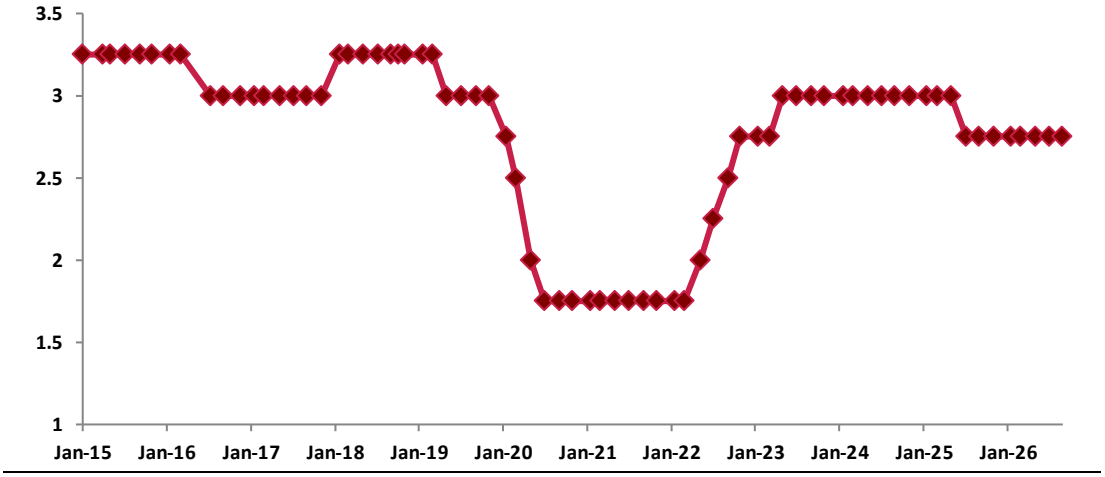
Imran Nurginias Ibrahim | Chief Economist | inurginias@bankislam.com.my

BNM KEEPS OPR UNCHANGED AT 2.75% AS GROWTH REMAINS RESILIENT

- Bank Negara Malaysia (BNM) Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (OPR) at 2.75% at its November meeting, in line with our expectation and the overwhelming majority of market forecasts. The decision reflects the MPC's assessment that the current policy setting remains appropriate in balancing the objectives of sustaining economic growth and preserving price stability. Notably, while the statement acknowledged higher inflationary pressures going into 2027, the MPC did not signal any immediate inclination towards policy tightening.
- The latest decision marks another meeting where policymakers have elected to remain on hold despite an increasingly favorable domestic growth environment. This reinforces our view that BNM remains comfortable looking through supply-driven inflation risks so long as underlying demand-driven price pressures remain contained and inflation expectations stay well anchored.

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	Maintained at 2.75%

Source: Bank Negara Malaysia, Bank Islam

Market Backdrop: Financial Conditions Have Become Less Restrictive

- The policy decision comes against a backdrop of improving global financial conditions relative to earlier concerns surrounding elevated global yields and a stronger US dollar. Since the previous MPC meeting, market conditions have shifted in a direction that has generally reduced pressure on regional central banks to tighten policy.
- Following the recent US mid-term election, the US Dollar Index (DXY) has softened, Brent crude oil prices have moderated, and gold prices have moved higher amid renewed demand for safe-haven assets. More importantly, both the US 10-year Treasury yield and Malaysia's 10-year Malaysian Government Securities (MGS) yield have retreated from their recent highs.
- From a monetary policy perspective, moderation in long-term yields is significant. Earlier concerns that structurally higher global bond yields could translate into tighter domestic funding conditions and force regional central banks into a more defensive policy stance have eased considerably. The decline in both UST and MGS yields suggests that financial conditions are no longer tightening as aggressively as previously feared, thereby reducing one of the key external risks.
- The latest market developments should provide policymakers with greater flexibility to focus on domestic inflation and growth dynamics rather than responding to tightening financial conditions originating from abroad. Consequently, the case for a precautionary rate hike has weakened, particularly as underlying domestic inflation remains relatively contained.

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MPC Assessment: Growth Outlook Strengthened Further

- The November MPC statement reflects a slightly more constructive assessment of both global and domestic economic conditions compared with previous meetings. Globally, BNM noted that growth continues to remain resilient, supported by strong technology-related investment and stable labour market conditions across major economies. While geopolitical uncertainties and inflationary pressures remain key concerns, the MPC continues to view ongoing technology-related spending and adaptation to supply constraints as important mitigating factors supporting global activity.
- For Malaysia, the central bank's confidence in the growth outlook appears to have strengthened further. Recent indicators suggest that economic activity remained robust during the third quarter, underpinned by strong export performance and resilient domestic demand. BNM expects Malaysia's GDP growth to exceed 5.0% in 2026 and remain resilient in 2027. The central bank continues to expect the economy to benefit from the ongoing global technology upcycle, robust tourism activity, stable labour market conditions and sustained investment momentum. Measures under Budget 2027 are also expected to provide additional support to private consumption.
- This assessment is broadly consistent with our longstanding view that Malaysia remains well-positioned to benefit from AI-related investments, semiconductor demand and continued expansion across the electrical and electronics sector. The external sector should remain a key

growth driver over the coming quarters, particularly given Malaysia's favourable position within the global technology supply chain.

- Nonetheless, BNM continues to highlight downside risks to growth, particularly from prolonged geopolitical conflicts and lower commodity production, while upside risks stem from stronger-than-expected global growth, technology-related exports and tourism activity.
- On inflation, the MPC acknowledged that geopolitical developments, elevated commodity prices and adverse weather conditions are expected to exert upward pressure on prices going into 2027. Consequently, both headline and core inflation are expected to trend higher from current levels. However, the MPC continues to maintain that inflation should remain manageable amid existing domestic policy measures and stable demand conditions. Year-to-date, headline inflation averaged 1.8%, while core inflation averaged 1.9%, indicating that underlying inflation pressures remain relatively contained despite elevated global cost risks.
- Importantly, the statement does not suggest that policymakers are becoming materially more concerned about inflation. Rather, the emphasis remains on vigilance and monitoring rather than preparation for imminent policy tightening. In our view, the inflation narrative remains one of gradual normalisation rather than a significant and persistent acceleration in price pressures.
- Overall, the November policy statement can be characterised as modestly more constructive on growth while remaining broadly neutral on monetary policy.
- While BNM has become increasingly confident regarding the resilience of economic activity, the MPC continues to maintain that the current policy setting remains appropriate and consistent with sustainable growth and price stability. The absence of stronger forward guidance on inflation risks suggests policymakers remain unconvinced that current cost pressures will translate into broader second-round effects requiring a policy response.
- The key takeaway is that BNM appears comfortable maintaining policy stability while assessing whether stronger growth eventually translates into firmer domestic demand, stronger wage dynamics and more persistent inflationary pressures. At present, there is insufficient evidence to suggest such conditions have emerged.
- The meeting also approved the schedule of MPC meetings for 2027. In accordance with the Central Bank of Malaysia Act 2009, the MPC will convene six times during the year.

Schedule of Monetary Policy Committee Meetings for 2027

Meeting No	Dates
1st	21 January
2nd	4 March
3rd	6 May
4th	8 July
5th	9 September
6th	4 November

Source: Bank Negara Malaysia, BIMB Securities

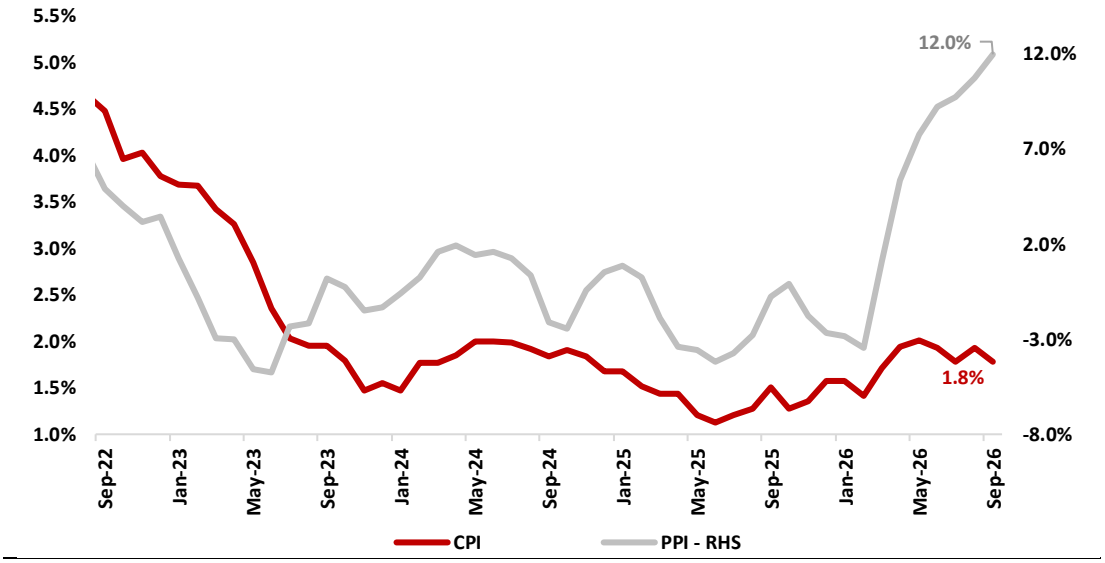
Outlook: OPR to Remain Unchanged in 2027, Though Risks Are Skewed Upward

- We maintain our baseline forecast for the OPR to remain unchanged at 2.75% throughout 2027.
- Although inflation is expected to edge higher next year, we continue to believe that the increase will remain manageable and unlikely to generate sufficiently broad-based price pressures to warrant a rate hike. The latest MPC statement reinforces our view that BNM remains focused on the persistence and breadth of inflation rather than responding mechanically to stronger economic growth or temporary supply-side shocks.
- That said, the balance of risks has shifted modestly towards a more hawkish outcome compared with six months ago. Inflation risks remain elevated due to ongoing geopolitical tensions, potential energy-market disruptions, adverse weather conditions, food supply uncertainties, labour cost increases and possible domestic policy adjustments, including subsidy rationalisation. These factors could contribute to a more persistent inflation environment than currently anticipated.
- Nevertheless, we do not expect stronger GDP growth alone to trigger a policy response. In our assessment, BNM would require clearer evidence that higher growth is translating into sustained wage gains, stronger household spending, faster credit expansion and broader inflationary pressures before contemplating any policy tightening. The central bank is likely to remain highly data dependent and focused on underlying inflation dynamics rather than temporary cost shocks.

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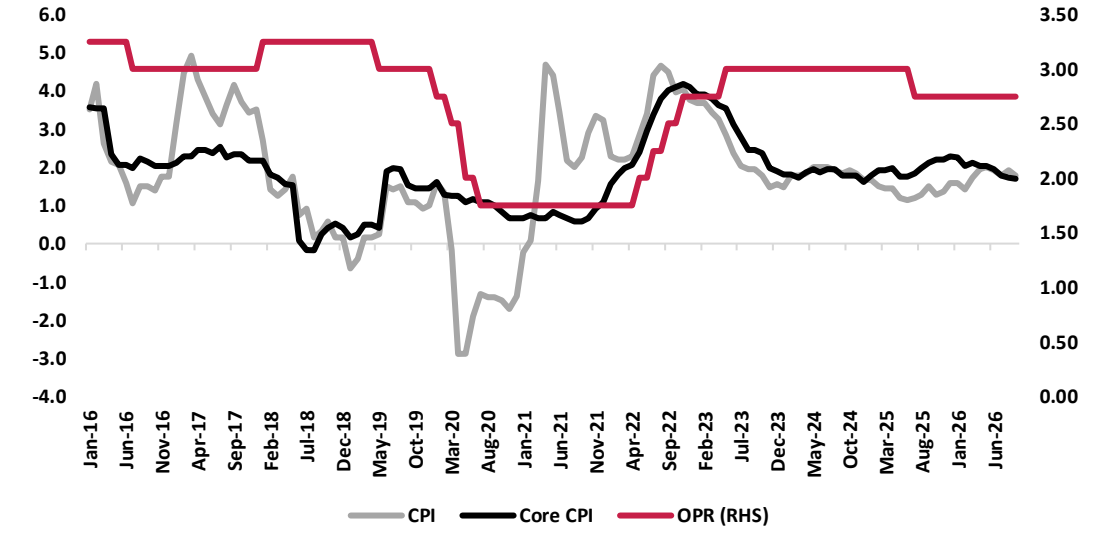
- Recent improvements in global financial conditions further support this view. The moderation in the DXY, easing in Brent crude oil prices and retreat in both UST and MGS yields have reduced near-term pressure on regional policymakers. As financial conditions become less restrictive, the need for BNM to react to external monetary developments has diminished.
- Accordingly, we continue to expect the OPR to remain at 2.75% throughout 2027. However, unlike earlier in the year, we now assess that risks are tilted towards an eventual rate hike rather than a rate cut. Any policy tightening would likely require a sustained rise in core inflation, firmer wage growth, stronger domestic demand and evidence that inflation expectations are becoming less anchored.
- **Bottom Line:** We retain our forecast for no change in the OPR throughout 2027. While Malaysia's growth outlook continues to strengthen, inflation remains manageable and financial conditions have eased following the recent decline in US Treasury and Malaysian government bond yields. Nevertheless, we acknowledge that the policy bias has shifted modestly to the upside, with the hurdle for further tightening now lower than that for easing.

Chart 2: Malaysia CPI and PPI



Source: DOSM, CEIC Data, Bank Islam

Chart 3: OPR vs Inflation Rates (%)



Source: CEIC Data, Bank Islam