GLOBAL MARKETS RESEARCH

Malaysia

9 July 2025

BNM cuts by 25bps, leaves the door open for more

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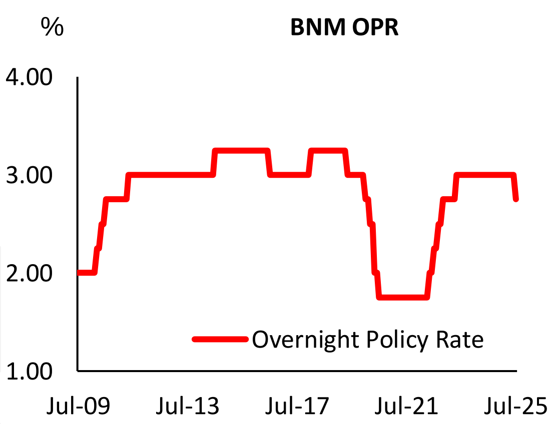
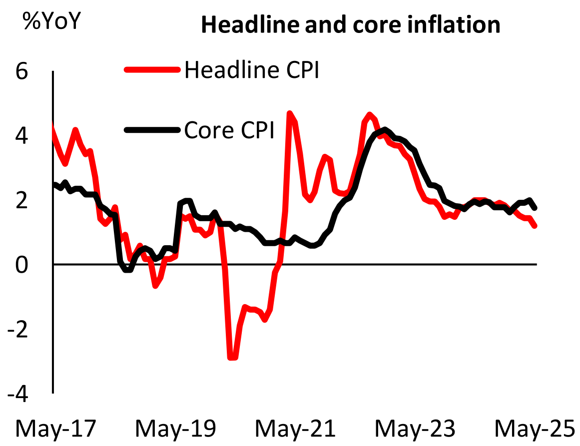
- Bank Negara Malaysia (BNM) cut its policy rate by 25bps, in line with consensus and our expectations. BNM characterised the cut as "a pre-emptive measure".
- The accompanying policy statement was dovish with BNM citing downside risks to growth and "contained" inflation.
- We do not believe this 'one and done' and expect another 25bp cut either at the 4 September or 6 November meeting.

BNM cut its policy rate by 25bps, in line with consensus and our expectations. BNM characterised the cut as "a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects." The accompanying statement was dovish, with some changes from the 8 May.

On growth, the global outlook remained broadly unchanged as characterised as supported "by sustained consumer spending and to some extent, front-loading activities" with it being "weighed down by uncertainties surrounding tariff developments, as well as geopolitical tensions." On the domestic growth outlook, BNM expected that it would remain supported by domestic demand and that "favourable trade negotiations outcomes…could raise Malaysia's export prospects." However, BNM was clear that "the balance of risks to the growth outlook remains tilted to the downside" despite the latest activity data pointing towards "continued growth in economic activity in the second quarter."



Source: Bank Negara Malaysia, CEIC, OCBC



Source: DOSM, CEIC, OCBC.

The other defining dovish tilt, in our view, was on the characterisation of inflation. The risks to the inflation profile stated at the 8 May meeting was removed from the statement on 9 July. In fact, BNM reiterated "that the overall impact of the announced and upcoming domestic policy reforms on inflation is expected to be contained." This is consistent with our assessment which suggests that even if RON95 rationalisation were to materialize in October 2025, with higher prices of 20-25%, it would add 0.5pp to headline inflation, which is currently tracking 1.5% for 2025. The price adjustment would lift headline inflation to 2.0% for 2025 and as such, remain benign enough for BNM's stance to be growth supportive.

The forward-looking portion of the statement stated that the 25bp at the 9 July meeting was "pre-emptive", but we do not think this is a 'one and done' move. Our 2025 GDP forecast of 3.9% YoY suggests that growth momentum will slow sharply to 3.6% YoY in 1H25 from 4.3% in 1H25 if tariffs are implemented on 1 August at a rate of 25% with no exemptions. Moreover, we expect this will be a drag on domestic demand, which has held up in 1H25. With inflation likely to remain contained despite subsidy rationalisation and slower growth, we forecast that BNM will lower its policy rate by another 25bps either at its 4 September or 6 November meeting. This will take the policy rate to 2.50% by end-2025.

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