9 May 2025

Global Markets Research

Malaysia - Economics

BNM maintained OPR at 3.00%; cut SRR by 100bps

BNM continued to pause; tweak in policy tone not as dovish as expected

Foresee odds of an OPR cut; trade uncertainties are increasing downside growth risks

SRR to be cut from 2% to 1% effective 16-May; releasing ~RM19bn liquidity to the market

Summary

BNM left OPR unchanged at 3.00% for the 12th consecutive meeting today as expected. However, we noticed a few tweaks in the policy statement towards a slightly dovish bias that could potentially pave the way for an easing in the OPR. The statement has dropped the phrase saying monetary policy stance 'remains supportive" of the economy. Instead, it said "the monetary policy stance is consistent with the current assessment of inflation and growth prospects". This opens up the door for future policy adjustment should the assessment on growth and inflation outlook change in the future. We therefore maintain our view for a 25bps cut in the OPR in the second half of the year, and as early as July in our view.

In a separate statement an hour later, BNM decided to cut SRR by 100bps from the current 2% to 1% effective 16 May. This marked its first SRR cut since 2020, and back to the level last seen in 2009-2011. The 100bps cut is estimated to release RM19bn liquidity into the banking system, helping to ensure sufficient liquidity in the market at times of heightened financial market volatility.

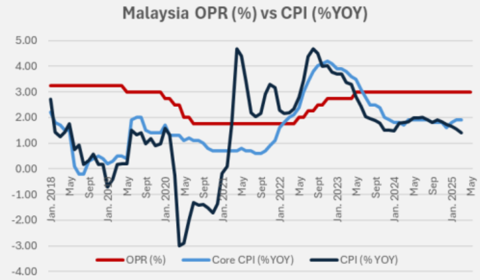
Slightly less upbeat assessment on the global economy

BNM expects continued global growth and trade; but no longer said domestic demand is resilient. Instead, it said global growth is supported by domestic demand and front-loading activities, and that the outlook will be "supported", instead of "sustained", by positive labour market conditions, less restrictive monetary policy and fiscal stimulus. The mention of fiscal stimulus is very much in line with our view that central banks and governments alike will have to pursue a dual-pronged approach (both fiscal and monetary) in tackling the current economic challenges. We also noted that BNM no longer cites moderating inflation as one of the parameters supporting global growth.

Assessment on the Malaysian economy remains rather neutral although overall balance of growth risks is tilted to the downside

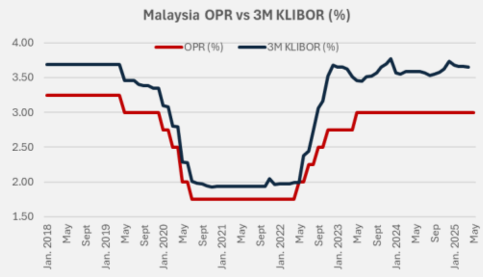
BNM reiterated that overall growth prospects will be anchored by resilient domestic demand, but warned that escalation in trade tensions and heightened global policy uncertainties will weigh on the external sector. On a net basis, the balance of risks to growth outlook is tilted to the downside, stemming mainly from "deeper" economic slowdown in major trading partners, "weaker sentiment" that will affect spending and investments, and lower than expected commodity production. Meanwhile, upside could come from favourable negotiation outcomes, pro-growth policies in major economies, as well as more robust tourism activities. There was also no change to the central bank's assessment on inflation, which is expected to remain manageable in 2025, amidst moderate (instead of easing) global cost conditions and an absence of excessive domestic demand pressures.

Figure 1: Benign inflation will provide greater room for monetary policy flexibility to ensure sustainable growth



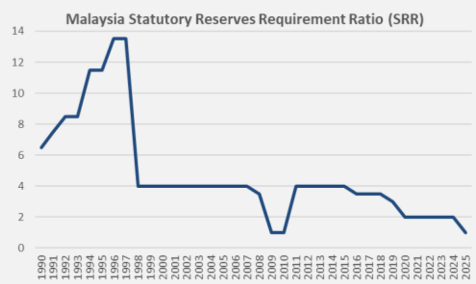
Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: 3-month KLIBOR has held up well despite recent rate cut chatters



Source: BNM, HLBB Global Markets Research

Figure 3: First SRR cut since 2020; lowest since 2009

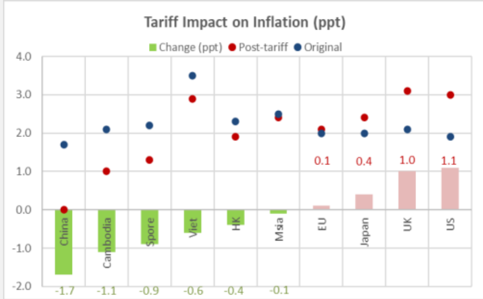


Source: BNM, HLBB Global Markets Research

Outlook

We continue to maintain our view for a differing speed and depth of monetary policy easing globally, especially given our take that the latest tariff/ trade restrictions are inflationary for the major economies but likely less or even disinflationary for the developing economies given the potential influx of goods into these markets and amid softer demand condition. Stagflation risks in the major economies especially the US are expected to complicate decisions by major central banks in their easing path to sustain/ revive growth while relatively well-contained inflation in the developing countries would offer these central banks more policy flexibility in prioritizing growth in their policy decisions. In the case of Malaysia, we opine BNM stands ready to act should downside growth risks materialize, taking cue from the slight dovish shift in policy rhetoric in today's statement. We therefore maintain our view for a 25bps cut in the OPR in the second half of the year, which could happen as early as the next MPC meeting in July.

Figure 4: Estimated inflation for 2025 pre- and post-tariffs



Source: IMF, HLBB Global Markets Research

Side by Side Comparison of BNM Monetary Policy Statement

6-March-2025	8-May-2025
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. Latest indicators point towards continued global growth, supported by resilient domestic demand and global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Disinflation in most advanced economies is expected to continue, facilitated by moderating commodity prices and dissipating effects of past monetary policy tightening. Global trade is expected to remain supported by the continued tech upcycle. However, the outlook for global growth, inflation and trade is subject to considerable uncertainties surrounding tariff and other policies from major economies and geopolitical developments. Such uncertainties could also lead to greater volatility in the global financial markets. The Malaysian economy recorded a higher growth of 5.1% in 2024, driven by stronger domestic demand and a rebound in exports. Moving forward, despite external uncertainties, the strength in economic activity is expected to be sustained in 2025, anchored by domestic demand. Employment and wage growth, as well as policy measures, including the upward revision of the minimum wage and civil servant salaries, will support household spending. The robust expansion in investment activity will be sustained 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 the national master plans. Amid global policy uncertainties, exports are expected to expand at a more moderate pace. Nevertheless, exports will remain supported by the global tech upcycle, continued growth in non-electrical and electronics, as well as higher tourist spending. The growth outlook is subject to downside risks from an economic slowdown in major trading partners following significant uncertainties surrounding trade policies and lower-than-expected commodity production. Meanwhile, growth could be lifted by greater spillovers from the global tech upcycle, more robust tourism activity, and faster implementation of investment projects. Headline and core inflation stood at 1.7% and 1.8% respectively in January 2025. Overall, inflation in 2025 is expected to remain manageable, amid the easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions. The recently introduced wage-related policies would provide additional support to demand, although the impact on inflation is expected to be limited. In this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. Upside risk to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as external developments surrounding global commodity prices, financial markets and trade policies. Ringgit performance continues to be primarily driven by external developments. The narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. Financial markets could experience heightened bouts of volatility due to global policy uncertainties. Nevertheless, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit. At the current OPR level, the monetary policy stance remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. The latest indicators point towards continued global growth and trade, supported by domestic demand and front-loading activities. Global growth outlook would remain supported by positive labour market conditions, less restrictive monetary policy and fiscal stimulus. However, the tariff measures announced by the US and retaliations have weakened the outlook on global growth and trade. This outlook remains subject to considerable uncertainties, which include outcomes of trade negotiations and geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets. For Malaysia, economic activity expanded further in the first quarter, driven by sustained domestic demand and continued export growth. Moving forward, the escalation in trade tensions and heightened global policy uncertainties will weigh on the external sector. The continued demand for electrical and electronic goods and higher tourist spending, however, will provide some cushion to exports. Overall, growth is expected to be anchored by resilient domestic demand. Employment and wage growth, particularly within domestic-oriented sectors, as well as income-related policy measures, will support household spending. The expansion in investment activity will be sustained 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 the national master plans. Overall, the balance of risks to the growth outlook is tilted to the downside, stemming mainly from a deeper economic slowdown in major trading partners, weaker sentiment amid higher uncertainties affecting spending and investments, as well as lower-than-expected commodity production. Meanwhile, favourable trade negotiation outcomes and pro-growth policies in major economies, as well as more robust tourism activity could raise Malaysia's growth prospects. Headline and core inflation averaged 1.5% and 1.9% in the first quarter of 2025 respectively. Overall, inflation in 2025 is expected to remain manageable, amid moderate global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to trend lower, contributing to moderate cost conditions. In this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. Risks to inflation would be dependent on the extent of spillover effects of domestic policy measures, as well as external developments surrounding global commodity prices, financial markets and trade policies. The ringgit performance will continue to be primarily driven by external factors. Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit. At the current OPR level, the monetary policy stance is consistent with the current assessment of inflation and growth prospects. Recognising that there are downside risks in the economic environment, the MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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