From the Desk of the
Chief Economist

BANK ISLAM

Economic Research

10 July 2026/ 24 Muharram 1448H

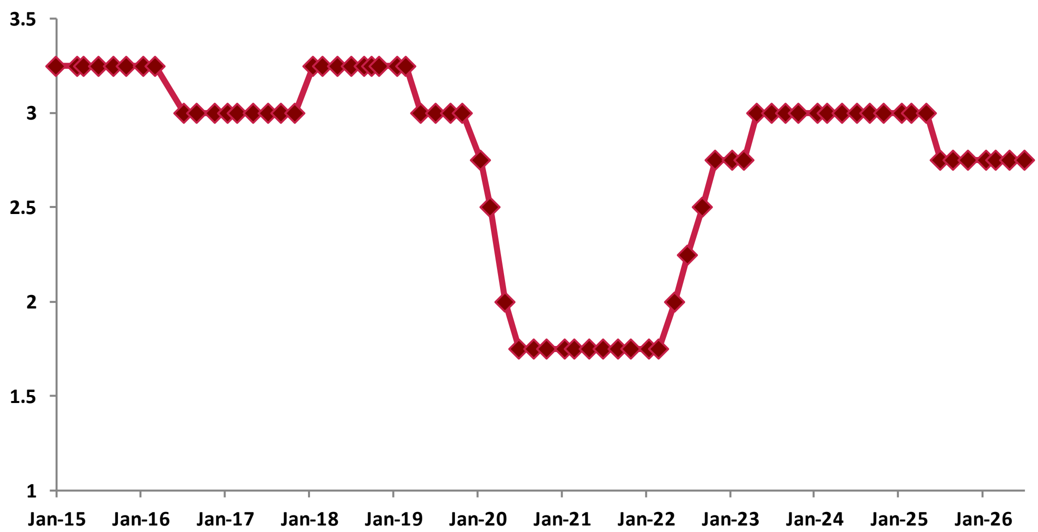
Imran Nurginias Ibrahim | Chief Economist | inurginias@bankislam.com.my

# BNM KEPT OPR UNCHANGED AT 2.75%

- Bank Negara Malaysia (BNM) kept the Overnight Policy Rate (OPR) unchanged at 2.75% at the fourth Monetary Policy Committee (MPC) meeting of 2026, in line with market expectations. The decision reflects the central bank's confidence that the current monetary policy stance remains appropriate amid contained inflation, resilient domestic economic activity and gradually improving external conditions.
- This marks the sixth consecutive MPC meeting in which the policy rate has been left unchanged since September 2025, following the 25-basis-point reduction implemented in July 2025 after almost two years of policy stability. The prolonged pause underscores BNM's preference to preserve monetary policy flexibility while assessing evolving global developments and their potential implications for Malaysia's economy.
- **In its policy statement, BNM reaffirmed that the prevailing OPR level is consistent with maintaining price stability while supporting sustainable economic growth.** The central bank acknowledged that although external uncertainties remain, particularly surrounding geopolitical developments and global financial conditions, recent improvements in the international environment have reduced immediate downside risks compared with earlier in the year.



**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 | - |
| 6th | 5 November | - |

*Source: Bank Negara Malaysia, Bank Islam*

- **BNM adopted a slightly more constructive assessment of the global economy compared with its previous policy meeting**. The central bank highlighted that global growth continues to be supported by resilient demand, ongoing technology-related investment, and further normalization of global supply chains. It also noted that the sustained de-escalation of geopolitical tensions in the Middle East would provide additional support to global trade and manufacturing activity through improved supply chain efficiency.
- Nevertheless, the MPC continues to acknowledge that external risks remain tilted to the downside. Renewed geopolitical tensions, tighter global financial conditions and elevated financial market valuations continue to pose risks to the global growth outlook. Conversely, stronger-than-expected technology investment, faster improvements in global supply chains and additional policy support from major economies could further strengthen global economic activity.
- Perhaps the most notable shift in the July statement is **BNM's stronger conviction regarding domestic economic resilience.**
- **Despite persistent global uncertainties, the MPC assessed that Malaysia's growth momentum remains firmly supported by multiple domestic engines rather than relying solely on external demand.** Household spending continues to benefit from favorable labor market conditions, rising wages, and ongoing government policy support, while investment activity is increasingly underpinned by the implementation of multi-year infrastructure projects, continued execution of approved private investments and strategic national initiatives.
- At the same time, **Malaysia's export sector has continued to outperform expectations.** Strong global demand for semiconductors, artificial intelligence infrastructure and high-value electronics has reinforced the country's position within the regional technology supply chain, while **non-E&E exports have also begun to recover.** The improving breadth of export performance suggests that **Malaysia's external sector is becoming more balanced** rather than relying exclusively on the technology cycle.
- Taken together, these developments explain why BNM reiterated that GDP growth is expected to remain comfortably within its official 4.0%-5.0% forecast range for 2026.
- Unlike earlier in the year, when policymakers appeared more cautious about external

headwinds, the latest statement implies that domestic demand has become sufficiently robust to absorb moderate external shocks without materially altering the broader growth trajectory.

- Although BNM continues to acknowledge upside risks arising from global commodity prices and geopolitical developments, inflation has clearly become a secondary policy consideration rather than the principal driver of monetary policy decisions.
- **Headline and core inflation remain well contained**, while domestic demand conditions have not generated meaningful second-round price pressures. The central bank therefore continues to characterize recent increases in energy and commodity prices as largely supply-driven and temporary, with only limited pass-through into underlying domestic inflation.
- While **upside risks remain**, particularly if energy prices rise sharply following renewed disruptions in the Middle East, **BNM continues to view these pressures as largely supply-driven and therefore temporar**y. Consequently, the MPC appears prepared to look through short-term fluctuations in commodity prices unless they translate into broader and more persistent inflationary pressures.

## *Policy Pause Likely to Extend Through 2026*

- Rather than signaling a shift in policy, Bank Negara Malaysia's decision to leave the OPR unchanged at 2.75% reinforces the central bank's growing confidence that the current monetary policy setting remains appropriately calibrated to Malaysia's macroeconomic conditions.
- The latest MPC statement projects a central bank that has become increasingly comfortable with the evolving macroeconomic landscape. Compared with previous meetings, the tone was noticeably more constructive, reflecting improving external conditions following the easing of geopolitical tensions in the Middle East, continued resilience in global technology demand and stronger domestic economic momentum. While policymakers continue to acknowledge downside risks from geopolitical uncertainty and global financial market volatility, these risks are no longer viewed as sufficiently acute to warrant a pre-emptive policy response.
- More importantly, the latest decision highlights BNM's confidence that the Malaysian economy is now operating within a broadly sustainable equilibrium, where growth remains sufficiently strong to support income expansion while inflation stays comfortably anchored. In such an environment, maintaining policy stability arguably provides greater economic benefits than attempting to fine-tune monetary settings in response to temporary external shocks.
- We continue to **expect BNM to maintain the OPR at 2.75% throughout 2026**.
- The current macroeconomic configuration remains unusually favorable for policy stability. Economic growth continues to expand close to potential, inflation remains comfortably below historical averages, financial conditions remain orderly and the ringgit has become significantly more resilient than during previous episodes of external volatility.
- Malaysia's economic fundamentals also continue to strengthen. Export performance has exceeded expectations, supported by sustained demand for E&E products and AI-related investment, while domestic demand remains underpinned by healthy employment conditions, rising wages, and ongoing investment implementation. We maintain our forecast for Malaysia's

GDP growth at 4.7% in 2026, with inflation expected to remain comfortably within BNM's tolerance for price stability.

- From a policy perspective, the **current environment provides little justification for either tightening or easing.**
- An OPR increase would require evidence that inflationary pressures have broadened beyond imported commodity prices into domestic demand-driven inflation, a scenario we currently view as unlikely. Conversely, an interest rate cut would require a materially weaker growth outlook, significant deterioration in labor market conditions or an abrupt tightening in global financial conditions that threatens domestic economic activity. At present, none of these conditions appear imminent.
- The policy outlook nevertheless remains conditional rather than predetermined. The principal upside risk stems from renewed geopolitical disruptions that could trigger a sustained increase in global energy prices, particularly through prolonged disruptions to shipping routes around the Strait of Hormuz. Should higher oil prices begin feeding into broader consumer prices and inflation expectations, BNM's tolerance for maintaining accommodative monetary settings would diminish.
- On the downside, a sharper-than-expected slowdown in global growth, renewed trade disruptions or a significant deterioration in global financial conditions could weaken Malaysia's export performance and domestic investment cycle sufficiently to justify policy accommodation.
- However, these scenarios currently remain tail risks rather than our base case. **With inflation well contained and growth remaining close to its medium-term potential, the central bank can afford to remain patient, allowing existing monetary settings to continue supporting sustainable economic expansion while retaining ample flexibility to respond should macroeconomic conditions materially change.**