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## Global Economics & Market Strategy

# Malaysia: Inflation Remains Soft, but Cost-Push Pressures Loom

- **We maintain our 2026 inflation projection at 1.8% (versus 2025's 1.4%), near the upper end of the official 1.3%–2.0% range, reflecting firmer domestic demand.**
- **Escalating geopolitical tensions are pushing up global energy prices, with potential pass-through to inflation if crude oil prices remain elevated. However, subsidies may help cushion the impact, with overall effects depending on the duration of the oil price surge.**
- **February's CPI inflation came in at 1.4% YoY (January: 1.6% YoY), lower than Bloomberg's consensus of 1.6% YoY and our in-house projection of 1.7% YoY.**

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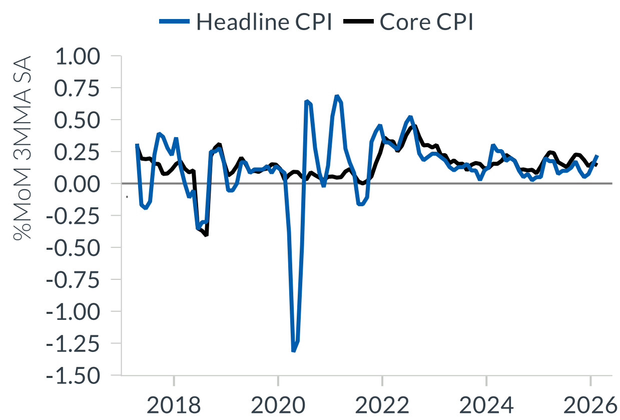
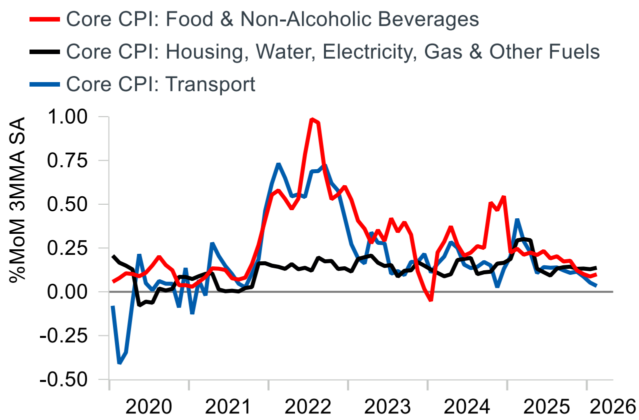
**Figure 1: Headline inflation momentum edged up, while core inflation remained flat.**




*Source: Macrobond, RHB Economics & Market Strategy.*

**Figure 2: Higher food price momentum was offset by lower transportation costs .**




*Source: Macrobond, RHB Economics & Market Strategy.*

# We maintain our 2026 inflation projection at 1.8%

**We maintain our 2026 inflation projection at 1.8% (versus 2025's 1.4%), near the upper end of the official 1.3%–2.0% range reflecting firmer domestic demand.** Demand-driven pressures may increase as stronger disposable incomes and consumption lift overall spending. Nevertheless, inflation is expected to remain manageable and below the long-term average of 2.0%, supported by orderly policy implementation and the absence of excessive demand pressures. That said, risks are tilted to the upside, as escalating geopolitical tensions are exerting upward pressure on global energy prices, with potential pass-through to inflation if the surge in crude oil prices persists.

The following factors are expected to drive inflation in the short to medium term:

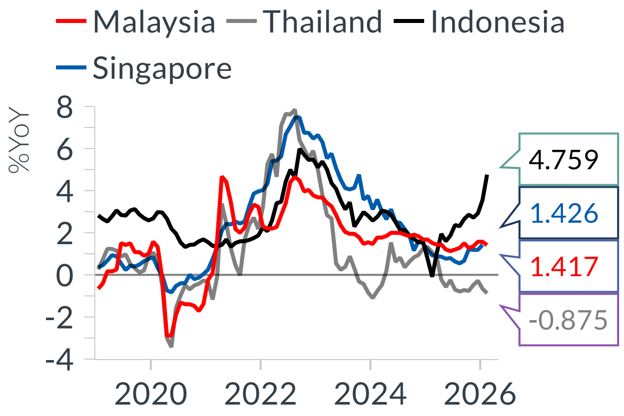
- **Demand-led inflationary pressure:** Demand-driven inflationary pressures may rise in 2026 as growth momentum continues to strengthen, as indicated by RHB-Leading Economic Indicator (LEI - MY). The domestic economy will remain the primary growth driver, underpinned by resilient private consumption, steady investment activity, and proactive government measures. Private consumption is likely to benefit from (1) favourable labour market conditions and rising household incomes, (2) an accommodative monetary policy, and (3) a modest boost from targeted cash transfers. At the same time, robust private investment and supportive government spending particularly on infrastructure and development projects are expected to further stimulate demand and economic activities. Collectively, these factors are likely to exert moderate upward pressure on prices.
- **Changes in domestic policies:** The price of RON95 petrol in Malaysia remains at RM1.99 per litre under government subsidies, while the diesel subsidy in Sabah and Sarawak is also being maintained, mitigating the potential upside from the recent surge in Brent crude oil prices on consumer inflation. The impact of higher transportation costs on overall headline inflation could be significant, as transport inflation accounts for 11% of the total CPI basket, with fuel sub-components alone representing 6%. As highlighted in our previous report, the increase in diesel and RON 95 prices is estimated to lift headline CPI by 0.25 – 0.35%, should we assume a RM0.10 increase in retail prices. Ongoing subsidies for key items and government measures to alleviate the cost of living may mitigate the impact on consumer price inflation, while the overall effect will also depend on the duration of the recent crude oil price surge.
- **Impact from electricity tariff restructuring:** The electricity tariff restructuring is expected to have a fluctuating impact on inflation, as tariffs are now adjusted monthly under the newly implemented Automatic Fuel Adjustment (AFA) mechanism, based on real-time fuel prices and forward projections.
- **Fluctuations in Global Commodity Prices:** Against a backdrop of heightened global conditions, both cost-push and demand-pull inflation risks will warrant close monitoring in the months ahead. Escalated geopolitical tensions and oil supply disruptions in oil-producing nations have created upside pressure on the global energy prices. Rising oil prices could generate secondary effects on logistics, utilities, and broader production costs, in addition to upsides on the transportation costs. These higher business costs may be passed on to consumers, further contributing to headline inflation. Based on our analysis, a 1% increase in PPI could potentially translate into a 0.17% rise in CPI over six months.

**We expect the OPR to remain unchanged at 2.75% for 2026. Monetary policy is likely to remain data-dependent in the upcoming MPC meetings, with decisions based on economic growth prospects and underlying inflation momentum.** Robust economic prospects and manageable inflation support a broadly stable policy outlook, with no immediate pressure for rate changes. If inflation turns out to be higher and more volatile than expected, a rate hike cannot be completely ruled out, particularly against the backdrop of robust economic prospects.

**February's CPI inflation came in at 1.4% YoY (January: 1.6% YoY), lower than Bloomberg's consensus of 1.6% YoY and our in-house projection of 1.7% YoY.** Meanwhile, core CPI inflation posted 2.0% YoY versus 2.3% YoY in the previous month, signalling persistent underlying price pressures and resilient domestic demand. The core inflation momentum (% MoM, 3MMA) stayed flattish during the month, as higher food price momentum was offset by lower transportation costs. On a seasonally adjusted MoM basis, headline inflation rose by 0.22%, while core inflation edged up by 0.07% compared with the previous month.

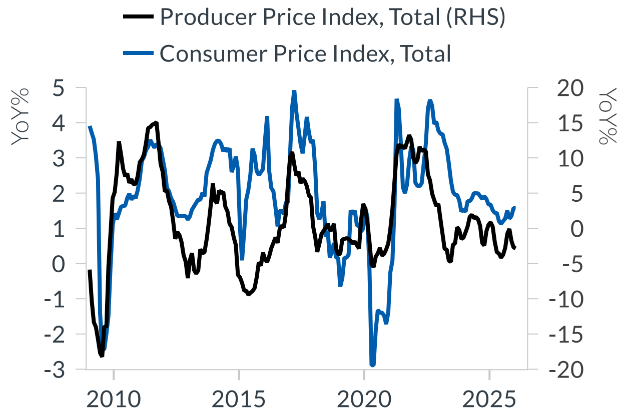
**Across the baskets,** the Food & Non-Alcoholic Beverages group, which accounts for 29.8% of the total CPI, increased at a slower rate of 1.3% YoY as compared to 1.5% YoY in January. In detail, the subgroup of Food away from home recorded a slower increase of 2.4% YoY (January: 2.5% YoY), while the subgroup of Food at home posted a marginal increment of 0.3% YoY (January: 0.6%). Inflation for the group of Transport remained at -0.7% YoY in February, the same rate as recorded in the previous month. The decline was driven by the subgroup of Transport services of goods, Operation of personal transport equipment and Purchase of vehicles which has remained in the negative territory. Lastly, costs in the Housing, Water, Electricity, Gas, and Other Fuels category inched lower to 1.1% YoY in February (January: 1.2% YoY) amid a slower increase in the subgroup of Water supply & miscellaneous services.

**Figure 3: Inflation across selected ASEAN economies is picking up, driven by higher energy prices**



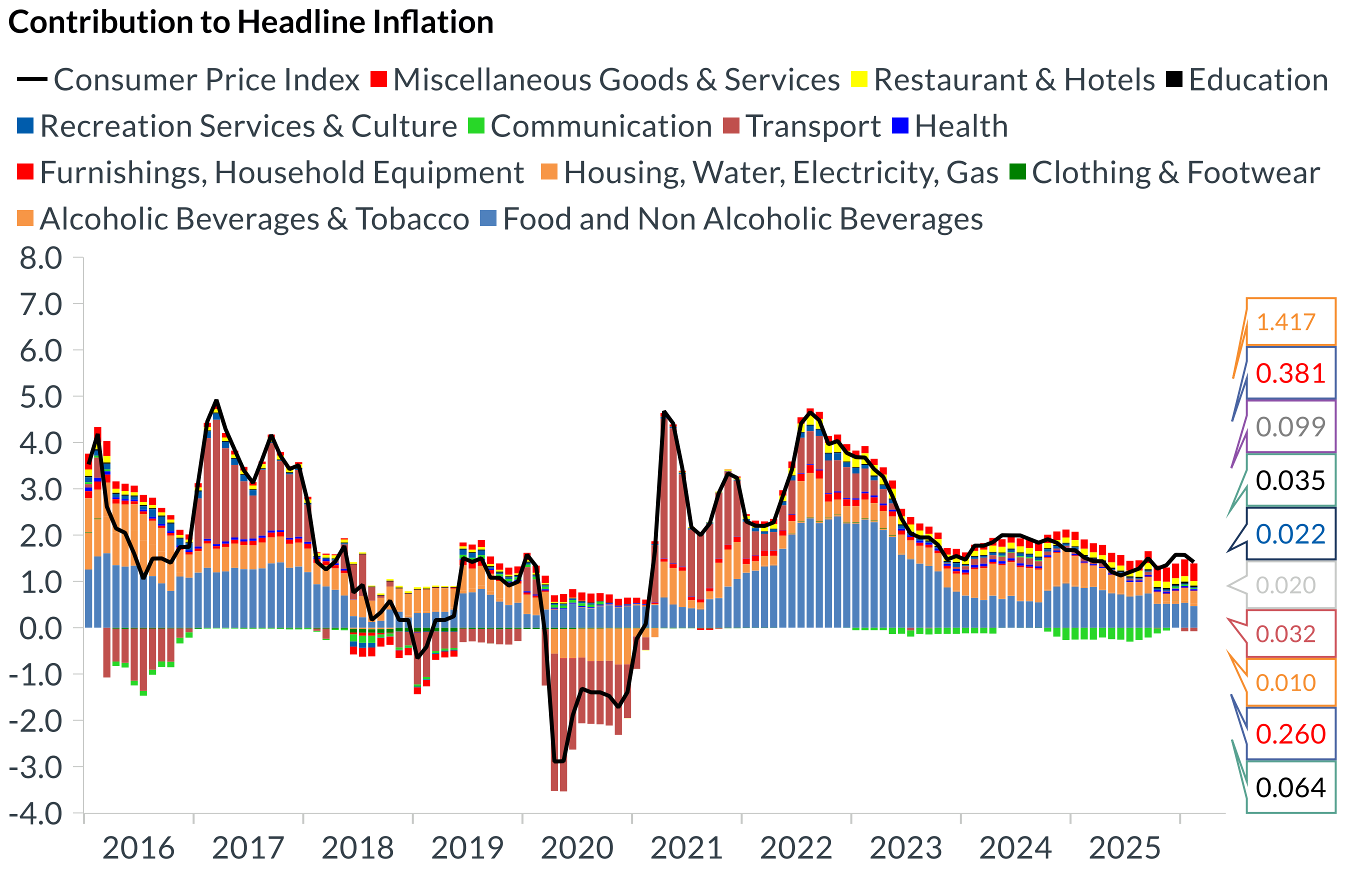

*Source: Macrobond, RHB Economics & Market Strategy.*

**Figure 4: Potential passthrough from higher PPI to CPI warrants close monitoring**




*Source: Macrobond, RHB Economics & Market Strategy.*

**Figure 5: The key components to CPI remain manageable**




*Source: Macrobond, RHB Economics & Market Strategy.*

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