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PETALING JAYA: Consumers will remain burdened by price pressures moving into 2023, as inflation continues to be stubbornly high in Malaysia.

Core inflation has been rising for 14 straight months and food inflation surged to a record-high level in November 2022.

With inflation likely to stay elevated, economists anticipate Bank Negara to raise its benchmark interest rate further this year.

Hong Leong Investment Bank (HLIB) Research and UOB Global Economics and Markets Research, for example, have projected the overnight policy rate (OPR) to be hiked by another 50 basis points (bps) in the first quarter of 2023 (1Q23).

"Despite the easing of global commodity prices, the second-round effects may still be filtering through, and intensified further by the strong labour market and domestic demand.

"Hence, we maintain our expectation for Bank Negara to raise the OPR by another 25 bps in January and March this year, bringing the OPR to 3.25%," according to HLIB Research in a note.

HLIB Research said that the country's headline inflation had held steady at 4% year-on-year (y-o-y) in November 2022, slightly above the consensus estimate of 3.9% y-o-y.

On a month-on-month (m-o-m) basis, the consumer price index gained momentum and was registered at 0.3%. In October, the headline inflation rose by 0.2% m-o-m.

It is noteworthy that Malaysia's core inflation rose 4.2% y-o-y in November 2022, as compared to 4.1% in the previous month.

Core inflation measures changes in the prices of all goods and services, excluding volatile items of fresh food as well as administered prices of goods by the government.

Looking ahead, UOB Research expects headline inflation to stay elevated in the near term.

However, it foresees headline inflation to decelerate in 2023, with inflation risks likely to be contained.

It projects an average headline inflation of 2.8% in 2023 compared to 3.5% in 2022. The research house noted that it had not imputed any removal of subsidies into its inflation forecasts at the moment.

UOB Research pointed out that the outcome on inflation will depend on whether the new government implements targeted subsidies on a gradual, staggered or delayed basis.

"Given that electricity tariffs have been kept unchanged for households and small businesses until mid-2023, we think the government is mindful of upside inflation risks particularly if blanket subsidies are removed.

"Under a potential scenario of gradual fuel price hikes every quarter that could lift headline inflation to 4% in 2023 albeit this only imputes the direct impact from fuel without the potential spillovers to prices of other goods and services.

"Assuming that fuel prices are unchanged in the first half of 2023 (1H23) and then gradually raised in 2H23, headline inflation could be capped at 3.5%," it said in a note.

Given that headline inflation remains elevated and core inflation shows no signs of easing amid ongoing demand side pressures, particularly during the year-end festive and holiday period, UOB Research expects the OPR to be hiked by another 50 bps to 3.25% in 1Q23.

Thereafter, the firm thinks the OPR would stay unchanged at this level for the rest of the year.