5 November 2026

Global Markets Research

Malaysia - Economics

BNM maintained OPR and neutral policy rhetoric

No change to OPR at 2.75% and neutral policy tone as expected

Downside risks from "prolonged" geopolitical uncertainties; upside risks from tech spending

Maintain our view for an OPR hike in 1Q27 amid sanguine growth and contained inflation

Summary

BNM decided to leave the Overnight Policy Rate (OPR) unchanged at 2.75% for the 8th straight meeting at its November monetary policy meeting, the last for 2026. The rate pause decision came in very much as expected, and so was the still neutral policy statement acknowledging sanguine growth and that inflation has edged up, contrary to the previous statement which said "inflation has edged lower". The statement continued to exclude the word "appropriate", implying ongoing inclination towards policy adjustment, i.e. unwinding the insurance cut undertaken back in July 2025. ***We are maintaining our view of a policy normalization in the first quarter of 2027***. That said, we also sense there is no urgency to hike, which suggests BNM may adopt a wait-and-see approach.

The global economic growth remained resilient

BNM assessed that the world economy remained resilient, supported by strong global tech expansion and stable labour market, and no longer made reference to improving supply conditions. Going forward, downside risks remain arising from prolonged geopolitical uncertainties, tighter global financial conditions, valuation concerns in the financial markets, as well as fiscal vulnerabilities. On the flip side, there are also potential upsides from stronger tech spending, and faster than expected recovery in supply chain conditions.

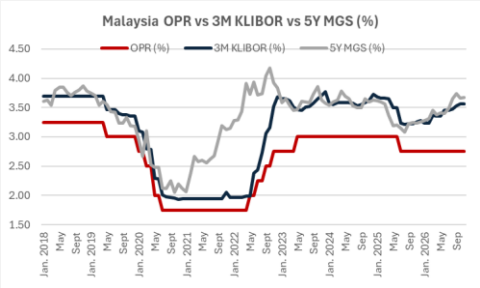
Continued strength in the Malaysian economy

BNM highlighted continued strength of the Malaysian economy in 3Q2026, underpinned by strong exports and sustained domestic demand, and that growth will likely settle the year ***above*** 5.0% this year. This stacks well with our house view of a 5.2% growth for the full year of 2026. BNM also reiterated that sound fundamentals are expected to ensure resilient growth in 2027 (HLB: 5.0%). Other than mentioning further support from Budget 2027 measures, the narratives on growth prospects, upside and downside risks have been relatively unchanged. This includes upside potentials from better than expected global growth, stronger technology-related export demand and higher tourism activity, which would help cushion downside risks from prolonged Middle East conflict and lower commodity production. On the inflation front, BNM maintained that geopolitical development, elevated global commodity prices and adverse weather conditions will exert upward pressure on inflation, and has dropped its phrase on limited cost pass-through, hinting at a shift towards a more hawkish assessment on inflation.

Outlook

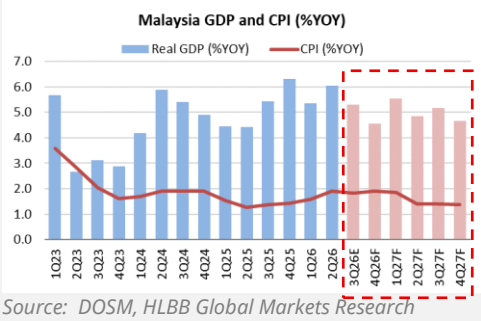
Despite protracted external uncertainties, the Malaysian economy demonstrated remarkable resilience, benefitting from the global tech upcycle and AI evolution, and relatively muted fallout from the geopolitical situation. We are positive that our 2026 growth forecast of 5.2% is achievable, and that growth will likely be sustained going into 2027 in anticipation of the continued tech investment. This, coupled with the well-contained inflation, are expected to provide the policy flexibility for BNM to normalize its OPR to 3.00% early next year.

Figure 1: KLIBOR and MGS yields have been steadily edging up implying expectations for an OPR hike



Source: BNM, DOSM, HLBB Global Markets Research

Figure 2: Better than expected growth offered flexibility for policy normalization ahead



Source: DOSM, HLBB Global Markets Research

Figure 3: Schedule of Monetary Policy Decisions and Statements for 2027

MPC Meeting No	Dates
1	21 January 2027 (Thursday)
2	4 March 2027 (Thursday)
3	6 May 2027 (Thursday)
4	8 July 2027 (Thursday)
5	9 September 2027 (Thursday)
6	4 November 2027 (Thursday)

Source: BNM

Side-by-side Comparison of BNM Monetary Policy Statement

3-Sep-26	5-Nov-26
At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.	At its meeting today, the Monetary Policy Committee (MPC) of Bank Negara Malaysia decided to maintain the Overnight Policy Rate (OPR) at 2.75%.
The latest indicators point to resilient global growth, supported by strong global tech expansion, improving supply conditions and stable labour markets. Inflation has edged lower in recent months but is expected to remain elevated given the lagged pass-through of energy costs to consumer prices. Going forward, while uncertainties surrounding the Middle East conflict will continue to weigh on global growth amid continued inflationary pressures, the impact is expected to be cushioned by sustained tech-related spending. Downside risks to global growth remain, stemming from prolonged geopolitical tensions, tighter global financial conditions and concerns over valuations in financial markets. Upside potential includes stronger tech spending, faster-than-expected recovery in supply chain conditions and pro-growth policy measures in key economies.	The latest indicators point to continued resilience in global growth, supported by strong global technology investment and stable labour markets. Inflation has edged up following higher energy costs and is expected to remain elevated given the ongoing pass-through of higher costs to consumer prices. Going forward, while uncertainties surrounding geopolitical developments will continue to weigh on global growth amid continued inflationary pressures, the impact is expected to be cushioned by sustained technology-related spending and the ongoing adaptation to supply constraints. Downside risks to global growth remain, stemming from prolonged geopolitical tensions as well as tighter global financial conditions from monetary policy adjustments, concerns over valuations in financial markets and fiscal vulnerabilities. Upside potential could come from stronger technology spending and a faster-than-expected recovery in supply chain conditions.
The Malaysian economy expanded robustly by 5.7% in the first half of 2026, despite the challenging global environment. Growth was driven by stronger-than-expected export performance amid sustained domestic demand. The solid growth momentum is expected to bring 2026 growth to around 5%, and the economy's sound fundamentals are expected to keep growth resilient in 2027. This will be driven by the external sector, which will be lifted by improved global prospects and robust demand for electrical and electronics (E&E) goods, as well as continued strength in tech-related non-E&E exports and sustained tourist spending. Stable labour market conditions and ongoing investment activity will remain supportive of domestic demand. This growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Upside potential to growth could arise from better-than-expected global growth, stronger technology-related export demand and higher tourism activity.	For the Malaysian economy, recent indicators point to continued strength in growth in the third quarter of 2026. Growth was underpinned by strong export performance amid sustained domestic demand. The solid growth momentum is expected to bring 2026 growth to above 5%. Looking ahead, the economy's sound fundamentals are expected to keep growth resilient in 2027. The external sector is expected to remain as a major driver of growth, supported by the ongoing global technology upcycle and firm tourist spending. Stable labour market conditions and ongoing investment activity will remain supportive of domestic demand, with measures under Budget 2027 providing further support to private consumption. This growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Upside potential to growth could arise from better-than-expected global growth, stronger technology-related export demand and higher tourism activity.
Headline and core inflation in the first seven months of the year averaged 1.8% and 2% respectively. Despite elevated costs and strong economic growth, the pass-through to consumer prices has been contained by domestic policy measures and stable demand conditions amid limited spillover of external sector strength to wages. Developments surrounding the Middle East conflict remain uncertain, as elevated global commodity prices continue to exert upward pressure on cost conditions. As these developments remain fluid, the MPC will remain vigilant to cost pressures and domestic demand conditions given their impact on the inflation outlook.	Year-to-date, headline and core inflation averaged 1.8% and 1.9%, respectively. Going into 2027, geopolitical developments, elevated global commodity prices and adverse weather conditions are expected to exert upward pressure on inflation. Consequently, both headline and core inflation are expected to edge higher, albeit remaining contained amid continued domestic policy measures and stable demand conditions. The MPC will remain vigilant to cost pressures and domestic demand conditions given their impact on the inflation outlook.
At the current OPR level, the MPC considers the monetary policy stance to be consistent with the outlook of continued price stability and sustainable economic growth. The MPC will remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic inflation and growth.	At the current OPR level, the MPC considers the monetary policy stance to be consistent with the outlook of continued price stability and sustainable economic growth. The MPC will remain vigilant to the evolving conditions and assess their implications on the balance of risks surrounding the outlook for domestic inflation and growth.

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