

Analyst: Inflation may double next year
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The consumer price index (CPI) in November increased 2 percent from a year ago, slightly lower than forecasted but extending a trend of moderate inflation that is expected to continue till year end.

The Statistics Department said on Wednesday the CPI in November was 0.3 percent higher from October on a seasonally unadjusted basis.

The annual data was slightly lower than the median forecast of 2.1 percent in a Reuters poll of 10 economists. October CPI rose by 2.0 percent. Malaysia expects inflation for the year to average 2 to 2.5

The following are economist comments on the data:

Gundy Cahyadi, economist, OCBC

We continue to see some signs that inflationary pressures have remained prevalent in the economy but the current level remains within the comfort zone of the BNM (Bank Negara Malaysia).

Going into 2011, inflation is likely to tick higher, especially if commodity prices were to go higher in the second half of the year, as we anticipate it to be. Do note that underlying inflation is likely to be supported by the pretty decent domestic demand growth potential that has persisted in the economy.

Alvin Liew, economist, Standard Chartered

Going forward, we expect inflation to accelerate to 3.4 percent in 2011 from 1.7 percent in 2010 on the back of a narrowing output gap and the risk of commodity price rises.

Administrative measures such as food and fuel subsidies, while being gradually reduced, will still help to offset inflationary pressure.

Proactive monetary tightening by the central bank in 2010 will also help to contain demand-side inflation risk, but not eliminate it.

With economic activity maintaining steady momentum next year, commodity prices rising and subsidy reforms gradually being implemented, inflation expectations are likely to rise in 2011.

Given its proven independence and proactive approach, we expect BNM to be at the forefront of rate hikes again, raising the policy rate by another 75bps in 2011, bring rates to pre-crisis level of 3.5 percent.

- Reuters

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