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9 JULY 2025

OPR Cut Signals Pre-emptive Shift in Policy Stance

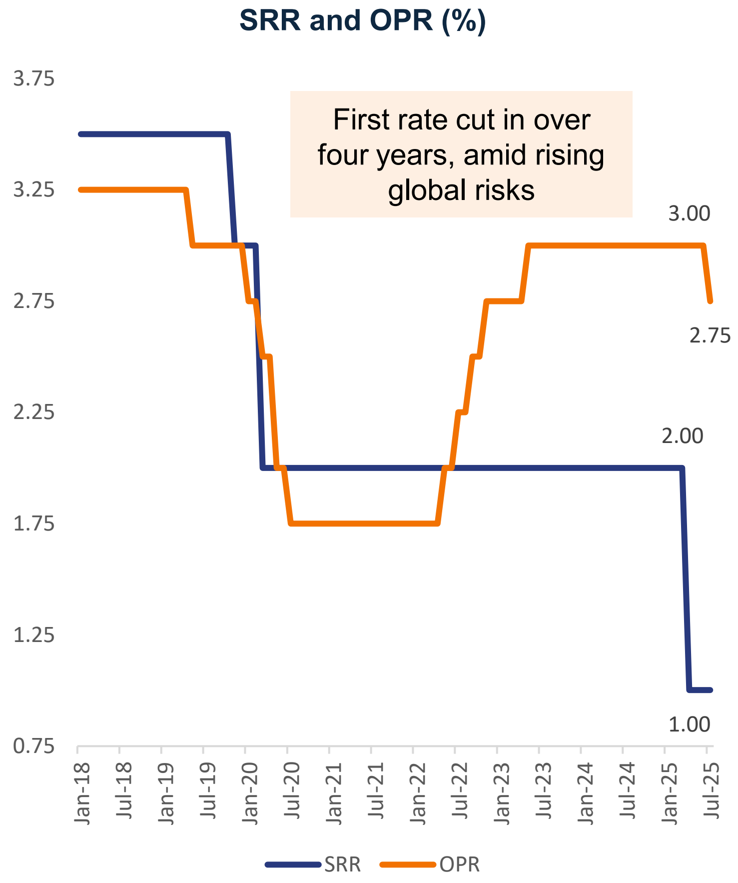
Policy Decision

Bank Negara Malaysia (BNM) **slashed the Overnight Policy Rate (OPR) by 25 basis points to 2.75%**, marking the **first policy easing since 2020**. The ceiling and floor of the OPR corridor were adjusted accordingly to 3.00% and 2.50%, respectively. The Statutory Reserve Requirement (SRR) was left unchanged at 1.00%.

Rationale Behind the Decision

The tone of the July statement **turned more cautious**, reflecting rising external uncertainties, even as BNM reaffirmed its confidence in the **domestic growth engine**. As stated by the MPC, *"while the domestic economy is on a strong footing, uncertainties surrounding external developments could affect Malaysia's growth prospects"*. In this context, the rate cut was described as a **pre-emptive move to preserve growth momentum** amid a moderate inflation environment. Key takeaways from the July statement include:

- **Rising trade tensions,** particularly the newly confirmed 25% US tariff on Malaysian exports effective 1 August, add to the external demand uncertainty.
- **Volatility in global financial markets and commodity prices,** stemming from persistent geopolitical risks and unresolved trade actions.
- **External downside risks to growth**, with BNM highlighting softer global trade, weaker sentiment, and possible shortfalls in commodity production.
- **Subdued inflationary pressures,** as headline and core inflation averaged 1.4% and 1.9% respectively through May. The impact of upcoming policy reforms is expected to remain contained.



Sources: CEIC, BMMB Economics

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Key Changes in MPC Messaging: May vs July 2025

	May 2025	July 2025	Key analysis
Global Growth	The latest indicators point towards continued global growth and trade, supported by domestic demand and front-loading activities.	The latest indicators point towards continued expansion in global growth, supported by **sustained consumer spending and to some extent**, front-loading activities.	Absence of "trade" hints **caution amid tariff risks**. Continued front-loading" underscores persistent policy uncertainty.
Global Outlook	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.	This outlook is weighed down by uncertainties surrounding **tariff developments**, as well as geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets and commodity prices	Shift from trade talks to tariff developments signals rising trade pessimism; mention of commodity prices points to broader volatility concerns.
Malaysia's Growth outlook	Moving forward, growth is expected to be supported by resilient domestic demand. Employment and wage growth… income-related policy measures… multi-year projects… high realisation of approved investments… initiatives under the national master plans.	Somewhat similar wording.	Same growth drivers (domestic demand + exports), but timeframe shifts from 1Q to 2Q, suggesting BNM sees **domestic momentum continuing**, albeit with no added emphasis or upgrade in tone.
Malaysia Growth Risks	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.	However, the balance of risks to the growth outlook remains tilted to the downside, stemming mainly from a slower global trade, weaker sentiment, as well as lower-than-expected commodity production.	**Risk balance remains tilted to the downside**, particularly sentiment and commodity risks—indicating continued watchfulness.

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Key Changes in MPC Messaging: May vs July 2025

	May 2025	July 2025	Key analysis
Inflation	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.	Headline and core inflation averaged 1.4% and 1.9% in the first five months of the year respectively. Overall, inflation in 2025 is expected to remain moderate, amid contained global cost conditions and the a**bsence of excessive domestic demand pressures**.	Narrative remains **broadly consistent**, reaffirming a benign inflation outlook.
Ringgit Outlook	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.	Somewhat similar wording.	Ringgit outlook remains **anchored on external drivers**, with continued emphasis on structural reforms and policy initiatives to support inflows.
Policy Stance	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.	**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.** The MPC will continue to remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.	**Marked shift in tone and stance.** BNM transitioned from a neutral-to-watchful stance to a clear pre-emptive easing bias, highlighting elevated external risks.

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Eyes on BNM's Upcoming Revised Forecasts — We Hold at 4.1%

Implications of the OPR Cut

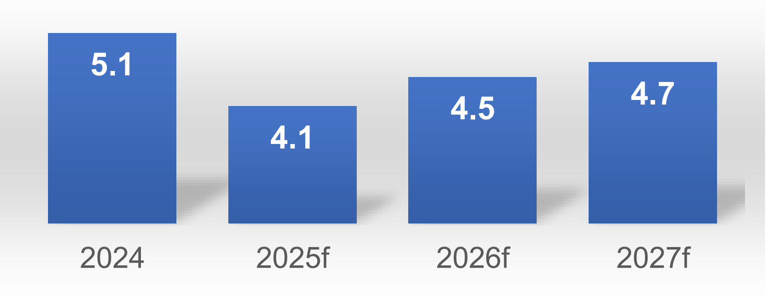
BNM's rate cut reinforces its pre-emptive stance to safeguard growth amid rising external risks, while inflation remains well-behaved. The move lowers borrowing costs, with immediate pass-through to consumers — particularly impactful as over 80% of household loans are on floating rates — supporting credit demand and cushioning consumption and investment. It also strengthens policy coordination with ongoing fiscal reforms, ensuring a more pro-growth macro mix. With clearer policy direction, we may see improved market sentiment, modest ringgit support, and lower bond yields as investors price in a more accommodative monetary backdrop.

Our Take

The 25bps cut aligns with our expectations, given the rising external headwinds and subdued inflation environment. While high frequency indicators still point to underlying momentum, the latest move reflects a prudent recalibration in the face of **escalating global risks — from tariff shocks to slower trade.** Rather than signalling panic, this pre-emptive step helps **preserve growth momentum and complements ongoing fiscal reforms**. We are of the view that the current policy stance strikes the right balance, with room to reassess should downside risks materialise more sharply.

We remain watchful for the **upcoming release of BNM's revised macroeconomic projections**, expected in the final week of July. As it stands, **we retain our 2025 GDP growth forecast at 4.1%**, pending further clarity on the global trade front and domestic policy execution.

GDP Growth (%YoY)



Baseline assumptions summary

- External drag, reform headwinds
- Recovery as reforms settle, trade improves
- Return to medium-term potential

Sources: CEIC, BMMB Economics

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Appendix: July 2025 MPC Statement

At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to reduce the Overnight Policy Rate (OPR) by 25 basis points to 2.75%. The ceiling and floor rates of the corridor of the OPR are correspondingly reduced to 3% and 2.5% respectively.

The latest indicators point towards continued expansion in global growth, supported by sustained consumer spending and to some extent, front-loading activities. The global growth outlook would remain supported by positive labour market conditions, less restrictive monetary policy and fiscal stimulus. This outlook is weighed down by uncertainties surrounding tariff developments, as well as geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets and commodity prices.

For Malaysia, the latest developments point towards continued growth in economic activity in the second quarter, underpinned by sustained domestic demand and export growth. Moving forward, growth is expected to be supported 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. 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 slower global trade, weaker sentiment, as well as lower-than-expected commodity production.

Headline and core inflation averaged 1.4% and 1.9% in the first five months of the year respectively. Overall, inflation in 2025 is expected to remain moderate, amid contained global cost conditions and the absence of excessive domestic demand pressures. Inflationary pressure from global commodity prices is expected to remain limited, contributing to moderate domestic cost conditions. In this environment, the overall impact of the announced and upcoming domestic policy reforms on inflation is expected to be contained.

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.

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. The MPC will continue to remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.

Sources: BNM, BMMB Economics