

Elevated consumer price inflation in Malaysia

We forecast Bank Negara Malaysia (BNM), the central bank, to raise the policy rate by 25bp tomorrow



Source: shutterstock

Near-doubling of inflation in 2017

Malaysia reports consumer price inflation data for December today. The Bloomberg consensus, of which we are a part, is centred on a 3.5% year-on-year CPI inflation, an uptick from 3.4% in November. If materialized, this will put the full-year 2017 average inflation at 3.9%, almost double than 2.1% in 2016 and close to the top end of the central bank's 3-4% forecast.

Food and transport prices have been the main inflation drivers. While we expect these factors to remain in play this year, the normalization of base effects from administered fuel price hikes in early 2017 will likely depress the year-on-year inflation rate. Moreover, expectations of continued appreciation of the Malaysian ringgit, thanks to country's strong economic fundamentals, dampens imported inflation, especially the transmission of rising global oil price to domestic fuel prices. We forecast 3% average CPI inflation in 2018, in the middle of the 2.5-3.5% official forecast for the year.

3% ING inflation forecast for 2018

Policy implications

This is a key data before Bank Negara Malaysia (BNM) monetary policy meeting tomorrow when we expect a 25bp policy rate hike. Strong growth, negative real interest rates, and an undervalued currency are the arguments for BNM tightening this year, even as inflation slows ([click here for more on BNM policy](#)).

[Malaysian central bank to join tightening binge](#)