AmBank Group | AmBank Economics

#WhatWeThink

# BNM keeps OPR unchanged as expected, while cuts SRR to a historical low of 1.00%

8 May 2025

## Executive Summary

As expected, BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% for the 12th consecutive meeting today since its last hike in May 2023. To our surprise, BNM reduced the Statutory Reserve Requirement (SRR) ratio by 100 bps to the historical low of 1.00% to ensure sufficient liquidity in the domestic financial system. The SRR ratio was last lowered to 1.00% in March 2009, during the Global Financial Crisis (GFC). Overall, we read the MPC statement as implying a slightly dovish tone.

BNM has acknowledged for the first time that *"the tariff measures announced by the US and retaliations have weakened the outlook on global growth and trade".* The central bank recognises the downside risks to the economic environment, before reaffirming that *"the MPC remains vigilant to ongoing developments to inform the assessment on the domestic inflation and growth outlook".*

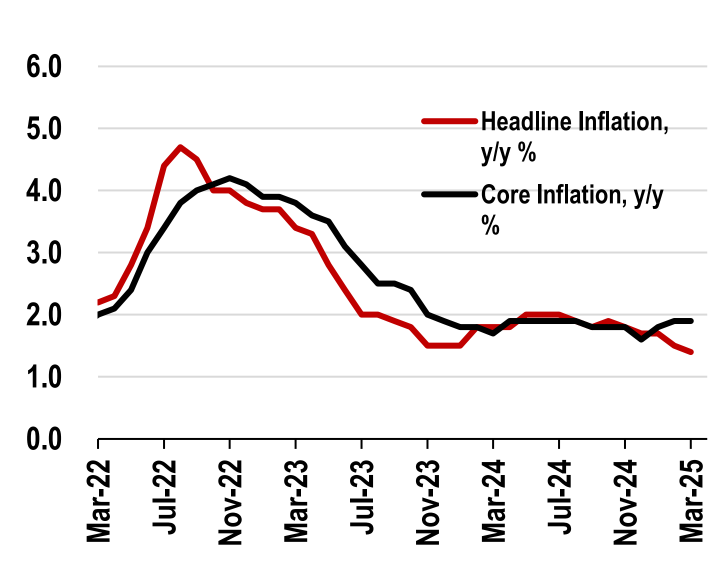
As highlighted in our 2025 Macroeconomic Outlook report published in January, we lean towards a rate cut in 2H2025, potentially as early as the next MPC meeting, which concluded on July 9. This coincides with the end of the 90-day pause of the US "reciprocal tariff". Nevertheless, if it materialises, the rate cut should not be interpreted as the start of an aggressive easing cycle. We opine that the BNM will retain its measured approach to monetary policy easing to preserve currency and financial market stability.

**BNM Interest Rate Decisions 2023-2025**

| | Date | OPR level & Change |
|---|---|---|
| **2023** | | |
| 1 | 18-19 January | 2.75% (unchanged) |
| 2 | 8-9 March | 2.75% (unchanged) |
| 3 | 2-3 May | 3.00% (+25 bps) |
| 4 | 5-6 July | 3.00% (unchanged) |
| 5 | 6-7 September | 3.00% (unchanged) |
| 6 | 1-2 November | 3.00% (unchanged) |
| **2024** | **Date** | **OPR level & Change** |
| 1 | 23-24 January | 3.00% (unchanged) |
| 2 | 6-7 March | 3.00% (unchanged) |
| 3 | 8-9 May | 3.00% (unchanged) |
| 4 | 10-11 July | 3.00% (unchanged) |
| 5 | 4-5 September | 3.00% (unchanged) |
| 6 | 5-6 November | 3.00% (unchanged) |
| **2025** | **Date** | **OPR level & Change** |
| 1 | 22 January | 3.00% (unchanged) |
| 2 | 6 March | 3.00% (unchanged) |
| 3 | 8 May | 3.00% (unchanged) |
| 4 | 9 July | |
| 5 | 4 September | |
| 6 | 6 November | |

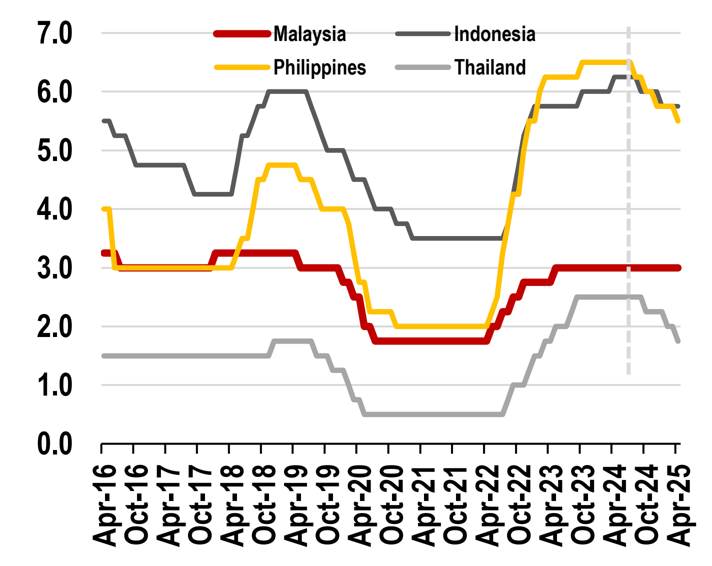
*Sources: BNM, AmBank Economics*

**Exhibit 1: Malaysia's Inflation Rate, y/y%**




*Sources: DOSM, AmBank Economics*

**Exhibit 2: Policy Rates in selected ASEAN economies, %**




*Sources: Respective central banks, AmBank Economics*

## BNM keeps OPR at 3.00%, while cutting SRR by 100 bps to 1.00%

*Unprecedented shifts in US trade policy complicate the monetary policy decisions*

Unprecedented shifts in US trade policy have complicated the outlook for global growth, adding uncertainty to the path of monetary policy across the countries. Bank Negara Malaysia (BNM) remains one of the few central banks that has not initiated a rate-cutting cycle in the post-COVID pandemic period. The Governor recently indicated there is no urgency to cut interest rates at the current stage, noting that the situation remains fluid given ongoing trade negotiations between the US and Malaysia.

*BNM kept OPR unchanged but reduced SRR*

As expected, BNM kept the Overnight Policy Rate (OPR) unchanged at 3.00% for the 12th consecutive meeting today, since its last hike in May 2023. However, to our surprise, the BNM reduced the Statutory Reserve Requirement (SRR) ratio by 100 bps to the historical low of 1.00% to ensure sufficient liquidity in the domestic financial system. SRR ratio was last lowered to 1.00% in March 2009, which is during the Global Financial Crisis (GFC).

*The accompanying monetary policy statement struck a slightly more dovish tone than the previous one*

The accompanying monetary policy statement struck a slightly dovish tone on the global economic assessment compared to the previous one. BNM acknowledged for the first time that *"the tariff measures announced by the US and retaliations have weakened the outlook on global growth and trade".* On the domestic front, BNM reaffirmed that *"the balance of risks to the growth outlook is tilted to the downside"*, citing 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.

*BNM added that it recognises the economic environment's downside risks in the policy guidance*

On the policy guidance, BNM continues to emphasise that the Monetary Policy Committee (MPC) will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability. Notably, it added that it recognises the economic environment's downside risks, before reaffirming that the MPC remains vigilant to ongoing developments to inform the assessment on domestic inflation and growth outlook.

## An OPR cut in 2H2025 is likely

*A rate cut is potentially as early as the next MPC meeting on July 9*

As highlighted in our 2025 Macroeconomic Outlook report, we stand firm in leaning toward a rate cut in 2H2025, potentially as early as the next MPC meeting, which concluded on July 9. Growth momentum is expected to soften amid an increasingly challenging external environment as US President Donald Trump appears unwavering in pursuing a reciprocal tariff plan. The impact has already been felt in the manufacturing sector, with the latest S&P Global manufacturing Purchasing Managers' Index (PMI) report showing that the factories cut production at the sharpest pace in three months, while business confidence dropped to the lowest since July 2023.

*A weakening consumer sentiment, threatening to slow private consumption, would compel the BNM to act*

BNM may take some comfort from the continued strength of the labour market, with the unemployment rate currently at a pre-pandemic low of 3.1%. However, if upcoming data confirm a weakening in consumer sentiment, posing a risk to private consumption, the main growth driver of the economy, we believe the BNM would be compelled to act.

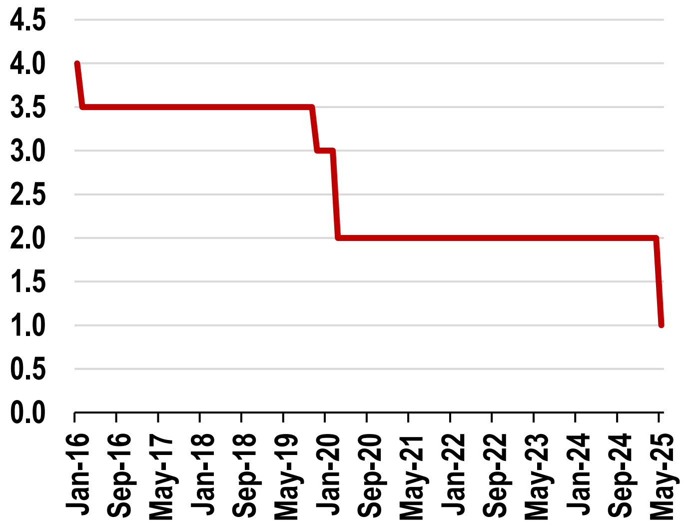
*The relatively stable inflation outlook allows BNM to ease rates if growth risks intensify*

Inflation, meanwhile, remains subdued. Core inflation, which excludes administered prices such as fresh foods and fuel, held steady at near its long-term average of 1.9% for the second straight month in March. Our view aligns with the BNM's: price pressures will remain contained without demand-pull factors. Any inflationary risk is expected to be supply side-induced, such as the planned Sales & Services Tax (SST) expansion, RON95 subsidy rationalisation and electricity tariff hike. However, we believe they are unlikely to too inflationary but may affect consumer confidence. In our view, the relatively stable inflation outlook provides BNM with the space to ease rates if growth risks intensify.

*BNM will not act aggressively*

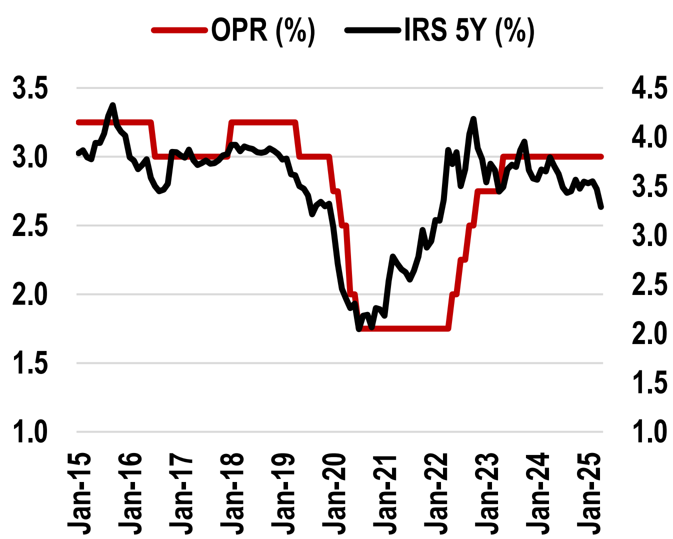
Nevertheless, if it materialises, the rate cut should not be interpreted as the start of an aggressive easing cycle. We opine that the BNM will retain its measured approach to monetary policy easing to preserve currency and financial market stability.

**Exhibit 3: SRR, %**




*Sources: BNM, AmBank Economics*

**Exhibit 4: OPR vs. 5Y Interest Rate Swap**




*Sources: Federal Reserve Bank of New York, DOSM, AmBank Economics*

## Appendix 1: BNM Monetary Policy Statement Comparison Side by Side (March 2025 vs. May 2025)

| March 2025 MPC Statement | 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%. | At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 3%. |
| Latest indicators point towards continued global growth, supported by resilient domestic demand and global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Disinflation in most advanced economies is expected to continue, facilitated by moderating commodity prices and dissipating effects of past monetary policy tightening. Global trade is expected to remain supported by the continued tech upcycle. However, the outlook for global growth, inflation and trade is subject to ***considerable uncertainties*** surrounding **tariff** and other policies from major economies and **geopolitica**l developments. Such uncertainties could also lead to greater volatility in the global financial markets. | 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. |
| The Malaysian economy recorded a higher growth of 5.1% in 2024, driven by stronger domestic demand and a rebound in exports. Moving forward, despite external uncertainties, the strength in economic activity is expected to be sustained in 2025, anchored by domestic demand. Employment and wage growth, as well as policy measures, including the upward revision of the minimum wage and civil servant salaries, will support household spending. The robust 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. | 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. |
| 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. The growth outlook is subject to downside risks from an economic slowdown in major trading partners following significant uncertainties surrounding trade policies and lower-than-expected commodity production. Meanwhile, growth could be lifted by greater spillovers from the global tech upcycle, more robust tourism activity, and faster implementation of investment projects. | |
| Headline and core inflation stood at 1.7% and 1.8% respectively in January 2025. Overall, inflation in 2025 is expected to remain manageable, amid the easing 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. The recently introduced wage-related policies would provide additional support to demand, although the impact on inflation is expected to be limited. In this environment, the overall impact of the announced domestic policy reforms on inflation is expected to be contained. 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. | 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. |
| 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. Financial markets could experience heightened bouts of volatility due to global policy uncertainties. Nevertheless, 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. | 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 remains supportive of the economy and is consistent with the current assessment of inflation and growth prospects. 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. | 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. |

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