

Global Markets Research
Malaysia - Economics

BNM maintained OPR and neutral policy tone

BNM maintained OPR at 2.75% as expected; no change to the neutral policy stance
Both upside and downside risks remain highly dependable on development in the Middle-east
Expect extended OPR pause amid resilient growth outlook and well-contained inflation

Summary

As widely expected, the BNM maintained its Overnight Policy Rate (OPR) at 2.75% for the 5th straight meeting at its May policy meeting. Although there are still mounting uncertainties surrounding the Middle-East conflict, and its aftermath on oil prices and global supply chain, growth momentum appears to have held up well so far, both globally and in Malaysia, thanks to continued global tech expansion. As a result, and acknowledging rather balanced upside and downside risks, both of which highly dependable on evolvement of the Middle East tension, BNM maintained its neutral policy tone in the latest statement, which reaffirm our house view that OPR will remain unchanged at the current level of 2.75% for the year.

Global growth remained resilient but the Middle East conflict is beginning to weigh on growth momentum

The world economy remained resilient in 1Q26, underpinned by sustained domestic demand and continued global tech expansion. However, spike in commodity prices and disruption to global supply chain are starting to exert downward pressure on growth momentum. Moving forward, prospects of the world growth outlook will highly hinge on the length and severity of the conflict, as well as the speed of post-war normalization in our view.

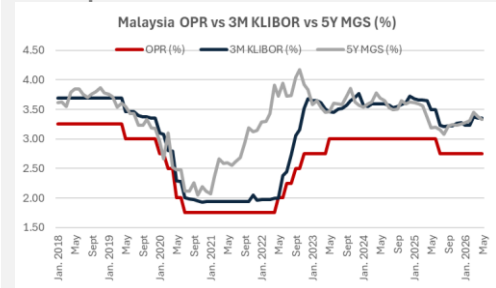
Strong fundamentals to underpin Malaysia’s economic resilience

Latest indicators suggest continued expansion in the Malaysian economy, supported by sustained domestic demand and strong export performance. While Malaysia as a net energy exporter may be better positioned to weather the storm compared to its peers and other oil importing countries, the domestic economy remains susceptible to downside risks from a protracted conflict in the Middle East, higher cost pressures as well as supply chain disruption. That said, a de-escalation in the conflict, stronger demand for E&E products, and higher tourism activity could potentially offer some upside risks to growth. With regards to inflation, we also shared the same view as BNM that overall inflation will remain well-contained. Coupled with domestic policy measures and stable demand conditions, this shall help mitigate cost pass-through in the domestic system.

Outlook

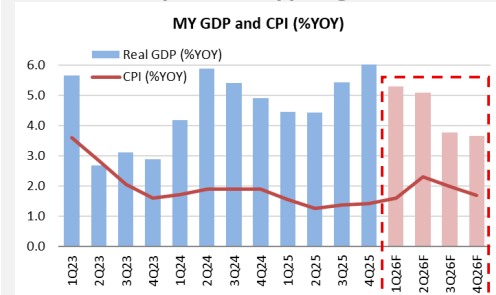
In a nutshell, prospects surrounding both growth and inflation of the Malaysian economy are highly susceptible to geopolitical evolvement in the Middle East, and its implications on the global economy and supply chains. It now appears that the conflict is dragging on for longer than expected despite re-emerging hopes that both parties may be reaching a ceasefire agreement after numerous rounds of “false alarm”. That said, nothing is cast in stone yet and the situation remains very fluid. In addition, the conflict appears to have broaden as strikes among some Gulf nations suggest the tension has created frictions among the Gulf states themselves. That said, Malaysia, as a net energy exporter, is expected to see relatively milder impact compared to other nations, hence our house views for resilient growth of 4.6% and well-contained inflation of 1.9% for 2026. Benign inflation outlook will also provide more room for policy flexibility. On this ground, and barring further escalation in geopolitical tension or renewed threats from trade policies, we maintain our view BNM will keep OPR unchanged at 2.75% for the year.

Figure 1: 3-month KLIBOR and MGS yields have since abated from the knee-jerk increase in early March stemming from the flare-up in Middle East tension



Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Expectation for a brief spike in inflation is expected to support the case for an extended OPR pause to support growth



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

4-Mar-26	7-May-26
<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.</p> <p>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.</p> <p>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. 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.</p> <p>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.</p> <p>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 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

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**DISCLAIMER**

This report is for information purposes only and does not take into account the investment objectives, financial situation or particular needs of any particular recipient. The information contained herein does not constitute the provision of investment advice and is not intended as an offer or solicitation with respect to the purchase or sale of any of the financial instruments mentioned in this report and will not form the basis or a part of any contract or commitment whatsoever.

The information contained in this publication is derived from data obtained from sources believed by Hong Leong Bank Berhad ("HLBB") to be reliable and in good faith, but no warranties or guarantees, representations are made by HLBB with regard to the accuracy, completeness or suitability of the data. Any opinions expressed reflect the current judgment of the authors of the report and do not necessarily represent the opinion of HLBB or any of the companies within the Hong Leong Bank Group ("HLB Group"). The opinions reflected herein may change without notice and the opinions do not necessarily correspond to the opinions of HLBB. HLBB does not have an obligation to amend, modify or update this report or to otherwise notify a reader or recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate.

HLB Group, their directors, employees and representatives do not have any responsibility or liability to any person or recipient (whether by reason of negligence, negligent misstatement or otherwise) arising from any statement, opinion or information, expressed or implied, arising out of, contained in or derived from or omission from the reports or matter.

Potential and actual conflict of interest may arise from the activities of HLB Group. HLB Group constitute a diversified financial services group. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and other activities for their own account or the account of others. In the ordinary course of their business, HLB Group may effect transactions for their own account or for the account of their customers and hold long or short positions in the financial instruments. HLB Group, in connection with its business activities, may possess or acquire material information about the financial instruments. Such activities and information may involve or have an effect on the financial instruments. HLB Group have no obligation to disclose such information about the financial instruments or their activities.

The past performance of financial instruments is not indicative of future results. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Any projections or forecasts mentioned in this report may not be achieved due to multiple risk factors including without limitation market volatility, sector volatility, corporate actions, the unavailability of complete and accurate information. No assurance can be given that any opinion described herein would yield favorable investment results. Recipients who are not market professional or institutional investor customer of HLBB should seek the advice of their independent financial advisor prior to taking any investment decision based on the recommendations in this report.

HLBB may provide hyperlinks to websites of entities mentioned in this report, however the inclusion of a link does not imply that HLBB endorses, recommends or approves any material on the linked page or accessible from it. Such linked websites are accessed entirely at your own risk. HLBB does not accept responsibility whatsoever for any such material, nor for consequences of its use.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This report is for the use of the addressees only and may not be redistributed, reproduced or passed on to any other person or published, in part or in whole, for any purpose, without the prior, written consent of HLBB. The manner of distributing this report may be restricted by law or regulation in certain countries. Persons into whose possession this report may come are required to inform themselves about and to observe such restrictions. By accepting this report, a recipient hereof agrees to be bound by the foregoing limitations.