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2Q25 GDP Growth:	+4.4%
2025 GDP Growth Forecast:	+4.2%
8M25 Headline Inflation:	+1.4%
2025 Headline Inflation Forecast:	+1.4%
BNM OPR:	2.75%
End-2025 OPR Forecast:	2.75%

Malaysia Inflation Rate

Budi95 scheme anchors inflation outlook

- **Headline inflation stayed modest at +1.3% YoY in August 2025 (Jul: +1.2%), in line with consensus, showing only a modest pass-through from the July SST expansion.**
- **The Budi95 scheme marks a shift from income-based targeting to a citizens-versus-foreigners approach. We see reallocated subsidy savings to handout programmes supporting domestic demand, while the lower pump price cushions consumer spending.**
- **We estimate the RM0.06 reduction in RON95 price will trim headline CPI by c.0.1ppt. With public sentiment a priority heading into the 2028 election cycle, we expect only minor adjustments to the scheme in the near term, keeping inflation contained.**
- **With limited SST pass-through and the Budi95 rollout reversing our earlier expectation of higher inflation from subsidy rationalisation, we revise our full-year 2025 inflation forecast to +1.4% YoY (from +1.9% previously).**
- **With cheaper fuel price and July's pre-emptive cut supporting domestic demand, we expect the OPR to stay at 2.75% through 2025 and 2026.**

Inflation holds steady with muted SST pass-through

Malaysia's headline inflation stayed modest at +1.3% YoY in August 2025 (Jul: +1.2%), in line with Bloomberg consensus. Price gains were led by food (+2.0%; Jul: +1.9%), education (+2.4%; Jul: +2.2%) and insurance & financial services (+5.6%; Jul: +5.5%). Notably, restaurant & accommodation services rose to +3.5% (Jul: +3.1%), showing modest pass-through from the July SST expansion. The increase was offset by softer electricity prices (-4.5%; Jul: -3.4%) and transport cost (+0.2%; Jul: +0.4%) amid subdued coal and Brent prices.

Meanwhile, core inflation edged up to +2.0% YoY (Jul: +1.8%), reflecting resilient domestic demand, even as headline inflation remained contained by softer energy and transport costs.

Fuel subsidy tweaks shift the narrative

The government unveiled the Budi95 scheme, cutting the subsidised RON95 price further to RM1.99/litre from the current RM2.05/litre starting end-September. All Malaysians with a MyKad qualify, while foreigners pay market rates of around RM2.60/litre. A monthly quota of up to 300 litres will help reduce leakages.

This marks a shift from the previously touted income-based targeting to a citizens-versus-foreigners approach. Although government's projected subsidy savings of RM2.5-4.0bn are lower than the original RM8bn estimate, we believe the reallocation of these savings to handout programmes and critical sectors including healthcare, education and basic infrastructure would support domestic demand. Considering the global uncertainty, the lower pump price would ease living costs and cushion consumer spending.

Lower fuel prices ease earlier inflation concerns

The new Budi95 scheme effectively reverses earlier expectations of a near-term inflation boost from subsidy rationalisation. We estimate the RM0.06 reduction in RON95 price would shave headline CPI by a modest 0.1ppt. Malaysia's fuel remains among the cheapest in the region (Indonesia: RM3.22; Philippines: RM4.22; Thailand: RM5.68; Singapore: RM9.02; Saudi Arabia: RM2.61).

The RM1.99/litre cap risks anchoring consumer expectations at low levels, making future upward adjustments politically and socially challenging should Brent price rises sharply. We view the current Budi95 scheme as the first phase of subsidy rationalisation, with reforms to broaden over time. That said, with public sentiment a priority heading into the 2028 election cycle, we expect only minor adjustments to the scheme in the near term, keeping inflation contained.

Lower 2025 inflation forecast to 1.4%

The August inflation print underscores limited inflationary pass-through from the SST expansion and minimum wage hike, while softer electricity costs further dampened headline pressures. More importantly, the latest rollout of the Budi95 scheme reverses our earlier expectation of higher inflation stemming from subsidy rationalisation. With 8M25 inflation averaging just +1.4%, we revise our **full-year 2025 inflation forecast to +1.4%** (from +1.9% previously).

OPR to stay put

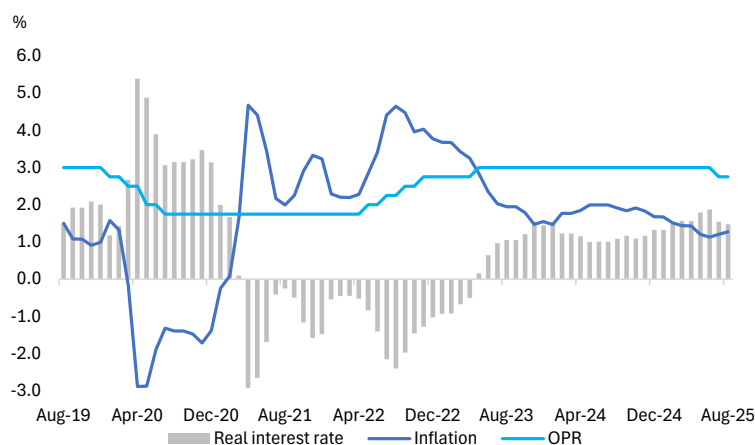
With inflation subdued and real interest rates (Aug: +1.5%) still above the 2015–2019 average (+1.2%), BNM has ample room to ease if growth falters. However, cheaper fuel price is effectively returning savings to households, supporting domestic demand alongside July's pre-emptive cut. We expect the **OPR to hold at 2.75%** through 2025 and 2026.

Figure 1: Inflation Breakdown by Segment

	%	% YoY			
		8M25	Jun-25	Jul-25	Aug-25
Headline Inflation	100	1.4	1.1	1.2	1.3
Food & Beverages	29.8	2.2	2.1	1.9	2.0
Alcoholic Beverages & Tobacco	1.9	0.7	0.6	0.6	0.4
Clothing & Footwear	2.7	-0.2	-0.3	-0.2	-0.1
Housing, Water, Electricity, Gas & Other Fuels	23.2	1.9	1.7	1.3	1.2
Furnishings, Household Equipment & Maintenance	4.3	0.2	0.1	0.1	0.2
Health	2.7	1.2	1.2	1.2	1.1
Transport	11.3	0.6	0.3	0.4	0.2
Information & Communication	6.6	-5.4	-5.4	-6.4	-5.6
Recreation, Sports & Culture	3.0	1.2	0.8	0.8	0.9
Education	1.3	2.1	2.2	2.2	2.4
Restaurants & Accommodation Services	3.4	3.2	2.8	3.1	3.5
Insurance & Financial Services	4.0	2.4	1.5	5.5	5.6
Personal Care, Social Protect, Miscellaneous	5.8	3.8	4.2	3.9	4.0
Core Inflation			1.8	1.8	2.0

Source: Department of Statistics, Apex Securities

Figure 2: Subdued inflation provides room for BNM to ease



Source: Department of Statistics, Apex Securities

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
