

Malaysia holds key interest rates at 3.5 pct

July 26, 2008

KUALA LUMPUR (AFP) — Malaysia's central bank said Friday it will hold its interest rates at 3.50 percent, bucking expectations of a rise to counter a 7.7 percent surge in June inflation.

Bank Negara said it would take steps in its monetary policy to maintain price stability in the medium-term and "ensure that high inflation does not undermine the longer term growth prospects" of the economy.

"Given the underlying fundamental strength of the economy ... the bank's assessment is that after this transitional period, the Malaysian economy has the potential to reestablish its medium growth path."

"Based on this ... the monetary policy committee has decided to keep its overnight policy rate unchanged at 3.50 percent," it said.

Economists had expected the central bank to raise its rates by 25 to 30 basis points after inflation reached its highest level in 26 years in June, following a deeply unpopular 41 percent fuel price hike last month.

But its governor Zeti Akhtar Aziz has said the bank's monetary policy will not be used as a tool to counter inflation.

The second finance minister Nor Mohamed Yackop said earlier this week that inflation was expected to rise in a "one-off" surge in June and July after the effects of the higher fuel prices sets in.

Bank Negara projects average inflation to be within 5.5 to 6.0 percent for the year.

"At this stage, the concern is for broader price increases and second-round effects, which will result in inflation being persistent," it said.

It said in the next 12 months, the immediate concern is to avoid a fundamental economic slowdown which could lead to higher unemployment given the higher risks to both inflation and slower growth.

"Slowing growth itself will contribute to containing the potential for second round effects on inflation, thereby containing further increases in prices in the second half of 2009," the bank said.

Source: AFP



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