

Malaysia

4 September 2025

Bank Negara Malaysia on hold

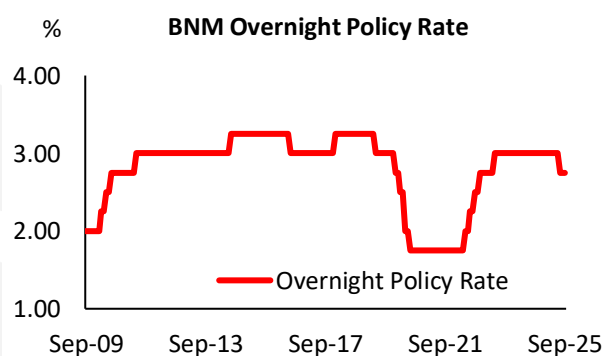
- BNM kept its policy rate unchanged at 2.75%, in line with expectations. The statement was less dovish at the margin compared to the 9 July meeting.
- BNM's assessment of growth risks are more balanced than in July, when it was assessed to be to the downside, while it views inflation risks as contained.
- Our baseline is for another 25bps rate cut from BNM. The timing of the cut, however, is less certain and will depend on the incoming data.

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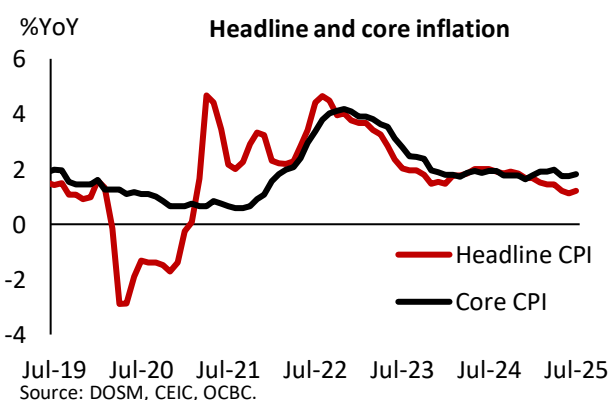
BNM kept its policy rate unchanged at 2.75%, in line with consensus and our expectations. The tone of the statement was less dovish than the previous one on 9 July, with the assessment to global and domestic growth becoming more positive at the margin.

On global growth, BNM noted that “the conclusion of many trade negotiations has to some extent eased global uncertainty.” It also highlighted that “downside risks remain, albeit to a lesser degree arising from potentially higher tariffs, especially product-specific ones, and escalations in geopolitical tensions.”

Specifically for Malaysia's growth, BNM no longer assessed that “the balance of risks to the growth outlook remains tilted to the downside” for this year and stated that 2025 GDP is “is on track to grow between 4% and 4.8%”. BNM's growth forecast was revealed after the 9 July meeting. BNM introduced its 2026 outlook citing growth remaining “supported by resilient domestic demand” through supportive household spending and “the progress of multi-year projects in both the private and public sectors...”. BNM noted these similar drivers underpinning 2025 GDP growth at its July meeting.



Source: Bank Negara Malaysia, CEIC, OCBC



Source: DOSM, CEIC, OCBC.

The balance of risks, however, were reassessed. “Downside risks to the growth outlook remain from slower global trade, weaker sentiment, as well as lower-than-expected commodity production. Meanwhile, favourable outcomes from remaining US trade negotiations, pro-growth policies in major economies, continued demand for electrical and electronic goods, and robust tourism activity could raise Malaysia’s export and growth prospects.”

On inflation, BNM added that “core inflation is expected to remain stable and close to the long-term average, reflecting continued expansion in economic activity and the absence of excessive demand pressures.” It added that, “this trend is expected to continue going into 2026” and that “the overall impact of the announced and upcoming domestic policy reforms on inflation is expected to be contained.”

In its concluding paragraph, BNM noted that “at the current OPR level, the MPC considers the monetary policy stance to be appropriate and supportive of the economy amid price stability.” At its July meeting, BNM characterised the 25bps rate cut as “a pre-emptive measure”.

The September statement suggests that it would take significant downside surprises to growth for BNM to move the needle on the policy rate. However, we are expecting a slower growth path of 3.5% in 2H25 from 4.4% in 1H25 as the impact of frontloading of exports to the US fades and domestic demand slows modestly. This will bring 2025 GDP growth to 3.9%, below BNM’s 4.0-4.8% forecast range. For 2026, we expect GDP growth of 3.8% as the base effects related to export frontloading activities dampen growth in 1H26, also impacting associated wholesale and retail sectors, even as growth picks up more convincingly in 2H26.

As such, we continue to see room for BNM to lower its policy rate by an additional 25bps. The timing of this rate cut, however, is less certain considering BNM will likely need to see consistently disappointing data to consider further easing. We expect the data for August onwards to show some weakness and will monitor the incoming data prints including August and September trade (19 September and 17 October), August industrial production and whole & retail trade (10 October), the advance 3Q25 GDP print (17 October) to assess BNM’s next move at its 6 November meeting. In addition, the budget announcement on 10 October will also be important.

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