

Policy Considerations

Highlights of the July 2025 MPC Meeting

- At the July 2025 meeting, the Monetary Policy Committee (MPC) reduced the OPR by 25 basis points to 2.75% given prevailing risks to domestic growth prospects, amid an environment of price stability.
- The MPC remains vigilant to ongoing developments and will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

The OPR reduction is a pre-emptive measure to preserve Malaysia's steady growth path amid moderate inflation prospects

After keeping the OPR unchanged at 3% in its May 2025 meeting, the MPC decided to reduce the OPR by 25 basis points to 2.75% at the recent July 2025 MPC meeting. The adjustment to the OPR is a pre-emptive measure to preserve Malaysia's steady growth path amid external uncertainties, in an environment of domestic price stability.

At the July meeting, the latest indicators pointed towards continued expansion in global growth, supported by sustained consumer spending and to some extent, front-loading activities. The MPC assessed that the global growth outlook would remain supported by positive labour market

conditions, less restrictive monetary policy and fiscal stimulus. This outlook is weighed down by uncertainties surrounding tariff developments, as well as geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets and commodity prices.

For Malaysia, the latest developments as of the July MPC meeting pointed towards continued growth in economic activity in the second quarter, underpinned by sustained domestic demand and export growth. Moving forward, the MPC assessed that growth is expected to be supported by resilient domestic demand. Employment and wage growth, particularly within domestic-oriented sectors, as well as income-related policy measures, will support household spending. The expansion in investment activity will be sustained by the progress of multi-year projects in both the private and public sectors, the continued high realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under the national master plans. Favourable trade negotiation outcomes, pro-growth policies in major economies, continued demand for electrical and electronic goods, and robust tourism activity could raise Malaysia's export prospects. However, the MPC assessed that the balance of risks to the growth outlook remains tilted to the downside, stemming mainly from a slower global trade, weaker sentiment, as well as lower-than-expected commodity production.

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Headline and core inflation averaged 1.4% and 1.9% in the first five months of the year respectively. Overall, inflation in 2025 is expected to remain moderate, amid contained global cost conditions and the absence of excessive domestic demand pressures. Inflationary pressure from global commodity prices is expected to remain limited, contributing to moderate domestic cost conditions. In this environment, the overall impact of the announced and upcoming domestic policy reforms on inflation is expected to be contained.

The ringgit performance will continue to be primarily driven by external factors. Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

While the MPC assessed that the domestic economy is on a strong footing, uncertainties surrounding external developments could affect Malaysia's growth prospects. The reduction in the OPR is, therefore, a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects. The MPC will continue to remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.