

THE EFFECT OF INFLATION ON THE
INTERBANK INTEREST RATE
IN MALAYSIA MONEY MARKET

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ABSTRACT

The term of 'Money Market' can be broadly defined as a wholesale market for low risk and highly liquid short-term funds. In the case of long-term funds, it is usually referred to as the capital market. Therefore, we can say that 'Interbank Money Market' is a market for the trading of short-term deposit among the participants, usually classified into two groups namely, lenders and borrowers, and sometimes a combination of both.

This paper examines the effect of inflation rate to the interbank interest rate as well as to know the relationship between these two variables especially the overnight, one week, one month, three month and six month rate. In this study, a simple linear regression has been conducted to see the effect of the inflation rate. The result of the study shows that the inflation rate has an effect on the overnight and one week interbank interest rate. Meanwhile the one month, three month and six month interbank interest rate are not affected by the inflation rate.