

Monetary Liquidity Boost: BNM Slashes SRR While Holding OPR

Policy Decision

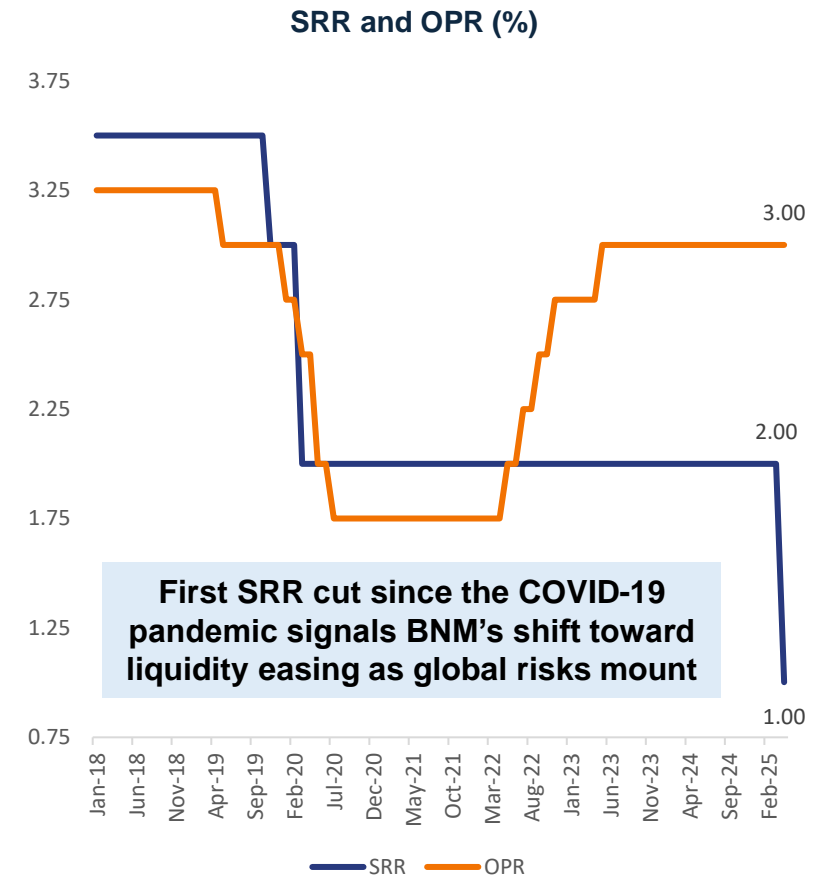
At its May 2025 Monetary Policy Committee (MPC) meeting, Bank Negara Malaysia (BNM) **maintained the Overnight Policy Rate (OPR) at 3.00%**. However, in a notable move, the central bank concurrently announced a **100-basis point reduction in the Statutory Reserve Requirement (SRR)**, lowering it from 2.00% to 1.00%, effective 16 May 2025. This marks a significant step **to inject liquidity into the banking system**, even as BNM refrains from adjusting the policy rate. The SRR cut is expected to release additional funds into the interbank market, easing funding pressures and supporting the flow of credit into the real economy.

Rationale Behind the Decision

BNM's latest statement **reflects a more cautious tone compared to March**, with greater emphasis on rising global uncertainties. The central bank acknowledged that while global growth continues amid frontloading activities, the escalation in US tariff actions and retaliatory measures has dampened the outlook for global growth and trade.

Domestically, the economy remains supported by firm domestic demand and investment activity, although external headwinds are likely to weigh on exports going forward. BNM continues to highlight steady **employment, income support measures, continued demand for tech products, and tourism as buffers for growth**. Inflation remains contained, with headline and core inflation averaging 1.5% and 1.9% respectively in 1Q2025.

In short, while the OPR remains unchanged, the SRR reduction underscores BNM's willingness to **provide targeted support to the financial system - ensuring credit intermediation remains smooth**.



BNM Signals Policy Flexibility: Future Moves Hinged on Growth Risks and Geopolitical Uncertainty

Implications of the SRR Cut

By reducing the reserves banks must hold at BNM, the move **frees up significant funds for lending, investment, and liquidity management**. This move helps pre-empt potential tightening in domestic funding conditions arising from external shocks, especially in light of elevated geopolitical risks and lingering market volatility.

Our Take

BNM's latest move to cut the SRR **reflects a shift toward a more accommodative stance without adjusting the policy rate**. By freeing up liquidity in the banking system, the central bank aims to **support credit intermediation** and investor sentiment amid rising global volatility. We view this as a pre-emptive step to cushion domestic conditions without committing to an OPR cut—preserving policy space should downside risks intensify. Nonetheless, should global conditions deteriorate further, BNM retains flexibility for additional measures, including a **potential OPR cut in 2H2025 if warranted**.

From a macro perspective, risks to growth remain **contingent on the outcome of ongoing tariff negotiations and related geopolitical developments**. Looking ahead, we do not rule out the possibility of a delay in planned subsidy rationalisation measures—such as electricity tariff adjustments, RON95 fuel reforms, and SST expansion—especially if growth falters or inflation risks resurface. On the market front, we expect **continued appreciation of the ringgit as the US dollar weakens, while government bond yields may trend lower** in line with global easing and expectations of a more supportive domestic policy stance.

GDP Growth and Exports of Goods & Services (% YoY)



Sources: CEIC, BMMB Economics

Key Changes in MPC Messaging: March vs May 2025

	March 2025	May 2025	Key analysis
Global Growth	Latest indicators point towards continued global growth, supported by resilient domestic demand and global trade.	The latest indicators point towards continued global growth and trade , supported by domestic demand and front-loading activities .	Highlights front-loading activities and added emphasis on trade resilience.
Global Outlook	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.	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 .	Greater emphasis on trade talks and geopolitical tension as sources of uncertainty.
Malaysia's Growth outlook	<p>Moving forward, despite external uncertainties, the strength in economic activity is expected to be sustained in 2025, anchored by domestic demand.</p> <p>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.</p>	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.	Tone has turned more cautious, with exports now seen under pressure from global tensions. Nonetheless, sustained demand for E&E goods and tourism continues to anchor external resilience.

Key Changes in MPC Messaging: March vs May 2025

	March 2025	May 2025	Key analysis
Malaysia Growth Risks	The growth outlook is subject to downside risks from an economic slowdown in major trading partners, ...	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...	Risk balance now clearly tilted to the downside—tone is more defensive.
Inflation Risks	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.	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.	No meaningful change in message—tone becomes more vigilant.
Ringgit Outlook	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.	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.	External drivers remain dominant; slight messaging shift to structural positives.
Policy Stance	The MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook.	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.	New acknowledgement of downside risks—hints growing openness to policy action.

Appendix: Full May 2025 MPC Statement

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.

Sources: BNM, BMMB Economics