OPR Kept at 2.75% as the Current Policy Setting Remains Supportive of Growth

Economic Review
Sep-25 BNM MPC



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- No change to OPR as widely expected. BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Sep-25 Monetary Policy Meeting as the current rate remains appropriate and supportive of the economy. The decision to maintain OPR was in line with our and market expectations.
- Resilient domestic demand is expected to drive growth well into 2026. Malaysia's economic activity continued to expand by +4.4% in the 1HCY25, on the back of resilient domestic demand and investment activities, which keeps the growth on track to grow between BNM's forecast range of +4.0% and +4.8%.
- Expect no further OPR cut needed. In our view, BNM has a slightly more confident view on Malaysia's economic prospects at the Sep-25 policy meeting, relatively not as cautious as in the Jul-25 meeting which led to the pre-emptive rate cut. We expect that the impact from the previous policy rate adjustments, given the lagged impact for it to be fully priced in in the economy and could provide support to the economy even into next year.

No change to OPR as widely expected

BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Sep-25 Monetary Policy Meeting as the current rate remains appropriate and supportive of the economy. The decision to maintain OPR was in line with our and market expectations. According to BNM, the latest indicators showed a continued expansion in global growth, driven by the robust consumer spending and front-loading activities. Meanwhile, BNM remains cautious of risk on the global front at a more moderate degree, including the outcomes coming from the potential risk of additional tariffs, especially at the product level, and ongoing geopolitical tensions. These factors could also contribute to increased volatility in global financial markets and commodity prices. The recent improvement in market sentiment, recovering from tariff-induced lows, has been fuelled by growing optimism surrounding new trade deals and a notable easing of geopolitical uncertainty. This positive trend was further bolstered by the US' decision to impose a relatively lower tariff of 19% on Malaysian exports, a move that is expected to help Malaysia maintain its competitive edge among regional peers. However, the outlook for market stability remains uncertain, and we anticipate that this will continue to contribute to ongoing market volatility. As a result, we continue to maintain a cautious view.

Resilient domestic demand expected to drive growth well into 2026

As stated in the MPS, Malaysia's economic activity continued to expand by +4.4% in the 1HCY25, on the back of resilient domestic demand and investment activities, which keeps the growth on track to grow between BNM's forecast range of +4.0% and +4.8%. Looking ahead, BNM expects growth for 2026 will continue to be driven by resilient domestic demand, that is bolstered by employment, wage growth, and income-related policy measures. Malaysia's investment landscape is poised for continued expansion, underpinned by the advancement of multi-year projects in both the private and public domains, the high conversion of approved investments into realised capital, and the strategic execution of initiatives within national master plans and the 13th Malaysia Plan. The growth outlook faces downside risks from a potential slowdown in global trade, weaker overall market sentiment, and lower-than-expected commodity production. Conversely, several factors could enhance Malaysia's growth prospects, including favourable outcomes from remaining U.S. trade negotiations, pro-growth policies in major economies, continued global demand for electrical and electronic goods, and robust tourism activity. However, the latest statement downplays earlier assessment back in Jul-25 MPC meeting, which signalled that the balance of risk to the growth outlook remains tilted to the downside. The removal of this statement, in our view, solidifies our expectation that the previous cut is not the start of the cutting cycle.

We expect growth to moderate this year.

We expect that Malaysia's GDP growth to moderate to 4.3% for 2025, moderating from the robust growth of +5.1% last year. This growth is expected to be primarily driven by sustained domestic spending on the back of healthy labour market condition. Meanwhile, on the back of the latest tariff development, we expect external trade to remain resilient, though potentially limited and dragged down by the heightened trade tension due to the moderation in demand from key markets, especially from the US. Despite this, we maintain the view that Malaysia is well-positioned to sustain positive overall economic growth.

Inflation to remain manageable for the year.

With headline and core inflation having averaged at +1.4%yoy and +1.9%yoy, respectively, in 7MCY25, BNM anticipates inflation to remain manageable this year, taking into account moderate global cost pressures and the current absence of significant domestic demand-driven pressures. Global commodity prices are expected to remain subdued, which should help to maintain moderate cost conditions, which should be within BNM's +1.5-2.3% inflation forecast. BNM mentioned that core inflation is expected to remain stable and close to the long-term average, and the trend is expected to continue going into 2026. In this context, the net impact of recently implemented domestic policy reforms on inflation is expected to remain contained. However, risks to the inflation outlook will depend on the extent of spillover effects from domestic measures, such as the expansion of the SST list will exert upward pressure, with potential spillover effects across other components in the CPI basket. Meanwhile, as the government announced the delay of the RON 95 subsidy adjustment, this may lead to a more gradual pickup in inflation. We recognise a downside risk to our inflation forecast, primarily stemming from further delays in government policy adjustments. We opine that despite the downside bias due to the still moderate inflation reading to date (Jul-25: +1.2%yoy), although it was a rebound from the Jun-25 (+1.1%yoy); currently we maintain our projections for now that Malaysia's inflation will accelerate to +1.8% in 2025 (2024: +1.8%), as rising price pressures will predominantly stem from supply-side issues, specifically those related to the broadened SST. Simultaneously, we could see a build-up of demand-side pressures, as the Jul-25 OPR reduction is likely to stimulate greater consumer spending, bolstered by a strong labour market on the back of healthy employment and wage growth. Nevertheless, inflation outlook will also be influenced by external factors such as global commodity price movements, financial market volatility, and shifts in trade and monetary policy settings.

Easing concerns on ringgit FX movements, given recent stability.

There is no mention of the ringgit performance in the Sep-25 Monetary Policy Statement. We believe this reflects the recent stability of ringgit exchange rates. Still, we reiterate that 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. We forecast the ringgit will end the year around RM4.25. The ringgits after its recent period of weakness, the Malaysian ringgit has begun to strengthen. This appreciation is primarily a result of the US dollar's performance and a broader easing of global geopolitical tensions. Beyond these factors, the decisions of central banks, especially the US Federal Reserve (Fed), will continue to be a key driver of exchange rate movements. We anticipate the Fed will begin cutting interest rates later this year in response to slowing growth. This move is expected to narrow the interest rate differential between Malaysia and the US, which should support the ringgit and other emerging market currencies. Additionally, heightened market volatility will likely limit any significant further appreciation of the ringgit.

Expect no further OPR cut needed.

In our view, BNM has a slightly more confident view on Malaysia's economic prospects at the Sep-25 policy meeting, relatively not as cautious as in the Jul-25 meeting which led to the pre-emptive rate cut. We expect that the impact from the previous policy rate adjustments, given the lagged impact for it to be fully priced in in the economy and could provide support to the economy even into next year. On that note, we think that the previous pre-emptive action will be a one-off decision thus far and will not be a start of a rate-cutting cycle in the near term, overlayed by the still encouraging spending activities in the domestic economy and healthy labour market situation. Instead of further adjustments to the OPR for the remainder of the year, we believe a more effective approach would be to implement targeted support measures to assist specific industries which may be vulnerable and directly affected by the external uncertainties. On a separate note, we anticipate that the ongoing downward pressure on the MGS market will gradually ease, which should lead to a normalisation of the spread between MGS yields and the OP

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

	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Malaysia	3.00	3.00	3.00	3.00	3.00	2.75	2.75	2.75
Indonesia	5.75	5.75	5.75	5.50	5.50	5.25	5.50	5.00
Philippines	5.75	5.75	5.50	5.50	5.25	5.25	5.25	5.00
Thailand	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.50
India	6.25	6.25	6.00	6.00	5.50	5.50	5.50	5.50
Japan	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
UK	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.00
Euro area	2.90	2.90	2.40	2.25	2.00	2.00	2.00	2.00
USA	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50	4.25-4.50

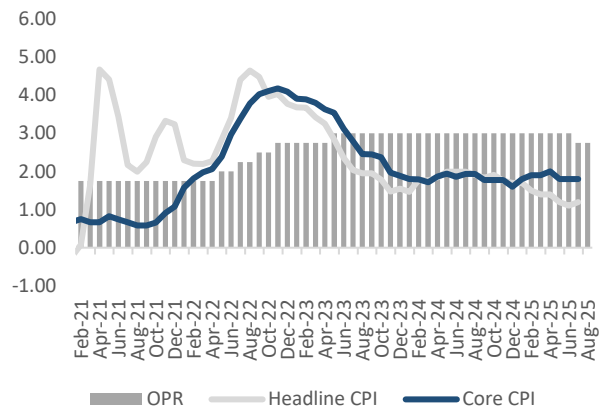
Source: Macrobond, DOSM, MBSBR

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	-25 bps cut
5th	4 September 2025	No change
6th	6 November 2025	

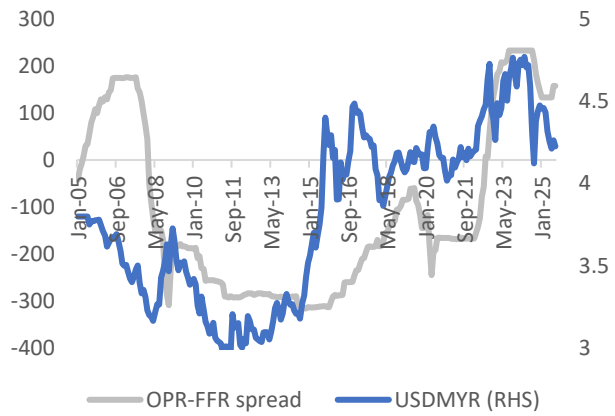
Source: BNM, MBSBR

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



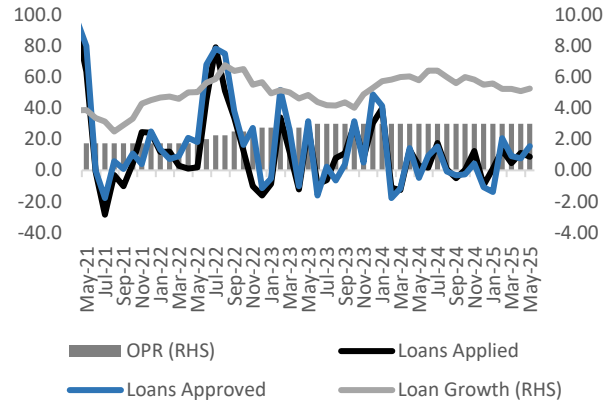
Source: Macrobond, MBSBR

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



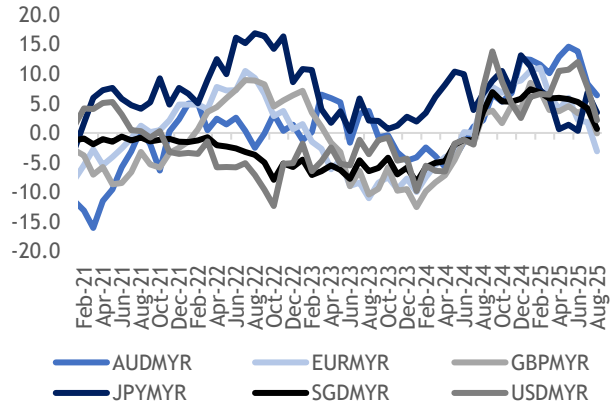
Source: Macrobond, MBSBR

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



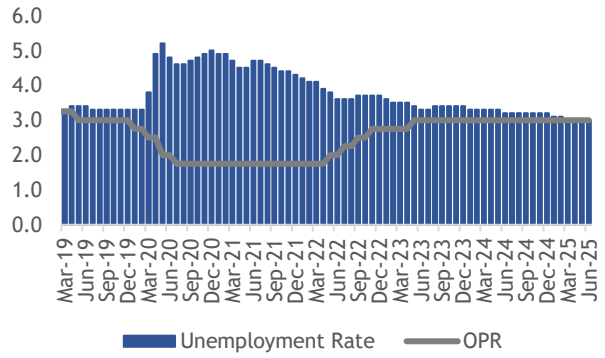
Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



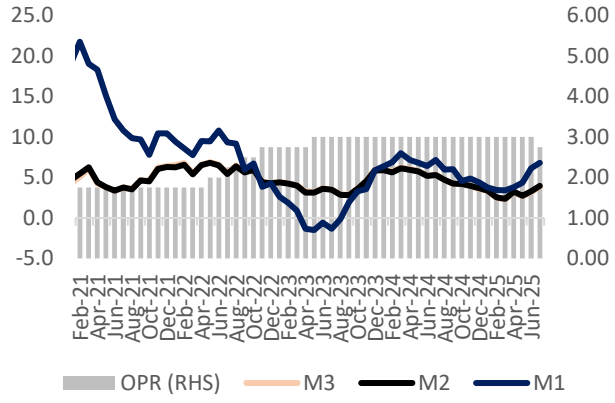
Source: Macrobond, MBSBR

Chart 5: OPR vs Unemployment Rate (%)



Source: DOSM, MBSBR

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



Source: DOSM, MBSBR

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