BNM Holds OPR Steady at 2.75% As Widely Expected

Economic Review
Jan-26 BNM MPC



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Economic Review

- BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Jan-26 Monetary Policy Meeting, in line with our expectations and market consensus. This is in view of the stronger than expected global growth and resilient domestic economy, following a milder tariff impact.
- At the domestic level, BNM highlighted that Malaysia's growth in 2025 is skewed towards the upper end of the forecast range, with the positive economic momentum expected to continue into 2026. This will be supported by resilient domestic demand on the back of healthy labour market conditions, progress of multi-year projects, the rollout of new smaller-scale public projects, high realisation of approved investment as well as ongoing execution of national master plans.
- We maintain our expectation of an extended OPR pause in 2026, in view of steady economic growth and well-contained inflation. We predict Malaysia's economy will grow at +4.3% in 2026, underpinned by robust domestic demand. Recent advance estimates for 4QCY25 showed a strong pickup of +5.7%yoy (3QCY25: +5.2%yoy), signaling that Malaysia's economic momentum is on the rise.

OPR unchanged as anticipated

BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in the Jan-26 Monetary Policy Meeting, in line with our expectations and market consensus. This is in view of the stronger than expected global growth and resilient domestic economy, following a milder tariff impact. The current rate is deemed as "appropriate and supportive" of the economy. Overall, the policy statement was largely unchanged from Nov-25 and maintained a neutral stance, with risks evenly balanced on both the upside and downside. This reinforces our expectation of an extended OPR pause for this year.

Global outlook: easing uncertainties amid persistent risks

On the global front, according to BNM, the global economy in 2025 performed better than expected, supported by a more moderate tariff outcome, AI-led technology expenditure and firmer fiscal backing. Looking ahead into 2026, growth will be underpinned by resilient domestic demand, easing inflation, tech investments and supportive monetary and fiscal policy. However, downside risks persist, arising from the potential imposition of higher tariffs, escalating geopolitical tensions, and concerns over heightened financial market volatility and elevated valuations. This is expected to be supported by upside risks from stronger tech spending, a milder tariff impact, and pro-growth policies in major economies**.** There are two new elements in the statement: the recognition of increased AI-related technology spending as a key growth catalyst, in line with the global technology upcycle, and an emphasis on downside risk stemming from financial market volatility.

Domestic outlook: balanced risks and opportunities

At the domestic level, BNM highlighted that Malaysia's growth in 2025 is skewed towards the upper end of the forecast range, with the positive economic momentum expected to continue into 2026. This will be supported by resilient domestic demand on the back of healthy labour market conditions, progress of multi-year projects, the rollout of new smaller-scale public projects, high realisation of approved investment as well as ongoing execution of national master plans. That said, downside risks remained, stemming from

slower global trade and lower than expected commodity production. On the flip side, there are upside risks from a more positive global outlook, stronger external demand for E&E, and vibrant tourism activity, which provides a boost to tourist spending. In 11MCY25, tourist arrivals rose by +6.8%yoy, totaling at 24.0m (11MCY24: 22.5m).

Inflation outlook: moderate prices supported by stable economic conditions

In view of stable prices, with headline and core inflation averaging at +1.4% and +2.0% in 2025, respectively, BNM expects headline inflation to remain moderate in 2026. This will be attributable to easing global cost pressures amid moderate global commodity prices. This is broadly consistent with our house view. BNM predicts core inflation will be stable this year and stay near its long-term average, with no strong demand pressures on prices despite sustained economic growth.

BNM to hold rate in 2026

We maintain our expectation of an extended OPR pause in 2026, in view of steady economic growth and well-contained inflation. We predict Malaysia's economy will grow at +4.3% in 2026, underpinned by robust domestic demand. Recent advance estimates for 4QCY25 showed a strong pickup of +5.7%yoy (3QCY25: +5.2%yoy), signaling that Malaysia's economic momentum is on the rise. On the price outlook, we anticipate a potential uptick in inflation to +1.8% in 2026 (2025: +1.4%yoy), driven by policy-related pressures and potentially higher non-food inflation. Additionally, higher disposable income from SSPA Phase 2 salary adjustments and government transfers, including the February 2026 SARA Special Transfer, could support demand-pull inflation. On the downside, aside from geopolitical instability, the recently announced 25% tariff on certain semiconductor products poses a risk to Malaysia's technology sector and broader economy. On the currency front, a stable and neutral domestic policy stance is expected to be positive for ringgit, with the US Fed projected to ease further. We therefore maintain our house view for USDMYR, projecting it to reach RM3.95 by end-2026 (end-2025: RM4.06) and average RM4.00 this year (2025 average: RM4.28).

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

	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26
Malaysia	3.00	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	5.50	5.25	5.00	5.00	4.75	4.75	4.75	4.75
Philippines	5.25	5.25	5.00	5.00	4.75	4.75	4.50	4.50
Thailand	1.75	1.75	1.50	1.75	1.50	1.50	1.25	1.25
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
India	5.50	5.50	5.50	5.50	5.50	5.50	5.25	5.25
Japan	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
UK	4.25	4.25	4.00	4.00	4.00	4.00	3.75	3.75
Euro area	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
US	4.25-4.50	4.25-4.50	4.25-4.50	4.00-4.25	3.75-4.00	3.75-4.00	3.50-3.75	3.50-3.75

Source: Macrobond, DOSM, MBSBR

Cut **Hike** **Hold**

Table 2: Monetary Policy Meeting Schedule for 2026

Meeting	Date	Expected Decision* (Pre-MPC)	Decision (Post-MPC)
1st	22 January 2026	Hold	Hold
2nd	5 March 2026	Hold	—
3rd	7 May 2026	Hold	—
4th	9 July 2026	Hold	—
5th	3 September 2026	Hold	—
6th	5 November 20256	Hold	—

*Note: Refers to MBSBR expectations

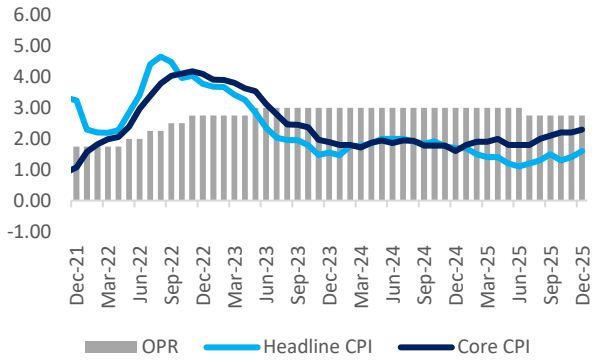
Source: BNM, MBSBR

Table 3: Side-by-side Comparison of BNM Monetary Policy Statement

6 Nov 2025	22 Jan 2026
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.
The latest indicators point towards a continued expansion in global growth. While the impact of higher tariffs would continue to weigh on global growth, the outlook remains supported by resilient labour market conditions, moderating inflation, less restrictive monetary policy and supportive fiscal policy. The conclusion of more trade negotiations has, to some extent, eased global uncertainty. Downside risks remain, arising from potentially higher tariffs, especially product-specific ones, and escalation in geopolitical tensions. Additionally, there are concerns over the elevated valuations in financial markets. Upside potential includes a milder tariff impact on economic activity and pro-growth policies in major economies.	Global growth for 2025 turned out **higher than expected**, mainly reflecting **lower-than-anticipated tariffs**, **higher artificial intelligence (AI)-led tech spending** and stronger fiscal support. For 2026, while the impact of tariffs could weigh on global growth, the outlook remains resilient, supported by sustained domestic demand, moderating inflation, robust tech investments, and supportive fiscal and monetary policies. Downside risks remain, arising from potentially higher tariffs, further escalation in geopolitical tensions **and heightened volatility in global financial markets**. Additionally, there are continued concerns over the elevated valuations in financial markets. Upside potential includes **stronger tech spending**, a milder tariff impact on economic activity and pro-growth policies in major economies.
For the Malaysian economy, latest developments indicate better-than-expected growth in the third quarter, driven by sustained domestic demand, resilient electrical and electronics (E&E) exports, and recovery in commodity production. Looking ahead, resilient domestic demand will continue to support growth going into 2026. Employment, wage growth and income-related policy measures will remain supportive of household spending. The expansion in investment activity will be driven 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 national master plans and the Thirteenth Malaysia Plan (RMK13). Measures under Budget 2026 will also support growth. This growth outlook remains subject to uncertainties, in particular surrounding global developments. Downside risks to the growth outlook remain from slower global trade, weaker sentiment, as well as lower-than-expected commodity production. Meanwhile, upside potential to growth could arise from a better global growth outlook, stronger demand for E&E goods, and robust tourism activity.	For the Malaysian economy, growth for 2025 is expected to be around the **upper end of the forecast range**. This growth momentum is expected to continue in 2026, supported by resilient domestic demand. Employment, wage growth and income-related policy measures will remain supportive of household spending. Investment activity will be driven by the progress of multi-year projects in both the private and public sectors, **implementation of new smaller-scale public projects**, continued high realisation of approved investments, as well as the ongoing implementation of national master plans. External sector will benefit from continued **strength in electrical and electronics (E&E) exports** and **higher tourist spending.** This growth outlook remains subject to uncertainties, in particular surrounding global developments. Downside risks remain from slower global trade and lower-than-expected commodity production. Meanwhile, upside potential to growth could arise from a better global growth outlook, stronger demand for E&E goods, and more robust tourism activity.
Year-to-date, headline and core inflation averaged 1.4% and 1.9%, respectively. Moving forward, headline inflation is expected to remain moderate in 2026 amid the continued easing in global cost conditions. Global commodity prices are expected to remain modest, contributing to contained domestic cost conditions. Meanwhile, core inflation in 2026 is expected to remain stable and close to its long-term average, reflecting continued expansion in economic activity and the absence of excessive demand pressures. In this environment, the overall impact of the implemented domestic policy reforms on inflation in 2026 is expected to be limited.	Headline and core inflation averaged 1.4% and 2.0%, respectively, in 2025. For 2026, headline inflation is expected to remain moderate amid the continued easing in global cost conditions. Global commodity prices are expected to remain modest, contributing to contained domestic cost conditions. Meanwhile, core inflation in 2026 is expected to remain stable and close to its long-term average, reflecting continued expansion in economic activity and the absence of excessive demand pressures.
At the current OPR level, the MPC considers the monetary policy stance to be appropriate and supportive of the economy amid price stability. The MPC will continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.	At the current OPR level, the MPC considers the monetary policy stance to be appropriate and supportive of the economy amid price stability. The MPC will continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.

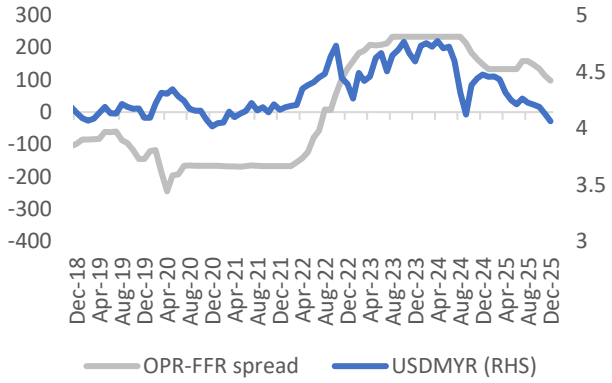
Source: BNM
Note:
Dark blue text indicates newly added content.

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



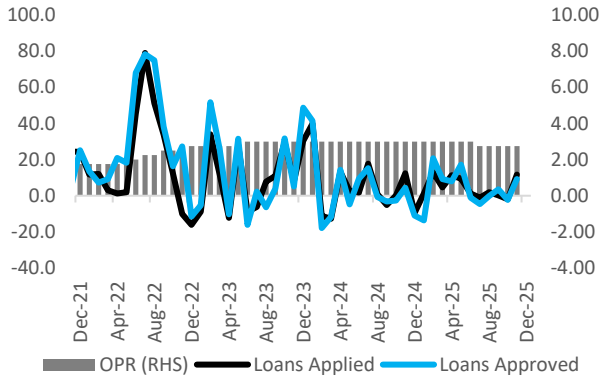
Source: Macrobond, MBSBR

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



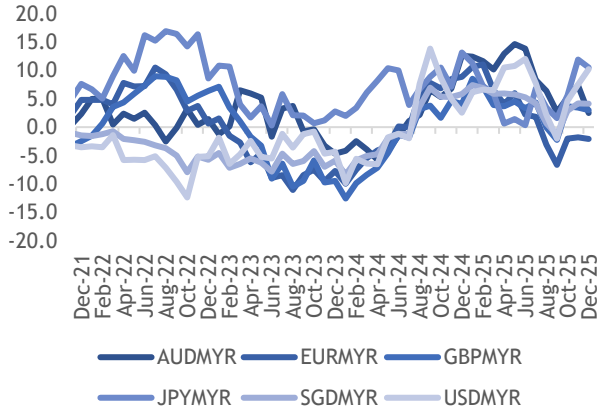
Source: Macrobond, MBSBR

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



Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



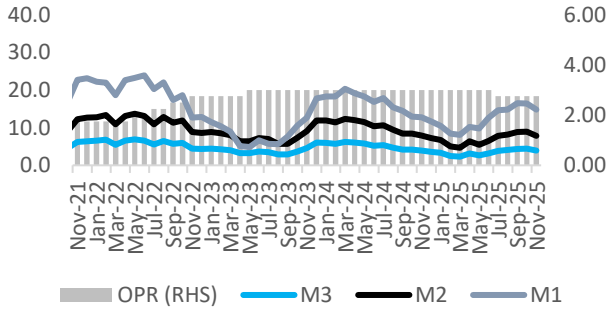
Source: Macrobond, MBSBR

Chart 5: OPR vs Unemployment Rate (%)



Source: DOSM, MBSBR

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



Source: DOSM, MBSBR

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