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Global Markets Research

Malaysia - Economics

No surprises to OPR pause decision and neutral tone

BNM maintained OPR at 2.75% as expected; overall neutral tone in the policy statement
Downside risks from "prolonged" geopolitical uncertainties; upside risks from tech spending
BNM no longer said current policy stance is "appropriate"; paving the way for policy adjustment

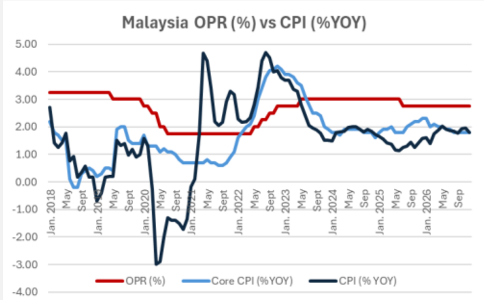
Summary
BNM left the Overnight Policy Rate (OPR) at 2.75% for the 7th straight meeting at its September policy meeting. The decision came very much within expectations, and so was the policy statement, which struck an overall neutral tone even as it reaffirmed its relatively positive growth assessment. However, the key takeaway that struck us was the removal of "appropriate" when referencing to current monetary policy stance, offering hint that the central bank is preparing for an eventual policy adjustment. ***We are maintaining our view of a policy normalization in the first half of 2027,*** but will not discount odds of an earlier move especially if domestic growth continues to surprise on the upside.

Still resilient global growth
BNM assessed that the world economy remained resilient, supported by strong global tech expansion, improving supply conditions and stable labour markets. Going forward, downside risks remain arising from "prolonged" instead of "continued" geopolitical uncertainties, tighter global financial conditions and valuation concerns in the financial markets, while there are also potential upside risks from stronger tech spending, faster than expected recovery in supply chain, and pro-growth policy measures from key economies.

Resilient growth in the Malaysian economy going into 2027
Description on the Malaysian economy has turned a tad more positive in our view, citing robust expansion of 5.7% y/y in the first half of 2026 and that the solid momentum will bring 2026 growth to around 5.0%. BNM also mentioned 2027 growth prospects for the first time and opined that growth will stay resilient, driven by improved global prospects, robust demand for E&E products, continued strength in tech-related non E&E exports, as well as tourist spending. Meanwhile, the statement highlighted broadly unchanged downside and upside risks, when stacked against the previous statement. However, on the inflation front, BNM highlighted still fluid cost conditions stemming from geopolitical uncertainties which warrant close monitor although it also acknowledged that cost pass-through has been contained so far.

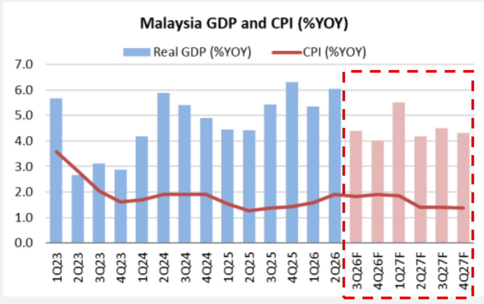
Outlook
We are positive that growth prospects of the Malaysian economy will remain favourable. Taking cue from the 5.7% y/y growth in 1H, we expect full year growth to average 4.9%, at the higher end of the official forecast range of 4.0-5.0%, barring any reescalation in geopolitical risks and its related fallout. We also foresee a possibility that growth may match last year's 5.2% should the AI-driven export expansion maintain its robust momentum. This upside growth surprises could provide a window for BNM to normalize its policy rate in first half of 2027, amid a well-contained inflationary outlook (HLB: 1.8%), and provided that there are no signs of any significant pullback in domestic demand especially consumption.

Figure 1: Expect benign inflation outlook given well-contained impact from recent energy price shocks



Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Robust AI-driven exports growth spell upside risks to full year growth forecast; leaving the door open for policy normalization



Source: DOSM, HLBB Global Markets Research

Figure 3: Schedule of Monetary Policy Decisions and Statements for 2026

MPC Meeting No	Dates
1	22 January 2026 (Thurs)
2	5 March 2026 (Thursday)
3	7 May 2026 (Thursday)
4	9 July 2026 (Thursday)
5	3 September 2026 (Thursday)
6	5 November 2026 (Thursday)

Source: BNM

Side-by-side Comparison of BNM Monetary Policy Statement

9-Jul-26	3-Sep-26
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. 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. 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. 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 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 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. 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 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 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.

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my