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Economist expect a rate cut as early as July

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MONETARY POLICY

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KUALA LUMPUR: Bank Negara Malaysia has kept the Overnight Policy Rate (OPR) at 3.0 per cent but economists expect a rate cut as early as July amid growing downside risks to the economy.

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the current monetary policy stance remains appropriate, but weakening external conditions could prompt policy easing in the coming months.

"We are still maintaining our view that the OPR would be reduced in the second half, possibly July or September."

He pointed to Bank Negara's move to lower the statutory reserve requirement from 2.0 per cent to 1.0 per cent which will add RM19 billion of liquidity into the banking system, as a signal that the central bank is preparing to support the economy if needed.

"Although it is not a signal of monetary policy stance, it shows that Bank Negara will use necessary policy tools to support the economy," Putra Business School Assoc Prof Dr Ahmed Razman Abdul Latiff believes a rate reduction is becoming more justifiable, and July may be the most suitable window.

He also believes Bank Negara should consider lowering the OPR to 2.75 per cent to help stimulate domestic demand in the face of external headwinds.

He said Bank Negara is observing the situation closely and most likely will make a decision once the implication of US tariffs is made clearer.

"The decision by the United States Federal Reserve (Fed) to maintain the rates is also another factor for Bank Negara to maintain the same position."

Economist Dr Geoffrey Williams said a cut is unnecessary in the near term as Malaysia's direct exposure is limited and upcoming trade agreements could offset the risks.

"I do not see a need in the foreseeable future for rates to be cut. In fact, the Fed and most global banks are holding a wait-and-see stance."


In keeping the benchmark rate, Bank Negara cited continued global growth and trade, supported by domestic demand and front-loading activities.

The central bank has kept the OPR at 3.0 per cent for 12 consecutive meetings since May 2023.

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DR MOHD AFZANIZAM ABDUL RASHID
Bank Muamalat Malaysia
Bhd chief economist

NSTP PIC
BY EIZAIRI
SHAMSUDIN



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