From the Desk of the
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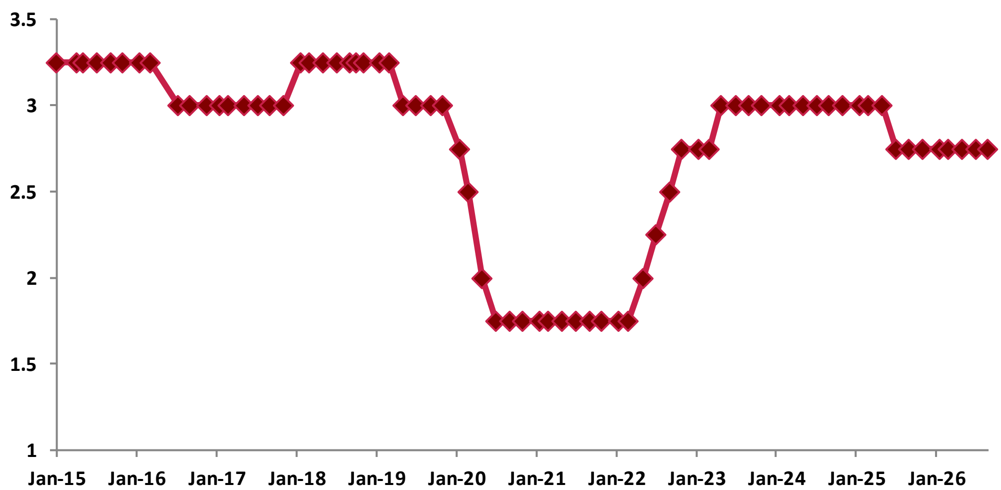
# BNM HOLDS OPR STEADY AS GROWTH RESILIENCE OFFSETS INFLATION RISKS

- Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 2.75% at its fifth Monetary Policy Committee (MPC) meeting of 2026, in line with expectations. While stronger-than-expected economic growth has strengthened BNM's confidence in the domestic outlook, contained inflation and the absence of broad-based domestic price pressures continue to provide policymakers with room to maintain the current policy setting.
- This marks the seventh consecutive MPC meeting in which the OPR has been maintained since September 2025, following the 25-basis-point reduction in July 2025 after almost two years of policy stability. The prolonged pause underscores BNM's preference to allow the previous policy adjustment to work through the economy while retaining flexibility to respond to evolving global developments, particularly geopolitical tensions, commodity price movements and global financial conditions.
- In its latest Monetary Policy Statement, BNM reiterated that the current monetary policy stance remains consistent with the outlook for continued price stability and sustainable economic growth. At the same time, the MPC emphasised that it will remain vigilant to developments affecting the balance of risks to domestic growth and inflation. Overall, the statement suggests that BNM remains comfortable with the current policy setting, with neither the strength of growth nor emerging cost pressures considered sufficient at this stage to warrant a change in the OPR.



**Chart 1: Overnight Policy Rate (OPR)**




***Source: Bank Negara Malaysia, Bank Islam***

| Schedule of Monetary Policy Committee Meetings for 2026 | | |
|---|---|---|
| **Meeting No** | **Dates** | **Result** |
| 1st | 22 January | Maintained at 2.75% |
| 2nd | 5 March | Maintained at 2.75% |
| 3rd | 7 May | Maintained at 2.75% |
| 4th | 9 July | Maintained at 2.75% |
| 5th | 3 September | Maintained at 2.75% |
| 6th | 5 November | - |

***Source: Bank Negara Malaysia, Bank Islam***

- **BNM's September MPC statement reflects greater confidence in the resilience of the Malaysian economy, although the overall monetary policy stance remains neutral.** The MPC maintained the OPR at 2.75%, while upgrading its assessment of domestic growth following stronger-than-expected 1H26 performance. The economy expanded by 5.7% in 1H26, driven by stronger export performance alongside sustained domestic demand, prompting BNM to expect full-year growth of around 5%. This represents a firmer assessment compared with July, when growth was expected to remain within the 4%-5% forecast range.
- The external growth assessment has also become somewhat more balanced. BNM continues to see global growth as resilient, supported by strong technology-related spending, improving supply conditions and stable labour markets. In particular, sustained technology investment is expected to cushion some of the drag from the Middle East conflict. Nevertheless, the MPC remains mindful of downside risks from prolonged geopolitical tensions, tighter global financial conditions and elevated financial market valuations. On the upside, stronger technology spending, faster supply-chain normalisation and pro-growth policies in major economies could provide further support to global activity.
- For Malaysia, the composition of growth remains an important source of comfort for BNM. The external sector is expected to remain supportive, underpinned by robust E&E demand, continued strength in technology-related non-E&E exports and sustained tourism activity. At the same time, domestic demand should remain resilient, supported by stable labour market conditions and ongoing investment activity. This suggests that Malaysia's growth momentum is becoming increasingly broad-based rather than being driven solely by the global technology cycle.
- On inflation, the September statement carries a slightly firmer tone compared with July, particularly with respect to the potential lagged pass-through of elevated energy costs. Headline and core inflation averaged 1.8% and 2.0%, respectively, in the first seven months of the year, indicating that underlying price pressures remain contained. Nevertheless, BNM highlighted that elevated global commodity prices continue to exert upward pressure on domestic cost conditions, particularly amid the uncertain trajectory of the Middle East conflict. Importantly, the MPC noted that the pass-through to consumer prices has so far been limited by domestic

policy measures and stable demand conditions, alongside limited spillover from strong external-sector performance to wages.

- **Taken together, the September statement can be characterised as more confident on growth but not materially more hawkish on monetary policy.** The stronger growth outlook gives BNM greater room to remain patient, while contained inflation means there is currently little need for a pre-emptive policy response. The statement's closing assessment that the current OPR remains consistent with continued price stability and sustainable economic growth reinforces our view that the MPC is comfortable with the current policy setting.

## *Outlook: OPR to Stay at 2.75% as Strong GDP Growth Has Yet to Translate into Stronger Domestic Demand*

- **We maintain our view that BNM will keep the OPR at 2.75% throughout 2026 and 2027.** While the economy is performing significantly better than previously anticipated, the strength of headline GDP growth has yet to translate into sufficiently broad-based domestic demand pressures to warrant monetary policy normalisation. In particular, private consumption remains below the 5% threshold and broadly in line with overall GDP growth, while household income growth has yet to accelerate commensurately with corporate and external-sector performance.

- The strong 1H26 performance nevertheless provides a stronger starting point for 2027. Following GDP growth of 5.4% in 1Q26 and 6.0% in 2Q26, **we have raised our 2026 GDP growth forecast to 5.1%, from 4.7% previously.** Robust technology-related exports, particularly E&E, favourable commodity export conditions and sustained domestic investment should continue to support growth momentum. We also see upside potential if global technology demand remains stronger than expected or tourism activity exceeds expectations.



- However, **strong GDP growth alone is unlikely to trigger an OPR hike.** The key consideration for BNM is whether stronger activity is generating persistent demand-side inflationary pressure. At present, this transmission remains relatively weak. Real GNI growth continues to lag GDP growth, while wage gains have remained modest relative to the strength of corporate activity. The manufacturing sector provides a useful illustration: manufacturing sales rose 7.4% YoY in 1H26, while wage growth was only around 1.5%. This disconnect suggests that a significant portion of the current growth impulse has yet to translate into stronger household purchasing power.

- This is why we believe **the current policy stance can remain accommodative enough to support domestic activity without creating significant inflationary risks**. Our house view is for CPI inflation to average around 2.0% in 2026 and 2.2% in 2027. Although producer costs and global commodity prices warrant close monitoring, we do not expect these pressures to generate broad-based second-round effects under our baseline scenario.

- **We therefore see OPR normalisation as more likely from 2028 rather than during 2026-27.** A rate hike could come back into consideration if private consumption were to sustainably exceed 5.0% and outpace GDP growth, signalling a more pronounced strengthening in domestic demand and a greater risk of demand-driven inflation. Conversely, a substantial deterioration in economic activity, particularly if GDP growth were to fall below 4%, could reopen the possibility of policy easing.

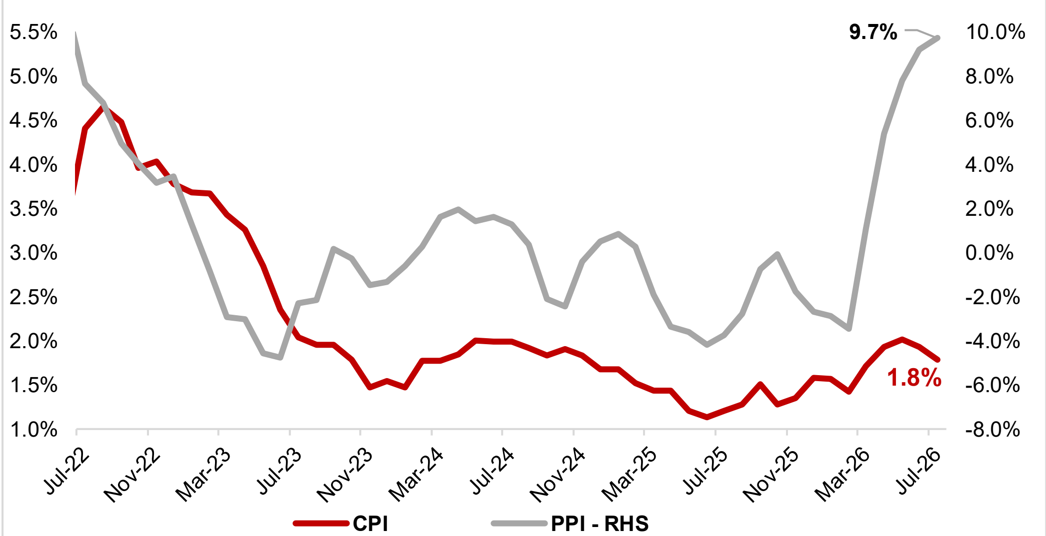
- For the banking sector, **a stable OPR should provide a relatively favourable operating environment**, supporting mortgage affordability, refinancing activity and consumer confidence while reducing the risk of a major rate shock to borrowers. Nevertheless, stable financing costs should not be interpreted as an environment for unlimited credit expansion. In our view, the key constraint for 2027 is likely to be **credit quality and borrower affordability rather than the absolute cost of financing**.

- On the external front, **Malaysia's improving fundamentals should continue to provide support for the Ringgit.** The MYR strengthened from around 4.09 against the USD at the beginning of August to approximately 4.03 by month-end, supported by softer broad USD conditions and stronger-than-expected domestic economic data. We expect the Ringgit to retain a constructive medium-term bias, although the path is unlikely to be linear given ongoing geopolitical and global financial market risks.

- A potentially more supportive global rate environment should also help. As the Fed resumes its easing cycle, lower US Treasury yields, together with relatively firm Malaysian Government Securities (MGS) yields, should help sustain foreign interest in Malaysian assets.

- **Overall, the September MPC statement strengthens our conviction that BNM can remain on hold for an extended period.** The key distinction is between **strong GDP growth and strong domestic demand.** Malaysia is currently enjoying the former, but not yet the latter. Until stronger economic growth is accompanied by more sustained wage gains, household purchasing power and consumption growth, we see limited justification for OPR normalisation. **Our base case therefore remains for the OPR at 2.75% through 2027, with the earliest prospect of a normalisation cycle from 2028.**

**Chart 2: Malaysia CPI and PPI**




*Source: Bank Negara Malaysia, Bank Islam*