

ECONOMIC REVIEW | January 2025 BNM MPC

BNM Maintained OPR at 3.00% as Inflation Remained Under Control

- *OPR remains unchanged, maintaining supportive growth. As broadly expected, BNM maintained the Overnight Policy Rate (OPR) at 3.00% during the Jan-25 Monetary Policy Meeting, emphasizing that the current policy stance remains conducive of sustained economic growth*
- *Domestic strength drives economic momentum. BNM mentioned the strength in economic activity is expected to be sustained in 2025, driven by resilient domestic expenditure. Significant policy measures (e.g. minimum wage adjustments and civil servant compensation packages) are poised to stimulate household expenditure.*
- *OPR to remain at 3.00% in 2025. We maintain our forecast that BNM will keep OPR at 3.00% this year as the current setting remains accommodative to sustainable economic growth. While we forecast inflation will accelerate this year due to changes on the supply side, we do not expect any change to OPR because underlying price pressures will likely remain under control.*

OPR remains unchanged, maintaining supportive growth. As broadly expected, BNM maintained the Overnight Policy Rate (OPR) at 3.00% during the Jan-25 Monetary Policy Meeting, emphasizing that the current policy stance remains conducive of sustained economic growth. In its Monetary Policy Statement (MPS), BNM pointed out that global growth for 2024 surpassed expectations, driven by stronger performance in major economies and a boost in global trade. In 2025, the world economy is expected to remain supported by improved labour market conditions, ease in inflationary pressure and a more accommodative monetary policy. BNM remains optimistic on the global trade resilience, bolstered by the ongoing upcycle in the technology sector. Nonetheless, tighter trade and investment restrictions could cloud the outlook and heightened policy uncertainties may also contribute to increased volatility in the global financial markets. This signals that the unfavourable policies surrounding trade and investments are seen as major threats to economic growth, shifting from the previous MPS where intensified geopolitical tensions and slowdown in major economies were identified as the potential key drag on the global economic outlook. We share a similar view, as the market sentiment has been showing signs of concerns on the potential trade disruptions under the new US administration.

Domestic strength drives economic momentum. BNM mentioned the strength in economic activity is expected to be sustained in 2025, driven by resilient domestic expenditure. Significant policy measures (e.g. minimum wage adjustments and civil servant compensation packages) are poised to stimulate household expenditure. The investment ecosystem is expected to maintain its robust expansion trajectory, propelled by the progressive of extensive multi-year projects in both private and public sector domains (e.g. MRT3, Pan Borneo Highways and ART) complemented by the sustained realization of approved investment initiatives and the strategic execution of transformative national master plan projects. The investment landscape is strategically positioned to amplify export capabilities and enhance the economy's productive infrastructure, facilitated by substantial capital import investments. Export performance is projected to derive strength from multiple interconnected factors, including the anticipated global tech resurgence, sustained growth in non-E&E sectors, and projected increases in tourism-related revenues. While the growth outlook remains fundamentally optimistic, potential challenges loom on the horizon. BNM added potential downside risks emerge from economic deceleration in major trading partners, heightened prospects of trade and investment restrictions, and underperformance in commodity production. Conversely, alternative scenarios suggest potential for enhanced

growth through greater spillover from the tech upcycle, robust in tourism, and expedited implementation of investment projects.

Inflation projected to remain in check for the year. In view of continued moderation in headline and core inflation, BNM anticipates inflation will stay well-contained in 2025, bolstered by easing global cost pressures and the absence of significant spike of domestic demand pressures. However, the implementation of additional domestic policy measures—such as targeted subsidies, higher taxes, and higher minimum wages—will play a crucial role in shaping the inflation outlook. Inflationary upside risks will be influenced by the spillover effects of domestic policy measures, along with fluctuations on global commodity prices and financial market developments.

External factors steering the currency trends. On the ringgit assessment, BNM stated the external factors continue to play a pivotal role in shaping the ringgit's trajectory. The converging interest rate landscapes between Malaysia and developed economies are creating a constructive environment for the ringgit. Despite potential fluctuations arising from global policy uncertainty, the fundamental underpinnings of Malaysia's economic framework present a robust foundation for the ringgit. BNM foresees nation's strategic economic positioning, characterized by proactive structural reforms and deliberate policy interventions, establishes a resilient backdrop for currency stability. Ongoing governmental initiatives designed to stimulate financial flows and enhance investor confidence are instrumental to support the ringgit's long-term prospects.


OPR to remain at 3.00% in 2025. We maintain our forecast that BNM will keep OPR at 3.00% this year as the current setting remains accommodative to sustainable economic growth. We expect Malaysia's economy will continue to grow underpinned by both increases in domestic and external demand. While we forecast inflation will accelerate this year due to changes on the supply side (e.g. policy changes and higher costs), we do not expect any change to OPR because underlying price pressures will likely remain under control. Nevertheless, BNM has sufficient policy flexibility to adjust monetary policy to counter future economic uncertainties, mainly subject to changes in domestic economic conditions and inflation outlook in Malaysia. 

Table 1: Central Bank Policy Rate (%) for Selected Countries

	Jul-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
Malaysia	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Indonesia	6.25	6.25	6.25	6.25	6.00	6.00	6.00	5.75
Philippines	6.50	6.50	6.25	6.25	6.00	6.00	5.75	5.75
Thailand	2.50	2.50	2.50	2.50	2.25	2.25	2.25	2.25
Vietnam	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
South Korea	3.50	3.50	3.50	3.50	3.25	3.00	3.00	3.00
India	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Japan	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Euro area	4.25	4.25	4.25	3.65	3.40	3.40	3.15	3.15
UK	5.25	5.25	5.00	5.00	5.00	4.75	4.75	4.75
USA	5.25 - 5.50	5.25 - 5.50	5.25 - 5.50	4.75 - 5.00	4.75 - 5.00	4.50 - 4.75	4.25 - 4.50	4.25 - 4.50

Source: Macrobond, MIDFR

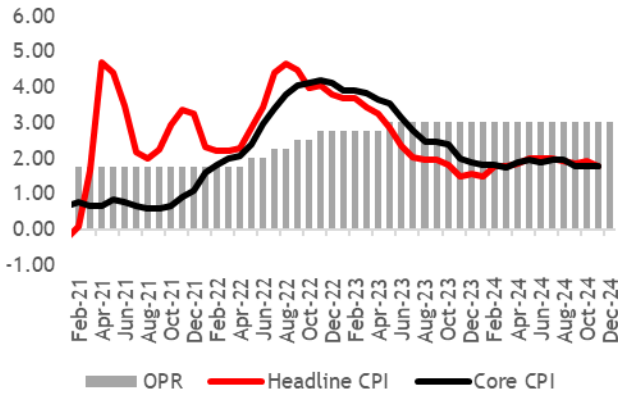
Table 2: Monetary Policy Meeting Schedule for 2025

	Date	Decision
1st Meeting	22 January 2025	No change
2nd Meeting	6 March 2025	
3rd Meeting	8 May 2025	

4th Meeting	9 July 2025	
5th Meeting	4 September 2025	
6th Meeting	6 November 2025	

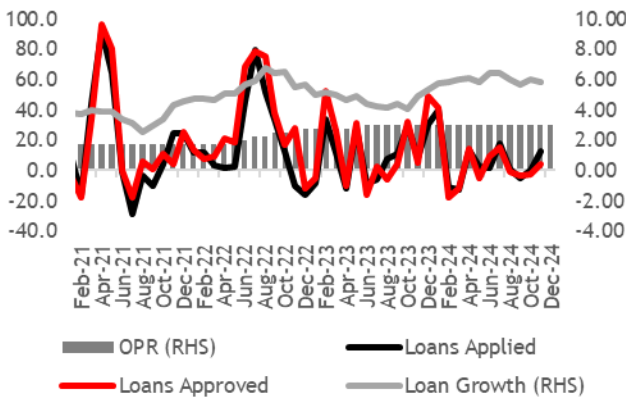
Source: BNM, MIDFR

Chart 1: Monetary Policy (%) vs Inflation (YoY%)



Source: Macrobond, MIDFR

Chart 3: OPR (%) vs Loan Growth (YoY%)



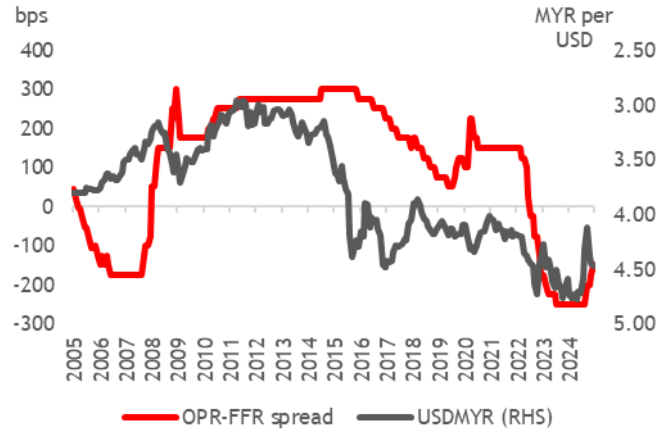
Source: Macrobond, MIDFR

Chart 5: OPR vs Unemployment Rate (%)



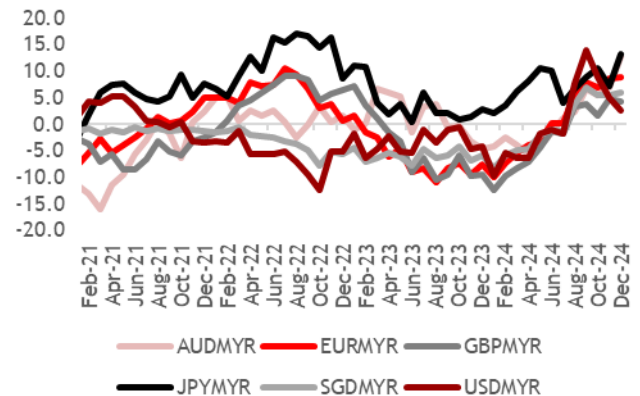
Source: Macrobond, MIDFR

Chart 2: OPR-FFR Differentials (bps) & USDMYR



Source: Macrobond, MIDFR

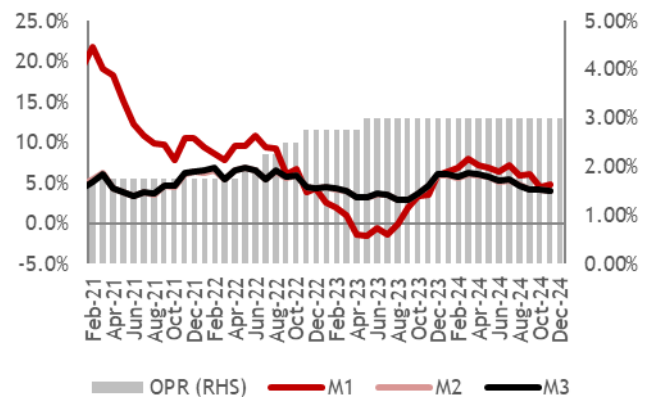
Chart 4: MYR against selected currencies (YoY%)



So

Source: Macrobond, MIDFR

Chart 2: Money Supply (YoY%) vs OPR (%)



Source: Macrobond, MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad
197501002077 (23878-X).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.