AUTHOR: No author available SECTION: CORPORATE NEWS PAGE: 14 PRINTED SIZE: 443.00cm²
REGION: KL MARKET: Malaysia PHOTO: Black/white ASR: MYR 4,089.00 ITEM ID: MY0066242746

27 OCT, 2025

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The Malaysian Reserve, Malaysia

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by TMR

MALAYSIA'S inflation is expected to remain subdued in 2025, with economists forecasting price pressures to stay contained amid targetted fuel subsidies, steady domestic demand and manageable cost pass-through from the Sales and Service Tax (SST) expansion.

RHB Investment Bank Bhd (RHB Research) and UOB Global Economics and Markets Research (UOB Research) have both revised, or reaffirmed their forecasts within the lower end of the government's projection range, signalling continued stability in consumer prices next year.

RHB Research has revised its 2025 inflation forecast to 1.5%, down from 1.6% previously, "placing our estimate at the lower end of the official forecast range of 1.5%-2.3%".

It said the adjustment reflects "lower-than-expected year-to-date (YTD) inflation, which came in at 1.4%, substantially below our initial full-year projection of 1.6%, and potentially softer transport inflation, following the reduction in RON95 retail prices and the absence of further tightening in the RON95 subsidy retargetting."

UOB Research, meanwhile, projects 2025 inflation at 1.4% — also at the bottom of the Ministry of Finance's (MOF) forecast range of 1%-2% — and expects price pressures to remain manageable despite the introduction of targetted fuel subsidies.

"Despite the recent uptick, inflation stayed modest, averaging 1.4% in January-September 2025. With resilient domestic demand and contained subsidy rationalisation effects, we project 2025 inflation at 1.4% and 2% in 2026," UOB Research said.

Both research houses expect the impact of the newly implemented BUDI95 targetted petrol subsidy mechanism to remain limited.

RHB Research said the 3% reduction in RON95 prices to RM1.99 per litre "may lower annual inflation by 0.1%-0.2%," while the immediate impact following implementation at end-September "is expected to be more modest, at around 0.03%-0.04%."

UOB Research concurred that "the rollout of RON95 subsidy retargetting or BUDI95 is not expected to adversely increase inflation given that majority of users remain subsidised," adding that while some businesses may face higher logistics costs, "the overall pass-through to consumer prices is expected to be limited".

Both reports highlighted that the expansion of the SST continues to exert mild upward pressure on prices. RHB Research estimates its impact at "around 0.1%-0.2% year-on-year (YoY) on a full-year basis", noting that "some degree of pass-through to consumers is expected due to higher business costs arising from the broader SST coverage".

At the same time, the electricity tariff restructuring under Tenaga Nasional Bhd's (TNB) new automatic fuel adjustment (AFA) mechanism is expected to have a contained effect on headline inflation.

"Overall, the impact is limited, as about 85% of TNB customers — mainly those consuming 1,000kWh (kilowatt per hour) or less monthly — will see no increase or even a decrease in their bills," RHB Research said.

UOB Research's report similarly pointed to the offsetting effects between higher water tariffs and lower electricity charges.

It said, "housing, water, electricity, gas and other fuels rose by 1.5% (August: 1.2%). The increase was mainly due to water supply charges (+7.8%) after an upward revision in tariffs across six states. This was offset by a decline in electricity charges (-4.2%) thanks to the automatic fuel adjustment revised rate imposed on domestic users in Peninsular Malaysia."

Both analysts noted that core inflation has remained above headline levels, reflecting steady demand conditions.

RHB Research said, "core inflation remains relatively higher, averaging 1.9% in the first nine months of 2025, signalling persistent underlying price pressures and steady domestic demand."

UOB Research reported a similar trend, with core inflation "trending higher to a near two-year high at 2.1% (August: 2%), bringing the year-to-date average to 1.9%".

Looking ahead, RHB Research forecasts inflation at 1.8% in 2026, "aligning with the upper bound of the official projection range of 1.3%-2%," while UOB Research maintains its 2026 projection at 2%, reflecting expectations of firmer domestic activity and the Budget 2026 fiscal stance.

With inflation still modest and economic growth resilient, both expect Bank Negara Malaysia (BNM) to maintain its current policy stance.

UOB Research said, "with resilient growth and inflation remaining subdued, we expect BNM to keep the Overnight Policy Rate (OPR) unchanged at 2.75% at its final policy meeting on Nov 5-6".

RHB Research's assessment similarly points to a balanced inflation outlook, aided by policy stability and manageable demand-side pressures.

"Inflation is expected to remain manageable this year, reflecting the absence of excessive demand," it said.