

Policy Considerations

Highlights

- The Monetary Policy Committee (MPC) maintained the OPR at 3% at the January and March 2025 MPC meetings, and most recently also at the May 2025 MPC meeting.
- Separately, the Bank adjusted the Statutory Reserve Requirement (SRR) to facilitate banks' liquidity management and support financial intermediation activity.

Monetary policy remains consistent with the current assessment of domestic economic prospects

The MPC maintained the OPR at 3% over the first quarter in its January and March 2025 MPC meetings, and also at the most recent meeting in May.

At the May meeting, the latest indicators point towards continued global growth and trade, supported by domestic demand and front-loading activities. The MPC assessed that the 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 MPC assessed that 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

Policy Considerations

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 MPC deemed that 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.

Separately, the Bank reduced the SRR ratio to facilitate banks' liquidity management and provide continued support for financial intermediation activity

On 8 May 2025, the Bank announced that the SRR ratio will be lowered by 100 basis points, from 2% to 1%, effective 16 May 2025.

The decision to reduce the SRR is to facilitate banks to better manage liquidity in an environment of greater financial market volatility and provide continued support for financial intermediation activity. The SRR reduction will release approximately RM19 billion worth of liquidity into the banking system.

The SRR is an instrument to manage liquidity and is not a signal on the stance of monetary policy. The OPR is the sole indicator used to signal the stance of monetary policy.