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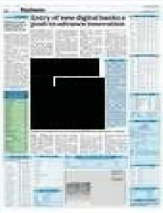

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Inflation expected to be contained in 2H25 amid policy measures

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KUCHING: Malaysia's inflation is expected to be contained in the second half of 2025 (2H25) with the research arm of RHB Investment Bank Bhd (RHB Research) maintaining its full-year forecast at 1.6 per cent, in line with the government's official range of 1.5 top 2.3 per cent.

For the first eight months of the year, headline inflation increased by 1.4 per cent, matching both RHB Research's and the government's forecasts.

RHB Research said for the remainder of the year, they foresee a benign inflation trajectory as inflationary pressures are being contained by a mix of policy measures and moderate demand conditions.

Inflation in 2H25 is expected to be driven by several factors such as the expansion of Sales and Services Tax (SST) as there is some anticipated passthrough impact to consumers amid increased business costs.

"We observed increase in inflation for several subgroups include Insurance & Financial Services, Personal Care, Social Protection, & Miscellaneous Goods & Services, Restaurant & Accommodation Services and Education," said the research arm.

Next up, electricity tariff restructuring is expected to have a fluctuating impact on inflation as tariffs are now adjusted monthly under the new implemented Automatic Fuel Adjustment (AFA) mechanism.

While rebates in August helped lower utility-related inflation, RHB Research reckons that the impact is limited as about 85 per cent of Tenaga Nasional Bhd (TNB) customers, mainly those consuming 1,000 kWh or less monthly will see no increase or even a decrease in their bills.

The RON95 price cut in late September whereby eligible motorists will be able to buy up 300 litres per month of RON95 at RM1.99 per litre, down from RM2.05 is also expected to be an important factor as it is expected to affect 16 million Malaysians and potentially lower annual inflation by 0.1 to 0.2 per cent.

And while this usage cap is expected to be refined to exclude higher-income groups in the future, RHB Research reckons that the inflationary impact of this will be limited, provided that an estimated 85 to 95 per cent of the population remains unaffected by price adjustment.

Next, Potential economic slowdown in 2H25 may cause cautious sentiment to weigh on business activity and private consumption, keeping price pressures in check.

Finally, RHB Research warns that unexpected external shocks such as escalating geopolitical tensions or unexpected oil supply cuts could pose upside risks to inflation, but for now, they reckon that inflationary pressures in regional economies remain moderate in 2025, thanks to softer global commodity prices.

Bank Negara Malaysia is expected to keep its Overnight Policy Rate (OPR) at 2.75 per cent if both inflation and GDP growth remain within projections.