



UNIVERSITI TEKNOLOGI MARA

EFFECT OF INTEREST RATE ON
ECONOMIC GROWTH IN MALAYSIA

SUHANA BINTI MOHD NOOR
2020977025

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ABSTRACT

The purpose of this study is to investigate the relationship between interest rates and economic development in Malaysia. The data used in this study was acquired and analysed from World Bank statistics spanning the years 1990 to 2019. The goal of the study is to determine the relationship between Malaysia's interest rate and gross domestic product, inflation rate, exchange rate, foreign direct investment, and unemployment rate. The E-view software was used to conduct the research, which included descriptive analysis, correlation analysis, and regression analysis. According to the findings of the study, interest rates have a considerable impact on gross domestic product, inflation, the exchange rate, and foreign direct investment, while having a negligible impact on the unemployed rate.

Key Terms: Interest Rate, Gross Domestic Product, Inflation Rate, Foreign Direct Investment, Unemployment Rate.

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CHAPTER ONE

INTRODUCTION:

The findings of this study are summarised in the first chapter, which starts with an overview of the study's setting and a discussion of the challenges that were encountered during the investigation. Following that, it dives into the study's objectives as well as the issues under research. In addition, this chapter will analyse the ramifications of the study findings, and it will conclude by providing an outline of the following research chapter.

To begin with, the Malaysian economy contracted by 4.5 percent in the third quarter of 2021, according to official figures. This was largely due to the aggressive containment operations, which were particularly effective in July and were carried out as part of Phase I of the National Recovery Plan (NRP). As more states transitioned to Phase 2, which included less stringent control measures, economic activity ultimately began to pick up. On the supply side, all economic sectors experienced a decrease in output. As a result of operational capacity constraints, the construction industry experienced the greatest contraction.

Domestic demand fell by 4.1 percent, owing primarily to a contraction in private consumption and investment, but a continuous increase in public consumption expenditures helped to keep the economy growing at a faster rate. In a statement, Governor Datuk Nor Shamsiah said, "Progressive relaxation of containment limitations, as well as continued improvements in the employment sector, will be critical in assisting the recovery moving forward." On a seasonally adjusted quarterly basis, GDP fell by 3.6 percent from the previous quarter.

According to a January 2022 report by Free Malaysia Today, Malaysian central banks are expected to keep benchmark interest rates at record low levels in the event that COVID-19, led by the Omicron mutation, reemerges and causes growth to be stunted or even stopped entirely. During their first meetings of the year 2022, Bank Negara Malaysia (BNM) is expected to maintain their hold on interest rates, reiterating their resolve to gradually unwind easy monetary policies until the economy has shown