OPR Maintained at 2.75% as Robust Domestic Growth Offsets Global Risks

Economic Review
Sep-26 BNM MPC



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Economic Review

- BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in its Sep-26 Monetary Policy Meeting, in line with our expectations and market consensus. BNM sees a broadly resilient in global technology growth, improvement in supply conditions and a stable labour market. At present, the MPC sees that the current monetary stance is "consistent with the outlook of continued price stability and sustainable economic growth".
- At the domestic level, BNM highlighted that Malaysia's economy demonstrated strong momentum with a +5.7% expansion in 1H26, navigating global headwinds through robust export performance and solid domestic consumption. Full-year 2026 growth is projected to anchor near +5.0%, with structural resilience carrying this momentum into 2027.
- We reaffirm our expectation that Bank Negara Malaysia will maintain an extended OPR hold through 2026, a stance bolstered by steady economic fundamentals and contained price pressures. On growth, we revise our 2026 GDP forecast upward to +5.1% (previously +4.5%), pointing to sustained economic momentum even as output normalises slightly from the 5.2% pace registered in 2025.

OPR unchanged within out expectation

BNM left the Overnight Policy Rate (OPR) unchanged at 2.75% in its Sep-26 Monetary Policy Meeting, in line with our expectations and market consensus. BNM sees a broadly resilient in global technology growth, improvement in supply conditions and a stable labour market. At present, the MPC sees that the current monetary stance is "consistent with the outlook of continued price stability and sustainable economic growth". Overall, the policy statement was largely unchanged from Jul-26, but moved towards a more confirmed economic strength, while accompanied by a concern on persistent cost-push inflation. This supports our view of a prolonged rate pause, keeping the OPR steady at 2.75% for the foreseeable future.

Global outlook: Technology upcycle remains a key driver

On the global front, BNM sees that global headline inflation has eased in recent months, but price pressures are projected to stay sticky as earlier energy cost increases gradually filter through to consumer prices. Geopolitical uncertainty in the Middle East remains a risk, constraining global GDP growth while sustaining upward cost pressure. However, resilient capital allocation across the global tech sector continues to provide a crucial buffer against broader macroeconomic downside However, we think that the recent elevated borrowing cost globally may temper the strength of the sector growth prospect moving forward. BNM acknowledges that the downside risk stemming from prolonged geopolitical tension, tighter global financial conditions and overvaluations in financial markets.

Domestic outlook: domestic resilience intact while external demand remains supportive

At the domestic level, BNM highlighted that Malaysia's economy demonstrated strong momentum with a +5.7% expansion in 1H26, navigating global headwinds through robust export performance and solid domestic consumption. Full-year 2026 growth is projected to anchor near +5.0%, with structural resilience carrying this momentum into 2027. Key growth catalysts moving forward include strong demand for E&E and tech-related non-E&E exports, ongoing recovery in foreign tourist arrivals, and healthy domestic spending. BNM also added

a statement indicating that stable market conditions and ongoing investment activities will remain supportive of domestic demand. However, the downside risks could come from prolonged conflict in the Middle East and lower commodity production.

Inflation still within BNM expectations, despite some cost price pressure

In view of stable prices, with headline and core inflation at +1.8%yoy and +2.0%yoy, respectively, in the first seven months of the year, BNM highlighted that despite the elevated cost conditions and robust top-line GDP expansion, consumer price inflation remains well-anchored. This limited pass-through to retail prices reflects the combined impact of domestic price controls, stable consumer demand, and constrained wage growth, as strong corporate export earnings have yet to translate into widespread wage-push pressure. BNM mentioned that they will remain vigilant to ongoing developments to remain fluid, and to be vigilant to cost pressures and demand conditions given their impact on the inflation outlook. However, the cost pressures remain concentrated in crude materials, with some limited pass-through to downstream inputs.

BNM to hold rate in 2026

We reaffirm our expectation that Bank Negara Malaysia will maintain an extended OPR hold through 2026, a stance bolstered by steady economic fundamentals and contained price pressures. On growth, we revise our 2026 GDP forecast upward to +5.1% (previously +4.5%), pointing to sustained economic momentum even as output normalises slightly from the 5.2% pace registered in 2025. Crucially, our macro-outlook assumes the worst of the Middle East conflict has transpired, mitigating severe downside risks to the supply chain. The upgrade captures stronger-than-expected 1H26 momentum, driven by a recent surge in export performance and steady domestic demand. Robust domestic fundamentals continue to underpin Malaysia's resilience against external market volatility. However, the growth trajectory remains exposed to geopolitical risks and external uncertainties. On the price outlook, we continue to anticipate a potential uptick in inflation to +2.0% in 2026 (2025: +1.4%yoy), taking into account inflationary pressure, mainly supply-driven but mitigated by ongoing policy measures. On the downside, beyond heightened geopolitical tensions, the higher tariffs imposed by the US pose downside risks to external trade. Meanwhile, prolonged elevated global bond yield performance may add additional pressure to the tight financial conditions that may cause slower economic activities due to the higher borrowing costs, as corporates become more risk averse, and exercise greater prudence. Additionally, 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

	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-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	5.25	5.75	5.75	5.75	5.75
Philippines	4.25	4.25	4.50	4.50	4.75	4.75	5.00	5.00
Thailand	1.00	1.00	1.00	1.00	1.00	1.00	1.00	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	2.75	3.00	3.00
India	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Japan	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00
UK	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Euro area	2.15	2.15	2.15	2.15	2.40	2.40	2.40	2.40
US	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	3.50-3.75	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	Hold
4th	9 July 2026	Hold	Hold
5th	3 September 2026	Hold	**Hold**
6th	5 November 20256	Hold	—

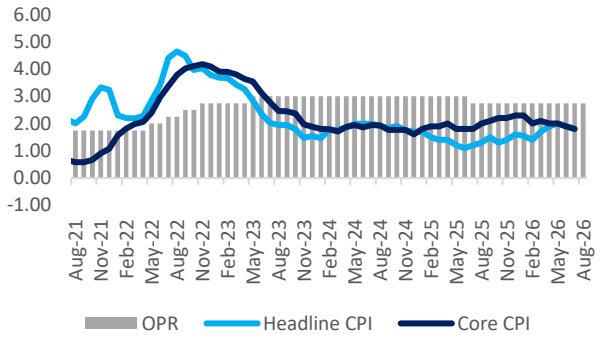
*Note: Refers to MBSBR expectations Source: BNM, MBSBR

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

9 July 2026	3 September 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 to broadly resilient global growth, supported by strong global tech expansion as well as improving supply conditions and **prices of key commodities.** Going forward, a **sustained de-escalation of the Middle East conflict would further improve global supply chain conditions**. Downside risks to global growth remain, stemming from continued uncertainties surrounding the conflict, tighter global financial conditions and concerns over valuations in financial markets. Upside potential includes faster-than-expected recovery in supply chain conditions, stronger tech spending and pro-growth policy measures in key economies.	The latest indicators point to resilient global growth, supported by strong global tech expansion, improving supply conditions and **stable labour markets**. **Inflation has edged lower in recent months but is expected to remain elevated given the lagged pass-through of energy costs to consumer prices**. **Going forward, while uncertainties surrounding the Middle East conflict will continue to weigh on global growth amid continued inflationary pressures, the impact is expected to be cushioned by sustained tech-related spending**. Downside risks to global growth remain, stemming from prolonged geopolitical tensions, tighter global financial conditions and concerns over valuations in financial markets. Upside potential includes stronger tech spending, faster-than-expected recovery in supply chain conditions and pro-growth policy measures in key economies.
For Malaysia, latest developments point towards resilient growth in the second quarter, driven by sustained domestic demand and stronger-than-expected export performance. Ongoing uncertainties surrounding the Middle East conflict could affect the outlook of domestic inflation and growth. Malaysia's strong fundamentals will continue to underpin the economy's resilience against external shocks. 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 be further lifted by improved global prospects and robust demand for electrical and electronics (E&E). Additional support will come from the rebound in non-E&E exports and sustained tourist spending. Therefore, the growth projection for 2026 is expected to be firmly within the forecast range of 4%–5%. This growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Upside potential to growth could arise from a better global growth outlook following de-escalation of the conflict, stronger demand for E&E goods and higher tourism activity.	**The Malaysian economy expanded robustly by 5.7% in the first half of 2026, despite the challenging global environment. Growth was driven by stronger-than-expected export performance amid sustained domestic demand. The solid growth momentum is expected to bring 2026 growth to around 5%, and the economy's sound fundamentals are expected to keep growth resilient in 2027. This will be driven by the external sector, which will be lifted by improved global prospects and robust demand for electrical and electronics (E&E) goods, as well as continued strength in tech-related non-E&E exports and sustained tourist spending. Stable labour market conditions and ongoing investment activity will remain supportive of domestic demand**. This growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Upside potential to growth could arise from better-than-expected global growth, stronger technology-related export demand and higher tourism activity.
Headline and core inflation in the first five months of the year averaged 1.7% and 2.1% respectively, broadly within expectations, amid some initial pass-through of higher global cost pressures. Developments surrounding the Middle East conflict remain **fluid,** with elevated global commodity prices expected to exert upward **pressure on inflation. 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**.	**Headline and core inflation in the first seven months of the year averaged 1.8% and 2% respectively. Despite elevated costs and strong economic growth, the pass-through to consumer prices has been contained by domestic policy measures and stable demand conditions amid limited spillover of external sector strength to wages**. Developments surrounding the Middle East conflict remain **uncertain**, as elevated global commodity prices continue to exert upward pressure **on cost conditions**. **As these developments remain fluid, the MPC will remain vigilant to cost pressures and domestic demand conditions given their impact on the inflation outlook.**
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.	At the current OPR level, the MPC considers the monetary policy stance to be 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.

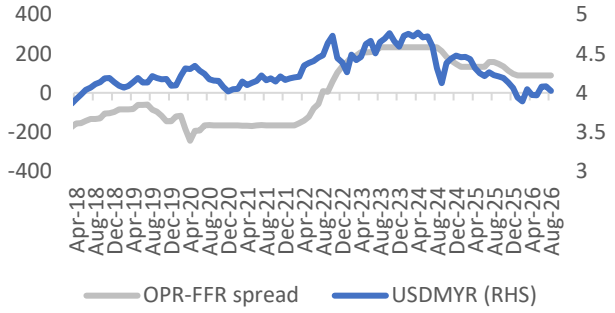
Source: BNM
Note: *Dark blue text indicates newly added content. *Dark red text indicates omitted from previous content.

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



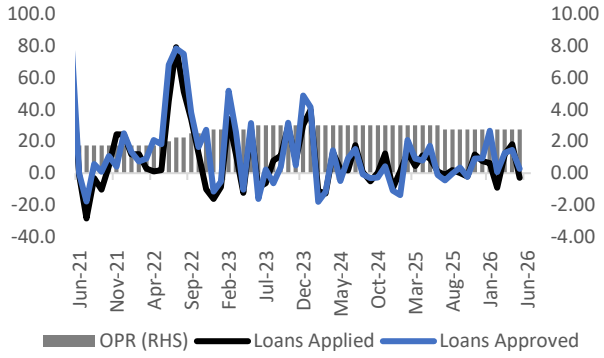
Source: Macrobond, MBSBR

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



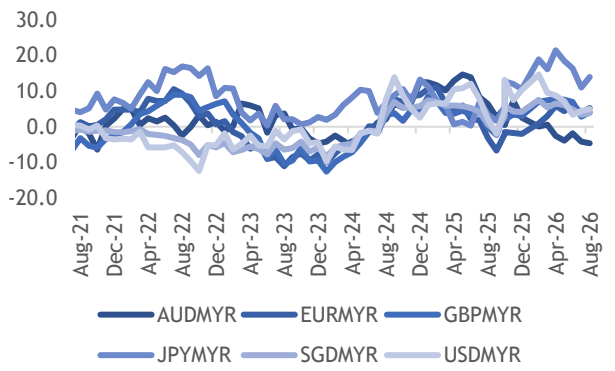
Source: Macrobond, MBSBR

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



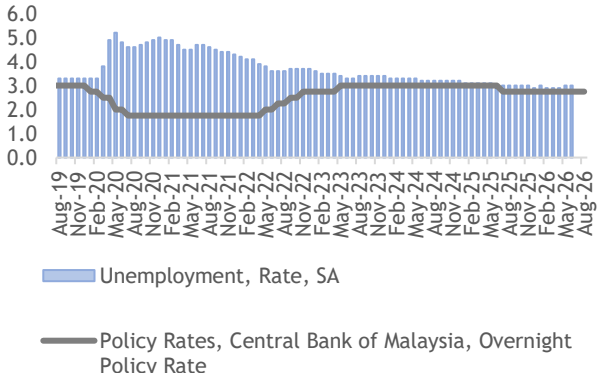
Source: Macrobond, MBSBR

Chart 4: MYR against selected currencies (YoY%)



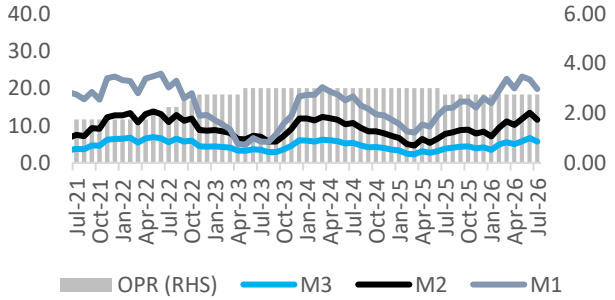
Source: Macrobond, MBSBR

Chart 5: OPR vs Unemployment Rate (%)



Source: DOSM, MBSBR

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



Source: DOSM, MBSBR

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