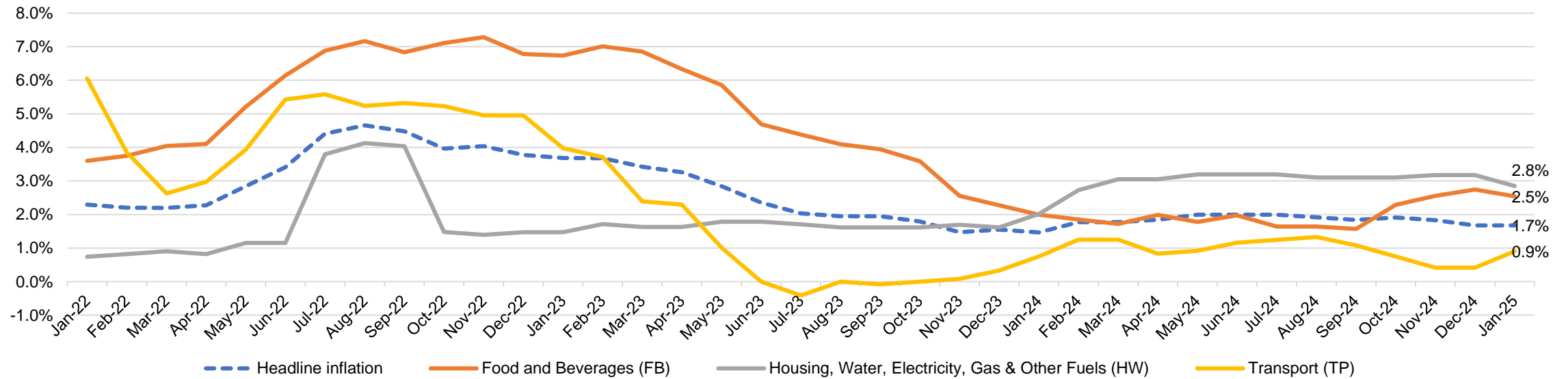


# Malaysia's inflation rate sustained at 1.7%, for now

Malaysia's inflation rate



Sources: Department of Statistics Malaysia (DOSM) & CEIC

The headline inflation rate remained steady at 1.7% year-on-year (y-o-y) in January 2025. Key components of the Consumer Price Index (CPI), which is used to measure the country's inflation, showed mixed trends. The Food & Beverages category (29.8% of total CPI) and Housing, Water, Electricity, Gas & Other Fuels (23.2% of total CPI) saw a slight deceleration, easing from 2.7% and 3.2% in December 2024 to 2.5% and 2.8% in January 2025, respectively. Meanwhile, Transport—the third-largest CPI component (11.3%)—recorded a gradual increase, rising to 0.9% in January 2025 after holding steady at 0.4% for the previous two months. This uptick coincided with higher fuel prices, as RON97 and Diesel averaged RM3.43 and RM3.18 per liter in January, up from RM3.25 and RM2.95 per liter in December 2024.

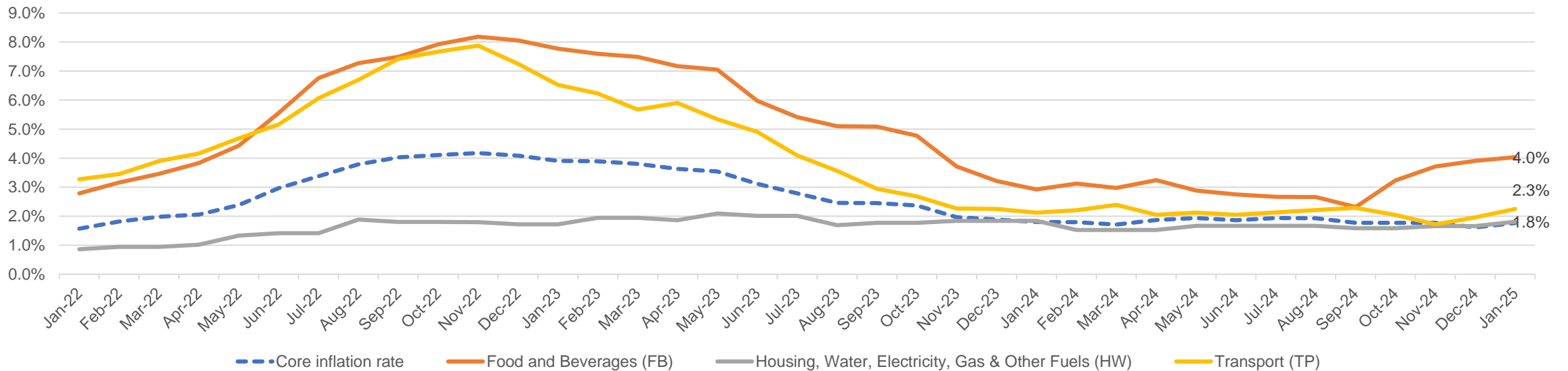
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24 FEBRUARY 2025

# Core inflation rate is picking up

Core inflation rate



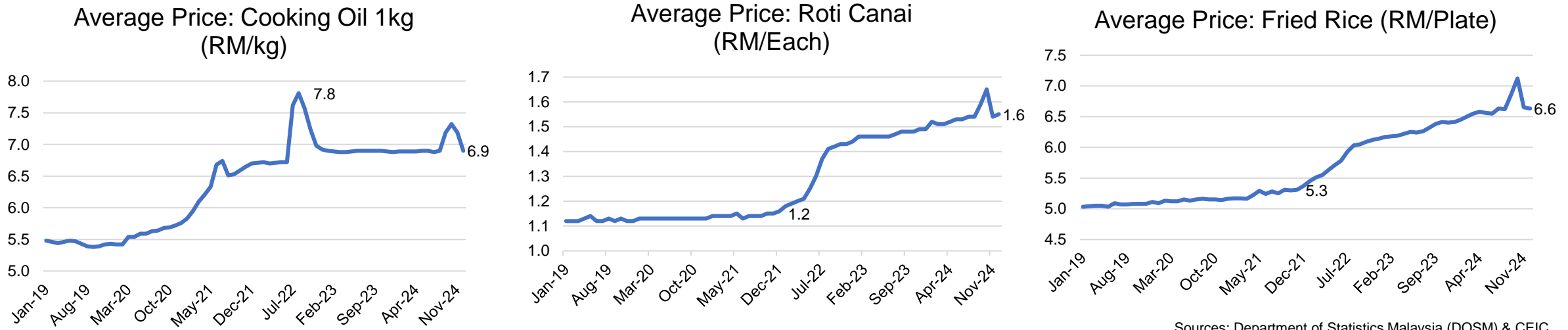
Sources: Department of Statistics Malaysia (DOSM) & CEIC

After excluding the impact of price controls and subsidies, core inflation accelerated to 1.8% year-on-year (y-o-y) in January 2025, up from 1.6% in the previous month. Key components of the core Consumer Price Index (CPI), which forms the basis for measuring core inflation, showed upward trends. Food & Beverages (25.3% of Core CPI) rose by 4.0% (Dec 2024: 3.9%), Housing, Water, Electricity, Gas & Other Fuels (24.7% of Core CPI) increased by 1.8% (Dec 2024: 1.7%), and Transport (6.4% of Core CPI) climbed to 2.3% (Dec 2024: 2.0%). This highlights the crucial role of price controls and subsidies in shaping Malaysia's inflation trajectory. Additionally, the country's heavy dependence on agri-food imports has contributed to rising food inflation. The trade deficit in the agri-food sector widened from RM2.8 billion in September 2024 to RM3.0 billion in December 2024. For the entire year of 2024, Malaysia recorded an agri-food trade deficit of RM39.3 billion, with total exports and imports amounting to RM54.5 billion and RM93.8 billion, respectively. The persistent trade deficit in this sector has become a structural issue, having expanded significantly from just RM1.1 billion in 1990.

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# Subsidies and price control measures would not guarantee lower prices

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Sources: Department of Statistics Malaysia (DOSM) & CEIC

The chart above highlights that the government's partial subsidy on cooking oil (with 1kg polybag palm cooking oil priced at RM2.50 per packet) has not achieved the desired outcome. Despite efforts to stabilize cooking oil prices, the cost of other food items—including Roti Canai, Fried Rice, Mee Hoon, and Nasi Lemak—continues to rise. In 2024, the government allocated RM1.95 billion for cooking oil subsidies, with RM845 million sourced from Budget 2024 and an additional RM1.1 billion from a supplementary bill. This indicates that consumption-based subsidies have not led to broader price stability, as businesses lack incentives to keep their prices steady despite benefiting from government assistance. Looking ahead, inflation in the second half of 2024 (2H2024) will be a key focus, especially as the country undergoes policy adjustments, including the rationalization of RON95 fuel subsidies and a potential increase in electricity tariffs. These two components account for 7.7% of the total Consumer Price Index (CPI), suggesting a possible uptick in inflation expectations. For now, we maintain our 2025 inflation target at 2.5%, as the impact of these policy adjustments is expected to be transitory, particularly given that consumer spending growth remains below trend (4.9% in Q4 2024 vs. an average of 6.0%). In light of this, we believe Bank Negara Malaysia (BNM) is likely to keep the Overnight Policy Rate (OPR) steady at 3.00%.

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# Appendix – Consumer Price Index (CPI) year-on-year

Items	Weight	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Consumer Price Index (CPI)	100.00%	2.0%	1.9%	1.8%	1.9%	1.8%	1.7%	1.7%
Food and Beverages (FB)	29.80%	1.6%	1.6%	1.6%	2.3%	2.6%	2.7%	2.5%
Alcoholic Beverages & Tobacco (AT)	1.90%	0.9%	1.1%	0.8%	0.8%	0.8%	0.8%	0.9%
Clothing and Footwear (CF)	2.70%	-0.2%	-0.2%	-0.3%	-0.2%	-0.3%	-0.5%	-0.3%
Housing, Water, Electricity, Gas & Other Fuels (HW)	23.20%	3.2%	3.1%	3.1%	3.1%	3.2%	3.2%	2.8%
Furnishings, Household Equip & Maintenance (FH)	4.30%	0.9%	0.7%	0.6%	0.5%	0.5%	0.4%	0.5%
Health	2.70%	1.9%	1.6%	1.6%	1.4%	1.2%	1.1%	1.2%
Transport (TP)	11.30%	1.2%	1.3%	1.1%	0.7%	0.4%	0.4%	0.9%
Information and Communication (IC)	6.60%	0.5%	0.5%	0.4%	-1.7%	-3.9%	-5.4%	-5.3%
Recreation, Sport and Culture (RC)	3.00%	2.2%	2.0%	2.1%	2.0%	2.0%	1.7%	1.8%
Education (E)	1.30%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%
Restaurants & Accommodation Services (RA)	3.40%	3.4%	3.2%	3.2%	2.8%	2.8%	2.9%	3.5%
Insurance and Financial Services (IF)	4.00%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%
Personal Care, Social Protection & Misc. Goods & Services (MG)	5.80%	3.2%	3.2%	3.1%	3.4%	3.4%	3.2%	3.3%

Items	Weight	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Consumer Price Index (CPI): Core	100.0%	1.9%	1.9%	1.8%	1.8%	1.8%	1.6%	1.8%
Food and Beverages (FB)	25.3%	2.7%	2.7%	2.3%	3.2%	3.7%	3.9%	4.0%
Clothing & Footwear (CF)	3.6%	-0.2%	-0.2%	-0.3%	-0.2%	-0.3%	-0.5%	-0.3%
Housing, Water, Electricity, Gas & Other Fuels (HW)	24.7%	1.7%	1.7%	1.6%	1.6%	1.7%	1.7%	1.8%
Furnishings, Household Equip & Maintenance (FH)	5.6%	0.9%	0.7%	0.6%	0.5%	0.5%	0.4%	0.5%
Health	3.1%	2.1%	1.7%	1.7%	1.6%	1.5%	1.3%	1.5%
Transport (TP)	6.4%	2.1%	2.2%	2.3%	2.0%	1.7%	2.0%	2.3%
Information and Communication	8.5%	0.5%	0.5%	0.4%	-1.7%	-3.9%	-5.4%	-5.3%
Recreation, Sport and Culture (RC)	3.9%	2.2%	2.0%	2.2%	2.0%	2.0%	1.7%	1.8%
Education	1.7%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.6%
Restaurants & Accommodation Services (RA)	4.4%	3.4%	3.2%	3.2%	2.8%	2.8%	2.9%	3.5%
Insurance & Financial Services	5.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%
Personal Care, Social Protect & Misc. Goods & Serv (MG)	7.5%	3.2%	3.2%	3.1%	3.4%	3.4%	3.2%	3.3%

Sources: Department of Statistics Malaysia (DOSM) & CEIC