

10 July 2025

BNM MPC Meeting (9 July)

Delivers a pre-emptive 25 bps cut, a tactical cut to guard against global shocks

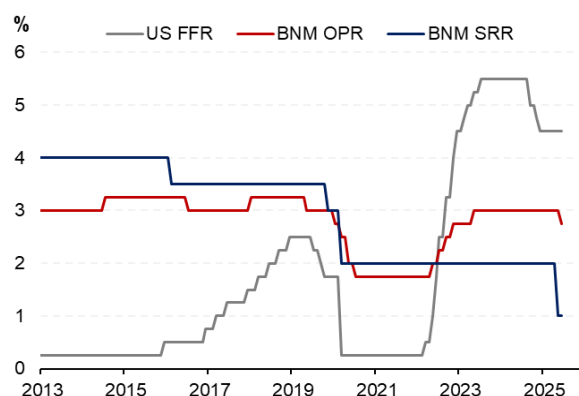
- Bank Negara Malaysia's (BNM) Monetary Policy Committee (MPC) lowered the Overnight Policy Rate (OPR) by 25 basis points to 2.75%** at its fourth meeting of the year. While the decision matched consensus expectations, it came earlier than we had projected, underscoring BNM's growing concern over intensifying external risks. Importantly, the cut should not be read as a shift in the domestic macro narrative, which remains fundamentally resilient.
- Policy statement:** The MPC described the move as "a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects." The language is telling—BNM is not reacting to current weakness, but instead positioning policy to stay ahead of potential disruptions stemming from global headwinds.
- A pre-emptive move:** The rate cut reflects heightened caution over external challenges, especially tariff risks and geopolitical tensions, which threaten to dent Malaysia's trade performance and sentiment. From our perspective, BNM took advantage of a rare policy window, benign inflation, a strong ringgit, and manageable fiscal dynamics, to inject additional support. With headline inflation steady at 1.2% in May (Apr: 1.4%) and only modest pass-through expected from policy reforms like the upcoming RON95 subsidy rationalisation, the policy space to ease was clearly available. This classic risk management: BNM is leaning against uncertainty, not signalling economic deterioration.
- Domestic landscape remains resilient:** Despite the policy easing, the MPC continues to express confidence in Malaysia's growth outlook.: **1) Growth:** Domestic demand remains core engine, underpinned by solid employment and wage growth, and healthy pipeline of investment realisation of approved investments. This suggests the economy can withstand temporary external drag while maintaining medium term trajectory; **2) Inflation:** The MPC reiterated that inflation is expected to stay moderate, supported by "contained global cost conditions and the absence of excessive domestic demand pressures." Our own forecast has been revised down to 2.0% from 2.7% (2024: 1.8%), reinforcing the view that inflation is no longer constraint on easing; **3) Ringgit:** While FX dynamics remains externally driven, the MPC cited "Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows" as buffers, with ringgit's firmer uptick gave BNM additional comfort to proceed with policy easing without risking capital outflows.
- Policy outlook: We expect BNM to maintain the OPR at 2.75% for the rest of 2025, barring unexpected external shock**
 - OPR outlook:** With this pre-emptive cut, the OPR is now better aligned with the external risk backdrop. BNM will likely assess the lagged effect of this move while remaining highly sensitive to tariff developments and global financial volatility.
 - GDP forecast:** We maintain our 2025 GDP growth forecast at 4.3% (2024: 5.1%), supported by resilient domestic drivers, especially rising household incomes and targeted policy support. Supply-side momentum remains anchored in services, though softness in mining and trade-linked manufacturing may trim headline growth at the margin.
 - Risk:** The outlook remains vulnerable to rising trade tensions. Malaysia is exposed to spillovers from escalating tariffs, especially those impacting BRICS-linked economies. While the recently announced 25.0% tariff on Malaysian exports poses a downside risk for 2H25, we see the impact as manageable, given Malaysia's lower exposure relative to peers. Should GDP drop below 3.5%, or if external conditions worsen, BNM may have room to ease further.

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.25% (-0.25%)	New Zealand	Official Cash Rate	May-25
5.50% (-0.25%)	Indonesia	BI Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25
3.85% (-0.25%)	Australia	Cash Rate	May-25
4.25% (-0.25%)	UK	Base Rate	May-25
1.75% (-0.25%)	Thailand	Repo Rate	Apr-25
5.50% (-0.25%)	Philippines	Target Reverse Repurchase	Apr-25
2.75% (-0.25%)	Canada	Overnight Rate	Mar-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25
4.25% - 4.50% (-0.25%)	USA	Funds Rate Target	Dec-24

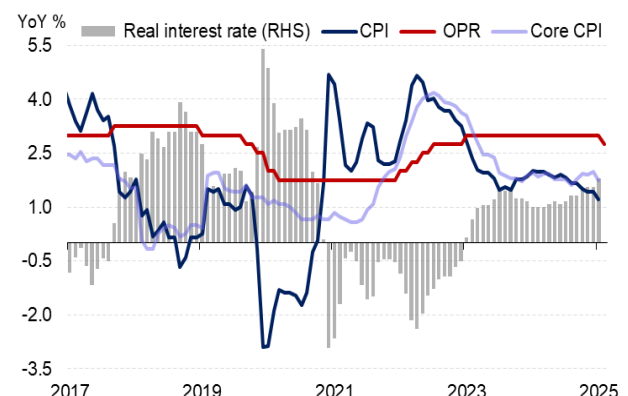
Source: Bloomberg, Kenanga Research

Graph 1: US Fed Funds Rate, BNM OPR and SRR



Source: Bloomberg, Kenanga Research

Graph 2: Malaysia Real Interest Rate and BNM OPR



Source: Bloomberg, Kenanga Research

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Table 2: MPC Meeting Schedule for 2025 / KIBB Outlook

No.	Date		KIBB Research Outlook	BNM Decision
1st	22 January (Wed)	<input checked="" type="checkbox"/>	No change	No change
2nd	6 March (Thu)	<input checked="" type="checkbox"/>	No change	No change
3rd	8 May (Thu)	<input checked="" type="checkbox"/>	No change	No change to OPR but cuts SRR by 100bps
4th	9 July (Wed)	<input checked="" type="checkbox"/>	No change	25bps rate cut
5th	4 September (Thu)	<input type="checkbox"/>	No change	
6th	6 November (Thu)	<input type="checkbox"/>	No change	

Source: Bank Negara Malaysia, Kenanga Research

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