OPR Kept at 2.75% as Growth Seen Sustainable into 2026

Economic Review
Nov-25 BNM MPC



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- BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Nov-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. As stated in the MPS, the Malaysian economy performed better than expected in 3QCY25, driven by sustained domestic demand, resilient E&E exports, and a solid recovery in commodity production.
- In our view, the recent BNM's monetary policy statements in Sep-25 and Nov-25 reflect a greater confidence in Malaysia's economic prospects. This marks a clear and solid turnaround from the notably more cautious position articulated by the central bank at its Jul-25 meeting.

No change to OPR as widely expected

BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Nov-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 but reiterated the impact of higher tariff would continue to constrain global growth. BNM stated that the global growth outlook will be supported by healthy labour market, easing inflation, reduced monetary policy restrictiveness, and supportive fiscal policy. Moreover, the clarity of the trade negotiation with the US has improved sentiments and eased global uncertainty. We believe this was bolstered by the US' decision to impose a relatively lower tariff of 19% on goods from Malaysia, a move that is expected to help Malaysia maintain its competitive edge among regional peers. Malaysia also benefitted from better exports to the US due to the frontloading activities. BNM also mentioned the potential positive scenario that includes a milder tariff impact on economic activity and pro-growth policies in major economies. On the other hand, the MPC members also flagged the downside risk concerns, which includes the potential of higher tariff measures for specific products, and renewed geopolitical tensions.

Resilient domestic demand expected to drive growth well into 2026

As stated in the MPS, the Malaysian economy performed better than expected in 3QCY25, driven by sustained domestic demand, resilient E&E exports, and a solid recovery in commodity production. 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 supporting household spending. 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 catalytic initiatives within national master plans and the 13th Malaysia Plan. BNM highlighted that the upside potential to growth could arise from the better global growth outlook, stronger demand of the E&E sector, and the better growth outlook. However, this growth outlook remains subject to external uncertainties, particularly those surrounding global developments. The primary downside risks include a potential slowdown in global trade, weaker market and business sentiment, and lower-than-expected commodity production.

We expect some upside bias towards growth than previously expected

We concur that growth will be sustainable going into next year, driven mainly by growing domestic demand. Although we anticipate Malaysia's economic growth to moderate to +4.3% this year (2024: +5.1%), we expect potential upside bias on the back of the stronger than expected 3QCY25 and still encouraging external trade performance, partly due to the frontloading activities. Nevertheless, contribution from external trade will be limited by heightened global trade tensions and cooling demand from major partners, notably the US, as a result of higher tariffs. Overall, we hold the conviction that Malaysia possesses the fundamentals necessary to sustain its positive economic trajectory.

Inflation to remain manageable

With headline and core inflation having averaged at +1.4%yoy and +1.9yoy, respectively, in 9MCY25, BNM anticipates inflation to remain moderate for 2026 on the back of continued easing in global cost conditions. Easing trend for global commodity prices will also effectively ensure domestic cost conditions to remain contained. We also expect price pressures to remain under control, although we forecast inflation for 2026 will pick up moderately to +2.0%. BNM mentioned that core inflation for 2026 is expected to remain stable and close to its long-term average, reflecting continued expansion in economic activity without exerting excessive demand pressures. In this current environment, we anticipate that the overall impact of implemented domestic policy reforms on inflation in 2026 will be manageable.

Given the current mild inflation environment, we are maintaining our 2025 inflation forecast at 1.4%, a slight moderation from the 1.8% recorded in 2024. While we continue to monitor potential price pressures from policy shifts; specifically the broader scope of the Sales and Service Tax (SST) and these risks are expected to be significantly mitigated by the reduction of the subsidised RON95 petrol price to RM1.99/L, dampening overall transport-related costs. However, a key upside risk remains from the design of the BUDI95 fuel subsidy programme as the exclusion of Micro and Small and Medium Enterprises (MSMEs) forces this segment to consume higher unsubsidised fuel costs, potentially leading to a passthrough of the increase in business costs to final consumer prices. Simultaneously, we anticipate a build-up of demand-side inflationary pressures stemming from the Jul-25 OPR rate cut, we think that the reduction is likely to stimulate greater consumer spending, further supported by the current strength of the labour market, including healthy employment and solid wage growth. Nevertheless, the final inflation trajectory will also be influenced by several external factors, including global commodity price volatility, shifts in international trade dynamics, and broader changes in global monetary policy settings

Expect ringgit to strengthen

There is no mention of the ringgit performance in the Nov-25 Monetary Policy Statement. We believe this reflects reduced concerns given the recent stability of ringgit exchange rates. We continue to expect Malaysian ringgit to strengthen further against the USD, averaging at RM4.25 this year (previously RM4.30; 2024: RM4.56). The primary catalyst for this sustained appreciation bias is the expected narrowing of the US-Malaysia interest rate differential. Although we foresee a lower probability for another rate for this year by the Fed, market continue to expect another rate in the Jan-26 meeting, therefore, continuing the rate cut cycle throughout next year, and we expect that BNM will continue holding its OPR at 2.75%. This positive expectation is also supported by Malaysia's robust economic fundamentals, though it faces risks from potential delays in US rate cuts due to persistent buildup in inflationary pressures and ongoing global uncertainties. Also, in the short to medium term, we see that the appreciation will be the result of the US dollar performance and a broader easing of global geopolitical tensions. Beyond these factors, the decisions of central banks, especially the US Fed, will continue to be a key driver of exchange rate movements. This policy action is expected to narrow the interest rate differential between Malaysia and the US, a key factor that should provide support for the ringgit and other emerging market currencies. Simultaneously, however, persistently heightened market volatility will likely cap any significant, sustained appreciation of the ringgit.

Expect no further OPR cut needed

In our view, the recent BNM's monetary policy statements in Sep-25 and Nov-25 reflect a greater confidence in Malaysia's economic prospects. This marks a clear and solid turnaround from the notably more cautious position articulated by the central bank at its Jul-25 meeting. We reiterate our view on being cautious on additional tariff adjustments by the US that may have direct impact on the specific sectors and domestic sentiment. We expect the positive impact of previous policy rate adjustments to continue, given the lagged nature of monetary policy changes. This support should carry forward, providing momentum to the economy even into next year; overlayed by the still encouraging spending activities in the domestic economy and healthy labour market situation. Consequently, we view the Jul-25 pre-emptive action as a one-off decision and not the start of a broader rate-cutting cycle in the near term. At the moment, we see limited benefit in making further adjustments to the OPR. Given the nature of the current economic risks, which stem primarily from external uncertainties. We think that a more productive approach would involve adopting targeted support measures. This would allow policymakers to directly address the challenges facing specific, vulnerable industries, thus providing a more focused and efficient form of economic assistance.

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

	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
Malaysia	3.00	3.00	3.00	2.75	2.75	2.75	2.75	2.75
Indonesia	5.75	5.50	5.50	5.25	5.50	5.00	4.75	4.75
Philippines	5.50	5.50	5.25	5.25	5.25	5.00	4.75	4.75
Thailand	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.75	2.50	2.50	2.50	2.50	2.50	2.50	2.50
India	6.00	6.00	5.50	5.50	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	4.25	4.25	4.25	4.25	4.00	4.00	4.00
Euro area	2.40	2.25	2.00	2.00	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	4.00-4.25	4.00-4.25

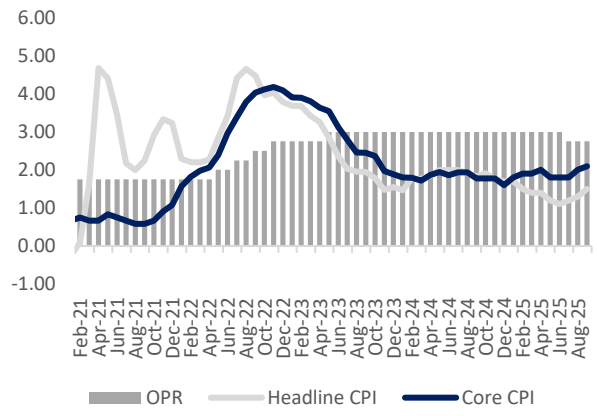
Source: Macrobond, DOSM, MBSBR

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	No change

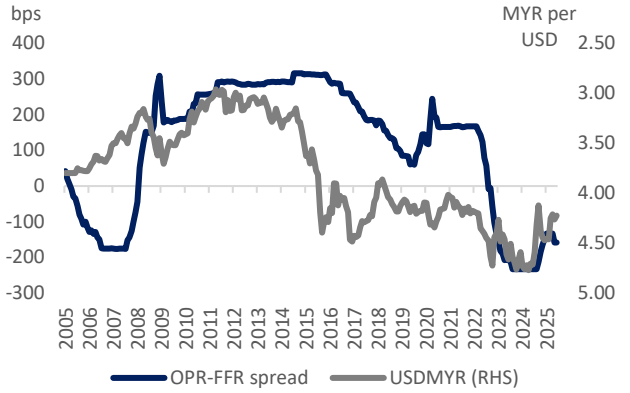
Source: BNM, MBSBR

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



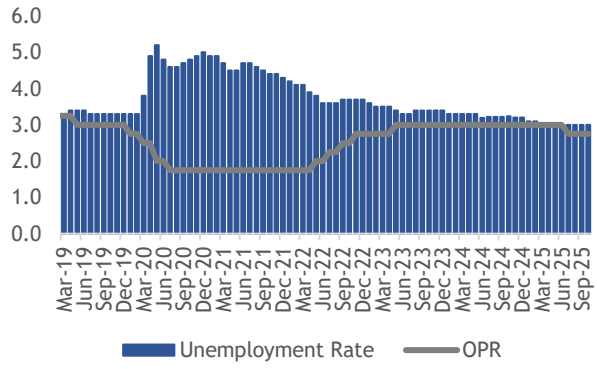
Source: Macrobond, MBSBR

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



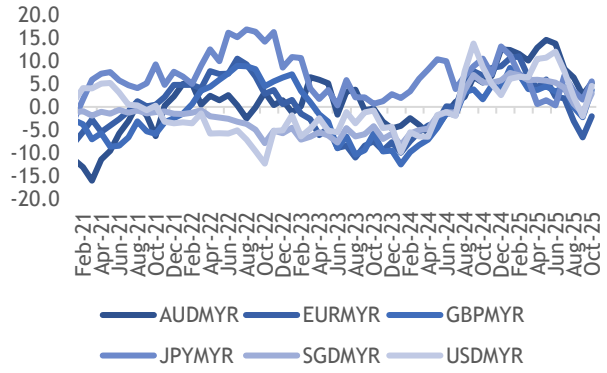
Source: Macrobond, MBSBR

Chart 3: OPR vs Unemployment Rate (%)



Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



Source: Macrobond, MBSBR

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