

## **Non-linearity between inflation rate and GDP growth in Malaysia**

### **Abstract**

This study analyses the relationship between inflation rate and economic growth rate in the period 1970-2005 in Malaysia. A specific question that is addressed in this study is what the threshold inflation rate for Malaysia. The findings suggest that there is one inflation threshold value exist for Malaysia. This evidence strongly supports the view that the relationship between inflation rate and economic growth is nonlinear. The estimated threshold regression model suggests 3.89% as the threshold value of inflation rate above which inflation significantly retards growth rate of GDP. In addition, below the threshold level, there is statistical significant positive relationship between inflation rate and growth. Bank Negara (central bank of Malaysia) should pay attention to inflation phenomena and substantial gain can be achieved in low-inflation environment while conducting the new monetary policy.