AmBank Group

AmBank Economics

#WhatWeThink

BNM delivered its first rate cut since the pandemic, in pre-emptive move as headwinds mount

9 July 2025

In a nutshell

As expected, the Monetary Policy Committee (MPC) of Bank Negara Malaysia (BNM) opted to cut the Overnight Policy Rate (OPR) by 25 bps to 2.75%. This marks the bank's first rate reduction since July 2020, during the pandemic, and ends its 26-month rate pause.

BNM has indicated in the accompanying Monetary Policy Statement that the July cut is a pre-emptive move to preserve Malaysia's steady growth amid moderate inflation prospects. This aligns with our view in our report titled ***BNM's July MPC meeting: A rate cut in sight*** published on July 4, where we believe that the July cut is a spot-on timing to shield the national economy from any external impact in the near-term.

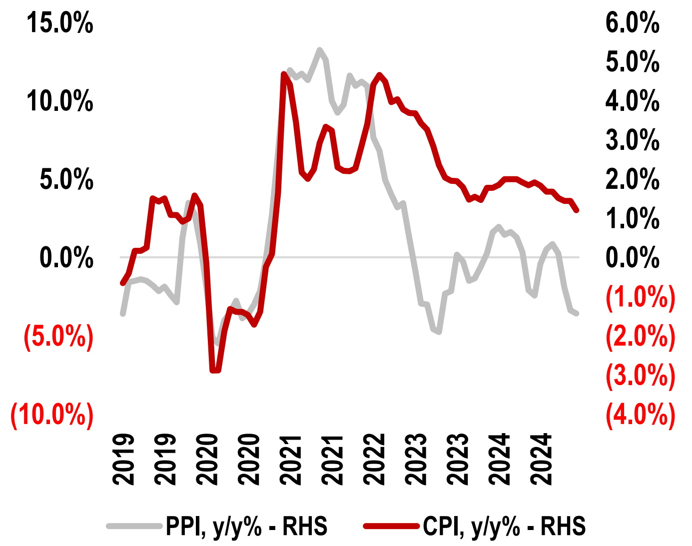
However, the July cut should not be misconstrued as the start of an aggressive easing cycle. Any further cuts will be data-dependent, particularly considering heightened uncertainties stemming from global developments. Given our view that the risk of an imminent recession is limited, we do not see another cut over the remainder of 2025 – specifically in September and November meetings.

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	2.75% (-25 bps)
5	4 September	
6	6 November	

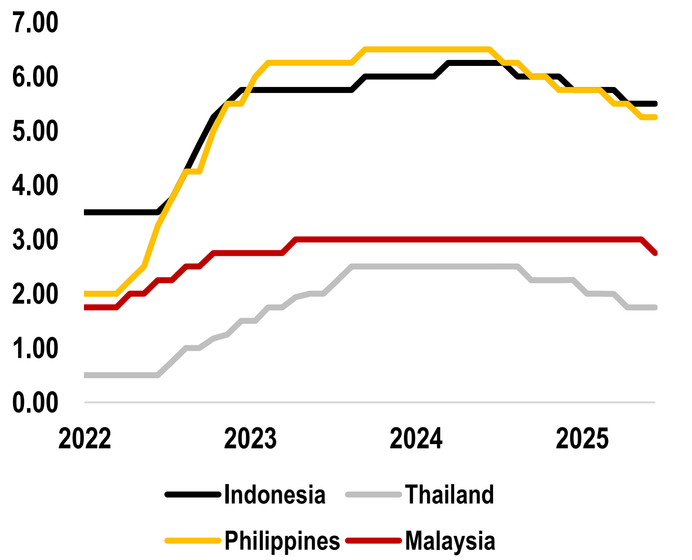
Sources: BNM, AmBank Economics

Exhibit 1: Malaysia's CPI vs PPI, y/y%



Sources: DOSM, AmBank Economics

Exhibit 2: Policy Rates in selected ASEAN economies, %



Sources: Respective central banks, AmBank Economics

BNM cuts OPR by 25 bps to 2.75%

BNM delivered its first rate cut since July 2020.

As we expected, the BNM MPC opted to cut OPR by 25 bps to 2.75%. This marks its first rate reduction since July 2020, during the pandemic, and ends its 26-month rate pause.

The timing for the cut is appropriate.

BNM has indicated in the accompanying Monetary Policy Statement that the July cut is a pre-emptive move aimed at a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects. This aligns with our view in our report titled ***BNM's July MPC meeting meet: A rate cut in sight*** published on July 4, where we believe that the July cut is a spot-on timing to shield the national economy from any external impact in the near-term. This is especially true when the inflation remains subdued, with the latest data standing at 1.5% on average for the first five months, suggesting softness in the consumer spending, hence the supportive environment for the policy rate adjustment.

Economic assessment in the accompanying monetary policy statement is largely unchanged from the previous one.

Economic assessment in the accompanying monetary policy statement is largely unchanged from the previous one. While reiterating its view that the domestic economy remains well-supported by resilient household spending and continued expansion in investment activity, BNM also reaffirmed that "the balance of risks to the growth outlook is tilted to the downside", citing a slower global trade, weaker sentiment, as well as lower-than-expected commodity production.

Another cut in the remainder of 2025 is unlikely

Any further cuts will be data-dependent.

While the July cut is a pre-emptive move, it should not be misconstrued as the start of an aggressive easing cycle. Any further cuts will be data-dependent, particularly in light of heightened uncertainties stemming from global developments. Given our view that the risk of an imminent recession is limited, we do not see another cut over the remainder of 2025 – specifically in September and November meetings. Historically, BNM has only delivered back-to-back rate cuts during periods of recession. We retain our view that BNM will maintain a measured approach to monetary policy easing.

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

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%.

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.

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.

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.

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 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.

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.

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