

Bank Negara raises key rate to 3%, more hikes seen
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Bank Negara today raised its key policy rate by 25 basis points to 3 percent to cope with rising inflation in a move signalling more rate hikes to come.

The central bank, which meets six times a year, said the floor and ceiling rates of the overnight policy rate, has been raised accordingly to 2.75 percent and 3.25 percent, respectively.

Analyst comments

Gundy Cahyadi, economist, OCBC Bank

The general tone shows Bank Negara is prepared to further adjust interest rates. The central bank has allowed the ringgit to strengthen and that would have helped inflation in any case.

Alan Tan, economist Affin Investment Bank

Bank Negara Malaysia is continuing with its normalisation of policy rate hikes in tandem with the regional central banks.

It's in line with our expectation of a 25 basis point hike.

Bank Negara is essentially trying to balance the risk of upward pressure on inflation associated with high oil and commodity prices as well as economic growth.

Joanna Tan, economist, Forecast Pte Ltd

No surprise this round with the last SRR hike a prelude to Bank Negara getting back on the tightening bandwagon.

While inflation is still relatively well-contained in Malaysia, Bank Negara is cognisant of upside risks and given their tenet to stay ahead of the curve, we suspect another rate hike is in the pipeline. Growth - on the back of global commodities demand - should give Bank Negara the room for further tightening. We're looking at an overnight policy rate at 3.25 percent by year end.

Background

Malaysia's economy grew 4.8 percent in the fourth quarter of last year, bringing full-year growth to 7.2 percent, its quickest pace in a decade.

The Malaysian government expects growth this year to hold near the 2010 level, an expansion which will likely prompt the central bank to tighten monetary policy.

Bank Negara has already raised the level of reserves banks are required to keep with the central bank twice this year as it tries to curb swirling liquidity in the financial system.

- Reuters