AmBank Group

AmBank Economics

#WhatWeThink

Policy status-quo in February MPC despite tariff uncertainties

6 March 2025

In a nutshell

After its MPC meeting on 6 March, BNM left OPR unchanged at 3.00% for the 11th consecutive meeting. BNM remains comfortable with the current monetary policy stance as the latest economic indicators suggest the economy remains well supported and that inflation remains stable.

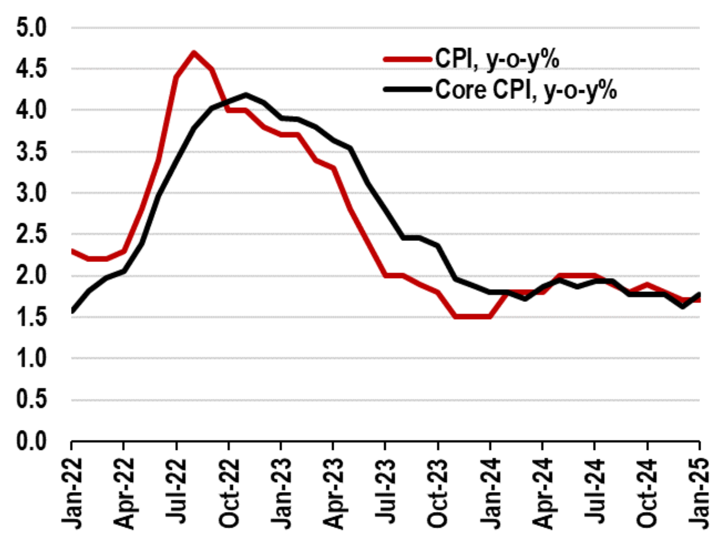
The overall tone remains neutral, and BNM remains upbeat on domestic growth prospects while acknowledging the external risks that follow significant uncertainties surrounding trade policies and lower-than-expected commodity production.

BNM Interest Rate Decisions 2023-2025

	Date	OPR level & Change
2023		
	Date	**OPR level & Change**
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	
4	9 July	
5	4 September	
6	6 November	

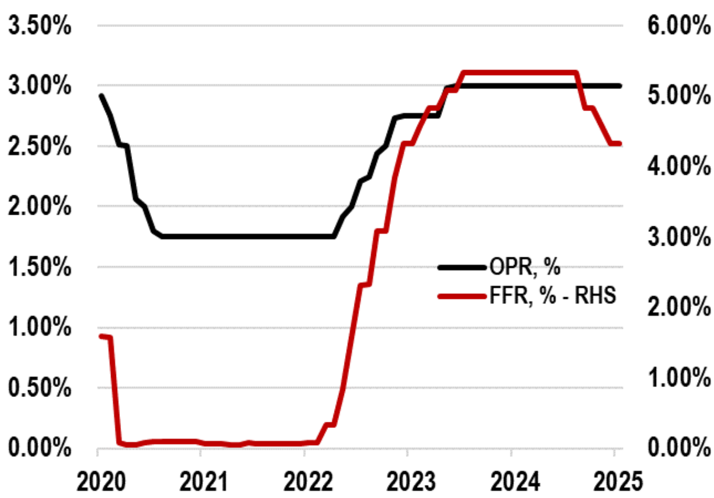
Sources: BNM, AmBank Economics

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



Sources: DOSM, AmBank Economics

Exhibit 2: The US Fed vs. BNM Interest Rate, %



Sources: Federal Reserve Board, BNM, AmBank Economics

BNM maintains rate pause as expected

The decision came amid solid economic conditions and stable inflation.

After its MPC meeting on 6 March, BNM left OPR unchanged at 3.00% for the 11th consecutive meeting. The decision was widely expected as the latest economic indicators suggest the economy remains well supported and inflation remains stable. BNM remains comfortable with the current monetary policy stance, noting that it is supportive of the economy and is consistent with the current assessment of inflation and growth prospects.

Growth assessment was essentially unchanged despite the latest global developments.

The overall tone remains neutral, and BNM's growth assessment has remained unchanged despite the latest global developments. BNM remains upbeat on domestic growth prospects, citing the continued strength in domestic demand while acknowledging the risks from an economic slowdown in major trading partners following significant uncertainties surrounding trade policies and lower-than-expected commodity production. Of note is that the word "uncertainties" was mentioned six times, compared to only two times in the previous MPC statement.

Price pressures are expected to remain subdued for the 1H2025, at least.

Inflation remained contained amid stable costs and demand conditions.

Inflation started the year when the latest rate held steady at 1.7% in January, marking the lowest figure in 11 months. Additionally, we noticed that sluggish prices of food at home (FAH) and transport, which constitute almost 27% of the overall CPI basket, have been the main drivers of slowing inflation in Malaysia since last year. Meanwhile, on the producer level, the manufacturing sector, which forms a sizeable share of over 80% of the PPI, has remained in the negative territory thus far since September last year, aligns with the Fed's Global Supply Chain Pressure Index (GSCPI), which has signalled the end of peak inflation that started in early pandemic.

The upside risk of inflation could come from a healthy labour market performance, a civil servant salary hike in December last year and a minimum wage increase effective February this year. However, given the latest statement from the MPC, we think the price pressure will remain manageable in the upcoming months, whereby wage-related policies could have posed a limited impact on price pressures. As such, inflation can stay close to an average of 2% in the 1H this year unless unforeseen shortcomings require policy realignment.

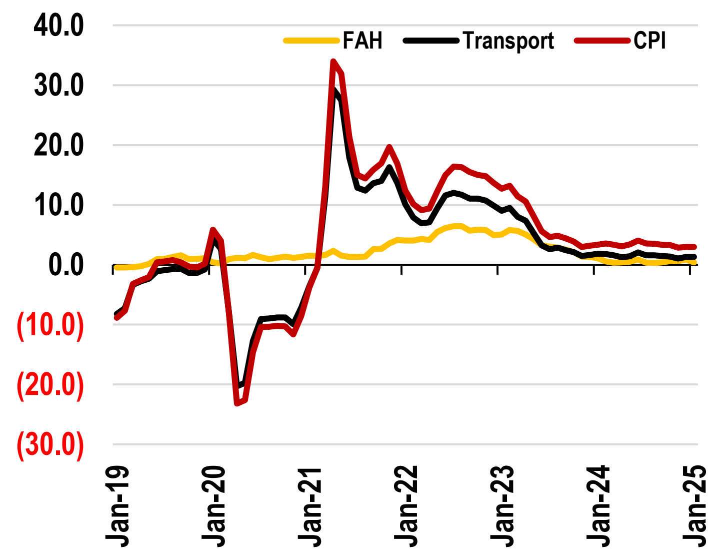
OPR remains supportive of the overall economic condition

We maintain our view that OPR might stay at the current level until mid-2025

Based on the latest MPC meeting, the monetary policy stance remains supportive of the economy and is consistent with the current inflation and growth prospects assessment. Malaysia recorded a robust growth of 5.1% last year, thanks to resilient domestic demand and a healthy recovery in exports, up from below-trend 3.6% in 2023. Malaysia's economy is poised for another year of solid growth this year, albeit moderating to 4.6%, which aligns with the lower bound of the official projection range of 4.5% to 5.5%. In comparison, the fiscal deficit is expected to moderate at 3.8%.

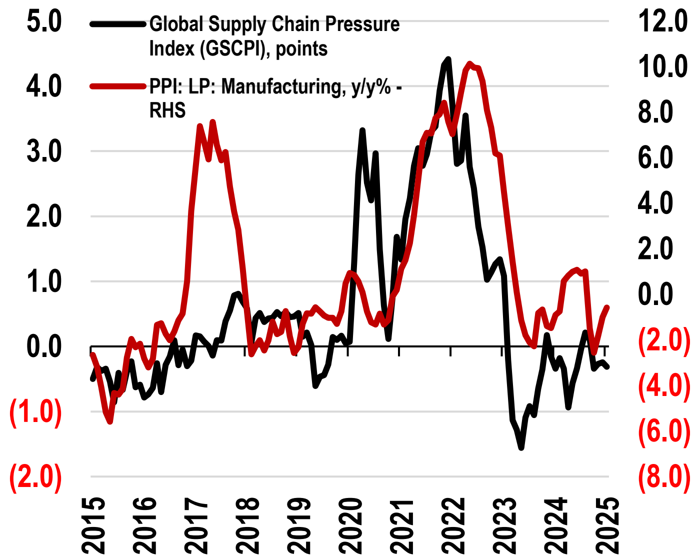
With growth expected to remain robust and inflation relatively stable, we anticipate BNM will maintain its accommodative stance and keep the OPR steady through at least 1H2025.

Exhibit 3: CPI vs. Selected Main Group, y/y%



Sources: DOSM, AmBank Economics

Exhibit 4: GSCPI points vs. PPI: LP: Mfg, y/y%



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

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

January 2025 MPC Statement	March 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 global growth for 2024 turned out higher than expected, reflecting better outturns in the major economies and stronger global trade. For 2025, the global economy is anticipated to be sustained by positive labour market conditions, moderating inflation and less restrictive monetary policy. Global trade is expected to remain broadly sustained, supported by the continued tech upcycle. ***However, this outlook could be affected by the uncertainty surrounding more trade and investment restrictions***. The elevated policy uncertainties could also lead to greater volatility in the global financial markets. For the Malaysian economy, the overall growth for 2024 was within expectations. Moving forward, the strength in economic activity is expected to be sustained in 2025, driven by resilient domestic expenditure. 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. These investments, supported by higher capital imports, will raise exports and expand the productive capacity of the economy. Exports are expected to be supported by the global tech upcycle, continued growth in non-electrical and electronics goods and higher tourist spending. The growth outlook is subject to downside risks from an economic slowdown in major trading partners amid heightened risk of trade and investment restrictions, and lower-than-expected commodity production. Meanwhile, growth could potentially be higher from greater spillover from the tech upcycle, more robust tourism activity, and faster implementation of investment projects. Headline and core inflation averaged 1.8% in 2024. Going into 2025, inflation 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 in the near term. In this environment, the overall impact of the recently 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 global commodity prices and financial market developments. Ringgit performance continues to be primarily driven by external factors. The narrowing interest rate differentials between Malaysia and the advanced economies is positive for the ringgit. While financial markets could experience bouts of volatility due to global policy uncertainties, 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 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 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. 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. 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. 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.

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