OPR Unchanged at 2.75% Amid Rising Uncertainty from Middle East Tensions

Economic Review
Mar-26 BNM MPC



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Economic Review

- BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in its Mar-26 Monetary Policy Meeting, in line with our expectations and market consensus. This decision reflects resilient global growth and robust domestic growth. Nonetheless, the policy statement underscored a heightened level of uncertainty stemming from Middle Eastern tensions noting that the extent of the fallout remains contingent on how long these tensions persist.
- At the domestic level, BNM highlighted that Malaysia's growth in 2026 will continue the strong momentum from last year. This will be supported by resilient domestic demand. That said the conflict in the Middle East has heightened uncertainties for the growth outlook.
- We reiterate our expectation of an extended OPR pause in 2026, underpinned by steady economic growth and well-contained inflation. We believe strong domestic fundamentals continue to underpin Malaysia's growth momentum, positioning the economy to withstand external volatility. Nonetheless, the trajectory of domestic growth remains susceptible to the longevity and scale of the conflict in the Middle East.

OPR unchanged as expected

BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in its Mar-26 Monetary Policy Meeting, in line with our expectations and market consensus. This decision reflects resilient global growth and robust domestic growth. Nonetheless, the policy statement was underscored
a heightened level of uncertainty stemming from Middle Eastern tensions noting that the extent of the fallout remains contingent on how long these tensions persist. At present, the current rate is deemed as "appropriate and supportive" of the economy. Overall, the policy statement was largely unchanged from Jan-26 except for added emphasis on risks arising from Middle Eastern developments. Tone-wise, despite the additional downside risks, BNM maintained a neutral stance, indicating that the domestic growth outlook remains sufficiently resilient to weather these challenges. This reinforces our expectation of an extended OPR pause this year.

Global outlook: heightened uncertainties amid Middle East conflict

On the global front, according to BNM, the global economy will maintain the resilient growth momentum observed over the past year, supported by resilient domestic demand, easing inflation, robust tech investments and supportive monetary and fiscal policy. However, beyond risks stemming from escalating geopolitical tensions and heightened financial market volatility, additional downside risks highlighted include greater uncertainty arising from the conflict in the Middle East and the potential for higher global trade tariffs. This is expected to be supported by upside risks from stronger tech spending, a milder tariff impact, and pro-growth policies in major economies.

Domestic outlook: domestic resilience intact

At the domestic level, BNM highlighted that Malaysia's growth in 2026 will continue the strong momentum from last year. 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, in addition to downside risks from slower global trade and weaker-than-expected commodity production, the conflict in the Middle East has heightened uncertainties for the growth outlook. On the flip side, upside risks include a more positive global backdrop, coupled with stronger external demand for E&E, and vibrant tourism activity. In 2025, tourist arrivals rose by +6.4% to 26.6m (2024: +24.0%, 25.0m), surpassing the pre-pandemic level of 26.1m in 2019.

Inflation outlook: moderate inflationary environment

In view of stable prices, with headline and core inflation, which stood at +1.6%yoy and +2.3%yoy in Jan-26, respectively, BNM expects the headline inflation to remain moderate in 2026. While global commodity shifts pose volatility risks, domestic inflationary pressures are expected to be well-contained. 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 reiterate our expectation of an extended OPR pause in 2026, underpinned by steady economic growth and well-contained inflation. We expect Malaysia's economy will grow at +4.6% in 2026, mainly supported by resilient domestic demand. Recent 4QCY25 showed growth accelerated by +6.3%yoy (3QCY25: +5.2%yoy), bringing the full year 2025 reading at +5.2% (2024: +5.1%). We believe strong domestic fundamentals continue to underpin Malaysia's growth momentum, positioning the economy to withstand external volatility. Nonetheless, the trajectory of domestic growth remains susceptible to the longevity and scale of the conflict in the Middle East. On the price outlook, we continue to anticipate a potential uptick in inflation to +1.8% in 2026 (2025: +1.4%yoy), influenced by policy measures, including fiscal consolidation and potential targeted subsidy rationalisation on essential goods. Also, global commodity volatility could further pressure these estimates upward. On the downside, beyond heightened geopolitical tensions, the broad-based tariffs imposed by the US pose downside risks to external trade. In addition, a potential scope expansion of tariffs on the semiconductor industry threatens to disrupt Malaysia's tech sector and the broader economic outlook.

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

	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	5.25	5.00	5.00	4.75	4.75	4.75	4.75	4.75
Philippines	5.25	5.00	5.00	4.75	4.75	4.50	4.50	4.25
Thailand	1.75	1.50	1.75	1.50	1.50	1.25	1.25	1.00
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	5.25	5.25	5.25
Japan	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75
UK	4.25	4.00	4.00	4.00	4.00	3.75	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	4.00-4.25	3.75-4.00	3.75-4.00	3.50-3.75	3.50-3.75	3.50-3.75

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	**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

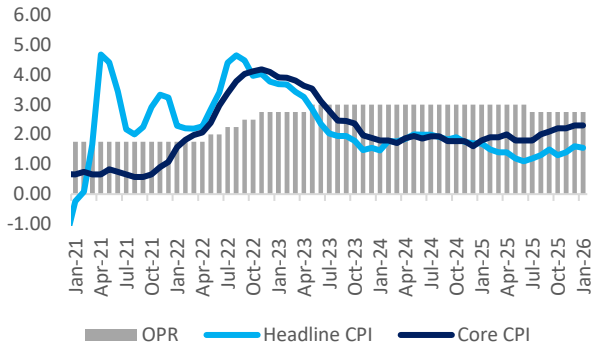
Source: BNM, MBSBR

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

22 Jan 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%.
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.	Building on the strengths of 2025, global growth would continue to be supported by sustained domestic demand, moderating inflation, robust tech investments, and supportive fiscal and monetary policies. **However, the recent conflict in the Middle East has raised uncertainty in the global economy**. **The impact on the global economy will depend on the length and severity of the conflict. In light of recent developments, downside risks have risen**, arising from further escalation in geopolitical tensions and heightened volatility in global financial markets. **Additionally, there are continued concerns over potentially higher tariffs** and elevated valuations in financial markets. Upside potential includes stronger tech spending, a milder tariff impact on economic activity, and pro-growth policy measures in key economies.
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.	**The Malaysian economy grew by 5.2% in 2025, driven by strong domestic demand, higher electrical and electronics (E&E) exports and robust inbound tourism.** This growth momentum is expected to continue in 2026, anchored by resilient domestic demand. Employment, wage growth and 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. The external sector will benefit from continued strength in E&E exports and higher tourist spending. This growth outlook remains subject to uncertainties surrounding global developments, **including the recent conflict in the Middle East.** 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.
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.	Headline and core inflation stood at 1.6% and 2.3%, respectively, in January 2026. Overall, headline inflation in 2026 is expected to remain moderate. **While global commodity prices may be subject to greater volatility given recent developments**, the impact on domestic inflation is expected to be contained. 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. **The MPC acknowledges the uncertainties from the ongoing conflict in the Middle East. The impact to the global and Malaysian economy will depend on how these developments evolve. The Malaysian economy is facing these challenges from a position of strength, with robust domestic growth, moderate inflation, sound financial sector and resilient external position.**
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.

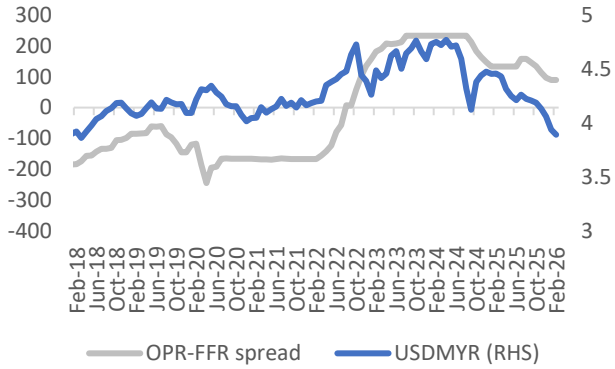
Source: BNM
Note: **Dark blue** text indicates newly added content.

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



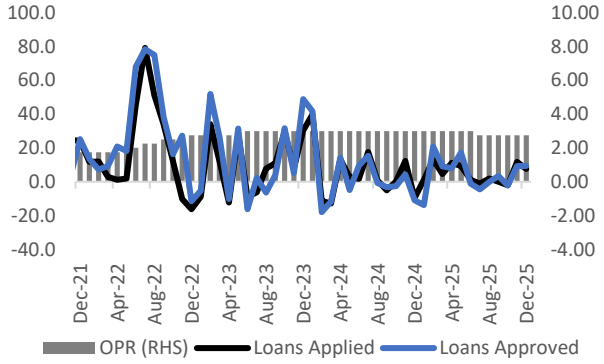
Source: Macrobond, MBSBR

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



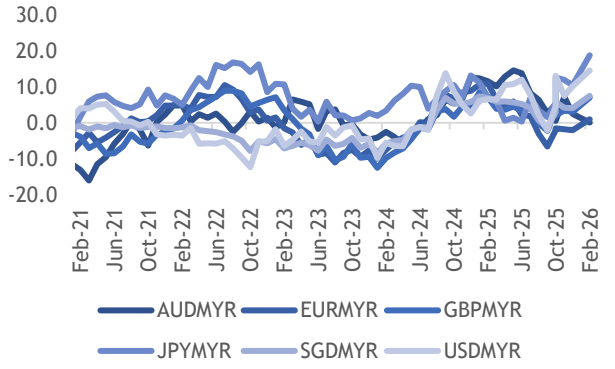
Source: Macrobond, MBSBR

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



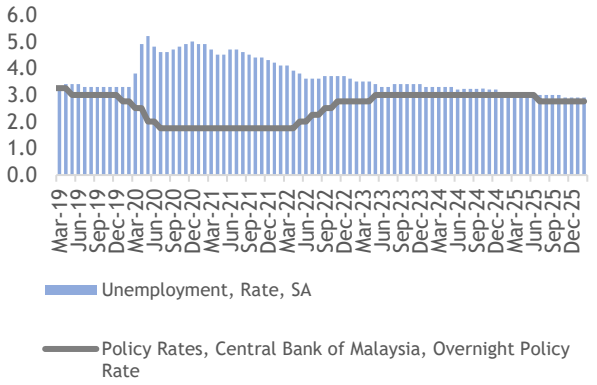
Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



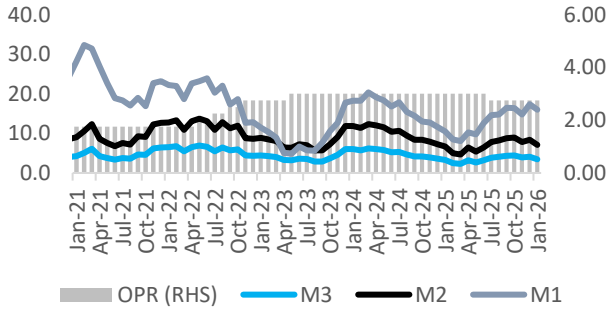
Source: Macrobond, MBSBR

Chart 5: OPR vs Unemployment Rate (%)



Source: DOSM, MBSBR

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



Source: DOSM, MBSBR

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