# BNM Kept OPR at 3.00% as Expected, Cut SRR to 1% to Ensure Sufficient Liquidity

ECONOMIC REVIEW:
May-25 BNM MPC

Economic Review



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- **OPR remains unchanged, still conducive to sustainable growth.** In line with our expectations, BNM maintained the Overnight Policy Rate (OPR) at 3.00% after the May-25 Monetary Policy Meeting, reiterating that the current stance remains conducive to sustainable economic growth.
- **SRR slashed by -100bps to 1%.** In another decision, BNM announced the reduction of the statutory reserve requirement (SRR) by -100bps to 1%, the lowest level in 14 years, which will be effective from 16 May 2025. We view the decision as a proactive measure to ensure sufficient liquidity in the domestic banking system.
- **Resilient domestic demand expected to drive growth.** For Malaysia, economic activity continued to expand in the first quarter, supported by resilient domestic demand and sustained export growth. Looking ahead, escalating trade tensions and rising global policy uncertainties are expected to pose challenges to the external sector.
- **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. For now, we do not expect any need for BNM to ease monetary policy as growth continued to be supported by growing domestic economic activities.

**OPR remains unchanged, still conducive to sustainable growth**. In line with our expectations, BNM maintained the Overnight Policy Rate (OPR) at 3.00% after the May-25 Monetary Policy Meeting, reiterating that the current stance remains conducive to sustainable economic growth. As stated in the Monetary Policy Statement (MPS), global growth and trade continued to expand, driven by strong domestic demand and front-loading activities. The global growth outlook remains supported by favourable labour market conditions, more accommodative monetary policy, and fiscal stimulus. However, the tariff measures introduced by the US, along with retaliatory actions, have dampened the prospects for global growth and trade. Nonetheless, this outlook remains subject to significant uncertainties, including the outcomes of trade negotiations and ongoing geopolitical tensions. These factors could also contribute to increased volatility in global financial markets. We observed that market sentiment has improved recently from their tariff-induced lows, fuelled by optimism surrounding trade deals and potential US-China negotiations. However, we believe the outlook remains uncertain and is likely to continue affecting market volatility.

**SRR slashed by -100bps to 1%.** In another decision, BNM announced the reduction of the statutory reserve requirement (SRR) by -100bps to 1%, the lowest level in 14 years, which will be effective from 16 May 2025. The SRR reduction is expected to release additional +RM19b into the domestic banking system. We view the decision as a proactive measure to ensure sufficient liquidity amid heightened concerns of the effects of trade war and risks of global slowdown. This may encourage banks to extend more credits to the economy and support further expansion in the domestic economic activities. For the record, banking loan growth moderated to +5.2%yoy in Mar-25, slower than +5.5%yoy in Dec-24 and average +5.9% rise in 2024.

**Resilient domestic demand expected to drive growth**. As stated in the Monetary Policy Statement, Malaysia's economic activity continued to expand in the first quarter, supported by resilient domestic demand and sustained export growth. Looking ahead, escalating trade tensions and rising global policy uncertainties are expected to pose challenges to the external sector. Continued demand for E&E products, along with higher tourist spending, is expected to help cushion export performance. The overall economic growth will be anchored by resilient domestic demand. Employment and wage growth along with income-supporting policy measures, will continue to drive household spending. Investment activity is expected to remain robust, underpinned by

the progress of multi-year projects across both the private and public sectors, strong realisation of approved investments, and the ongoing implementation of catalytic initiatives under the national master plans.

**Downside risks to growth outlook.** According to the BNM, the balance of risks to the growth outlook remains tilted to the downside, primarily due to the potential for a deeper economic slowdown among major trading partners, weaker business and consumer sentiment amid heightened uncertainties, and lower-than-expected commodity production. On the upside, positive outcomes from trade negotiations, the adoption of pro-growth policies in major economies, and a stronger rebound in tourism activity could help bolster Malaysia's growth prospects. Aligned with our view, we expect that Malaysia's GDP growth to moderate to +4.0% this year, driven by the sustained growth in the domestic spending. Our latest projection assumes that external trade will expand at a slower pace, reflecting the anticipated moderation in demand from major markets such as the US following the recently announced tariff hikes. Nevertheless, we believe Malaysia can sustain positive overall growth despite the impact of heightened trade tensions on the external sector.

**Inflation is projected to remain manageable for the year**. With headline and core inflation having averaged at +1.5%yoy and +1.9%yoy, respectively, in 1QCY25, BNM anticipates inflation to remain manageable this year, taking into account moderate global cost pressures and the absence of significant domestic demand-driven pressures**.** Global commodity prices are expected to remain on a downward trend, helping to maintain moderate cost conditions. In this context, the overall impact of recently announced domestic policy reforms on inflation is likely to be contained. However, risks to the inflation outlook will depend on the extent of spillover effects from these domestic measures, as well as external factors such as global commodity price movements, financial market volatility, and shifts in trade policies. We opine that despite the downside bias as reflected in the still-moderate inflation readings to date (Mar-25: +1.4%yoy; Feb-25: +1.5%yoy), we maintain our projection for now that Malaysia's inflation will accelerate to +2.5% in 2025 (2024: +1.8%), largely predicated on the anticipated price pressures from the domestic policy changes, particularly the planned shift to targeted RON95 fuel subsidies by mid-2025.

**External factors influencing the currency trends**. In terms of the ringgit assessment, BNM sees that the performance of the ringgit will remain largely influenced by external factors. Malaysia's strong economic prospects, coupled with ongoing domestic structural reforms and initiatives to attract investment flows, will continue to provide sustained support for the ringgit. In our view, we expect the ringgit to end the year at RM4.25, around current levels. The recent strength of the ringgit has been largely driven by positive developments in trade talks, particularly a reduced concern over a potential trade war. Beyond trade tensions, exchange rate movements will continue to be influenced by central bank decisions, especially the US Fed. We anticipate the Fed will cut interest rates later this year in response to slowing growth. The narrowing of interest rate differentials shall be supportive of emerging market currencies, including ringgit. However, delayed rate cuts and ongoing growth concerns in the US could strengthen the dollar, apart from heightened market volatility which will limit further appreciation of the ringgit.

**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. While the broader economy is expected to continue expanding, we expect inflation could potentially increase due to supply-side pressures (such as policy adjustments and rising costs). Nevertheless, with demand pressures remained under control, we do not foresee this higher inflation would prompt a change in the OPR setting. We believe overall inflation will remain contained. On the other hand, BNM has the necessary policy flexibility to respond to future economic uncertainties, particularly to counter downside risks from domestic economic slowdown and changes in the inflation outlook. A more pronounced softening in the growth momentum could prompt BNM to shift to policy easing to support the economy. For now, we do not see any urgent need for BNM to ease monetary policy as growth continued to be supported by growing domestic economic activities.

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

| | Oct-24 | Nov-24 | Dec-24 | Jan-25 | Feb-25 | Mar-25 | Apr-25 | May-25 |
|---|---|---|---|---|---|---|---|---|
| Malaysia | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Indonesia | 6.00 | 6.00 | 6.00 | 5.75 | 5.75 | 5.75 | 5.75 | 5.75 |
| Philippines | 6.00 | 6.00 | 5.75 | 5.75 | 5.75 | 5.75 | 5.50 | 5.50 |
| Thailand | 2.25 | 2.25 | 2.25 | 2.25 | 2.00 | 2.00 | 1.75 | 1.75 |
| Vietnam | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 | 4.50 |
| South Korea | 3.25 | 3.00 | 3.00 | 3.00 | 2.75 | 2.75 | 2.75 | 2.75 |
| India | 6.50 | 6.50 | 6.50 | 6.25 | 6.25 | 6.25 | 6.00 | 6.00 |
| Japan | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 |
| UK | 5.00 | 4.75 | 4.75 | 4.75 | 4.50 | 4.50 | 4.50 | 4.50 |
| Euro area | 3.40 | 3.40 | 3.15 | 2.90 | 2.90 | 2.65 | 2.40 | 2.40 |
| USA | 4.75-5.00 | 4.50-4.75 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 | 4.25-4.50 |

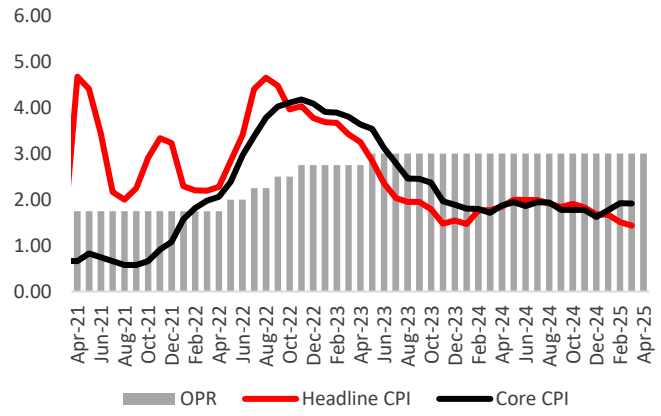
Source: Macrobond, MIDFR

**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 | No change |
| 4th | 9 July 2025 | |
| 5th | 4 September 2025 | |
| 6th | 6 November 2025 | |

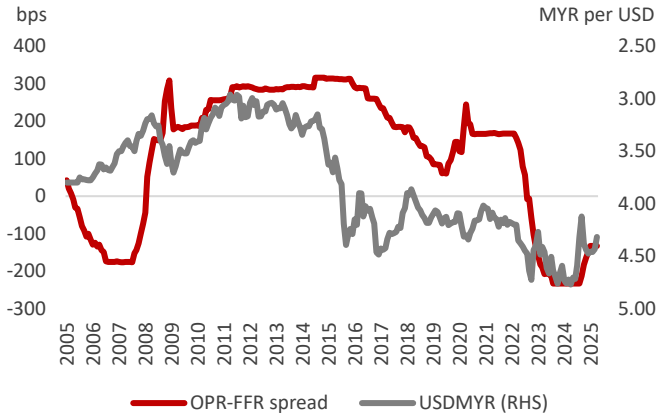
Source: BNM, MIDFR

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



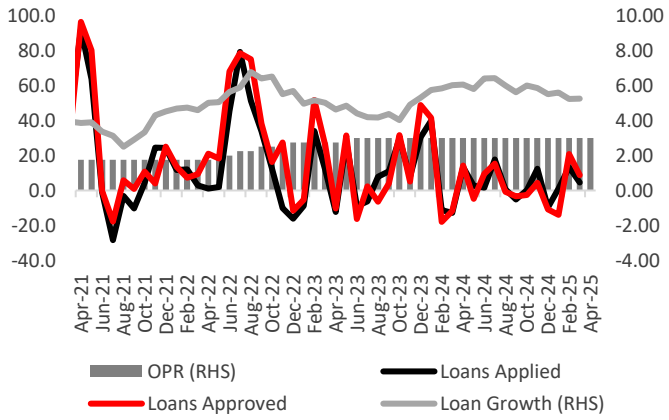

Source: Macrobond, MIDFR

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



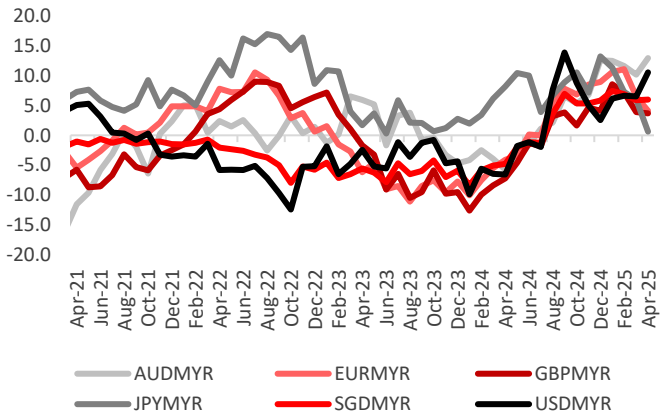

Source: Macrobond, MIDFR

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



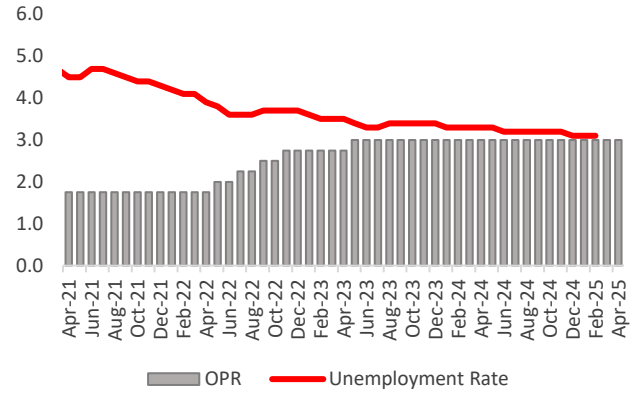

Source: Macrobond, MIDFR

**Chart 4: MYR against selected currencies (YoY%)**



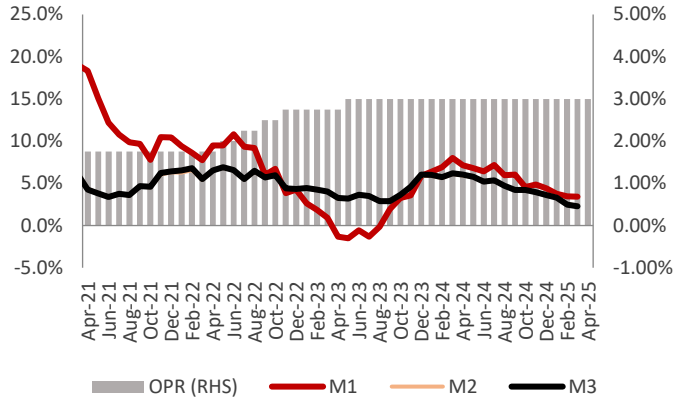

Source: Macrobond, MIDFR

**Chart 5: OPR vs Unemployment Rate (%)**




Source: Macrobond, MIDFR

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




Source: Macrobond, MIDFR

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