OPR Held at 2.75% Amid Lingering Inflationary Risks

Economic Review
May-26 BNM MPC



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- As expected, BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% at its May-26 Monetary Policy Meeting. This decision reflects steady global growth and resilient domestic economic conditions, alongside manageable inflationary pressures. At present, the current rate is deemed "appropriate and consistent" with the economic outlook.
- At the domestic level, BNM highlighted that recent data suggest a continued growth trajectory in 1QCY26, supported by steady domestic demand and strong external trade performance. Looking ahead, domestic conditions are expected to remain resilient 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, ongoing execution of national master plans, and stronger external demand for E&E.
- We reiterate our expectation of an extended OPR pause in 2026, underpinned by resilient economic growth. In 2026, we expect Malaysia's economy will grow at +4.2%, underpinned by continued expansion in domestic economic activities alongside still-resilient external demand. Nonetheless, the domestic growth trajectory remains susceptible to the longevity and scale of the Middle East conflict and the subsequent impact of higher energy prices on global inflationary pressures and consumer sentiment.

OPR unchanged as expected

As expected, BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% at its May-26 Monetary Policy Meeting. This decision reflects steady global growth and resilient domestic economic conditions, alongside manageable inflationary pressures. At present, the current rate is deemed "appropriate and consistent" with the economic outlook. Overall, the policy statement was largely unchanged from Mar-26 although it adopted a more cautious tone regarding geopolitical risks and their potential to drive up domestic cost pressures. Nonetheless, the policy statement continues to highlight uncertainties from the Middle Eastern tensions, noting that sharp increases in energy prices and supply chain disruptions are beginning to weigh on global growth momentum and could cause domestic inflation to edge higher. Despite the cautious tone, BNM maintained a neutral stance, signalling confidence that Malaysia's solid economic fundamentals will continue to support growth resilience. This reinforces our expectation that BNM will keep OPR unchanged this year.

Global outlook: uncertainties remain elevated due to higher commodity prices

On the global front, according to BNM, in 1QCY26, the global economy remains resilient supported by steady domestic demand and expansion in tech. However, the growth momentum may be dragged by escalating commodity prices and supply chain disruption stemming from Middle East tensions. Beyond this risk, additional downside risks highlighted include tighter global financial conditions and financial markets valuation concerns. Nonetheless, global growth is expected to be supported by upside risks from conflict de-escalation, higher tech spending and pro-growth policies in major economies.

Domestic outlook: domestic conditions remain resilient

At the domestic level, BNM highlighted that recent data suggest a continued growth trajectory in 1QCY26, supported by steady domestic demand and strong external trade performance. Looking ahead, domestic conditions are expected to remain resilient 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, ongoing execution of national master plans, and stronger external demand for E&E. Nonetheless downside risks persist, as an extended Middle East conflict could drive inflationary pressures, while weaker commodity output further threatens to undermine the growth trajectory. On the tourism front, while BNM highlighted increased activity as a potential growth driver, they anticipate a more moderate pace of tourist spending moving forward. In 1QCY26, inbound tourist arrivals rose softer by +2.5% to 6.5m (1QCY25: +9.4%, 6.4m), aligning with BNM's outlook for a more tempered gains in the tourism sector.

Inflation outlook: well-contained inflation with emerging upside risks

In 1QCY26, with headline and core inflation remained stable, recording +1.6%yoy and +2.1%yoy respectively. Going forward BNM expects both indicators to remain contained in 2026 attributable to domestic policy measures and stable demand conditions. However, BNM flagged a potential uptick in inflation due to rising domestic cost pressures, driven by higher commodity prices stemming from the ongoing conflict in the Middle East.

BNM to hold rate in 2026

We reiterate our expectation of an extended OPR pause in 2026, underpinned by resilient economic growth. In 2026, we expect Malaysia's economy will grow at +4.2%, underpinned by continued expansion in domestic economic activities alongside still-resilient external demand. Advance estimates for 1QCY26 showed GDP growth moderated to +5.3%yoy, down from +6.3%yoy in 4Q25. Despite a slowdown across most sectors, the wholesale and retail trade sub-sectors anchored growth, mainly supported by resilient consumer spending Strong domestic fundamentals will continue to underpin Malaysia's growth momentum, positioning the economy to withstand external volatility. Nonetheless, the domestic growth trajectory remains susceptible to the longevity and scale of the Middle East conflict and the subsequent impact of higher energy prices on global inflationary pressures and consumer sentiment.

Downside risks to growth center on geopolitical volatility and shifting US trade policy. Broad-based tariffs and the potential for more targeted restrictions on semiconductors could disrupt Malaysia's pivotal electronics sector and dampen external demand. Domestically, growth may be dampened by softening sentiment and rising price pressures as firms pass higher input costs on to consumers.

On the price outlook, we anticipate an uptick in inflation to +2.0% in 2026 (2025: +1.4%), with upward price pressure mainly stemming from supply-driven factors. Although inflation reached over a year-high of +1.7%yoy in Mar-26 (Feb-26: +1.4%yoy), it remains well-anchored within BNM's target range of +1.5% to +2.5% for 2026. However, prolonged geopolitical conflicts could keep global energy prices elevated, potentially reinforcing a 'higher-for-longer' inflationary outlook for the remainder of the year. Hence, government policy measures, particularly fuel subsidies and targeted interventions, will be crucial in containing the potential uptick in inflationary pressures.

Table 1: 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	**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 2: Central Bank Policy Rate (%) for Selected Countries

	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Malaysia	2.75	2.75	2.75	2.75	2.75	2.75	2.75	2.75
Indonesia	4.75	4.75	4.75	4.75	4.75	4.75	4.75	—
Philippines	4.75	4.75	4.50	4.50	4.25	4.25	4.50	—
Thailand	1.50	1.50	1.25	1.25	1.00	1.00	1.00	—
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	—
Australia	3.60	3.60	3.60	3.60	3.85	4.10	4.10	4.35
India	5.50	5.50	5.25	5.25	5.25	5.25	5.25	—
Japan	0.50	0.50	0.75	0.75	0.75	0.75	0.75	—
UK	4.00	4.00	3.75	3.75	3.75	3.75	3.75	—
Euro area	2.15	2.15	2.15	2.15	2.15	2.15	2.15	—
US	3.75-4.00	3.75-4.00	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	—

Cut | Hike | Unchanged

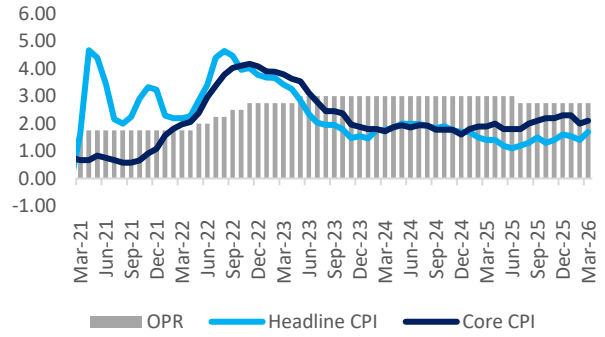
Table 3: Side-by-side Comparison of BNM Monetary Policy Statement

5 Mar 2026	7 May 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%.
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.	Global growth remained resilient in the first quarter of 2026, supported mainly by sustained domestic demand and continued global tech expansion. **However, sharp increases in energy and commodity prices as well as supply chain disruptions from the Middle East conflict are beginning to weigh on the global growth momentum.** Downside risks to global growth remain elevated stemming from the uncertainties surrounding the length and severity of the conflict, **tighter global financial conditions and concerns over valuations in financial markets.** Upside potential includes **de-escalation of the conflict leading to improving supply chain conditions**, stronger tech spending and pro-growth policy measures in key economies.
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.	For Malaysia, latest indicators point towards continued growth momentum in the first quarter, driven by sustained domestic demand and strong export performance. **Moving forward, uncertainties surrounding the duration and severity of the Middle East conflict will affect the outlook of domestic growth and inflation**. **Nevertheless, Malaysia's strong fundamentals will continue to underpin the economy's resilience**. 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.	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 electrical and electronics (E&E) exports, while tourist spending will be sustained **albeit at a more moderate pace**. This growth outlook remains subject to downside risks from a **prolonged conflict in the Middle East** and lower commodity production. Meanwhile, upside potential to growth could arise from the **de-escalation of the conflict**, stronger demand for E&E goods and higher tourism activity.
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.	Headline and core inflation averaged 1.6% and 2.1% in the first quarter of 2026, respectively. **Higher global commodity prices arising from the Middle East conflict are expected to raise domestic cost pressures, causing inflation to edge higher.** Nevertheless, the impact on both headline and core inflation in 2026 is expected to remain contained, **reflecting domestic policy measures and stable demand conditions, which will mitigate the pass-through of external cost pressures to domestic prices.**

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.	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.
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 consistent with the outlook of continued price stability and sustainable economic growth. The MPC will remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic inflation and growth.

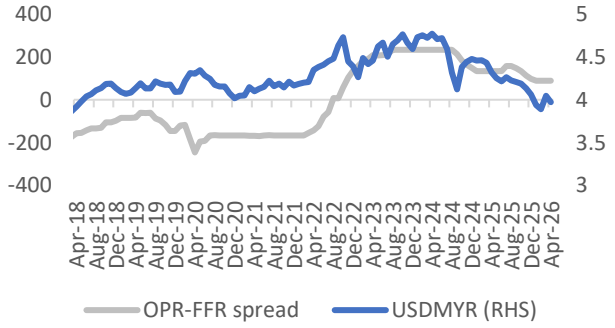
Note: **Dark blue** text indicates newly added content.

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



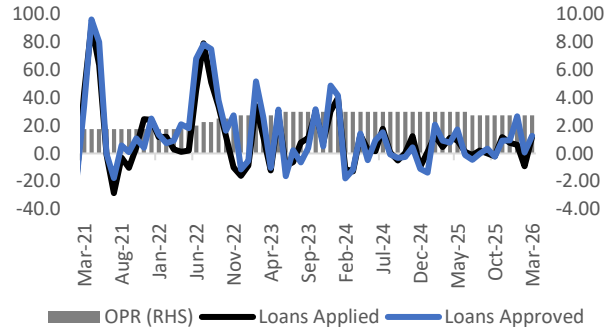
Source: Macrobond, MBSBR

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



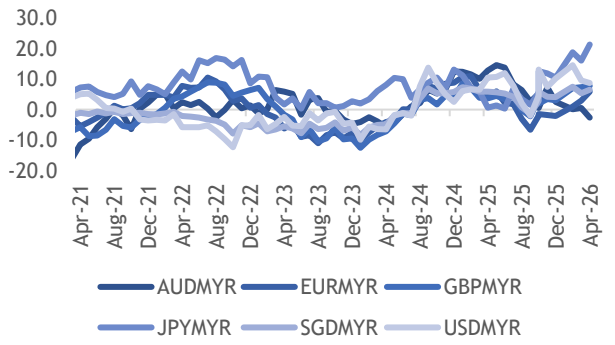
Source: Macrobond, MBSBR

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



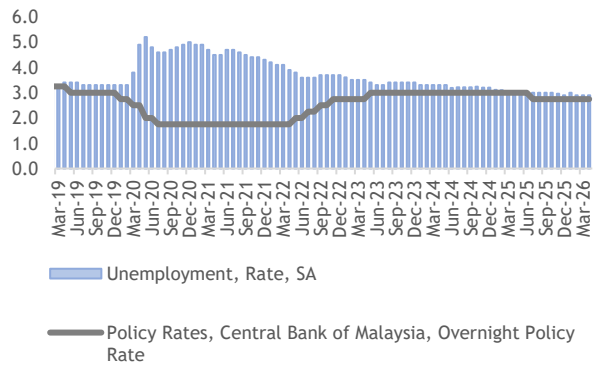
Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



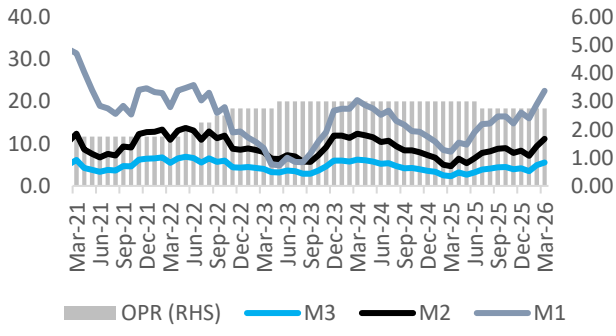
Source: Macrobond, MBSBR

Chart 5: OPR vs Unemployment Rate (%)



Source: DOSM, MBSBR

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



Source: DOSM, MBSBR

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