

Global Markets Research
Malaysia - Economics

BNM maintains OPR and neutral policy stance

No change in OPR for a 11th straight meeting; policy statement remains neutral

Expect extended OPR pause in 2025 amid moderate growth and stable inflation outlook

Favourable fundamentals and narrowing yield differentials will be supportive to the MYR

Summary

BNM left OPR unchanged at 3.00% for the eleventh consecutive meeting today as widely expected. There were no material changes in the policy statement, other than the characterization of exports being “expected to expand at a more moderate pace” amidst global policy uncertainties. The neutral policy statement suggests that there is no plan to adjust the policy rate in the foreseeable future, hence our view for a continued pause in the OPR in 2025 remains unchanged.

BNM expects continued growth in the global economy for 2025; supported by resilient domestic demand and global trade

The assessment on the global economy remains positive in our view. BNM expects sustained growth in the global economy in 2025, supported by positive labour market conditions, moderating inflation and less restrictive monetary policy. However, downside risks could emanate from considerable uncertainties surrounding tariff and other policies from major economics, geopolitical developments, and greater volatility in the global financial markets.

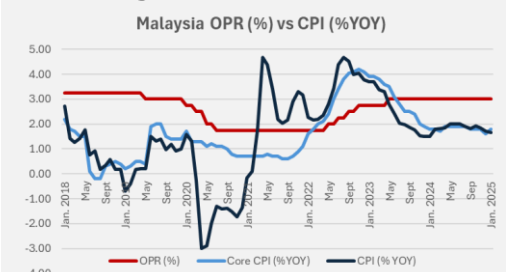
No change in expectation for sustained strength in the Malaysian economy; and manageable inflation in 2025

BNM maintains its view for sustained economic activities in 2025, driven by resilient domestic demand from both the consumption and investment fronts. Meanwhile, although exports are expected to expand at a more moderate pace, it is seen to remain supported by the global tech upcycle, continued growth in non E&E products and higher tourist spending. There was also no change to the central bank’s assessment on inflation, which is expected to remain manageable in 2025, amidst easing global cost conditions and an absence of excessive domestic demand pressures.

Outlook

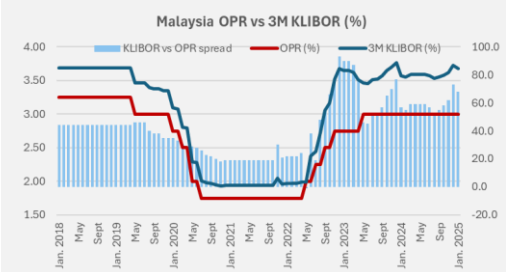
Recent developments in the global macro landscape and financial markets reaffirms our view for a differing speed and depth of monetary policy easing globally. The US economy continues to remain resilient buoyed by a healthy labour market, and the still intact disinflation outlook in spite of the recent noise and uncertainty from potential inflationary policies from the US government, reinforces our view that the FOMC will continue to ease albeit more gradually, further narrowing the yield differentials between Malaysia and the US, as BNM is expected to maintain a steady OPR on the back of continued moderate growth outlook in the Malaysian economy. Meanwhile, inflationary pressures are expected to remain well contained despite ongoing plans for subsidy reforms. We reaffirm our view for an extended pause in the OPR in 2025, barring any substantial external shocks.

Figure 1: Muted inflation will provide greater room for monetary policy flexibility to ensure sustainable growth



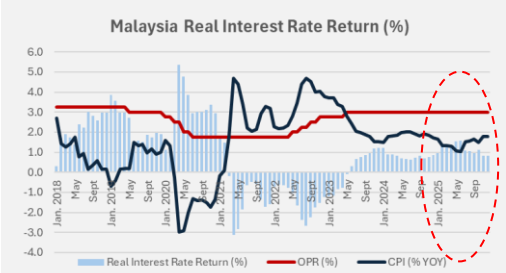
Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Spread between OPR and 3-month KLIBOR has remained stable of late



Source: BNM, DOSM, HLBB Global Markets Research

Figure 3: Well-contained inflation will help maintain positive real interest rate supporting the case for BNM to stand firm



Source: BNM, DOSM, HLBB Global Markets Research

Side by Side Comparison of BNM Monetary Policy Statement

6-March-2025	22-January-2025
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%.</p> <p>Latest indicators point towards continued global growth, supported by resilient domestic demand and global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Disinflation in most advanced economies is expected to continue, facilitated by moderating commodity prices and dissipating effects of past monetary policy tightening. Global trade is expected to remain supported by the continued tech upcycle. However, the outlook for global growth, inflation and trade is subject to considerable uncertainties surrounding tariff and other policies from major economies and geopolitical developments. Such uncertainties could also lead to greater volatility in the global financial markets.</p> <p>The Malaysian economy recorded a higher growth of 5.1% in 2024, driven by stronger domestic demand and a rebound in exports. Moving forward, despite external uncertainties, the strength in economic activity is expected to be sustained in 2025, anchored by domestic demand. Employment and wage growth, as well as policy measures, including the upward revision of the minimum wage and civil servant salaries, will support household spending. The robust expansion in investment activity will be sustained by the progress of multi-year projects in both the private and public sectors, the continued high realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under the national master plans.</p> <p>Amid global policy uncertainties, exports are expected to expand at a more moderate pace. Nevertheless, exports will remain supported by the global tech upcycle, continued growth in non-electrical and electronics, as well as higher tourist spending. The growth outlook is subject to downside risks from an economic slowdown in major trading partners following significant uncertainties surrounding trade policies and lower-than-expected commodity production. Meanwhile, growth could be lifted by greater spillovers from the global tech upcycle, more robust tourism activity, and faster implementation of investment projects.</p> <p>Headline and core inflation stood at 1.7% and 1.8% respectively in January 2025. Overall, inflation in 2025 is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions. The recently introduced wage-related policies would provide additional support to demand, although the impact on inflation is expected to be limited. In this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as external developments surrounding global commodity prices, financial markets and trade policies.</p> <p>Ringgit performance continues to be primarily driven by external developments. The narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. Financial markets could experience heightened bouts of volatility due to global policy uncertainties. Nevertheless, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.</p> <p>At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%.</p> <p>The global growth for 2024 turned out higher than expected, reflecting better outturns in the major economies and stronger global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade is expected to remain broadly sustained, supported by the continued tech upcycle. However, this outlook could be affected by the uncertainty surrounding more trade and investment restrictions. The elevated policy uncertainties could also lead to greater volatility in the global financial markets.</p> <p>For the Malaysian economy, the overall growth for 2024 was within expectations. Moving forward, the strength in economic activity is expected to be sustained in 2025, driven by resilient domestic expenditure. Employment and wage growth, as well as policy measures, including the upward revision of the minimum wage and civil servant salaries, will support household spending. The robust expansion in investment activity will be sustained by the progress of multi-year projects in both the private and public sectors, the continued high realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under the national master plans.</p> <p>These investments, supported by higher capital imports, will raise exports and expand the productive capacity of the economy. Exports are expected to be supported by the global tech upcycle, continued growth in non-electrical and electronics goods and higher tourist spending. The growth outlook is subject to downside risks from an economic slowdown in major trading partners amid heightened risk of trade and investment restrictions, and lower-than-expected commodity production. Meanwhile, growth could potentially be higher from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects.</p> <p>Headline and core inflation averaged 1.8% in 2024. Going into 2025, inflation is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions in the near term. In this environment, the overall impact of the recently announced domestic policy reforms on inflation is expected to be contained. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as global commodity prices and financial market developments.</p> <p>Ringgit performance continues to be primarily driven by external factors. The narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. While financial markets could experience bouts of volatility due to global policy uncertainties, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.</p> <p>At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.</p>

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