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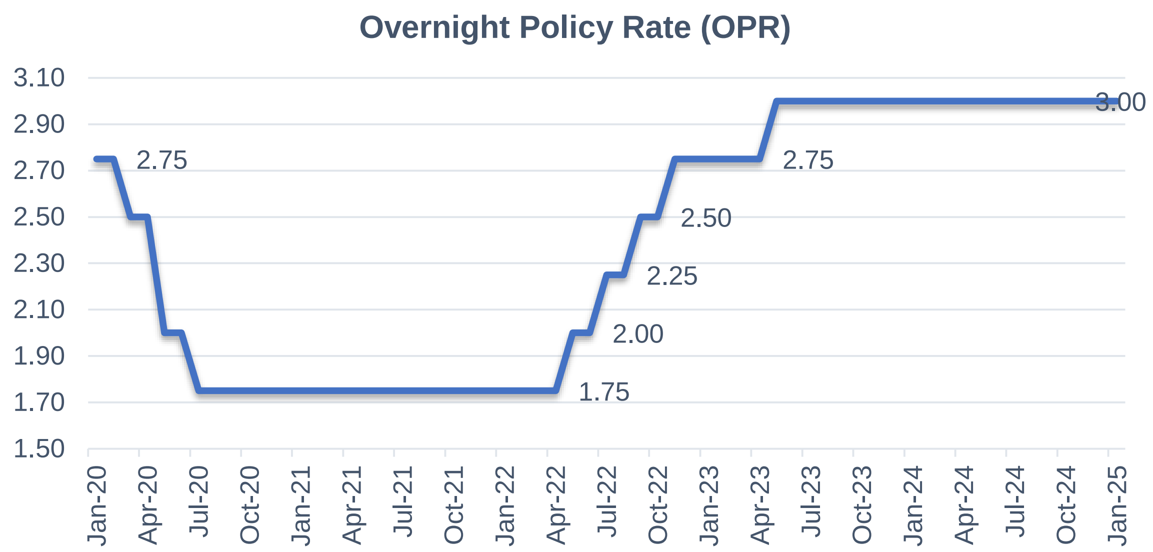
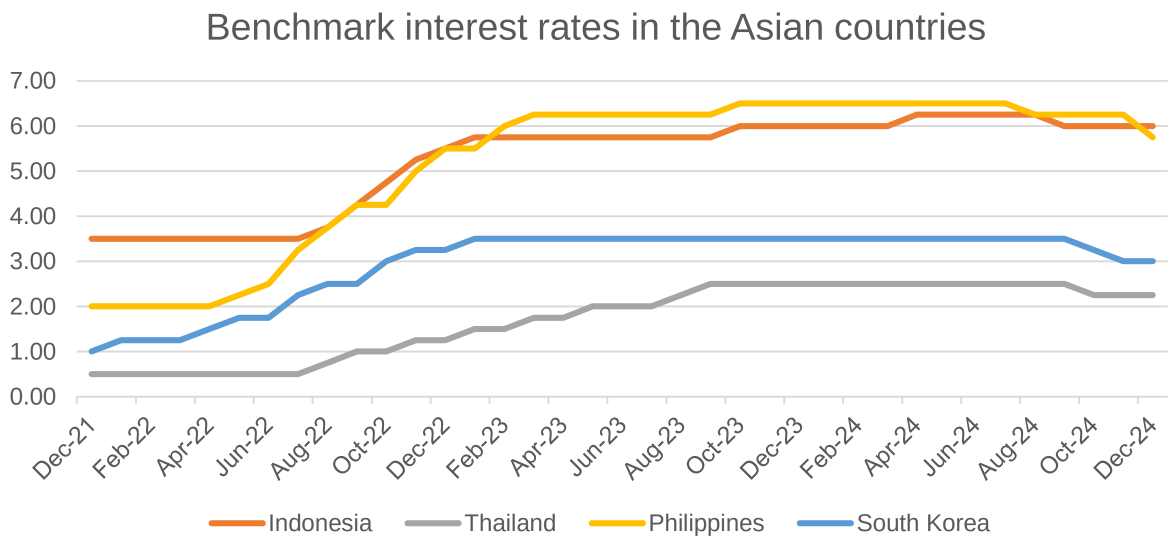
23 JANUARY 2025

OPR stays at 3.00% - defying regional trend





Source: Bloomberg

The Monetary Policy Committee (MPC) of Bank Negara Malaysia (BNM) decided in today's meeting to maintain the Overnight Policy Rate (OPR) at 3.00%, aligning closely with economists' expectations. In its statement, the MPC expressed optimism that domestic spending will be the key driver of overall economic growth. This outlook is supported by stable labor market conditions, continued job creation, wage growth, the upcoming minimum wage increase to RM1,700 (from RM1,500) in February, and salary adjustments for civil servants, all of which are expected to bolster household spending. Investment activities are also anticipated to gain momentum, driven by the execution of approved investments and ongoing infrastructure projects. Moreover, Malaysia's exports are set to benefit from the global technology upcycle, with the World Semiconductor Trade Statistics (WSTS) projecting global semiconductor sales to grow by 11.2% in 2025 to USD697.2 billion (2024 estimate: 19.0%), fueled by a 12.3% increase in integrated circuit (IC) sales (2024: 24.8%). Today's decision underscores BNM's commitment to supporting economic growth while managing inflation risks. This stance contrasts with the regional trend, where monetary easing began last year.

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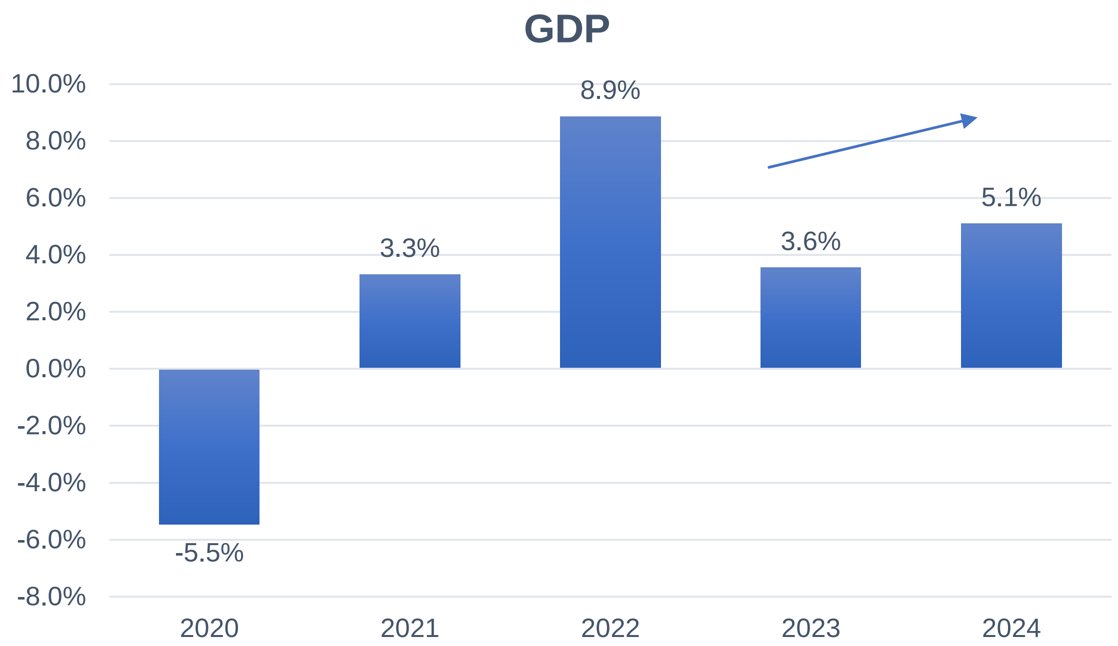
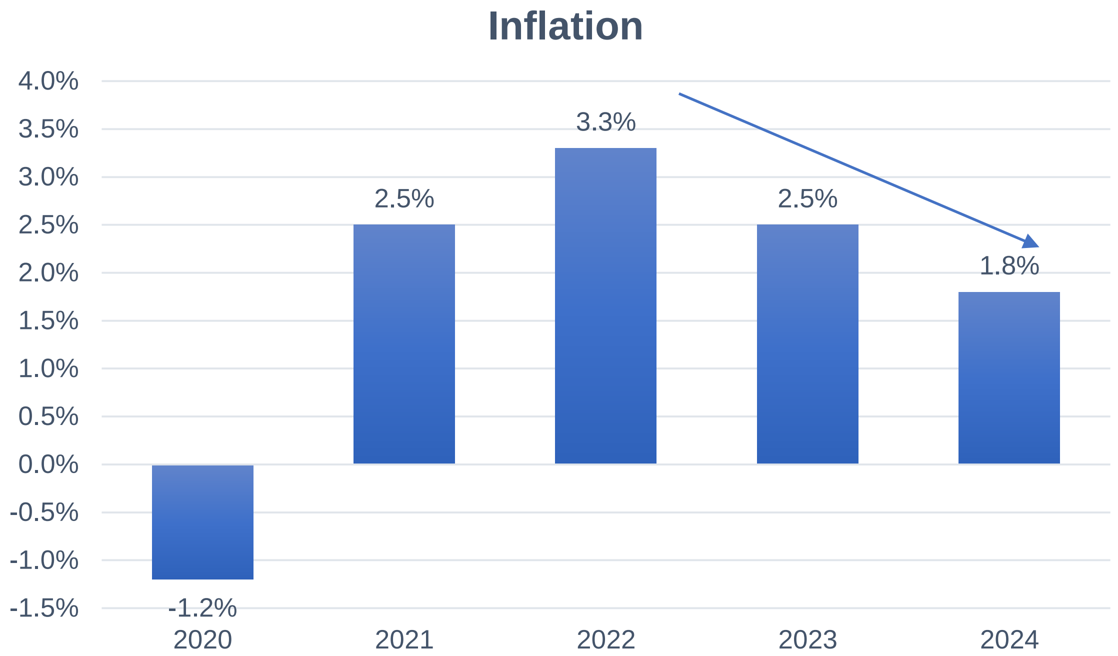
BNM has demonstrated their credibility in steering the monetary policy.





Sources: DOSM & CEIC

We believe that Bank Negara Malaysia (BNM) effectively fulfilled its mandate in 2024. The Malaysian economy achieved a commendable growth rate of 5.1%, up from 3.6% in the prior year. At the same time, inflation continued to ease, dropping from a peak of 3.3% in 2022 to 1.8% in 2024. The reopening of international borders on 1st April 2022 triggered a surge in domestic spending, leading to more pronounced demand-pull inflation. In response, the Monetary Policy Committee (MPC) initiated a rate hike cycle, raising the Overnight Policy Rate (OPR) from a historic low of 1.75% to 2.00% in May 2022. This campaign concluded in May 2023, with the OPR reaching 3.00%, where it has remained steady since. This underscores Malaysia's central bank's credibility in managing the economy through monetary policy, achieving non-inflationary growth in 2024.

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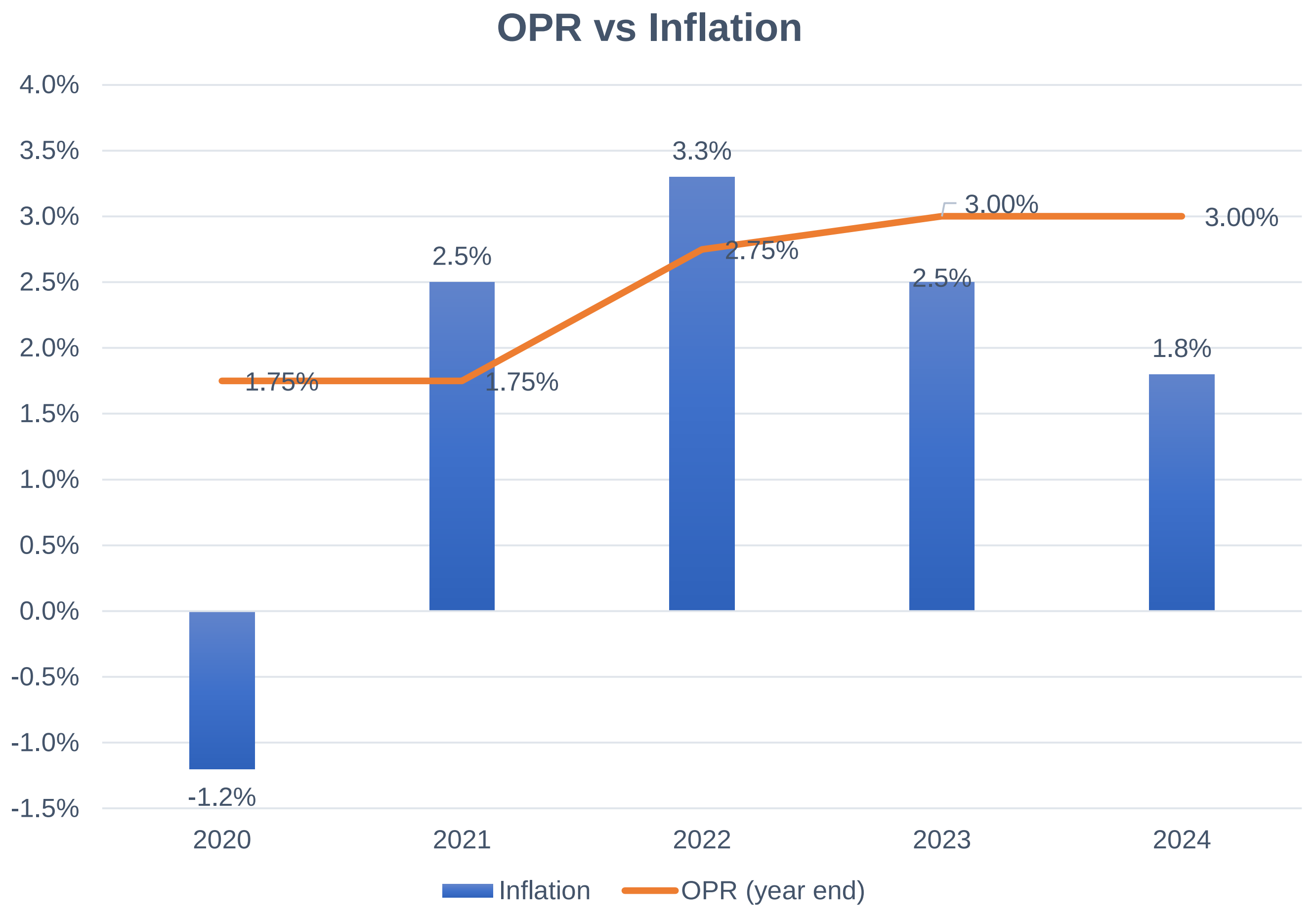
Positive real interest rate suggest monetary policy is not accommodative



Source: BMMB Economics

- The real interest rate, calculated as the difference between the Overnight Policy Rate (OPR) and the inflation rate, stood at 1.2% in 2024—an improvement from 0.5% in the previous year.

- This reflects Bank Negara Malaysia's (BNM) prudent approach to monetary policy, maintaining vigilance against potential inflationary pressures anticipated in 2025. Insights from our session with BNM suggest that the rationalization of fuel subsidies poses an upside risk to inflation.

- Consequently, we anticipate that BNM will likely keep the OPR unchanged at 3.00% throughout 2025 to manage inflationary risks effectively. Additionally, the current policy stance indicates that BNM retains the flexibility to lower the OPR if needed, offering room for monetary easing should growth risks intensify. This adaptability is a positive for Malaysia's economy, enabling BNM to respond effectively to evolving economic conditions.

Appendix - Monetary Policy Statement (MPS)

Dr Mohd Afzanizam Abdul Rashid – Chief Economist
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At today's meeting, Bank Negara Malaysia's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3%.

The global economy grew faster than expected in 2024. This reflects better real growth in major economies and stronger global trade. For 2025, the global economy is expected to be sustained with positive labor market conditions, continued moderate inflation and less tight monetary policy. Global trade is expected to remain broadly sustainable, supported by a continued upswing in the technology cycle. However, this outlook could be affected by uncertainty regarding increased trade and investment restrictions. Continued high policy uncertainty could also lead to more pronounced global financial market volatility.

For the Malaysian economy, overall growth in 2024 is in line with expectations. Looking ahead, the strength of economic activity is expected to continue in 2025, driven by resilient domestic spending. Employment and wage growth, coupled with policy measures, including a review of the minimum wage and civil servant salaries, will support household spending. Robust investment activity will continue with multi-year projects being implemented in the private and public sectors, more ongoing implementation of approved investments and catalytic initiatives being implemented under several national master plans. This investment, supported by higher imported capital, will boost exports and expand the economy's production capacity. Exports are expected to be supported by an improving global technology cycle, continued growth in non-electrical and electronic goods exports and higher tourist spending. The growth outlook is subject to downside risks from economic slowdowns in major trading partners due to the risk of significant trade and investment restrictions and lower-than-expected commodity production. Meanwhile, growth could be higher from spillovers from a larger technology cycle, stronger tourism activity and faster implementation of investment projects.

Headline and core inflation are expected to average 1.8% in 2024. In 2025, inflation is expected to remain contained, driven by easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue their downward trend, 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. The upside risks to inflation will depend on the extent of spillover effects from domestic policy measures and global commodity prices, as well as financial market developments.

The performance of the ringgit continues to be driven primarily by external factors. The narrowing interest rate differential between Malaysia and advanced economies is positive for the ringgit. While financial markets may face a period of volatility due to global policy uncertainty, Malaysia's economic outlook and favourable domestic structural reforms, together with ongoing initiatives to encourage fund flows, will continue to provide ongoing support to the ringgit.

At the current OPR level, the stance of monetary policy remains supportive of the economy and is consistent with the current assessment of the inflation and growth outlook. The MPC continues to monitor current developments to inform its assessment of the inflation and growth outlook. The MPC will ensure that the stance of monetary policy remains conducive to sustained economic growth in an environment of stable prices.