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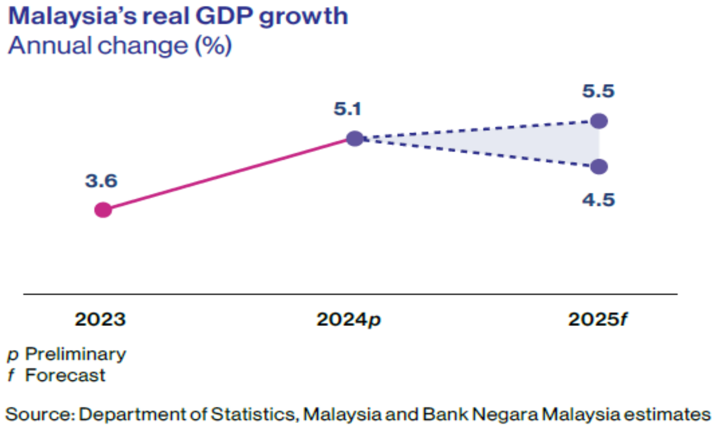
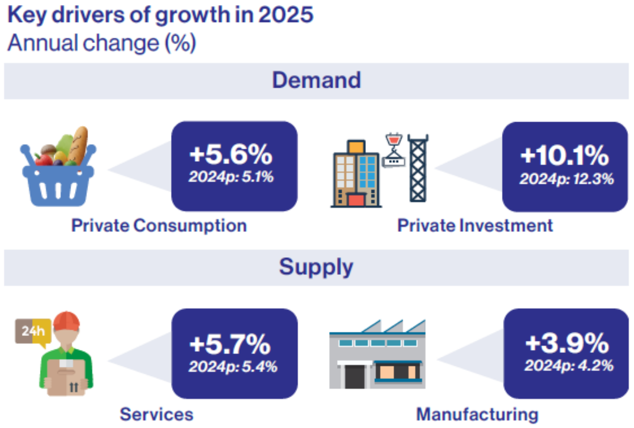
24 MARCH 2025

# BNM Economic and Monetary Review 2024 – 2025 Outlook: Guarded Realism Amid Global Uncertainty





Bank Negara Malaysia (BNM) released its Economic and Monetary Review 2024 today, outlining Malaysia's macroeconomic performance in 2024 and its outlook for 2025. Our take is that, while the official **growth projection remains unchanged at 4.5% to 5.5%,** BNM's overall tone is best described as **guardedly realistic**, balancing optimism on domestic resilience with caution over persistent external headwinds and structural adjustments at home.

**Domestic demand will remain the main growth driver in 2025**, led by resilient private consumption supported by stable employment, income recovery, and targeted fiscal aid. However, spending may grow below trend due to rising living costs and potential fuel subsidy reforms. Private investment is expected to stay robust, particularly in high-value-added sectors like E&E, data centres, and renewables, aided by NIMP 2030 initiatives. The **external sector will see modest gains amid a softer global outlook**, with support from the tech upcycle and stronger tourism activity. On risk to growth, BNM highlights that the outlook remains dependent on developments in the global environment, which could influence the growth trajectory in either direction.

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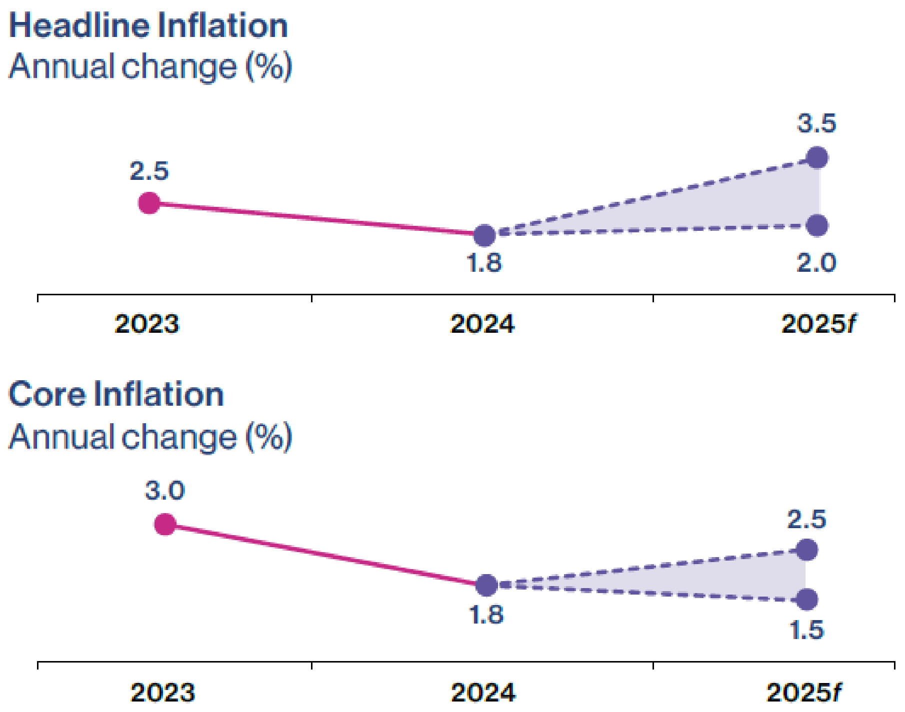
# Inflation Outlook: Reforms May Nudge It Higher, But Pressures Remain Contained

BNM forecasts **headline inflation to average between 2.0% and 3.5%** in 2025, with **core inflation expected at 1.5% to 2.5%.** The wider range does not reflect broad-based inflationary pressures but rather the anticipated impact of domestic policy measures. Key contributors to the upward shift include the **rationalisation of RON95 fuel subsidies**, which is expected to exert a one-off impact on inflation, as well as the **expansion of the sales and services tax (SST) and adjustments to public sector wages**. However, BNM assesses these effects to be temporary and manageable. In particular, the inflationary impact of higher fuel prices is projected to dissipate after a year, owing to base effects. In addition, the SST expansion is targeted mainly at non-essential items, which account for a relatively small portion of the CPI basket – thereby limiting its direct influence on headline inflation.

At the same time, **global cost conditions continue to ease**, particularly in energy and food-related commodities. Combined with moderate domestic demand, this suggests that **overall inflation will likely remain within a manageable range through 2025**.




f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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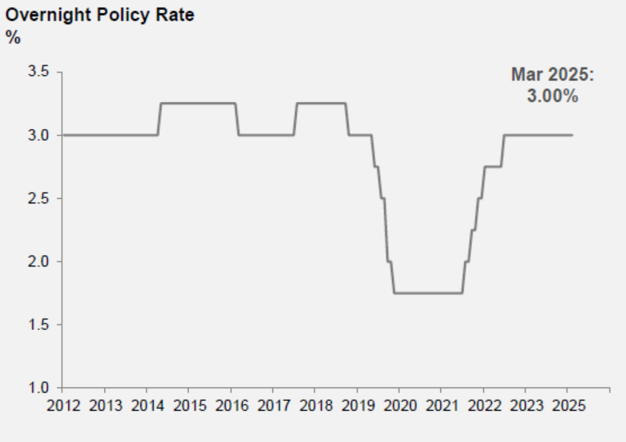
# Monetary Policy Outlook: Status Quo with Flexibility

**2024** OPR maintained at 3.00%, amid positive economic prospects and modest inflation

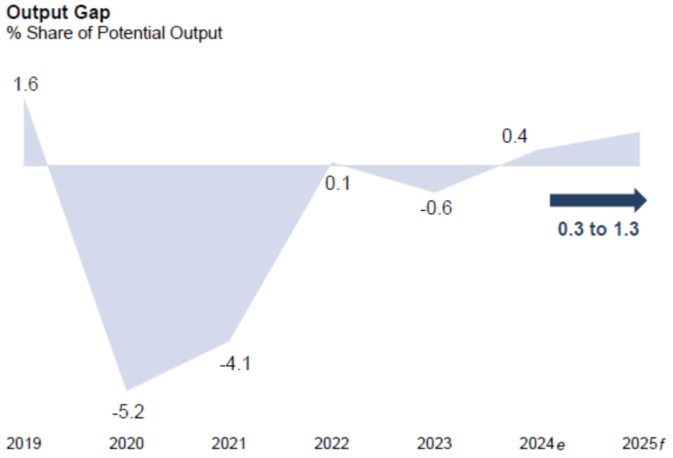



Source: Bank Negara Malaysia

**2025** Monetary policy will continue to facilitate sustainable economic growth while managing potential risks to inflation

1. Against the uncertain backdrop, MPC remains vigilant to global developments and its impact on Malaysia's economy
2. Monetary policy will focus on the medium-term prospects of Malaysia's economy
3. Monetary policy will continue to balance the risks to domestic inflation and economic growth outlook

**Positive output gap in 2024 and 2025 as actual output outpaced potential output**




With growth expected to remain above potential and inflation broadly under control, we reiterate our view that **BNM is unlikely to move the Overnight Policy Rate (OPR) from its current level of 3.00% in 2025**. The **output gap turned positive in 2024 and is expected to stay there – a sign the economy is operating at or slightly above full capacity.** In this context, the current OPR is seen as appropriate. It supports growth without fanning inflation, suggesting no strong case for additional tightening or easing. The Monetary Policy Committee (MPC) has clearly communicated that it will stay data-dependent – ready to act if inflation runs hotter than expected or if growth falters sharply. But for now, the bar for policy shifts remains high. With the global rate environment normalising and domestic fundamentals intact, monetary policy in 2025 is expected to remain steady, providing continuity and stability.

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# Appendix: Upside and downside risks to growth and inflation

Growth outlook is subject to considerable external uncertainties…

| Upside | Downside |
| --- | --- |
| ▲ Higher external demand from successful trade negotiations and pro-growth policies | ▼ More restrictive trade policies and stronger retaliatory measures |
| ▲ Greater positive spillovers from global tech upcycle | ▼ Escalation of geopolitical conflicts |
| ▲ More robust tourism | ▼ Weaker business and consumer confidence |
| ▲ Faster implementation of investment projects | ▼ Lower-than-expected commodity production |

…meanwhile the risks to inflation remain manageable

| Downside | Upside |
| --- | --- |
| ▼ Smaller-than-expected cost passthrough from policy measures | ▲ Larger-than-expected spillovers from policy measures |
| ▼ Larger moderation in commodity prices | ▲ Higher external cost amid geopolitical developments |

Sources: CEIC, BMMB Economics

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# Appendix: GDP forecast – Demand side

## 2025f: Improvement across most demand components

| GDP Growth by Expenditure Components (Annual Change, %) | % Share (2024p) | 2023 | 2024p | 2025f |
|---|---|---|---|---|
| **Real GDP** | *100.0*[1] | **3.6** | **5.1** | **4.5 – 5.5** |
| **Domestic Demand** | ***95.2*** | **4.6** | **6.5** | **6.3** |
| Private Consumption | *60.7* | 4.7 | 5.1 | 5.6 |
| Private Investment | *16.5* | 4.6 | 12.3 | 10.1 |
| Public Consumption | *13.1* | 3.3 | 4.7 | 4.9 |
| Public Investment | *4.8* | 8.6 | 11.1 | 6.4 |
| **Net Exports of Goods and Services** | ***4.3*** | **-16.2** | **2.2** | **4.5** |
| Exports | *68.2* | -8.1 | 8.5 | 6.5 |
| Imports | *63.9* | -7.4 | 8.9 | 6.6 |

[1] Figures may not necessarily add up due to rounding and exclusion of stocks
[p] preliminary, [f] forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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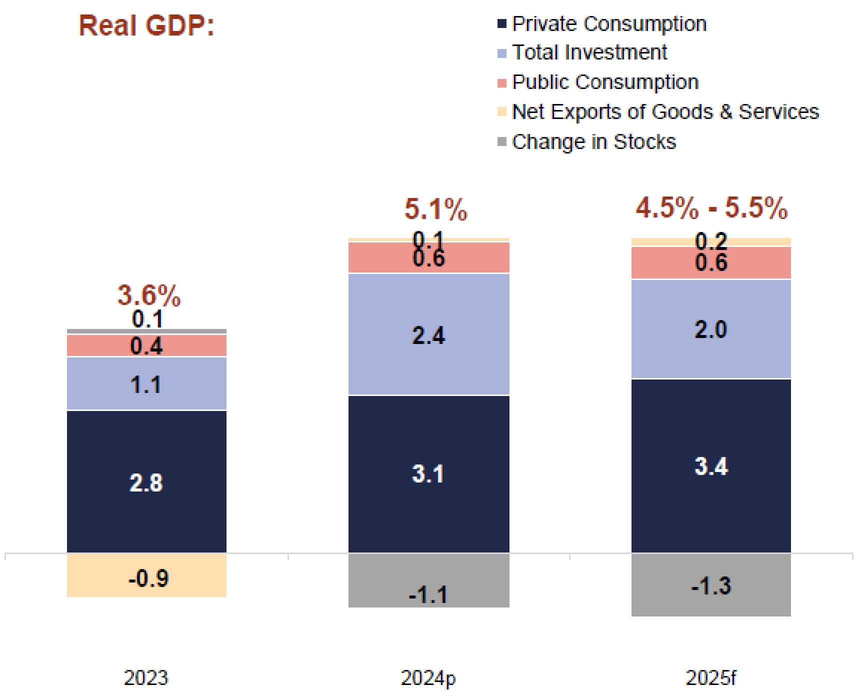
**Malaysia GDP Growth by Expenditure Components**
Annual Change (%), Ppt. Contribution



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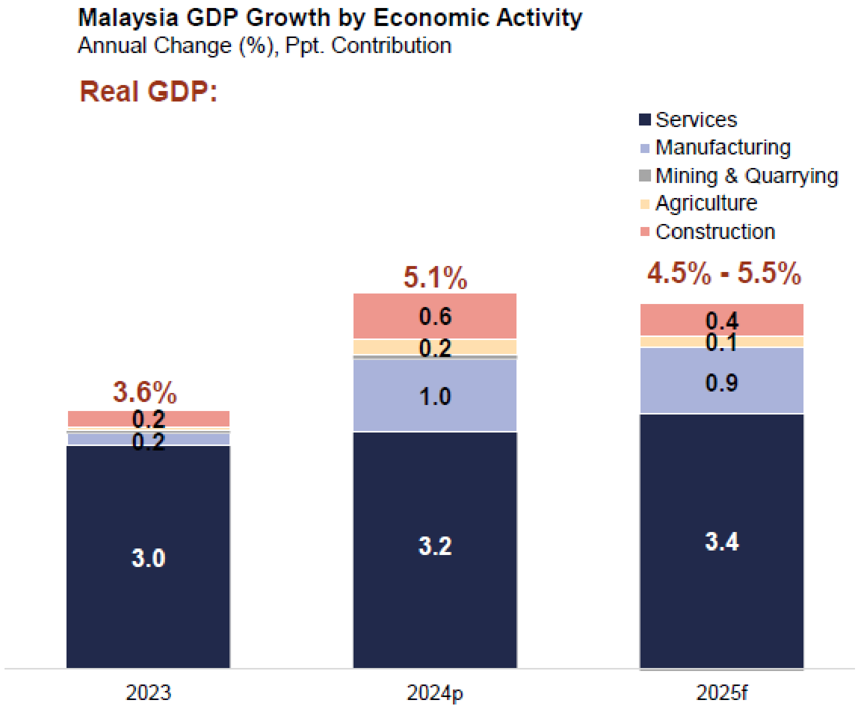
# Appendix: GDP forecast – Supply side

## 2025f: Positive growth across most economic sectors

| GDP Growth by Economic Activity (Annual Change, %) | % Share (2024p) | 2023 | 2024p | 2025f |
|---|---|---|---|---|
| Real GDP | 100.0[1] | 3.6 | 5.1 | 4.5 - 5.5 |
| Services | 59.3 | 5.1 | 5.4 | 5.7 |
| Manufacturing | 23.2 | 0.7 | 4.2 | 3.9 |
| Agriculture | 6.3 | 0.7 | 3.1 | 2.2 |
| Mining & Quarrying | 6.0 | 0.5 | 0.9 | -0.8 |
| Construction | 4.0 | 6.1 | 17.5 | 11.0 |




[1] Figures may not necessarily add up due to rounding and exclusion of import duties component
[p] preliminary, [f] forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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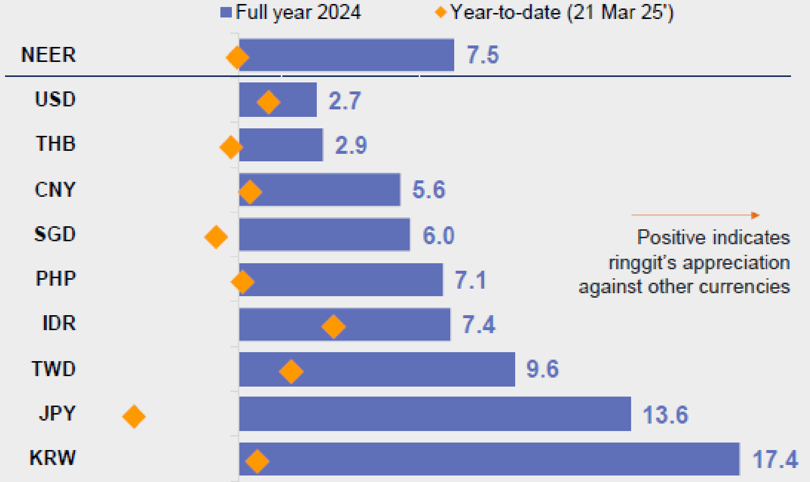
# Appendix: Risks affecting the Ringgit in 2025

## The ringgit strengthened in 2024, facing more balanced risks in 2025

### 2024 Ringgit strengthened against major currencies

**Performance of the Ringgit Against Other Selected Major Currencies**

Annual change (%)




Note: NEER refers to the ringgit nominal effective exchange rate.
Source: Bank Negara Malaysia and Bloomberg. Exchange rates are derived from the daily noon rates.

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### 2025 Risks affecting the ringgit

**Factors supporting ringgit**

- ▲ Narrowing interest rate differentials between Malaysia and advanced economies
- ▲ Strong domestic growth
- ▲ Domestic structural reforms

**Factors weakening ringgit**

- ▼ Fewer US policy rate cuts
- ▼ US tariff and trade restrictions
- ▼ Rise in geopolitical tensions

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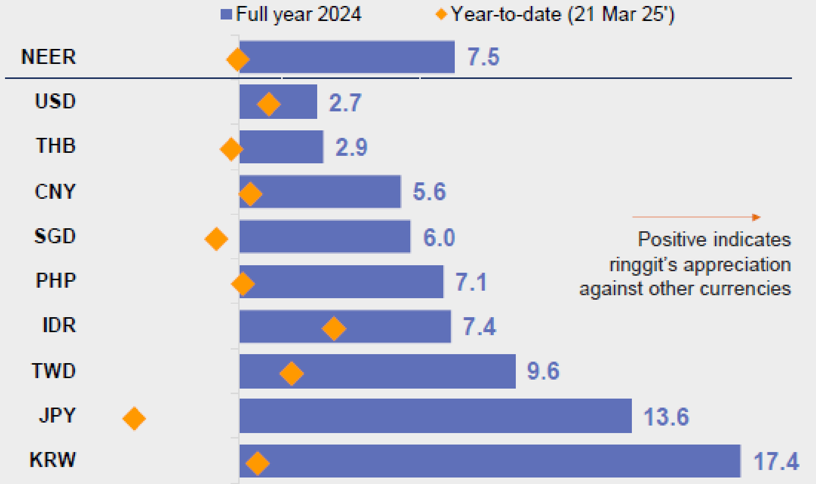


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