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OPR cut is supportive of economic growth

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Headline inflation likely to average at 1.8%

ECONOMY

PETALING JAYA: The 25 basis points (bps) cut to the overnight policy rate (OPR) to 2.75% on July 9, is growth-supportive rather than inflationary, given the benign inflation environment, according to Maybank Investment Bank (IB) Research.

In a report, the research house said with the first half 2025 average inflation rate of 1.4%, its full-year 2025 inflation forecast of 2% implied upside risk to inflation in the second half of the year.

"This is due to the factoring in of the impact of the sales and service tax as well as electricity tariff review (effective since July 1), full compliance in new minimum wage (effective Aug 1, 2025), RON95 petrol subsidy rationalisation in the second half of 2025, and higher foreign labour costs with EPF contributions effective from October.

"The upside to inflation rate in the second half of 2025 may be less than expected following news that the government is delaying the rollout of RON95 petrol subsidy rationalisation to fine-tune the targeted subsidy mechanism," the research house added.

"Prolonged delay will result in another year of sub 2% inflation rate."

Despite headline inflation coming in at a multi-year low last month, analysts said there are upside risks that might cause the inflation rate to trend higher in 2025.

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> Maybank Investment Bank Research

Headline inflation eased further to 1.1% year-on-year (y-o-y) in June, the lowest level since February 2021, from 1.2% in May.

However, core inflation, which excluded items with volatile price changes, like fresh food and energy, remained unchanged at 1.8% y-o-y.

UOB Global Economics and Markets Research said despite subdued inflation readings year-to-date, it anticipated headline inflation to gradually trend higher from July, ending the year with an average of 1.8%.

"This outlook is supported by potential second-round effects from the expanded SST, despite its limited direct impact, as well as low base effects from the previous year," it said.

The research house said the inflation outlook remained benign over the policy horizon, while downside risks to growth had risen, particularly from potential tariff actions and persistent geopolitical tensions.

"If these risks escalate further, a more accommodative monetary policy stance may be warranted to support domestic growth into 2026, considering that monetary policy typically takes about a year to exert its full impact on the economy.

"As such, we continue to see scope for a further 25 basis points cut in the OPR to 2.5% by end-fourth quarter 2025," it noted.

CGS International Research is maintaining its 2025 consumer price index forecast at 2% y-o-y.

On the review of electricity tariffs effective this month, it said the authorities had indicated that domestic consumers are likely to see a reduction in their electricity bill by 5%, on average.

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