### PROS

- ❖ Exports become more competitive because we offer cheaper goods than elsewhere. Higher demand means more output and so, creates more jobs – or at least stop rising unemployment
- ❖ Weaker currency. More citizens travel domestically. Spend more locally hence, contribute to economic growth
- ❖ Boost Household Spending and Overall Economy



### CONS

- ❖ Ringgit depreciates in value
- ❖ Imports will become more costly and traders may choose to transfer this cost to consumers



- ❖ Foreign Direct Investment (FDI) declines because returns/ interest rates are lower



(Yakob, Tzeng and Jr, 2014)

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