

9 July 2025

## Global Markets Research

### Malaysia - Economics

# BNM delivered a pre-emptive quarter point cut

Policy tone not as dovish as expected; Expect no change in OPR for the rest of 2025

Increasing downside risks from trade uncertainties, but global economy still expected to grow  
Steady GDP growth path for Malaysia; Moderate inflation pressure amid policy reforms

#### Summary

As expected, the BNM lowered its Overnight Policy Rate (OPR) by 25bps to 2.75% as a pre-emptive move to ensure the economy remains on steady growth path amid moderate inflation pressure. With the lowered rate, the ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 3.00% and 2.50% respectively as well.

Slightly less upbeat assessment on the global economy as trade activities are expected to slow

There was no change in the central bank's assessment of continued expansion in global growth, but the central bank expects trade growth to slow going forward. Of note, the central bank now expects uncertainties surrounding the tariff development to weigh down on global outlook instead of just flagging uncertainties from the trade negotiations. Growth will also be supported by consumer spending, rather than domestic demand previously, in line with our view that businesses will largely hold back on capex spending given the uncertain trade and economic environment.

Assessment on the Malaysian economy remains rather neutral

Not much tweaks on the domestic front in our opinion. While the central bank expects continued growth in economic activity in 2Q, policy makers expect growth to be "supported" rather than "anchored" by the domestic sector, probably signalling anticipation of softer domestic demand in 2H. Similar to the previous statement, growth will be supported by employment & wage increases, expansion in investment activity and the ongoing implementation of catalytic initiatives under the national master plans. While the central bank flagged upside risks from favourable trade negotiation outcomes, pro-growth policies in major economies, continued demand for electrical and electronic goods and robust tourism activity, balance of risks remains tilted to the downside with the central bank flagging additional risks from slower global trade. BNM also made a tweak to its inflation outlook to "moderate" from "manageable," possibly in reference to the upcoming domestic policy reforms, likely in 2H in our opinion.

#### Outlook

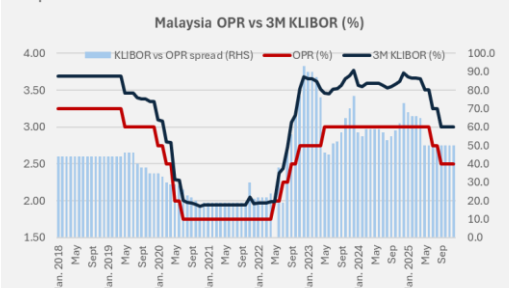
All in all, the statement was less dovish than expected, with the central bank flagging it just as an insurance move to support a still steady economy and resilient domestic demand. With BNM's outlook on the economy largely unchanged since the May's policy meeting save a prolonged environment of uncertainty, and our expectations that GDP will remain steady at 3.8-4.3% and inflation mild at 1.9%, there is thus, no change in our view that the BNM will likely to end 2025 at the current OPR level of 2.75%, on hold for the rest of the year but ready to act should downside growth risks materialise.

Figure 1: Benign inflation will continue to provide room for monetary policy easing to ensure sustainable growth



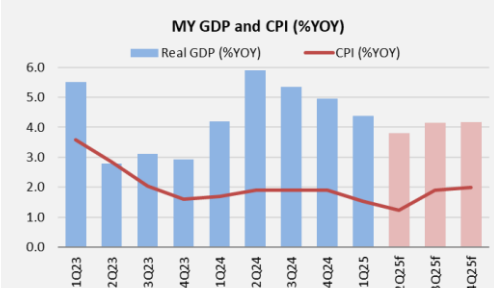
Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: 3-month KLIBOR is expected to taper off in line with OPR reduction



Source: BNM, HLBB Global Markets Research

Figure 3: Downside growth risks from higher tariff threats leave the door open for further OPR cut



Source: BNM, HLBB Global Markets Research

## of BNM Monetary Policy Statement

8-May-2025	9-July-2025
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>maintain the Overnight Policy Rate (OPR) at 3%</b>.</p> <p>The latest indicators point towards <b>continued global growth and trade</b>, supported by domestic demand and front-loading activities. Global growth outlook would remain <b>supported by positive labour market conditions, less restrictive monetary policy and fiscal stimulus</b>. However, the <b>tariff measures</b> announced by the US and retaliations <b>have weakened the outlook on global growth and trade</b>. This outlook remains <b>subject to considerable uncertainties</b>, which include outcomes of trade negotiations and geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets.</p> <p><b>For Malaysia, economic activity expanded further in the first quarter</b>, driven by sustained domestic demand and continued export growth. Moving forward, <b>the escalation in trade tensions and heightened global policy uncertainties will weigh on the external sector</b>. The continued demand for electrical and electronic goods and higher tourist spending, however, will provide some cushion to exports. <b>Overall, growth is expected to be anchored by resilient domestic demand</b>. 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. <b>Overall, the balance of risks to the growth outlook is tilted to the downside</b>, stemming mainly from a <b>deeper economic slowdown in major trading partners, weaker sentiment amid higher uncertainties affecting spending and investments</b>, as well as lower-than-expected commodity production. Meanwhile, <b>favourable trade negotiation outcomes and pro-growth policies in major economies, as well as more robust tourism activity</b> could raise Malaysia's growth prospects.</p> <p>Headline and core inflation averaged 1.5% and 1.9% in the first quarter of 2025 respectively. <b>Overall, inflation in 2025 is expected to remain manageable, amid moderate global cost conditions and the absence of excessive domestic demand pressures</b>. 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.</p> <p>The ringgit performance will continue to be primarily driven by external factors. <b>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</b>.</p> <p>At the current OPR level, <b>the monetary policy stance is consistent with the current assessment of inflation and growth prospects</b>. Recognising that there are downside risks in the economic environment, <b>the MPC remains vigilant</b> 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.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to <b>reduce the Overnight Policy Rate (OPR) by 25 basis points to 2.75%</b>. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 3% and 2.5% respectively.</p> <p>The latest indicators point towards <b>continued expansion in global growth, supported by sustained consumer spending and to some extent, front-loading activities</b>. The global growth outlook would remain supported by positive labour market conditions, less restrictive monetary policy and fiscal stimulus. <b>This outlook is weighed down by uncertainties surrounding tariff developments</b>, as well as geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets and commodity prices.</p> <p>For Malaysia, the <b>latest developments point towards continued growth in economic activity in the second quarter</b>, underpinned by sustained domestic demand and export growth. Moving forward, growth is expected to be <b>supported by resilient domestic demand</b>. 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. Favourable trade negotiation outcomes, pro-growth policies in major economies, continued demand for electrical and electronic goods, and robust tourism activity could raise Malaysia's export prospects. However, the balance of risks to the growth outlook remains tilted to the downside, stemming mainly from a <b>slower global trade</b>, weaker sentiment, as well as lower-than-expected commodity production.</p> <p>Headline and core inflation averaged 1.4% and 1.9% in the first five months of the year respectively. <b>Overall, inflation in 2025 is expected to remain moderate, amid contained global cost conditions and the absence of excessive domestic demand pressures</b>. Inflationary pressure from global commodity prices is expected to remain <b>limited</b>, contributing to moderate domestic cost conditions. In this environment, the overall impact of the announced and <b>upcoming domestic policy reforms</b> on inflation is expected to be contained.</p> <p>The ringgit performance will continue to be primarily driven by external factors. <b>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</b>.</p> <p><b>While the domestic economy is on a strong footing, uncertainties surrounding external developments could affect Malaysia's growth prospects. The reduction in the OPR is, therefore, a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects</b>. The MPC will continue to remain <b>vigilant</b> to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.</p>

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