BNM Maintained OPR at 3.00% Amid Global Trade Uncertainty

ECONOMIC REVIEW:
Mar-25 BNM MPC



Author
MIDF Research
research@midf.com.my

- OPR remains unchanged, maintaining supportive growth. As broadly expected, BNM maintained the Overnight Policy Rate (OPR) at 3.00% during the Mar-25 Monetary Policy Meeting, emphasising that the current policy stance remains conducive to sustained economic growth.
- Domestic to continue driving economic momentum. 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.
- OPR to remain at 3.00% for the rest of the year. The current OPR setting remains accommodative to sustainable economic growth, consistent with the current assessment of economic growth and inflation. Our forecast remains that BNM will hold the OPR steady at 3.00% in 2025.

OPR remains unchanged, maintaining supportive growth. As broadly expected, BNM maintained the Overnight Policy Rate (OPR) at 3.00% during the Mar-25 Monetary Policy Meeting, emphasising that the current policy stance remains conducive to sustain economic growth. In its Monetary Policy Statement (MPS), the current economic indicators signal a trend of continued global growth, underpinned by robust domestic demand and international trade. The projected economic landscape for 2025 is characterised by sustained growth, facilitated by favourable labour market dynamics, a deceleration in inflationary pressures, and a transition to less restrictive monetary policy stances. Advanced economies are anticipated to experience further disinflation, driven by moderating commodity prices and the lagged effects of prior monetary policy tightening. Global trade should see support from the ongoing tech upcycle. However, the potential for tariff changes in major economies, geopolitical instability, and associated financial market volatility presents considerable risks to the projected growth trajectory. As a result, a potential for increased volatility within global financial markets. We share a similar view, as the market sentiment has been showing signs of concerns on the potential trade disruptions under the new US administration.

Domestic to continue driving economic momentum. 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. 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. Aligned with our view, we expect that Malaysia's GDP will grow at a more moderate rate this year, driven by the sustained growth in the domestic spending and external trade. Trade uncertainty from ongoing conflicts and rule changes poses risks to Malaysia's economy. Reduced demand, trade war escalations, and inflation could impact trade

and growth. Domestically, while fundamentals are strong, rising costs and policy changes may constrain demand through higher inflation.

Inflation projected to remain in check for the year. Malaysia's inflation figures for January 2025, with headline inflation at +1.7% and core inflation at +1.8%, signal a period of price stability. This stability is expected to persist throughout 2025, supported by declining global cost conditions and restrained domestic demand. The anticipated decline in global commodity prices is expected to exert downward pressure on costs. While recent wage-related policies will bolster domestic demand, their inflationary impact is projected to be limited. The overall impact of domestic policy reforms on inflation is projected to be contained. Nevertheless, potential upside risks to inflation exist, primarily stemming from the extent of spillover effects from domestic policy measures and external uncertainties related to global commodity prices, financial market volatility, and trade policy shifts. We think Malaysia's inflation will remain in check for the rest of the year, based on the absence of demand-driven inflationary pressure. Both headline and core inflation have been below the +2.0% level, since Aug-23 for headline inflation and core inflation since Nov-23. We continue to expect inflation to accelerate to +2.8% in 2025.

External factors influencing the currency trends. In terms of the ringgit assessment, BNM sees that the external developments remain to be one of the key drivers of the Ringgit's performance. Although narrowing interest rate differentials with advanced economies provide some support, global policy uncertainties pose a risk of heightened financial market volatility. However, Malaysia's robust economic prospects, ongoing structural reforms, and strategic initiatives to enhance capital inflows are expected to provide long-term resilience to the ringgit. In our view, US monetary policy easing is expected to be more gradual than initially projected, and interest rate differentials may remain wide, we believe the eventual narrowing will support emerging market currencies, including the ringgit. The recent development in the US trade landscape may lead to an inflationary pressure in the US, which may result in a slower rate cut cycle.

OPR to remain at 3.00% for the rest of the year. The current OPR setting remains accommodative to sustainable economic growth, consistent with the current assessment of economic growth and inflation. Our forecast remains that BNM will hold the OPR steady at 3.00% in 2025. This stance is deemed accommodative to Malaysia's sustainable economic growth, which we project will be fuelled by increasing domestic and external demand. While we expect inflation to increase due to supply-side pressures (such as policy adjustments and rising costs), we do not foresee this prompting a change in the OPR. We believe inflation will remain contained. BNM, however, possesses the necessary policy flexibility to respond to future economic uncertainties, particularly those stemming from domestic economic conditions and the evolving inflation outlook in Malaysia. However, we take caution on the development of the trade war between the US and its trading partner, which includes both sides increasing the protectionism policy, which could impact the economic performance of the countries involved in the trade war, which could put the global economy under considerable strain due to the interconnectedness between countries. Also, further fragmentation would intensify pressure on goods and services trade. In turn, the global slowdown may influence the trajectory of the OPR, switching from inflation concerns to the slowdown of economic activities.

Table 1: Central Bank Policy Rate (%) for Selected Countries

	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.00	6.00	6.00	6.00	5.75	5.75
Philippines	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.75
Thailand	2.50	2.50	2.50	2.25	2.25	2.25	2.25	2.00
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.25	3.00	3.00	3.00	2.75
India	6.50	6.50	6.50	6.50	6.50	6.50	6.25	6.25
Japan	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50
Euro area	5.00	5.00	5.00	5.00	4.75	4.75	4.75	4.50
UK	4.25	4.25	3.65	3.40	3.40	3.15	2.90	2.90
USA	5.25-5.50	5.25-5.50	4.75-5.00	4.75-5.00	4.50-4.75	4.25-4.50	4.25-4.50	4.25-4.50

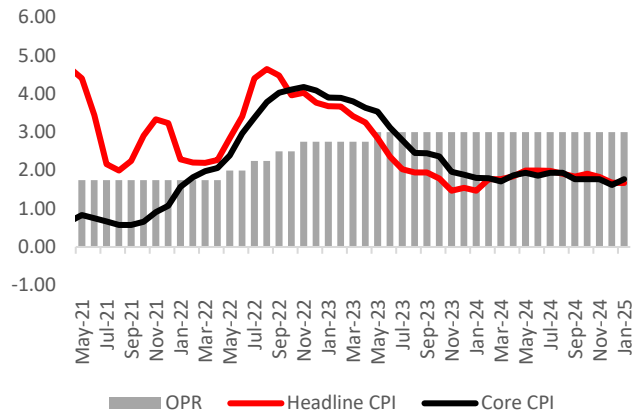
Source: Macrobond, MIDFR

Table 2: Monetary Policy Meeting Schedule for 2025

Meeting	Date	Decision
1st	22 January 2025	No change
2nd	6 March 2025	No change
3rd	8 May 2025	
4th	9 July 2025	
5th	4 September 2025	
6th	6 November 2025	

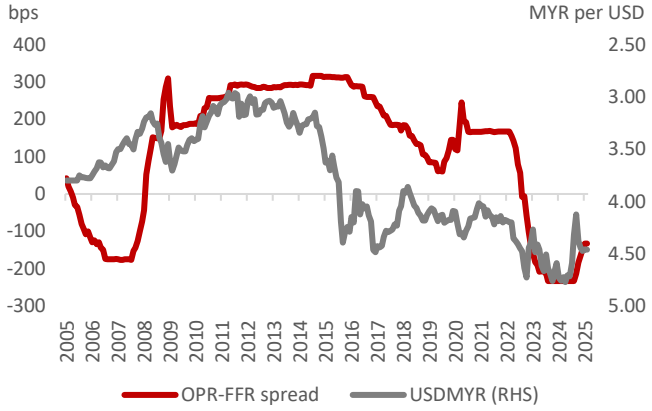
Source: BNM, MIDFR

Chart 1: Monetary Policy (%) vs Inflation (YoY%)



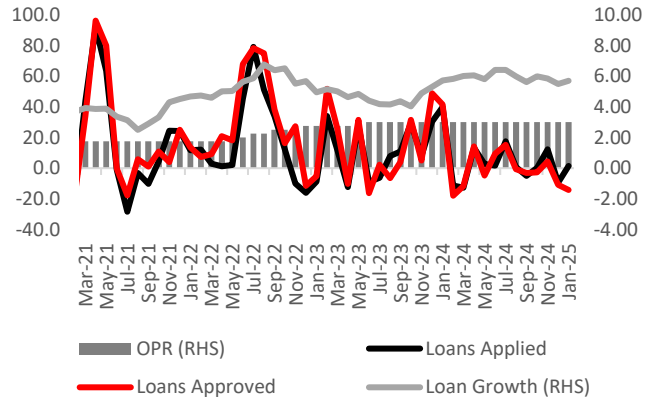
Source: Macrobond, MIDFR

Chart 2: OPR-FFR Differentials (bps) & USDMYR



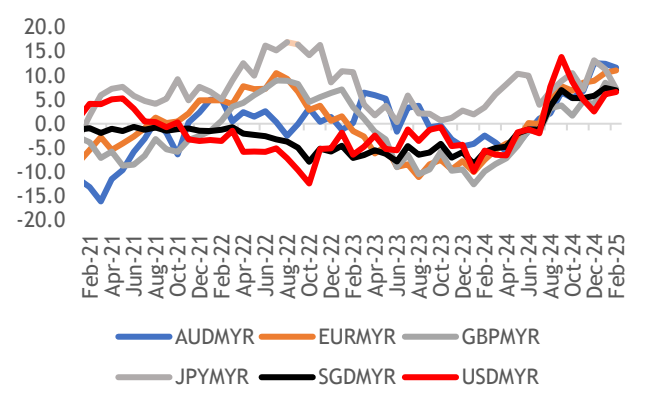
Source: Macrobond, MIDFR

Chart 3: OPR (%) vs Loan Growth (YoY%)



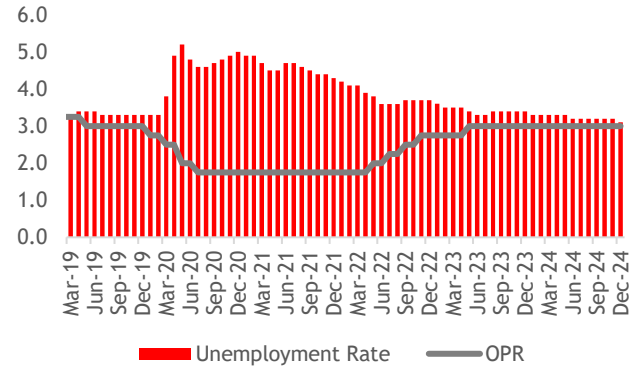
Source: Macrobond, MIDFR

Chart 4: MYR against selected currencies (YoY%)



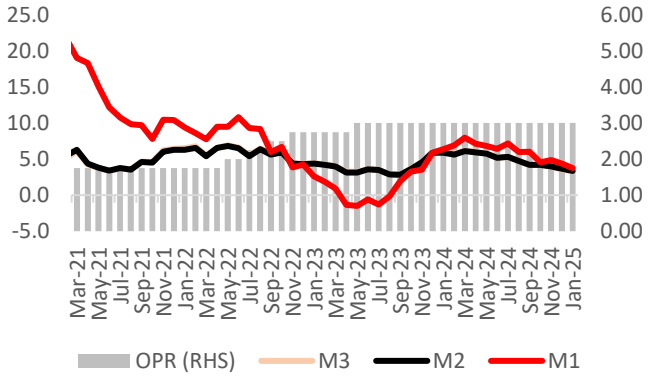
Source: Macrobond, MIDFR

Chart 5: OPR vs Unemployment Rate (%)



Note: The latest available trade volume data is Dec-24
Source: Macrobond, MIDFR

Chart 6: Money Supply (YoY%) vs OPR (%)



Source: Macrobond, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad

197501002077 (24878-X).

(Bank Pelaburan) (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD 197501002077 (24878-X).

It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have an interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.