THE STAR (MY)

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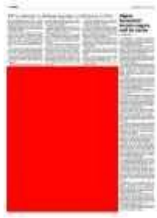
Interest rates expected to remain at 3% in 2025

Sentiment	Neutral	**Frequency**	Daily
Outlet Country	Malaysia	**Outlet Language**	English
Impressions	582,136	**Circulation**	291,068
PR Value	174,641	**Page**	2

Page Location



Interest rates expected to remain at 3% in 2025

Sound economic fundamentals, fiscal reforms positives

ECONOMY

PETALING JAYA: Despite surprise rate cuts in some Asean countries due to weak domestic demand, Malaysia is expected to maintain its overnight policy rate (OPR) at 3% throughout 2025, as analysts cite resilient economic fundamentals and fiscal reforms.

Maybank Investment Bank Research (Maybank IB) expects the OPR to remain unchanged this year to support domestic demand amid a slight easing in gross domestic product (GDP) growth.

"We expect the OPR to remain at 3% this year to support domestic demand, as we forecast a slight easing in GDP growth this year at 4.9%, compared to 5.1% in 2024, amid the combo of external headwinds from US President Donald Trump's trade/tariff policy moves, and the domestic tailwinds from firmer consumer spending and continued investment upcycle," it noted.

The research house expects inflation to rise to 3% in 2025 from 1.8% in 2024, due to cost-push factors arising from structural and fiscal reforms, including higher labour costs from minimum wage reviews, foreign workers' multi-tier levies and mandatory Employees Provident Fund contributions.

Additionally, the targeted rationalisation of RON95 petrol subsidies, increases in local government taxes and a potential review of Tenaga Nasional Bhd's base electricity rate in July 2025 are expected to contribute to price pressures, it said.

Maybank IB also noted that the narrowing interest rate differentials between Malaysia and advanced economies, particularly the United States, support the stability of the ringgit.

"The ringgit has been relatively stable against the US dollar amid the market volatility in response to Trump 2.0's tariff actions and threats. We see this as another reason for Bank Negara to keep OPR stable," it said.

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Similarly, TA Research expects the central bank to maintain the OPR at 3% for the year.

"Malaysia's economy is still regaining strong momentum while facing downside risks from US tariffs.

"The Monetary Policy Committee (MPC) remains vigilant in assessing inflation and growth dynamics, ensuring that monetary policy supports sustainable economic expansion while preserving price stability," it noted.

TA Research highlighted that the Federal Reserve is expected to hold off on interest rate cuts until at least mid-2025.

"The probability of a rate cut in March and May remains low at 7% and 41.6%, respectively.

"However, the likelihood increases significantly to 79% for the June meeting," it noted, adding that this external backdrop reinforces the view that there is no urgency for Bank Negara to ease local rates.

The next MPC meeting is scheduled for May 7-8, while Bank Negara on March 24 is set to release its latest macroeconomic projections, including the Annual Report 2024, Economic and Monetary Review 2024 and Financial Stability Review for the second half of 2024.

"These reports will offer key insights into the central bank's economic outlook and may provide indications of future monetary policy direction," it said.

Meanwhile, TA Research said that during an analyst briefing, Bank Negara acknowledged that tariffs could impact Malaysia, given its status as a small open economy, particularly if global trade disruptions intensify.

"Nonetheless, Malaysia's resilient domestic economic performance provides a buffer against external weaknesses," it noted.

"When asked about the possibility of GDP growth falling below the government's forecast range of 4.5% to 5.5%, Bank Negara expressed confidence that the range remains appropriate, emphasising that only a significant shock would warrant a downward revision."

CIMB Securities Research also expects an extended pause in the OPR, citing resilient growth and benign inflation.

"The decision to maintain the OPR at 3% for the 11th consecutive meeting was widely anticipated, as the revised fourth-quarter 2024 GDP data affirmed solid growth momentum at 5% year-on-year, while inflation remained benign at 1.7% year-on-year in January," it noted.

Despite external uncertainties, the research outfit said the MPC voiced confidence in Malaysia's economic resilience, anchored by domestic catalysts such as job and income gains and the investment upcycle.

"This contrasts with Thailand and Indonesia, where concerns about domestic demand triggered surprise policy rate cuts," it said.

On inflation risks, CIMB Securities Research said that the MPC did not express concerns about demand-pull inflation, as wage-related policies were assessed to have a limited impact.

"Subsequently, the impact of domestic policy reforms, likely in reference to the planned RON95 subsidy targeting, is expected to be contained as well," it noted.

According to the latest government guidance, CIMB Securities Research said the targeted RON95 subsidies will follow a mechanism similar to the diesel subsidy, with market-based pump prices.

"MyKad will be used as the primary reference in targeting RON95 subsidies, while discussions are ongoing among relevant ministries and agencies to identify eligible groups," it added.

The research house said, if successfully implemented this year, the targeted RON95 subsidies could provide marginal fiscal benefits.

"Pro-rated savings from RM8bil or 0.4% of GDP have been guided by the government, depending on the timing of implementation," CIMB Securities Research noted.