

TARIKH : 22 October 2025

AKHBAR : The Star

MUKA SURAT : 17

Inflation on cruise control



ECONOMY

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PETALING JAYA: Malaysia's inflation rate is expected to remain steady in September, with economists projecting headline inflation between 1.3% and 1.5%, as price pressures remain contained ahead of the Budi Madani RON95 (Budi95) targeted fuel subsidy, which took effect at the end of September.

They believe the ongoing Sumbangan Asas Rahmah (Sara) cash assistance, distributed since Aug 31 and usable until year-end, is supporting household spending without fuelling additional inflation.

While most economists expect inflation to stay subdued through the rest of the year, some caution that the Budi95 subsidy rationalisation could lead to a mild uptick in the final quarter (4Q25).

Malaysia's headline inflation rose 1.3% year-on-year in August, slightly higher than the 1.2% recorded in July, according to the Statistics Department.

The consumer price index (CPI) stood at 134.9 points in August, up from 133.2 a year earlier.

Core inflation, which excludes volatile food and government-administered prices, increased 2% in August, compared with 1.8% in July, driven mainly by higher insurance premiums and rising costs of personal care and restaurant services.

Headline inflation has remained below 2% since July 2023, while core inflation has stayed under 2% since November 2023.

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Geoffrey Williams

The Statistics Department will release September's CPI data today.

Economist Geoffrey Williams expects headline inflation in September to range between 1.3% and 1.5%, with core inflation around 2%, adding that he does not foresee any significant pickup in the coming months.

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"This will push growth in the 3Q25 and lift full-year growth to around 4.5%, but it should not have a big inflationary effect," he said.

According to advance estimates by the Statistics Department, the country's gross domestic product (GDP) grew 5.2% in 3Q25, compared with the official 4.4% in 2Q25 and 4.4% in 1Q25.

Similarly, Bank Muamalat Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid projects September inflation at 1.4%.

"It is still fairly stable, and given that Budi Madani for RON95 was implemented

in late September, the impact should also help contain the inflation rate," he noted.

For the 4Q25, Mohd Afzanizam expects inflation to remain stable, supported by ongoing cash transfer programmes and the continued rollout of the Budi95 subsidy.

"The cash transfer programme will help alleviate the financial burden, allowing the targeted group to spend on necessary items."

"At the same time, Budi Madani 95 would allow most Malaysians to enjoy subsidised RON95 prices."

"This would also keep the risk of a higher inflation rate at a minimum, as businesses would have no strong reasons to raise their selling prices," he said.

Mohd Afzanizam added that the ringgit, which has appreciated 5.7% year-to-date against the US dollar, would help reduce the cost of raw materials and imported services.

He also sees limited passthrough from higher medical insurance premiums to prices of other products and services.

"On that note, this year's inflation rate should be in line with the government's forecast of between 1% and 2% for 2025."

"We are projecting an inflation rate at 1.6% for 2025," he noted.

Malaysia's inflation rose at a slower rate of 1.8% in 2024, with the index standing at 132.8, compared to 130.4 in the previous year.

Core inflation also increased at 1.8% in 2024, down from 3% in the previous year.

Meanwhile, Socio-Economic Research Centre executive director Lee Heng Guie expects headline inflation to remain moderate at 1.3% year-on-year in September, but sees potential for a mild uptick in the 4Q25 as fuel subsidy rationalisation unfolds.

"Moderate increases in food and beverage prices will be partially offset by continued insurance inflation."

"Going forward, inflation could edge slightly higher with the implementation of targeted fuel subsidy rationalisation for RON95, which may lead to a gradual move towards a monthly floating fuel price system."

"Overall, we expect inflation to average 1.4% in 2025," he said.

Under the Budi95 subsidy, Malaysians with valid driving licences can purchase up to 300 litres of RON95 petrol per month at RM1.99 per litre, while those not eligible must pay the unsubsidised rate of RM2.60 per litre, which floats with market prices.

Lee highlighted that the impact on logistics costs should be manageable, as most logistics companies continue to receive subsidised diesel under the MySubsidy Diesel programme.

