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QUARTERLY

ECONOMY TRACKER

Malaysia's Economic Outlook in 2025: Can the Government Rise to the Challenge?

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THE "VUCA" YEAR 2025

- **A sustained period of resilient growth in 2H 2024.** The global economy sailed reasonably well to grow by 3.2% in 2024, driven by falling inflation, positive labour market conditions, resilient consumer spending and less restrictive monetary policy.

- This period is still marking rising geopolitical tensions in several regions, with the persistent military conflict in Ukraine was compounded by the conflict in Israel and Middle-East, a historically conflict-ridden region.

- With Donald Trump heading to the White House as the 47th President of the United States of America, the potential implementation of the tariffs policy, investment incentives and tax cuts as well as energy policy would stir significant and volatile responses in the global economy, capital flows and financial markets.

- **2025 is the year of volatility, uncertainty, complexity, and ambiguity (VUCA).** The global economy will stay on course experiencing a moderate growth estimated 2.9% in turbulent times, shaped by both supportive fiscal and monetary policies amid challenging factors. It remains below the long-term average global economic growth of 3.8% in 2000-2019.

- While the easing inflation and continued monetary easing trajectory, albeit cautiously are expected to support the global economy in 2025, persistent geopolitical conflicts and concerned about the uncertainty and instability associated with the Trump upending trade and economic policies would pose headwinds not only to the US economy but also to emerging economies.

- **Economic growth will vary among advanced and emerging economies.** Real GDP growth though continues, but will be below recent historical averages.

  (a) Recent indicators suggest that the **US economy** has continued to expand at a solid pace with GDP rose at an annual rate of 2.7% in Q3 2024. Consumer spending remained resilient, and capital investment has strengthened. With the heightened Trump's policies uncertainty, the US economy is likely to settle at lower growth estimated at 2.2% in 2025 from a brisk growth of 2.9% in 2024.

  The US Federal Reserve (Fed) has to keep inflation risks at bay as the Trump's agenda on higher tariffs, and immigration crackdown could fuel inflation. The upside risks to core inflation, in particular services could come from resilient consumer spending, impending tariff hikes are set to push up import prices and tighten immigration at a time when the labour participation is relatively low constrains the labour force.

  (b) The **euro area economy** accelerated to a seasonally adjusted 0.4% qoq and 0.9% yoy, respectively, in Q3 2024 (0.2% qoq and 0.5% yoy respectively, in Q2), marking the strongest expansion in two years. Private spending and investment helped the improvement. However, GDP growth has seen losing some steam in Q4 due to a slowdown in demand. The disinflation process remains on track.

Growth in the euro area is expected to improve slightly to 0.9% in 2025 from estimated 0.6% in 2024. Lower interest rates and looser financing conditions are set to improve consumer spending and increase fixed investment. However, businesses and investors are concerned about rising US protectionism under the Trump 2.0 that could cloud the export sector and a loss of dynamism as well as the fiscal consolidation in some large economies would weigh on demand prospects.

(c) The **Japanese economy** continues to exhibit uneven performance. While real GDP growth moderated to 0.3% qoq in Q3 (0.5% in Q2), it bounced back to increase by 0.5% yoy in Q3 from a 0.9% decline in both Q1 and Q2, marking the best performance since Q4 2023. While private consumption and government spending increased, external demand continued to deteriorate.

We expect Japan's economy to maintain a modest pace of growth of 1.0% in 2025 (estimated 0.2% in 2024) amid domestic challenges and growing external threats. Private consumption remains weak despite continued wage growth as persistent inflation and the falling yen eat into household purchasing power. The downside risks to growth outlook have grown with the Trump's administration threatening higher tariffs, placing further pressure on the yen.

(d) Deflation pressures, weak domestic private demand, and the prolonged adjustment in real estate sector continued to dampen **China's economy**. Real GDP growth moderated to 4.6% yoy in Q3 (4.7% in Q2), marking the softest growth since Q1 2023. While the services sector strengthened, the industry and agriculture sectors had experienced slowdown. Exports in US dollar term grew unevenly for eight months in a row since April 2024 to grow by 5.4% yoy in the first eleven months of 2024. November's economic data showed mixed signals – improving property prices for a second straight month, raising prospects for a gradual stabilisation and an eventual bottoming out of the property going into 2025, while other economic data such as fixed investment, retail sales and value added of the industry showed a mixed performance.

The effectiveness and scale of domestic stimulus as well as the responsiveness of Chinese consumers and investors will determine whether or not China's economy will be reinvigorated and continues to sustain at steady growth path. Since late September, the Beijing authorities have rolled out interest rate cuts and property measures as well as kicked off an unprecedented CNY800 billion (about USD112 billion) rescue package for the stock market.

We estimate China's real GDP to grow by 4.5% in 2025 (estimated 4.8% in 2024). The authorities will continue to implement proactive fiscal support and appropriate loose monetary policy to expanding domestic demand and boosting consumption. The stimulus measures, including cut in multiple policy rates support the economy into 2025.

- **The Trump 2.0 implications.** The Trump's stated policy on reducing the immigrant labour force, placing large tariffs on important trading partners, and cutting taxes to spur consumer spending and investment are inflationary-induced and could reset the Fed's interest rates trajectory. Additionally, resilient consumer spending backed by a healthy labour market and continued pent up demand for services are expected to keep services inflation high.

- Investors were preoccupied with the pending outcome of the Trump's plan for across-the-board tariffs on imports as they pose potential downside risk to global trade, economic and earnings growth. Some viewed the tariff policy would not be as damaging as feared it is more of a negotiating tool to reach a beneficial agreement in favour of the US with trading partners, most importantly, China. One should expect the impact on China to be even more direct. It is expected that larger trade drags in more trade-exposed economies, while certain emerging economies could get a boost from trade diversions away from China. The amount of the tariffs and products to be imposed, the countries targeted and how those countries respond will determine what the broader economic impact will be.

- As for the redirection of investment flows from the US FDI companies back to the US economy due to the industrial policy and tax cuts, the impact could see lower US outbound FDI to other countries, especially for those large recipients of US FDI.

- **Inflation and interest rates trajectory.** The global disinflation process continues, but the key components of core inflation revealed that there was bumpiness in services inflation in some advanced economies. Some price pressures are persistent, including those from the services sector and wage growth. The limited progress towards inflation goals in recent months suggest stickiness in the last mile of disinflation to meet some major central banks' target.

- There remain upside risks to inflation. These could stem from intensifying global geopolitical conflicts and ensuing risk to the supply chains, commodity and energy prices. Trump's economic plans would worsen inflation. Risks to the US monetary policy from services inflation, tariffs, and immigration policies.

- The **US Federal Reserve (Fed)** ended the year of 2024 with three consecutive months of reduction, bringing the Fed fund rate to 4.25%-4.50% at end-December 2024. The Fed is starting to contend with how President Donald Trump and his ambitious economic and trade policies could reignite higher inflation in 2025. The Fed Chair has acknowledged that the uncertainty surrounding what effects the Trump's policies may have on the Fed's rate path, and will consider them when those policies are implemented. Hence, the Fed has signalled a shallower, slower path of easing throughout 2025. We expect the Fed to cut interest rates by 50 basis points in 2025.

- The **European Central Bank (ECB)**'s pivot toward easing has been driven by falling inflation and lacklustre economic growth. With the Eurozone's annual inflation eased to 2.2% in November from 2.8% in January 2024 (average 5.5% in 2023), and near economic growth stagnation (0.4% qoq in Q3), the ECB will continue its gradual approach to its monetary easing. We expect the ECB to cut its deposit facility rate by a cumulative of 100 basis points at each monetary policy meeting to reach 2.00% by 1H 2025.

- **Bank of Japan (BoJ)** ended 2024 by keeping its overnight call rate at 0.25% as policymakers preferred to tread cautiously in raising interest rates amid uncertainty surrounding Japan's economy though consumer prices remain high. Concerns over the impact of Trump's economic agenda on the US economy and the prolonged strength of the US dollar, and the spillover effects on the Japanese economy could complicate the BoJ's interest rate decision-making.

- The yen carry trade could make a comeback in 2025, driven by wide gaps in the interest rate differentials between the US and Japan and higher government borrowing in the US. These conditions make it more attractive to borrow in Japan and then deploy the funds in higher yielding markets around the world.

- The **People's Bank of China (PBC)** will deliver the biggest interest rate cuts starting early 2025 as policymakers intensify efforts to shore up growth and arrest deflation amid the Trump's economic and trade policies-induced disruptions on the global economy and export-oriented economies in the region, which are China's major trading partners.

- A number of central banks in ASEAN will continue to cut interest rate in 2025, but will be shallower than that of advanced economies. These central banks will still be keeping tab on the geopolitical tensions in Ukraine and Middle East, the monetary stance in advanced economies as well as global commodities and energy markets.

Key risks in 2025 – What could go wrong?

- **Risk 1: Topping the list is geopolitical tensions and military conflicts**, which are expected to continue to dominate and any escalation will have inevitable knock-on effects on the economy, financial, and commodity markets. The US President Trump's new administration could take a new position to influence the direction of efforts to help ending the ongoing military conflicts in the Ukraine and Middle-East.

- The Russia-Ukraine war continues amid President Trump has called for immediate ceasefire in December 2024. In late November 2024, Israel and Lebanon-base Hezbollah agreed to a ceasefire to be implemented in phases over 60 days. However, the peace may remain fragile as it remains to be seen how the truce might affect Palestinians for the Gaza war to end.

- **Risk 2: Global trade war**, which is likely to be wider under the Trump' second term Presidency as he may impose tariffs go beyond 60% on imports from China and 10%-20% universal tariffs on imports from other countries. Most importantly, the US's trading partners could retaliate, inviting further counter-protectionist measures amongst major advanced economies. The trade war could potentially shave off global GDP growth by between 0.5% points and 1% points, and also raises inflation by at least one-tenth percentage points.

- **Risk 3: Inflation risk flares up.** Trade conflicts and tariffs between key economies could affect the prices of imported goods, making consumer goods more costly and intermediate inputs more expensive. Consumer inflation will rise again, and the businesses and producers may force to pass-through increased business costs onto end-consumers. Market focus is on the Fed's interest rates path in 2025.

- Global investors must remain vigilant over downside risks such as a disruptive global trade war, inflation risk flares up, a sudden spike in bond yields and a shocking pivot by the Federal Reserve toward rate hikes.

- **Risk 4: Soaring global debt**, in particular public debt. In 2024, global public debt is forecast to reach USD102 trillion, with the rising levels of debt coming from the US (34.6% of total), China (16.1%), and Japan (10.0%). Rising public debt levels have constrained fiscal flexibility for many governments, compelling them to act fast to reduce their deficits before it is too late. The US debt is growing quickly, reaching USD36.2 trillion at end-December 2024 or over 120% of GDP.

- Unsustainable fiscal deficits and public debt levels would undermine macroeconomic and financial stability. A point in time will come when investors demand a higher interest rate (yields) for buying the US bonds to finance its persistently widening budget deficits. We have seen emerging signs of market participants' growing discomfort with the need to absorb the burgeoning supply of public debt.

Global Economic and Monetary Conditions

Real GDP growth (%, Y-o-Y)

	2023	2024 Q1	2024 Q2	2024 Q3	2024F (IMF)	2024F (WB)	2025F (IMF)	2025F (WB)
World	3.3	N/A	N/A	N/A	3.2	2.6	3.2	2.7
United States	2.9	2.9	3.0	2.7	2.8	2.5	2.2	1.8
Euro Area	0.4	0.4	0.5	0.9	0.8	0.7	1.2	1.4
China	5.2	5.3	4.7	4.6	4.8	4.8	4.5	4.3
Japan	1.5	-0.9	-0.9	0.5	0.3	0.7	1.1	1.0
India	8.2	7.8	6.7	5.4	7.0	7.0	6.5	6.7
Malaysia	3.6	4.2	5.9	5.3	4.8	4.9	4.4	4.5
Singapore	1.1	3.0	3.0	5.4	2.6	N/A	2.5	N/A
Indonesia	5.0	5.1	5.0	4.9	5.0	5.0	5.1	5.1
Thailand	1.9	1.6	2.2	3.0	2.8	2.4	3.0	3.0
Philippines	5.5	5.8	6.4	5.2	5.8	6.0	6.1	6.1
Vietnam	5.1	5.9	7.1	7.4	6.1	6.1	6.1	6.5

Note: *World GDP growth for 2023 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available*

Source: *Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), Article IV); World Bank (Global Economic Prospects)*

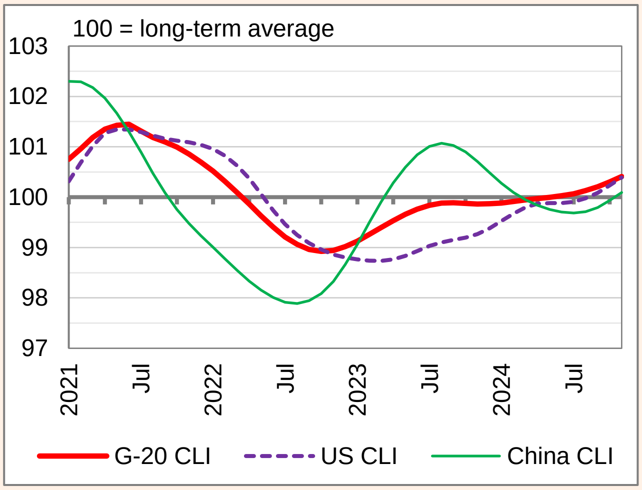
Policy rate (%)

End-period of	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025f
US, FED Federal Funds Rate	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	3.75-4.00
Euro Area, ECB Deposit Facility	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.00
Japan, BOJ Overnight Call Rate	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	0.75
China, PBC 1-Year Loan Prime Rate	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.45	3.10	3.00
UK, BOE Bank Rate	0.50	0.25	0.50	0.75	0.75	0.10	0.25	3.50	5.25	4.75	3.75
Australia, RBA Cash Rate	2.00	1.50	1.50	1.50	0.75	0.10	0.10	3.10	4.35	4.35	3.35
India, RBI Policy Repo Rate (LAF)	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50	6.00
Korea, BOK Base Rate	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.25	3.00
Malaysia, BNM Overnight Policy Rate	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00	3.00
Indonesia, BI BI-Rate	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	6.00	6.00	5.50
Thailand, BOT 1-Day Bilateral Repo Rate	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.50	2.25	2.00
Philippines, BSP Target RRP Rate	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.50	5.75	5.25

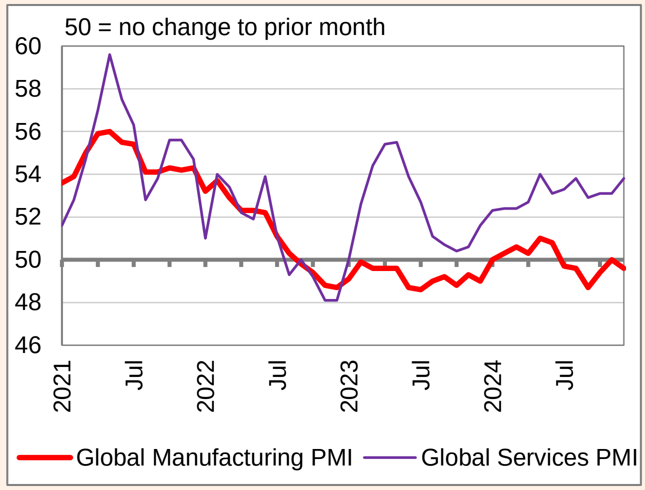
Source: *Officials; SERC*

Global Current and Forward Indicators

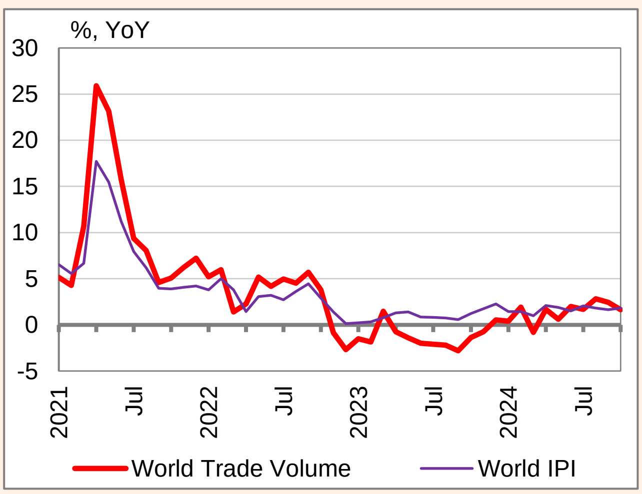
OECD composite leading indicators signal steady growth outlook



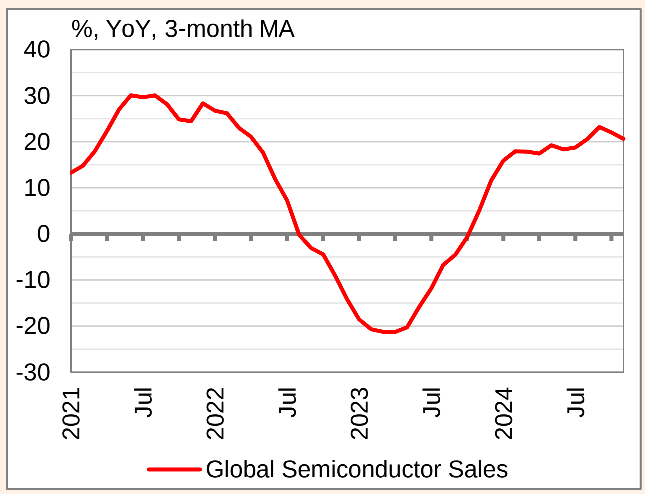
Global manufacturing PMI dipped below 50-pt in Dec



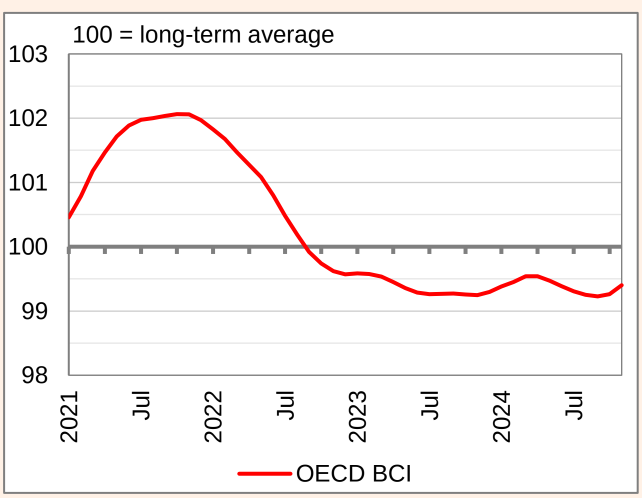
Global trade volume grew for the seventh consecutive month in Oct 2024



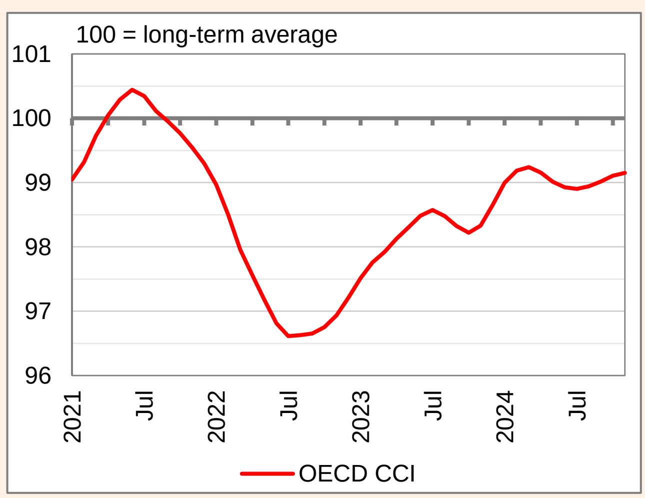
Global semiconductor sales surged 19.4% yoy in Jan-Nov 2024



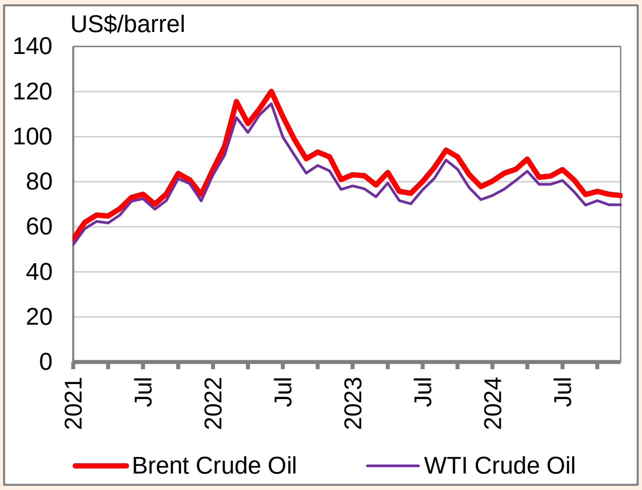
OECD Business Confidence Index



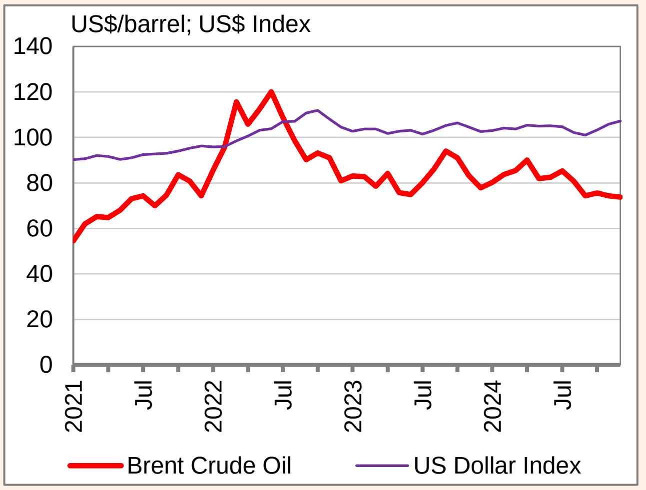
OECD Consumer Confidence Index



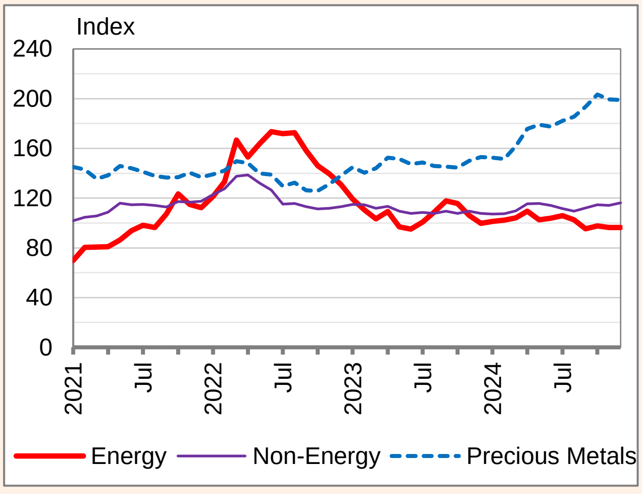
OPEC Plus extended a voluntary adjustment in production to end-Dec 2026



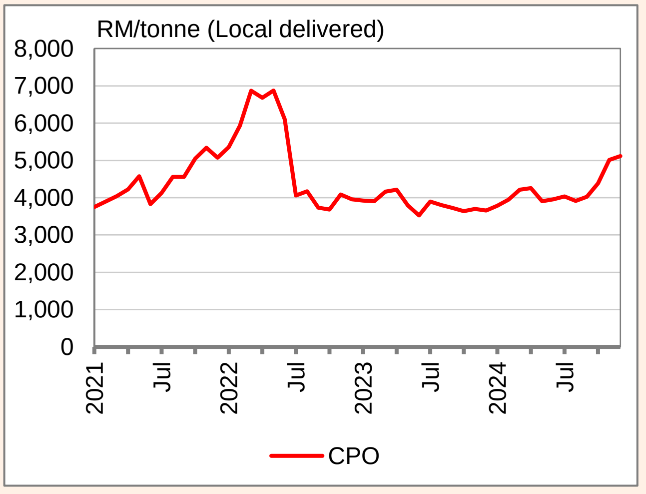
Brent crude oil price vs. the US dollar index



Gold prices remained elevated, non-energy prices trended upward



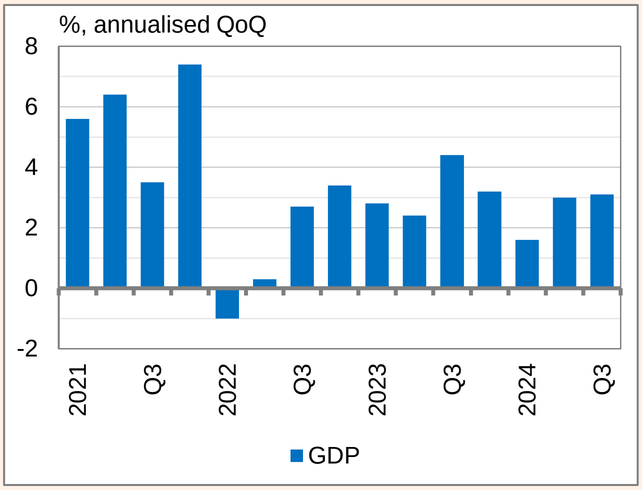
Crude palm oil prices averaged RM4,179.50 in 2024



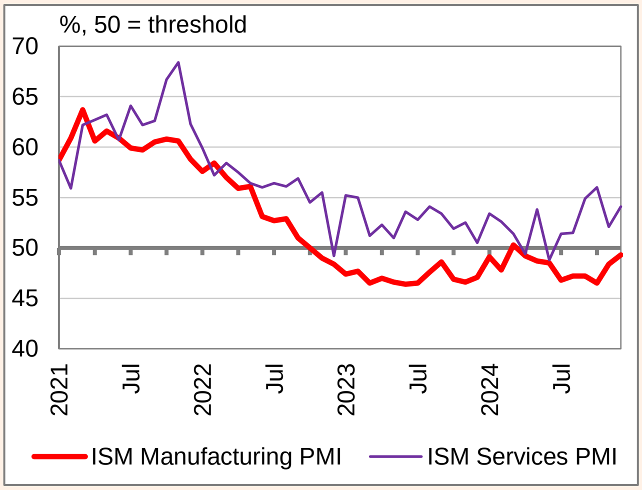
Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Semiconductor Industry Association (SIA); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)

The US – All eyes are on Trump's policies

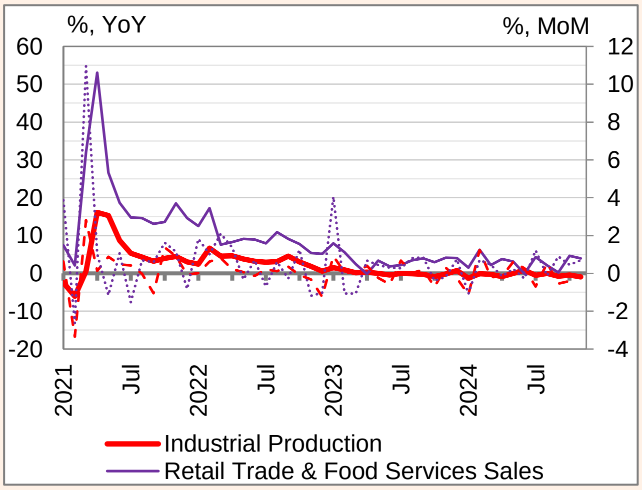
The US economy was driven by private consumption and government spending



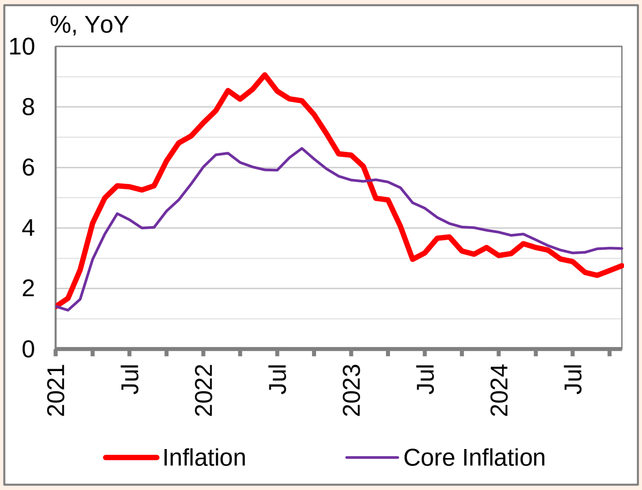
Manufacturing PMI stayed below threshold for nine straight months in Dec



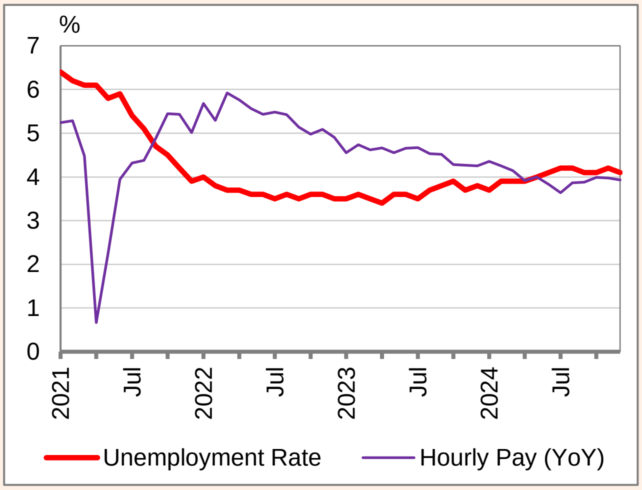
Industrial production shrank for the third consecutive month in Nov 2024



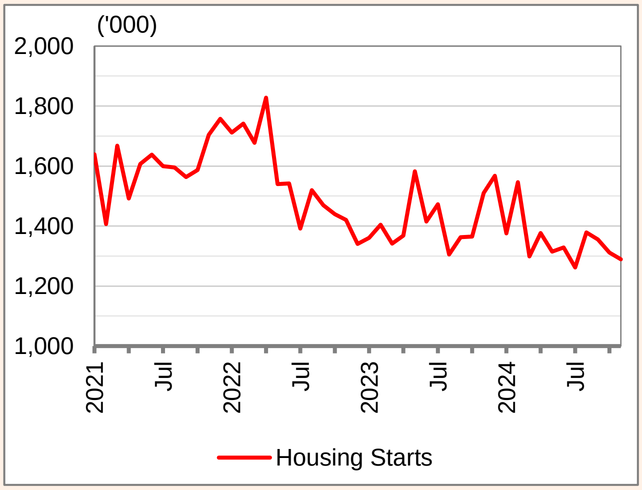
Inflationary risks are set to intensify under Trump's policies



Labour market remained resilient



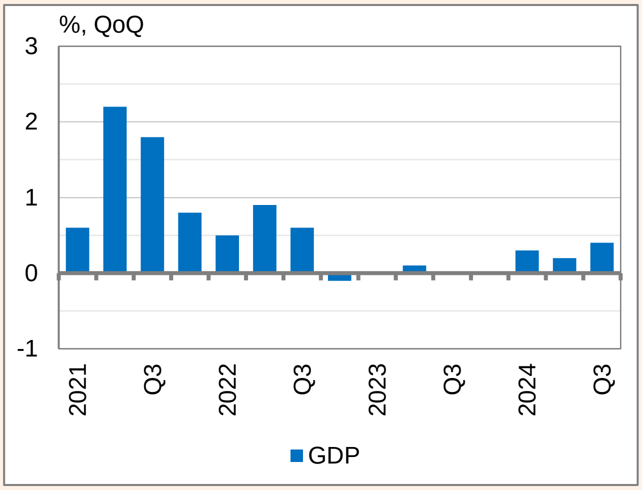
Housing starts weakened



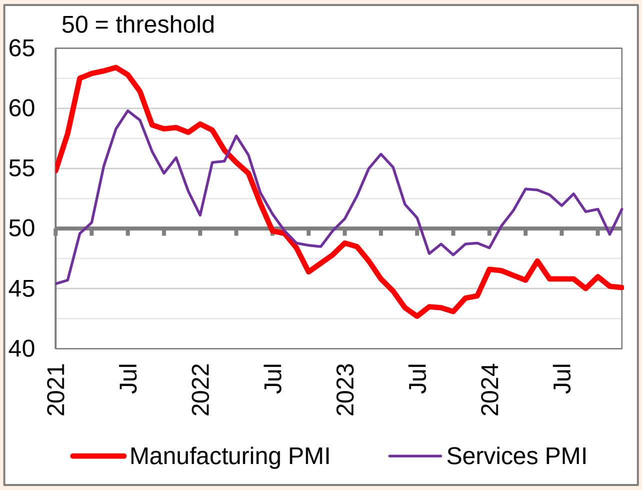
Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

Euro Area – Modest expansion in 2025

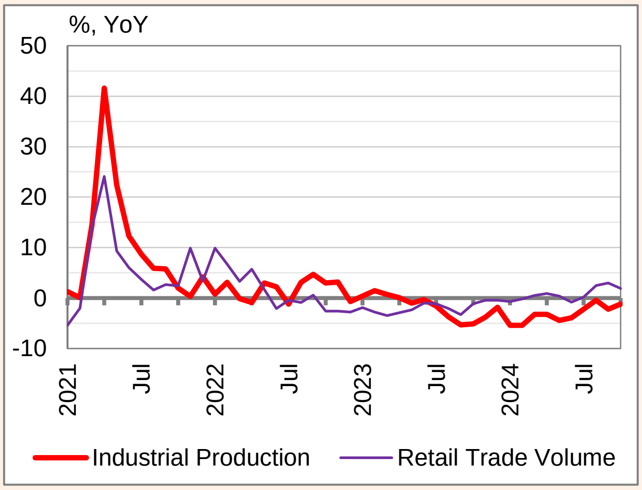
Eurozone economic growth may lose some momentum in Q4 2024



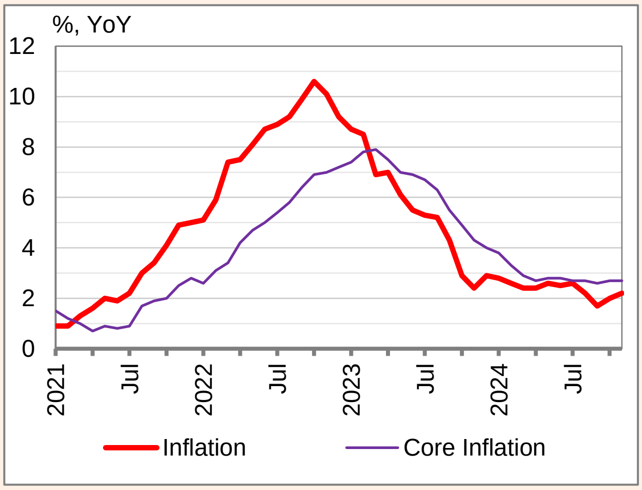
Manufacturing PMI has persistently stayed below the threshold



Industrial production posted an 18-month decline in Oct 2024

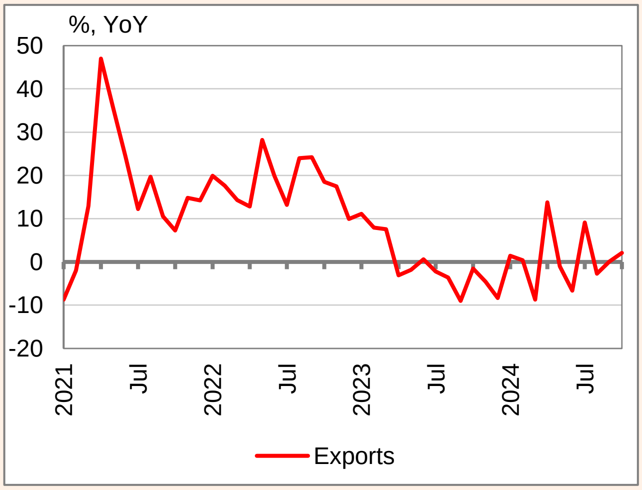


Disinflationary trend continues



Jobless rate at record low of 6.3% in Aug-Nov 2024

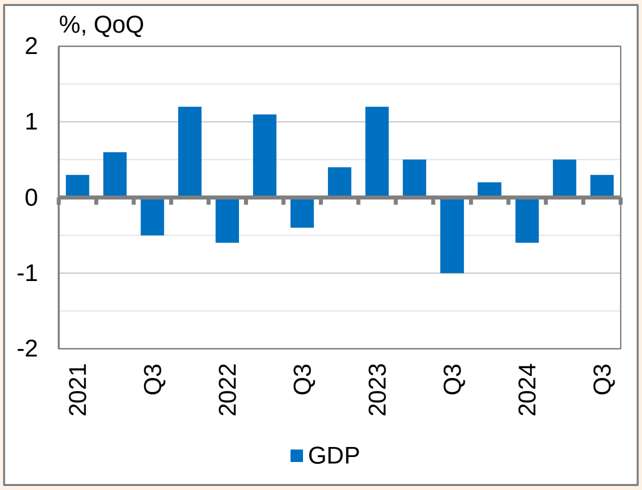
Export growth exhibited uneven performance



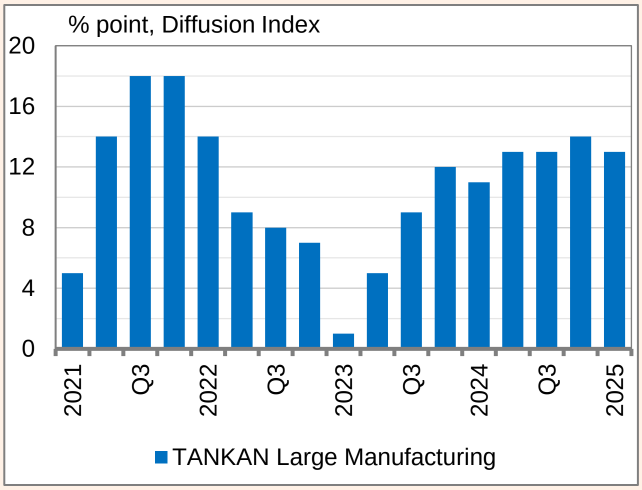
Source: Eurostat; S&P Global

Japan – Struggling with a falling yen

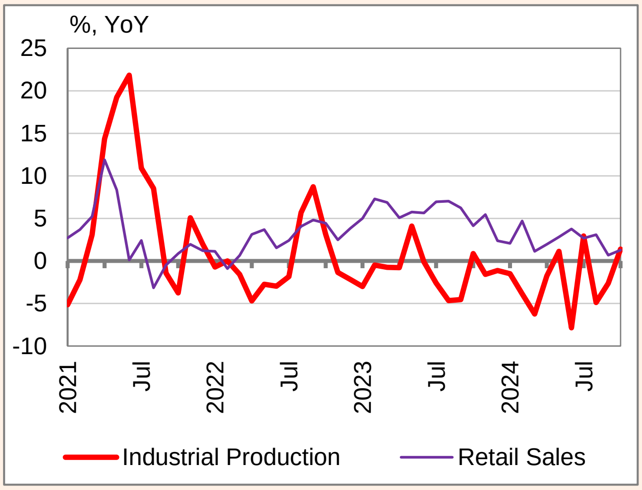
The Japanese economy showed uneven growth



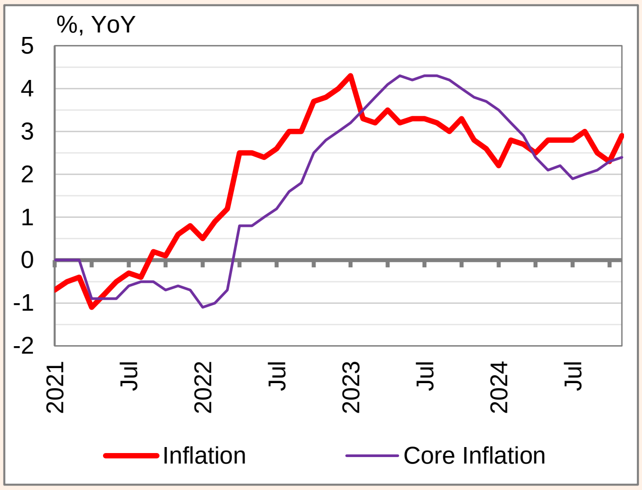
TANKAN survey signals continued expansion in the manufacturing sector



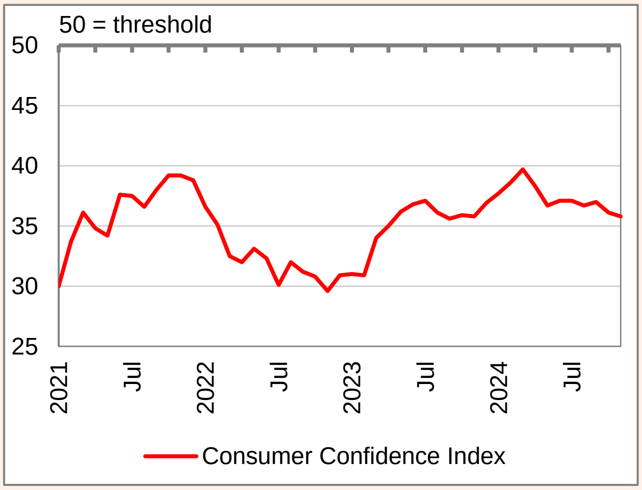
Retail sales growth moderated amid uneven industrial production growth



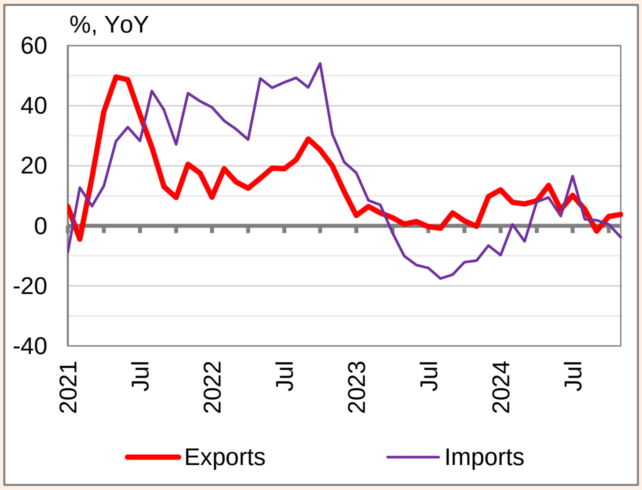
Inflationary pressure rises, partly due to the falling yen



Consumer confidence dampened on the weakening yen



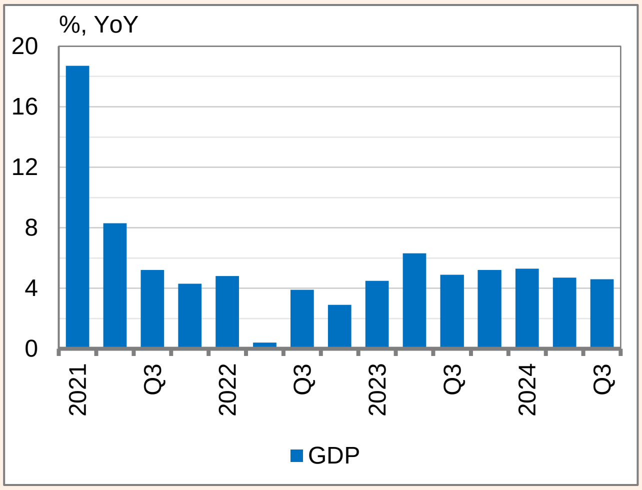
Trade deficit for five months in a row since Jul 2024



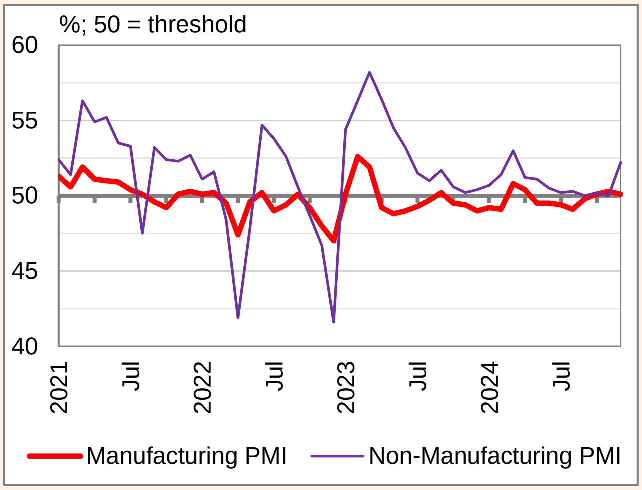
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs

China – Will the massive stimulus work?

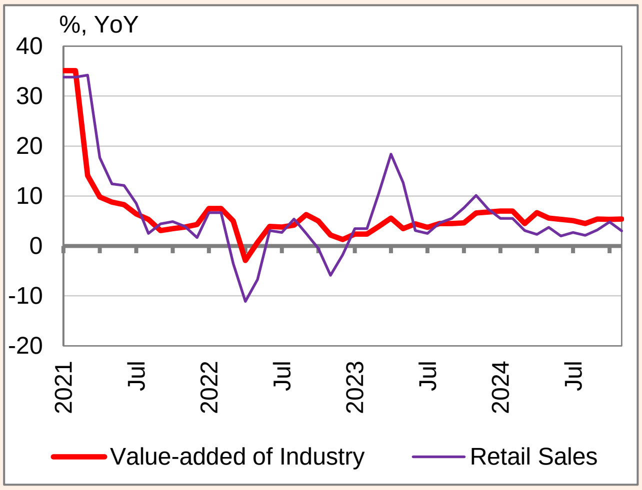
China's economy is expected to grow by 4.8% in 2024



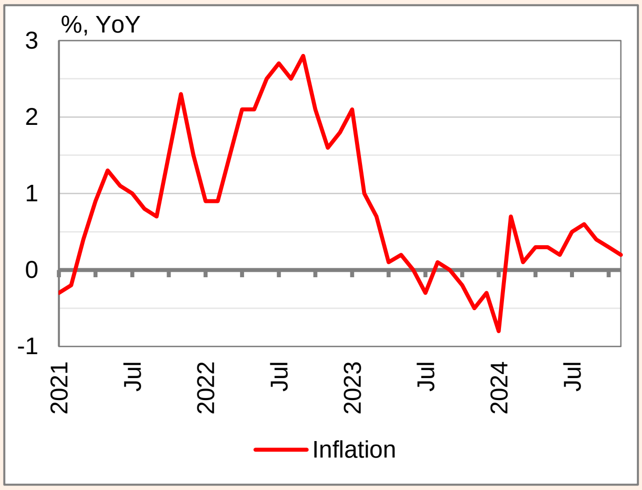
Manufacturing PMI returned to positive trajectory in Q4 2024



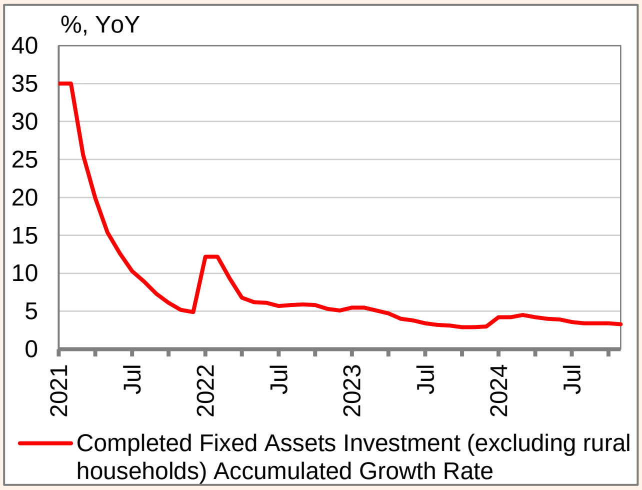
Industrial production growth remained stable at around 5%



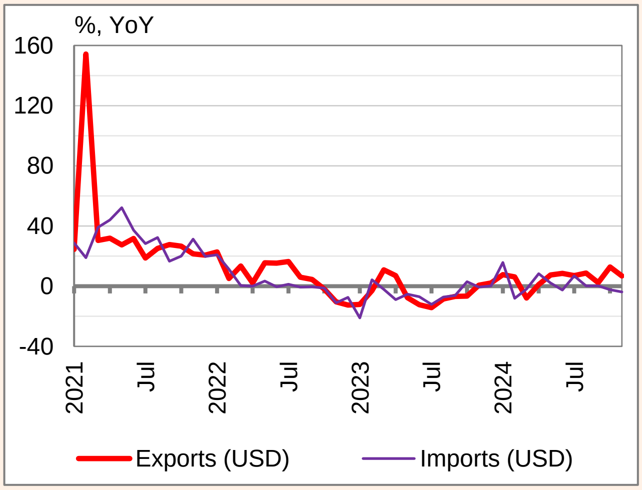
Deflationary risk suggests weak consumer demand



Fixed investment growth decelerated due to weak property investment



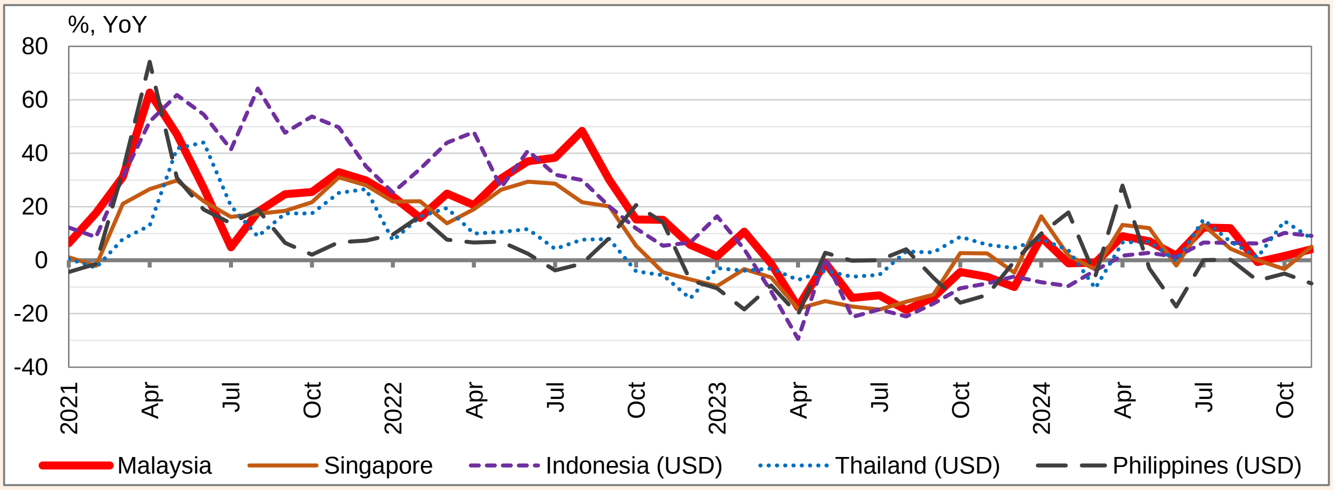
Export value (in USD terms) reached a 26-month high in Nov 2024



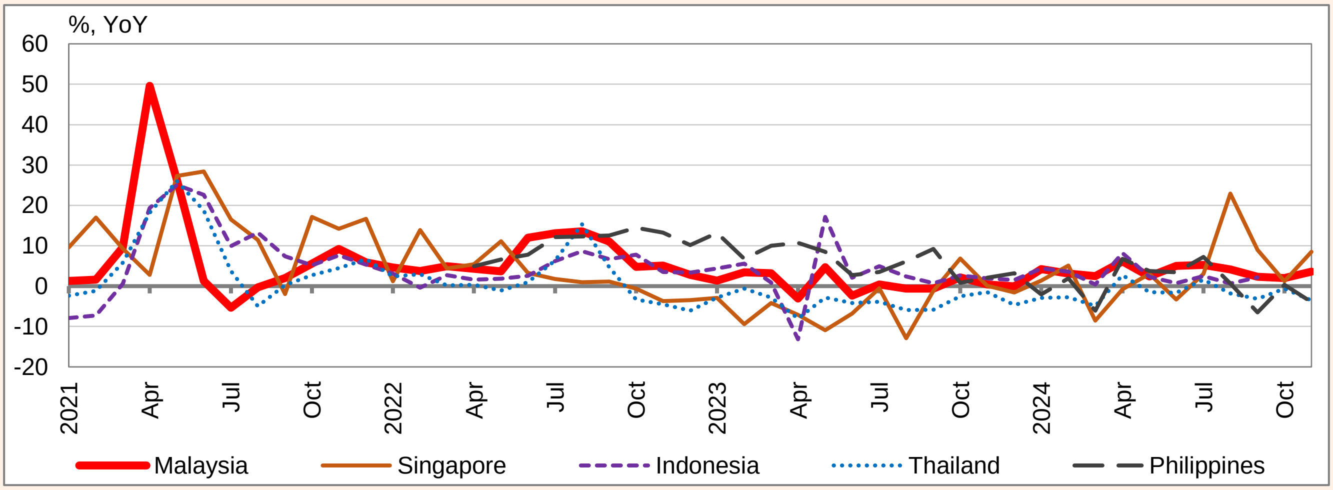
Source: National Bureau of Statistics of China; General Administration of Customs, China

ASEAN Key Economic Indicators

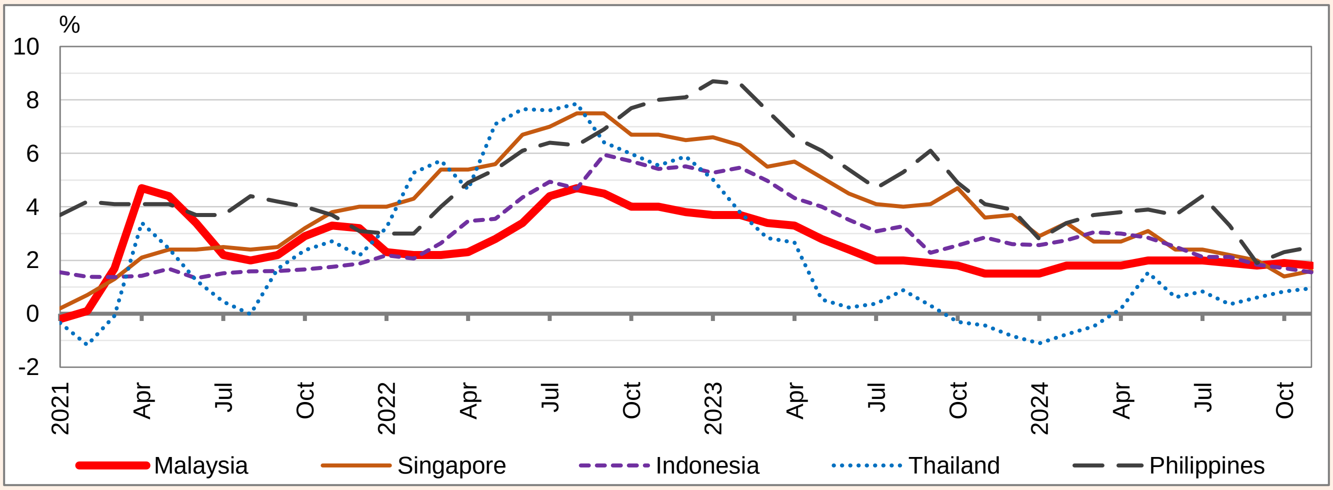
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.

MALAYSIA'S ECONOMIC OUTLOOK IN 2025: INSIGHTS AND TRENDS

- **Continued expansion amid facing external and domestic challenges.** The Malaysian economy has proven its resilience to end the year 2024 on a good position as it marches into 2025. Despite facing a confluence of headwinds ahead, recent macro patterns and economic indicators featuring domestic economy remains on the right track, and there must be no let up to addressing structural issues and economic reforms.

- Real GDP saw better-than-expected growth of 5.3% yoy in Q3 2024 and 5.2% in the first three quarters, **closing 2024 with a full-year growth of 5.0%-5.3%, by our estimates**. This is within the Ministry of Finance (MOF)'s estimated range between 4.8% and 5.3%.

- **Broadening growth.** The good GDP outturn was driven by strong public and private investment, improved exports, and increased households' spending amid high cost of living increases. The services, manufacturing and construction sectors were the leading drivers.

- Of significance is the spectacular performance of private investment, which had surpassed expectations to grow robustly by 12.2% yoy in the first three quarters of 2024, driven by increased spending on structural, machinery and equipment. Going forward, approved catalytic projects in the manufacturing and services sectors, including telcos and data centres will continue to sustain strong private investment activities.

- **Promising prospects for economic growth.** High frequency data year-to-date still suggests Malaysia's positive economic outlook ahead. The leading index continued to increase, albeit moderately in October 2024 for 11 consecutive months; wholesale and retail trade increased steadily in Oct-Nov (+5.1% yoy) vs. +5.1% in Jul-Sep; industrial output still growing (+2.8% yoy in Oct-Nov vs. +3.9% in Q3), dragged by mining sector; exports have turned around to increase by 4.7% yoy in Jan-Nov 2024 after a decline of 8.0% in 2023.

- **Heading into 2025, we expect the Malaysian economy expansion remains on course, albeit challenging, underpinned by supportive expansionary fiscal and still accommodative interest rates. We estimate real GDP to grow by 5.0% in 2025, lower compared to estimated 5.0%-5.3% in 2024** (3.6% in 2023). However, it is higher than the long-term average economic growth of 4.3% per annum in 2011-2023. Domestic demand still calling the shot, aided by continued external demand.

- Our assessment of Malaysia's economic outlook for 2025 have taken a probabilistic approach and assumptions about global growth, domestic drivers and policies, and risks to the outlook.

- **The year 2025 is shaping up to be a year of volatility, uncertainty, complexity, and ambiguity (VUCA).** Policy uncertainty takes centre stage as the President-elect Trump's trade protectionism, economic and investment agenda would stir disruptions and influences to global trade, economic growth, redirection of investment, financial flows, and the exchange rate volatility. Additionally, persistent ongoing geopolitical conflicts in Ukraine and Middle-East remain a big risk if these tensions escalate into a wider scale.

- The bigger picture for the global economy will experience a moderate growth estimated 2.9% in 2025 (estimated 3.2% in 2024), driven by positive labour market conditions, resilient consumer spending, easing inflation and lower interest rates. Nevertheless, any major unpredictable shocks and policy missteps could temper the global growth.

- **Trump's blanket tariffs policy impact on exports.** We estimate Malaysia's exports to grow by 4.0% in 2025 (estimated 5.1% in 2024). We remain wary about the trade diversion effect due to the Trump's planned blanket tariffs of different rates on imports to the US from China and also the US's trading partners, including Malaysia. The US is Malaysia's third-largest trading partner (13.1% share of Malaysia's exports in Jan-Nov 2024). For Jan-Nov 2024, Malaysia is the United States' 18th largest trading partner (16th largest source of imports) and the fourth-largest trading partner (third largest source of imports) among the 10 ASEAN members.

- How will Malaysia's external trade subject to the distributional impact (direct and indirect, including transshipment) of tariffs on the US's imports. In 2020, 15.1% of Malaysia's total domestic value added that exported to all foreign countries was ultimately consumed in the US as final demand. Higher import tariffs will dampen Malaysia's exports and production volumes of the affected products exporting to the US. That said, some manufacturers may not be affected given the strong demand. **Overall, the direct and indirect impacts of trade war on Malaysia's export performance is largely dependent on the substitutability of the affected products, reconfiguration of supply chains and production, transshipment and Malaysian firms' products' cost and price competitiveness.**

- There will be some positive offsetting trade effect, benefitting from a trade diversion as China companies and foreign MNCs would divert their orders from China to Malaysia given our strategic hotspot for a reconfiguration of sourcing and supply chains under China+1 and Taiwan+1 strategy. The extent to which Malaysia benefits from this trade diversion depends on how easily our manufacturers can substitute between imported products from different countries. During the Trump's first-term Presidency, the slapping of import tariffs on China in 2018-2019, the US imports from Malaysia grew by 7.7% per annum in 2018-2022.

- **Domestic demand still anchoring growth.** The biggest driver of the domestic economy's strength has been consumer spending (64.4% of aggregate domestic demand in Jan-Sep 2024), which contributed an average 3.2% points of real GDP growth (cumulative growth of 5.2%) in the first three quarters of 2024. Consumers have been more cautious but continue to spend. Despite pushing back on rising cost of living and increased retail prices, households have managed to stretch their budget and still expand their shopping cart. **We estimate consumer spending to grow by 5.4% in 2025** (estimated 5.3% in 2024), supported by stable unemployment rate estimated at 3.1%, improved nominal wage and income growth.

- **Positive factors underpinning discretionary consumer spending** are higher minimum wage, pay rise for public sector employees, continued cash assistance of RM13.0 billion for nine million recipients, and the withdrawal of the EPF Flexible Account. As at 27 November 2024, 4.0 million members (30.5% of the 13.1 million EPF members under 55 years of age) have withdrawn a total sum of RM11.6 billion from Account 3.

- Both public and private investment growth have surpassed expectations in the first three quarters of 2024, expanding by double-digit rate of 11.8% yoy and 12.2% yoy, respectively. This was underpinned by ongoing implementation of public infrastructure and telecommunication projects as well as private investment in the manufacturing and services sectors.

- We expect **a multi-year private investment cycle ahead estimated 11.5% in 2025** (estimated 12.5% in 2024), with catalytic push from the government's continued implementation of New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), National Semiconductor Strategy (NSS) and Johor-Singapore Special Economic Zone (JS-SEZ).

- With the International Monetary Fund (IMF) and rating agencies have hailed Malaysia's economic performance, citing the implementation of economic reforms, as well as the Government's commitment to enhance conducive domestic investment climate, it offers endless opportunities and competitive value proposition for both domestic and foreign investors.

- Given its strategically sweet spot, Malaysia is gaining increasing importance as an attractive destination for the relocation of supply chains and global manufacturing and services hub, e.g. for semiconductors, operational hub, procurement centre and regional distribution centre, supply chain management, business planning, R&D and engineering.

- Among the potential sectors are high-growth, high-value (HGHV) industries such as semiconductors, machinery, chemicals and pharmaceuticals, medical devices, aerospace, electric vehicles (EVs), and renewable energy (RE). The digital economy also offers new engines of growth by leveraging Big Data, the Internet of Things (IoT), Artificial Intelligence (AI) and other technologies to increase productivity, drive innovation and improve the people's income.

- Total approved domestic and foreign investments increased by 10.7% to RM254.7 billion in the first nine months of 2024, marking another year of impeccable performance (2023: RM329.5 billion; 2022: RM267.7 billion). Malaysia is aiming to become a data centre hub in the region, with a slew of investments in such facilities being announced in recent months. Approved investments from data centres amounted to RM114.7 billion from 2021 to 2023.

- **Inflationary pressures continue to mount.** We caution that there are upside risks to the inflation outlook in 2025, which will continue to impact the cost of living, shaping consumer confidence and spending habits in the months to come. This is due to the government's plans to rationalise fuel subsidies, expand the scope of Sales Tax and Service Tax (SST), and increases in civil servants' salaries and minimum wages for private sector employees, which could lead to faster-than-expected inflation. Inputs cost inflation will remain a key headwind in 2025 as businesses seek to offset some of the increased operating costs**. We estimate inflation to increase between 2.5% and 3.0% in 2025** (estimated 1.9% in 2024).

- **A resilient Ringgit.** After suffering three successive years of depreciation by a cumulative of 13.1% against the USD in 2021-2023, the Ringgit closed the year 2024 with an appreciation of 2.7% against the USD at RM4.4700 at end-December 2024 compared to RM4.5915 at end-December 2023. The Ringgit's fundamental value will be underpinned by strengthened economic resilience, favourable economic growth and investment prospects, and more importantly, there must be no let-up in domestic structural reforms as it is the key to ensure enduring support for an 'undervalued' Ringgit.

- Near-term headwinds to the Ringgit are the policy uncertainty surrounding the Trump's economic and investment agenda; concerned about the planned tariffs-inflicted trade war and stimulative tax cuts and investment incentives may reignite inflation risk, compelling the Fed to reset its monetary easing trajectory, and hence, reinforcing the US dollar's strength. A resilient US economy and redirection of investment flows to the US would support the USD. The Ringgit is expected to settle at lower level between RM4.50 and RM4.60 against the USD in 1H 2025 before gradually improving to RM4.30-RM4.40 by end-December 2025.

- **BNM to keep interest rate steady in 2025.** We expect Bank Negara Malaysia (BNM) to tread cautiously on interest rates in 2025 as it assesses the downside risks to the growth and upside risks to inflation outlook. **BNM is expected to keep its policy rate unchanged at 3.00% in 2025** while keeping vigilance of the potential risk of second-round cost-driven inflationary pressures coming from the anticipated fuel subsidies rationalisation and wage increases.

- **Risks to the domestic economy** are mainly coming from external disturbances, especially the Trump's potential sweeping tariffs on China and the US's other trading partners, the larger risk is for unpredictable disruptions in supply chains impacting intermediate and final goods that trigger significant market disruption, weaker-than-expected global growth, the weakening of the US economy and China's economy, lower commodity prices, and further escalation of geopolitical conflicts in some regions.

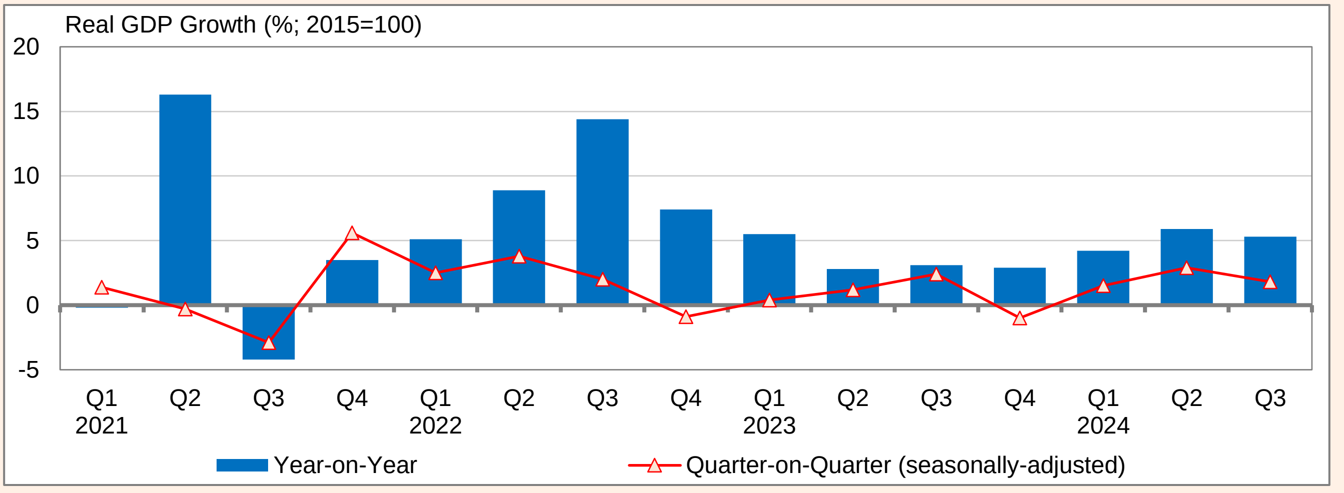
Real GDP growth (%, Y-o-Y)

Economic Sector [% share to GDP in 2023]	**2023**	**2024 Q1**	**2024 Q2**	**2024 Q3**	**2024E (SERC)**	**2024E (MOF)**	**2025F (SERC)**	**2025F (MOF)**
By kind of economic activity								
Agriculture [6.4%]	0.7	1.7	7.3	3.9	3.0	2.0	2.0	1.9
Mining & Quarrying [6.2%]	0.5	5.7	2.7	-3.9	1.4	2.2	2.0	-1.0
Manufacturing [23.4%]	0.7	1.9	4.7	5.6	4.2	4.1	4.2	4.5
Construction [3.6%]	6.1	11.9	17.3	19.9	15.8	14.1	13.8	9.4
Services [59.2%]	5.1	4.8	5.9	5.2	5.7	5.3	5.4	5.5
By type of expenditure								
Private Consumption [60.7%]	4.7	4.7	6.0	4.8	5.3	5.5	5.4	5.9
Public Consumption [13.2%]	3.3	7.3	3.6	4.9	4.7	3.5	5.8	3.8
Private Investment [15.5%]	4.6	9.2	12.0	15.5	12.5	11.1	11.5	8.9
Public Investment [4.6%]	8.6	11.5	9.1	14.4	11.0	9.3	5.4	4.9
Exports of Goods and Services [66.1%]	-8.1	5.2	8.4	11.8	8.0	7.8	4.1	3.8
Imports of Goods and Services [61.7%]	-7.4	8.0	8.7	13.5	10.3	8.4	5.5	3.7
Overall GDP	**3.6**	**4.2**	**5.9**	**5.3**	**5.0-5.3**	**4.8-5.3**	**5.0**	**4.5-5.5**

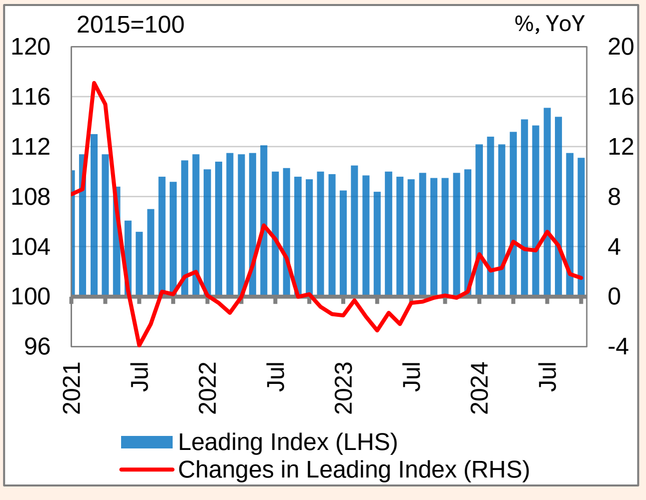
Source: Department of Statistics, Malaysia (DOSM); SERC estimates and forecast

Spotlight on the Malaysian Economy

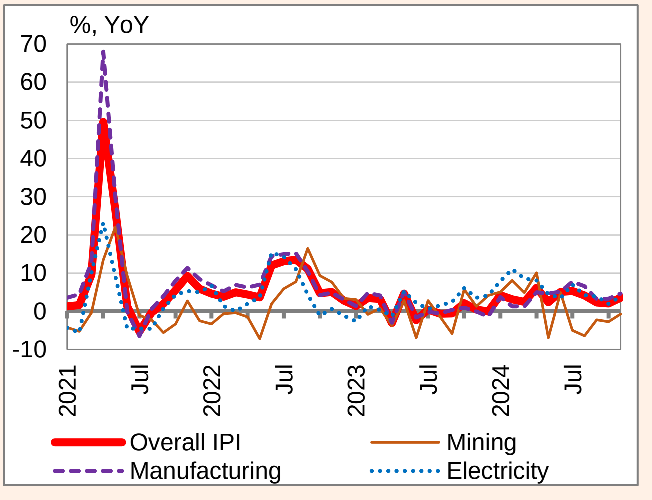
Malaysia's GDP expanded by 5.3% yoy in the third quarter of 2024 and 5.2% in the first nine months of 2024, with a full-year growth estimated at 5.0%-5.3%.



Leading Index (LI) suggests continued expansion, albeit softer

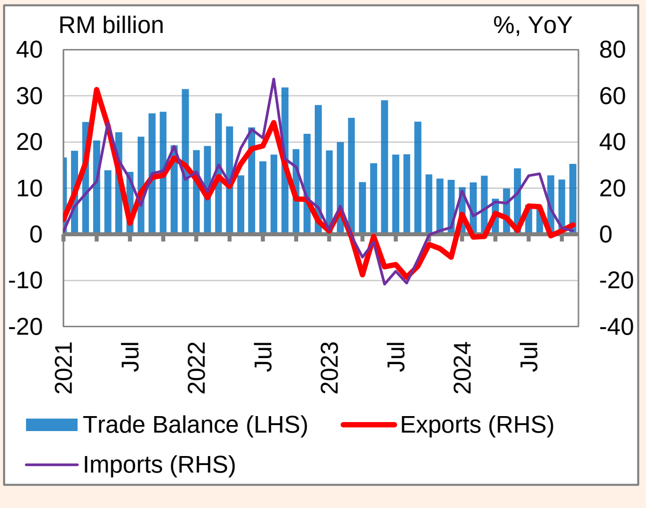


Industrial production growth dragged by contracting mining output

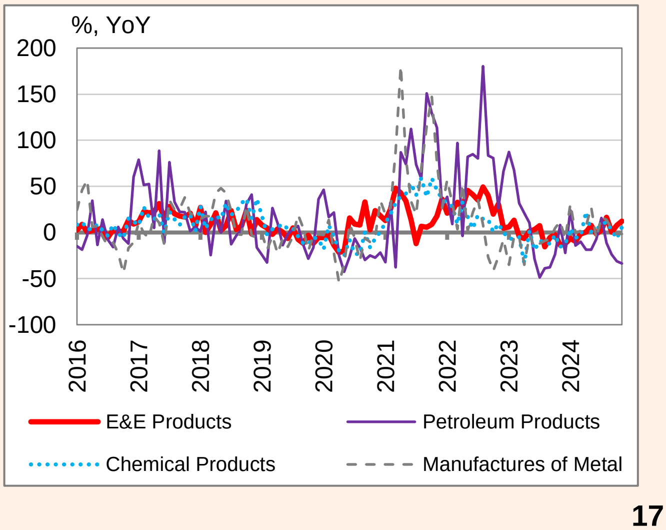


External Sector

Exports grew by 4.7% in Jan-Nov 2024; trade surplus was regaining momentum

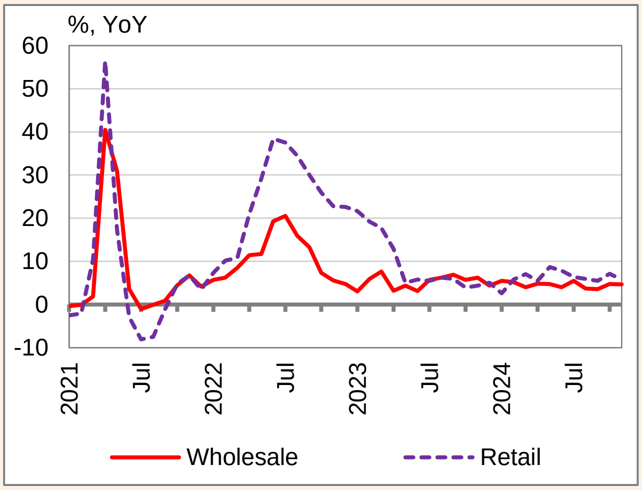


Exports by major products

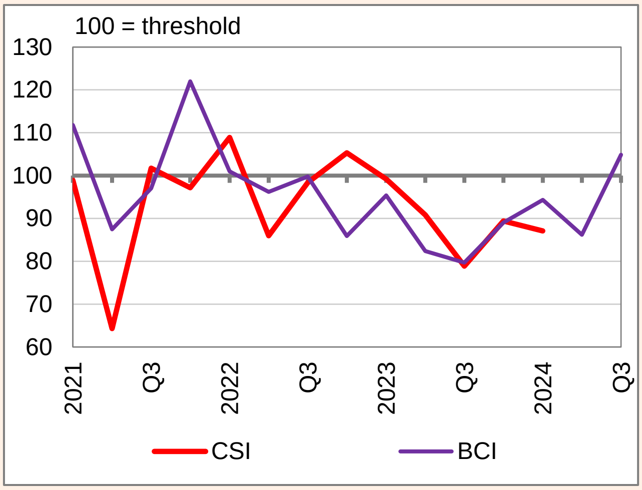


Domestic Demand

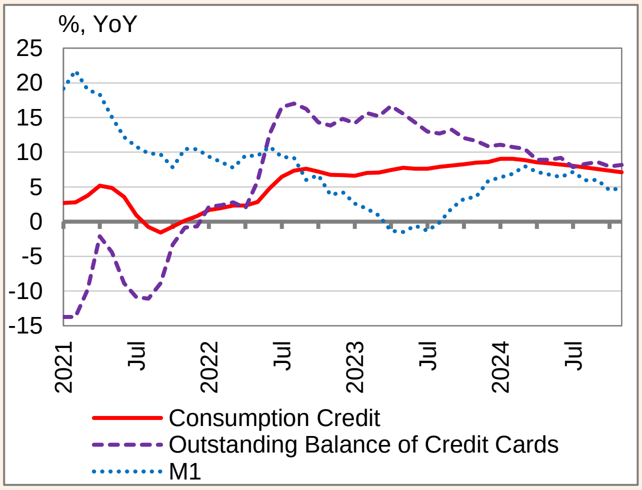
Wholesale and retail activities continue growing



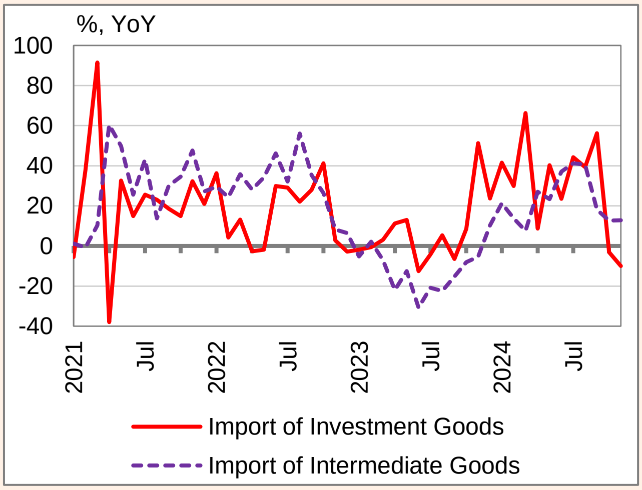
Business condition returned to optimism territory on stronger sales and investment



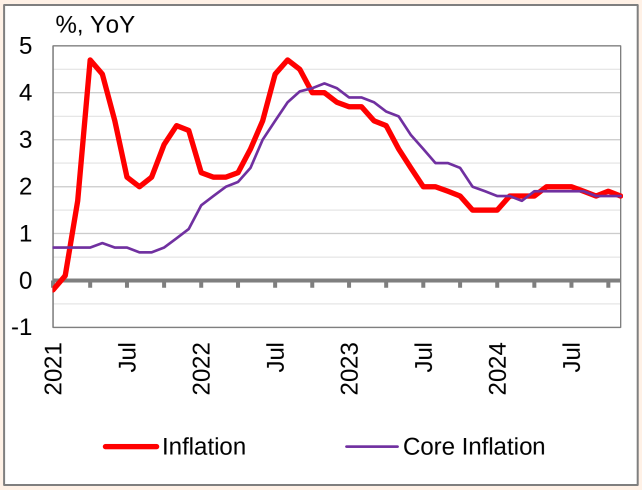
Selected private consumption indicators



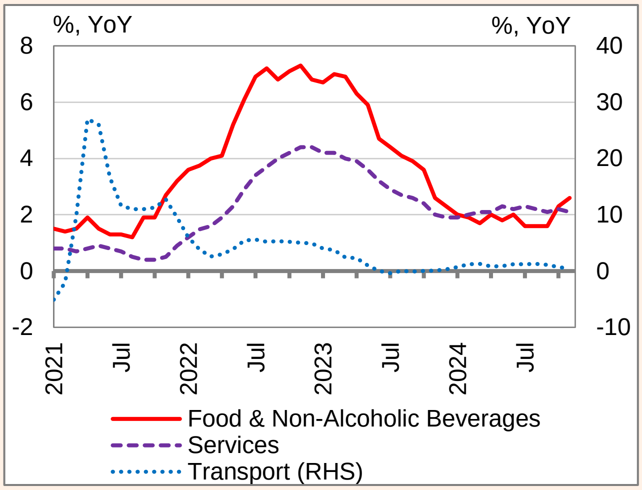
Selected private investment indicators



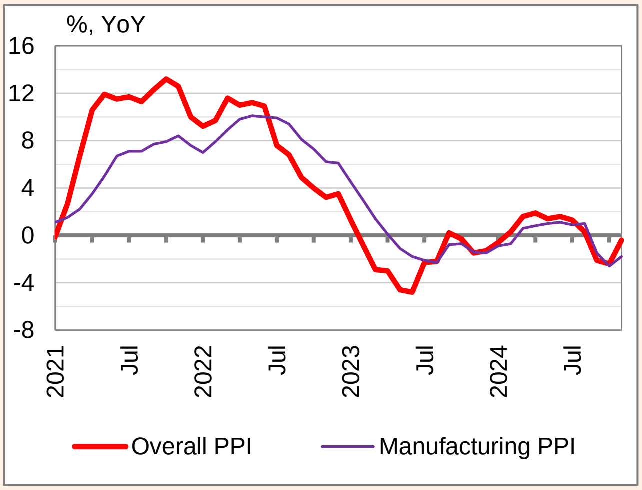
Inflation rate dipped below 2.0% in Aug-Nov, but upside risks are high in 2025



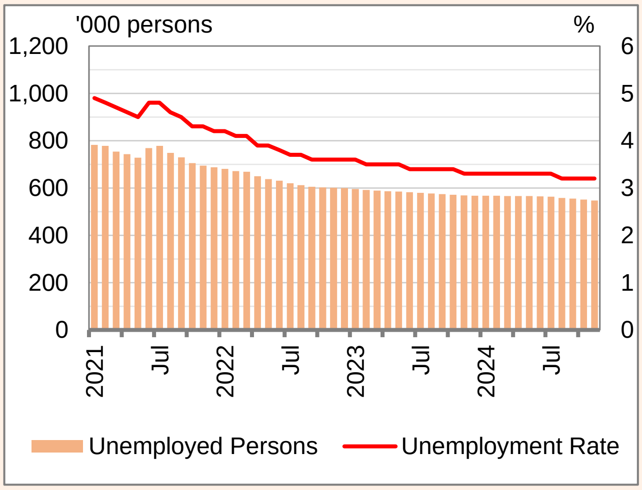
Food inflation increased by 2.6% in Nov 2024, lifted by food away from home



Producer prices declined for three months in a row since Sep 2024

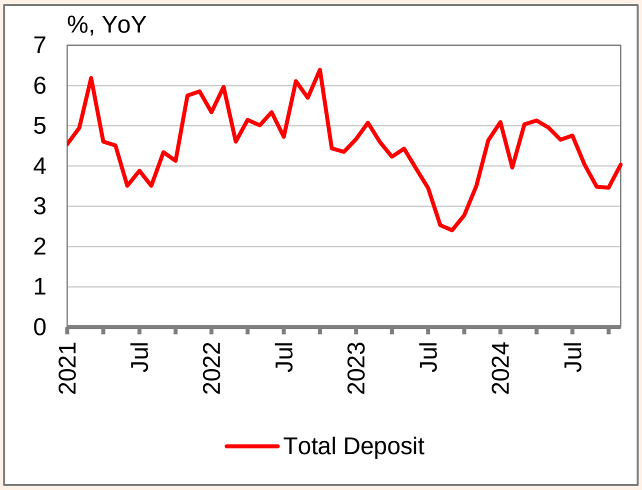


Labour force participation rate reached a new record high of 70.5% in Sep-Nov

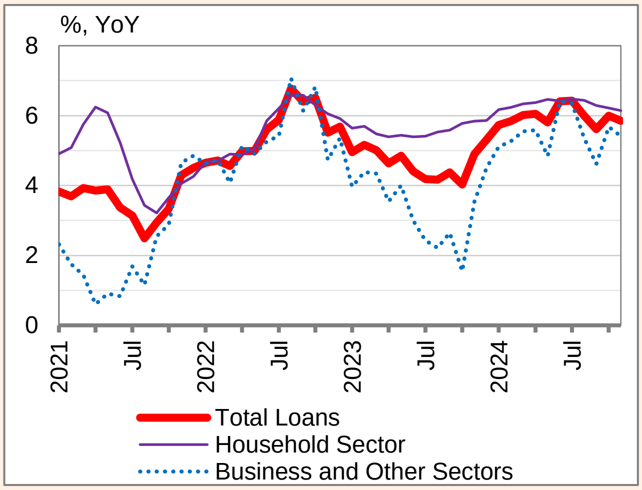


Banking and Financial Indicators

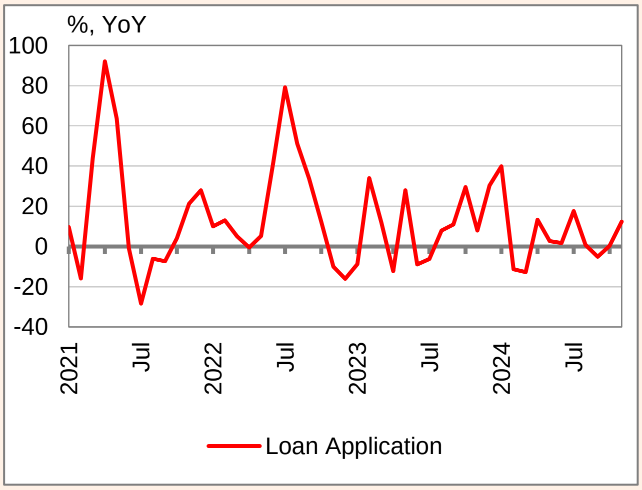
Banking deposit amounted to RM2,424 billion as at end-Nov 2024



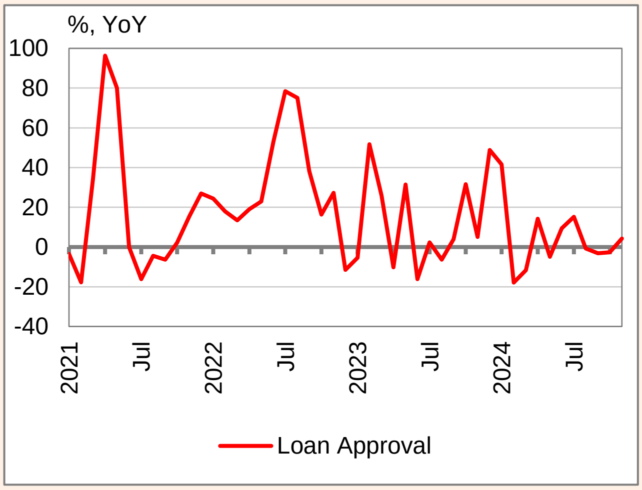
Overall loan growth remained healthy, hovering around 6%



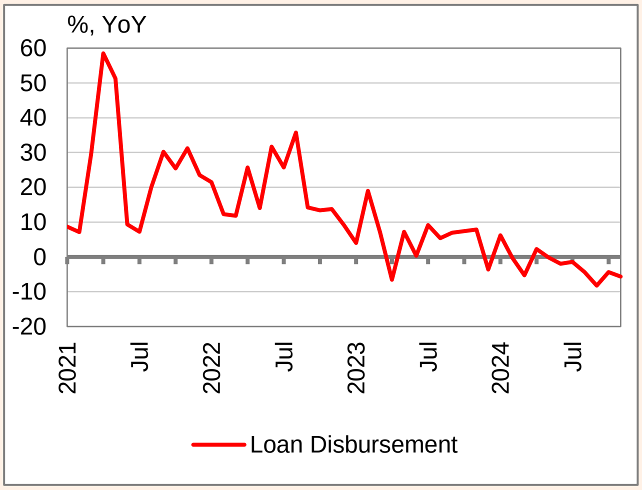
Loan applications growth



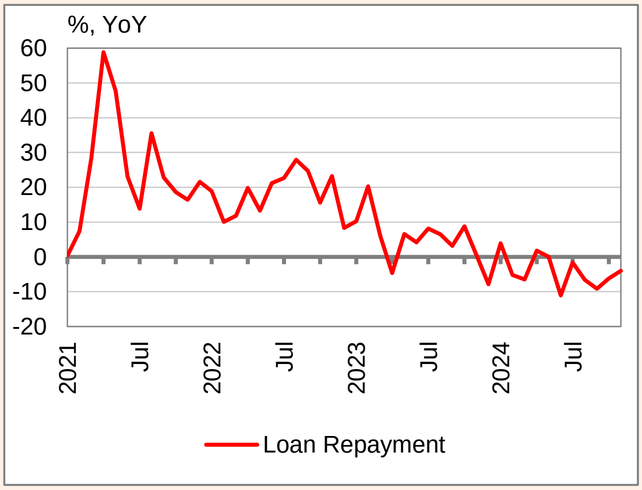
Loan approvals growth



Loan disbursements growth

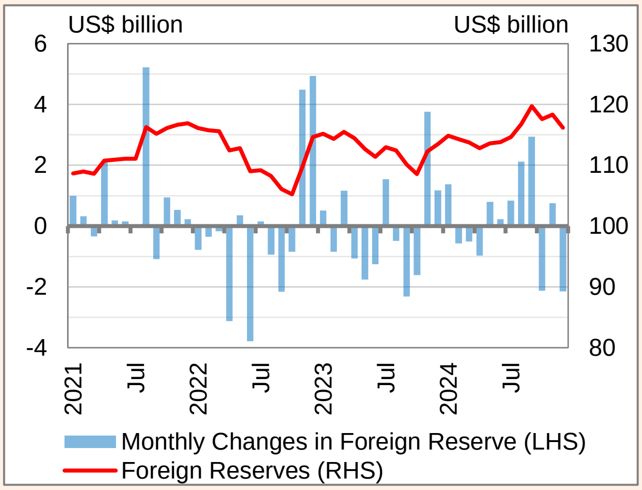


Loan repayments growth

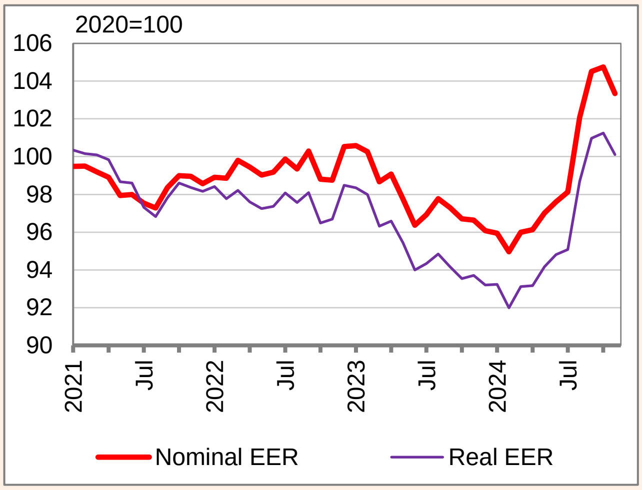


Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

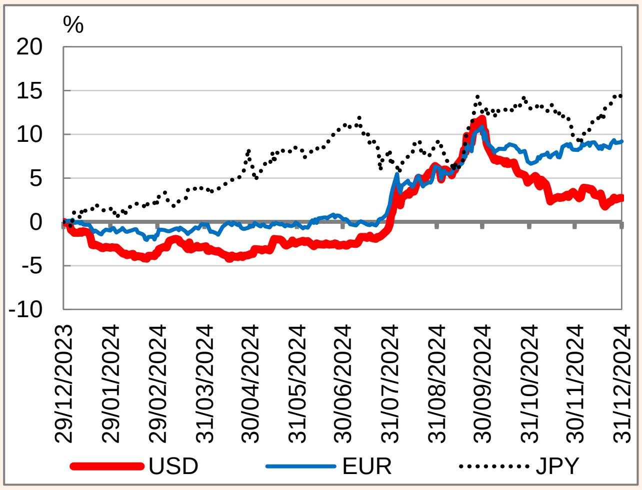
Foreign reserves increased by US$2.7 billion in 2024 to reach USD116.2 billion



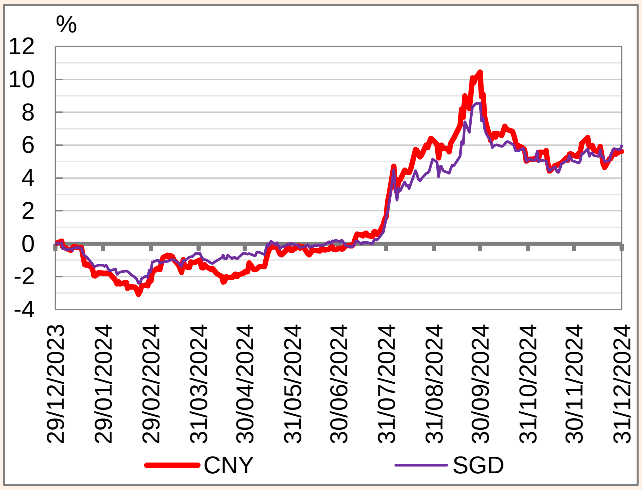
Ringgit's Effective Exchange Rate (EER)



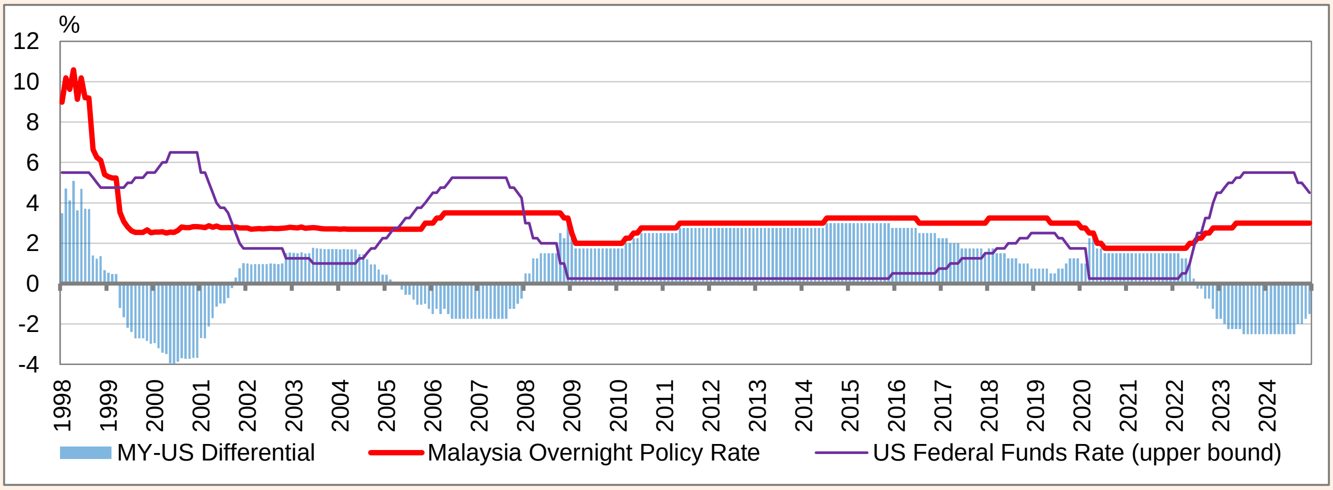
The Ringgit against the US dollar, euro and Japanese yen



The Ringgit against the Chinese renminbi and Singapore dollar



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Malaysian Institute of Economic Research (MIER); Bank Negara Malaysia (BNM); Bank for International Settlements; Federal Reserve

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The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organization will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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