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Malaysian Economic Outlook 2025:
Keep the Faith

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Malaysian Economic Outlook 2025: Keep the Faith

As Malaysia steps into 2025, the country finds itself at a crossroads, navigating a complex and rapidly evolving economic landscape shaped by the interplay of global uncertainties, domestic policy shifts, and emerging opportunities. The aftereffects of the pandemic continue to ripple through economies worldwide, compounded by geopolitical tensions, climate challenges, and structural transformations in global trade and finance. For Malaysia, these external pressures intersect with domestic hurdles, including persistent inflationary pressures, fiscal consolidation efforts, and vulnerabilities in export-dependent sectors. Yet, the nation's journey is defined not just by its challenges but by its resilience and potential for reinvention.

The year 2024 served as a pivotal period of transition, laying the groundwork for structural reforms and setting in motion the policies that will shape Malaysia's trajectory in 2025 and beyond. The government’s focus on sustainability, digitalization, and economic inclusivity signals a forward-looking approach aimed at future-proofing the nation. Key initiatives, such as the push for renewable energy adoption, investments in advanced manufacturing, and incentives to spur growth in the digital economy, are redefining the contours of Malaysia's economic base. These efforts are complemented by an enduring commitment to address income disparities and improve social mobility, ensuring that economic growth translates into shared prosperity.

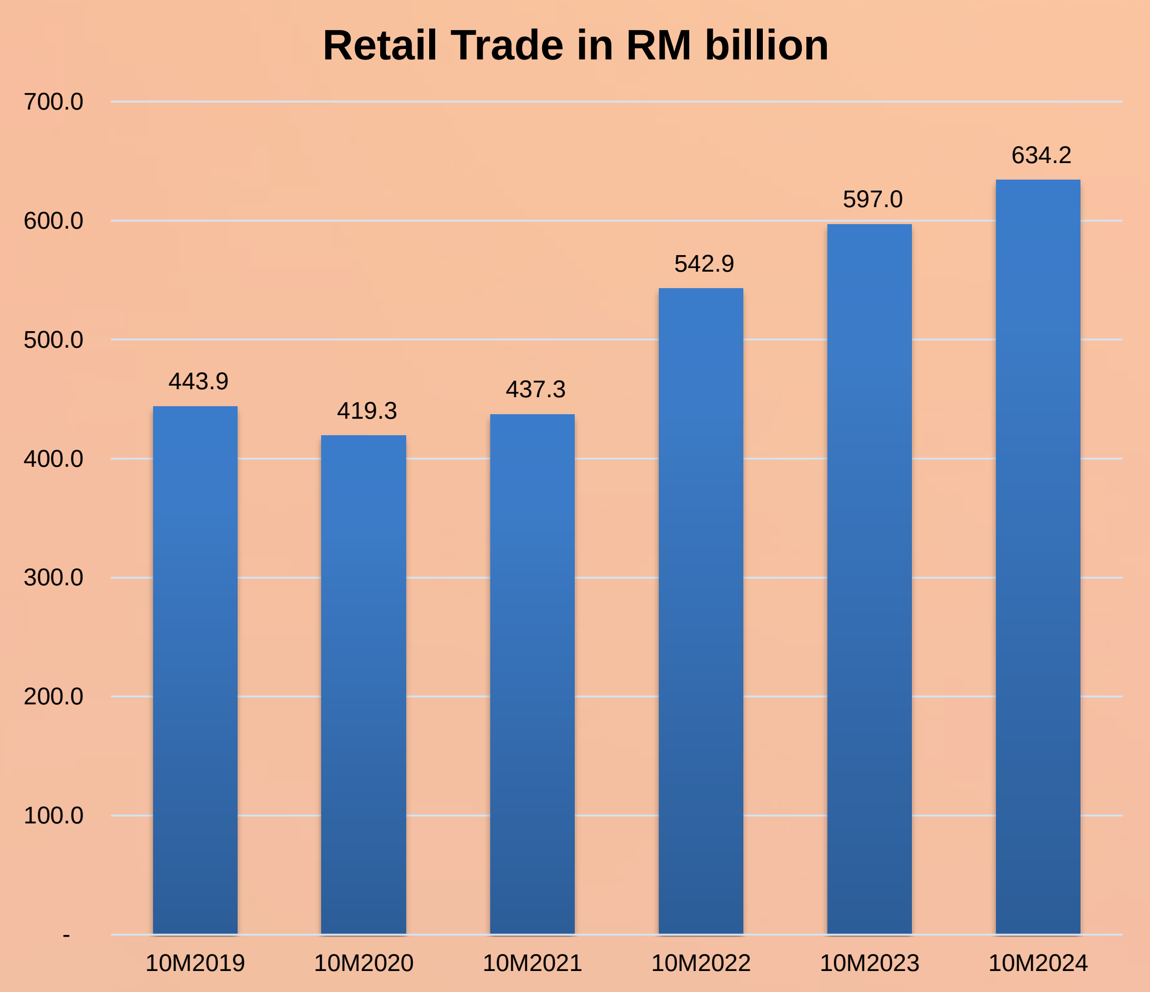
At the global level, Malaysia must also contend with the recalibration of international trade patterns, driven by shifting geopolitical alliances and regional economic integration. As a key player in ASEAN, Malaysia is strategically positioned to capitalize on its role as a bridge between East and West, leveraging free trade agreements and partnerships to mitigate external vulnerabilities. However, success in this arena will depend on the agility of Malaysia's economic policies and the ability to balance external risks with domestic priorities.

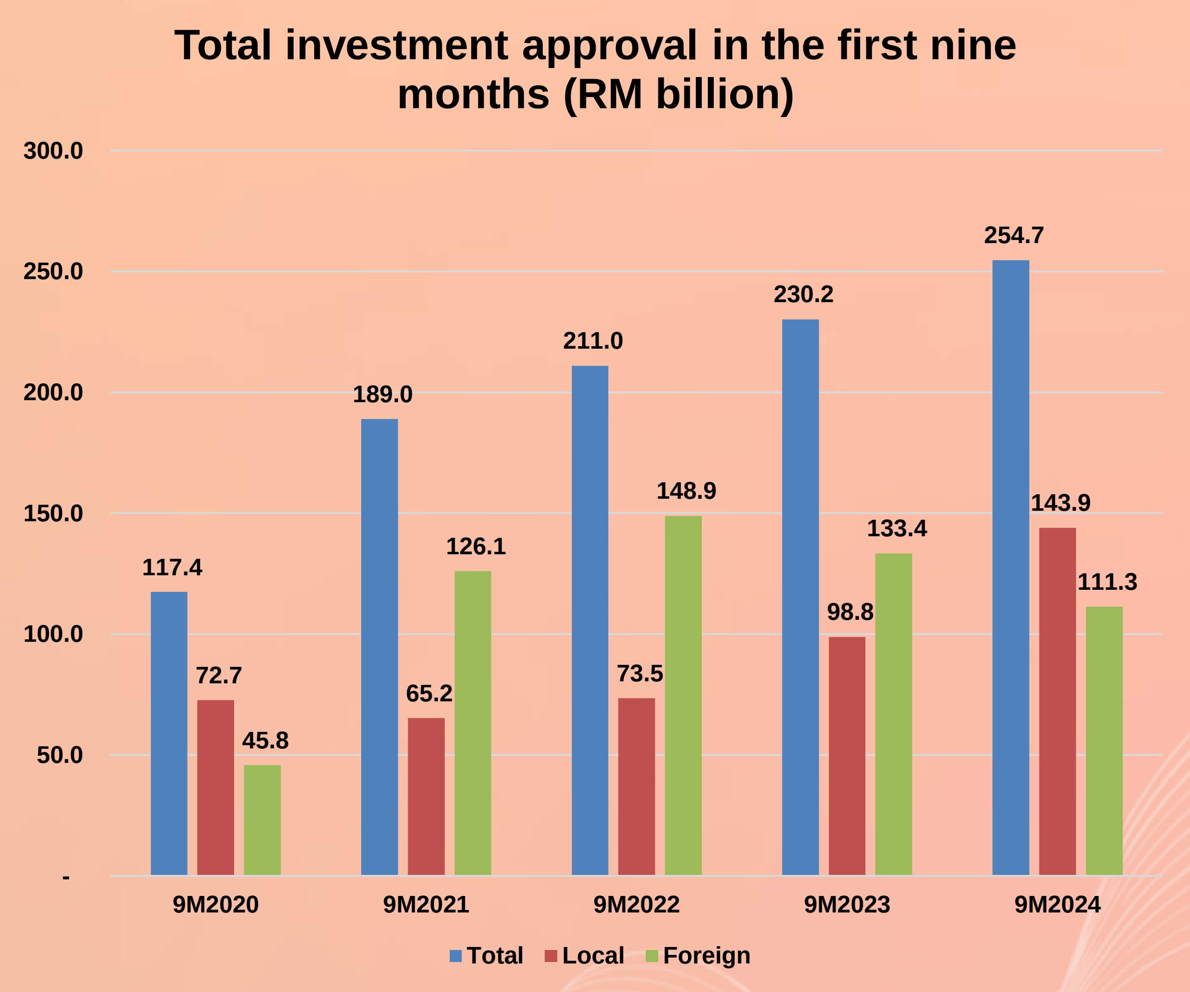
Against this backdrop, “Keep the Faith” by Bon Jovi resonates as an anthem of resilience and optimism—qualities that encapsulate Malaysia’s economic journey. The lyrics speak to perseverance through uncertainty, a message that aligns with the nation’s steadfastness in weathering both global and domestic challenges. The song’s chorus, with its emphasis on holding strong and looking ahead, mirrors the sentiment that drives Malaysia forward in the face of adversity.

Review of 2024: A Solid Foundation

The Malaysian economy showcased robust growth, achieving a GDP expansion of 5.2% in the first three quarters of 2024, significantly outpacing the 3.8% growth recorded in the same period of 2023. This strong performance was fueled by resilient domestic demand, increased foreign direct investment (FDI), and a thriving services sector. Proactive fiscal policies and strategic infrastructure investments by the government further bolstered the nation's economic outlook. High-frequency indicators reflect this momentum, with tourist arrivals surging to 22.5 million during the first 11 months of 2024 (compared to 17.8 million in the same period of 2023). Additionally, retail trade spending reached RM634.2 billion from January to October, an improvement over RM597.0 billion during the same period in 2023.

These figures highlight the resilience of consumer spending, which constitutes over 60% of the economy, despite challenges from rising living costs. Investment activity also saw significant acceleration, growing by 12.1% between January and September 2024, up from 5.2% in the same period of 2023, indicating that businesses are actively enhancing their productive capacity. Overall, the Malaysian economy grew at an average rate of 5.2% over the first three quarters of 2024, aligning with the government's GDP projection of 4.8% to 5.3% for the year (BMMB forecast: 4.9%).





Source: CEIC

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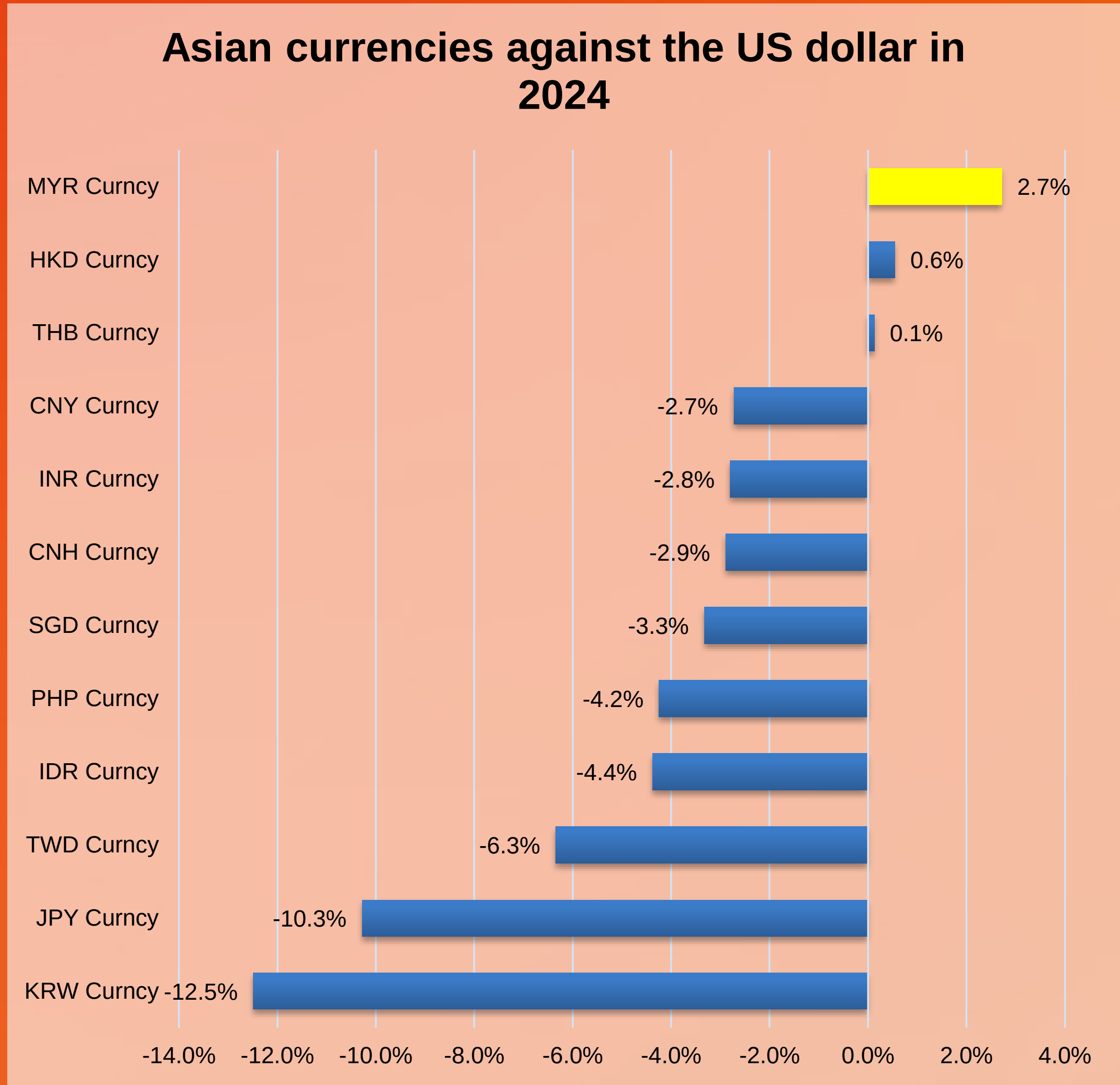
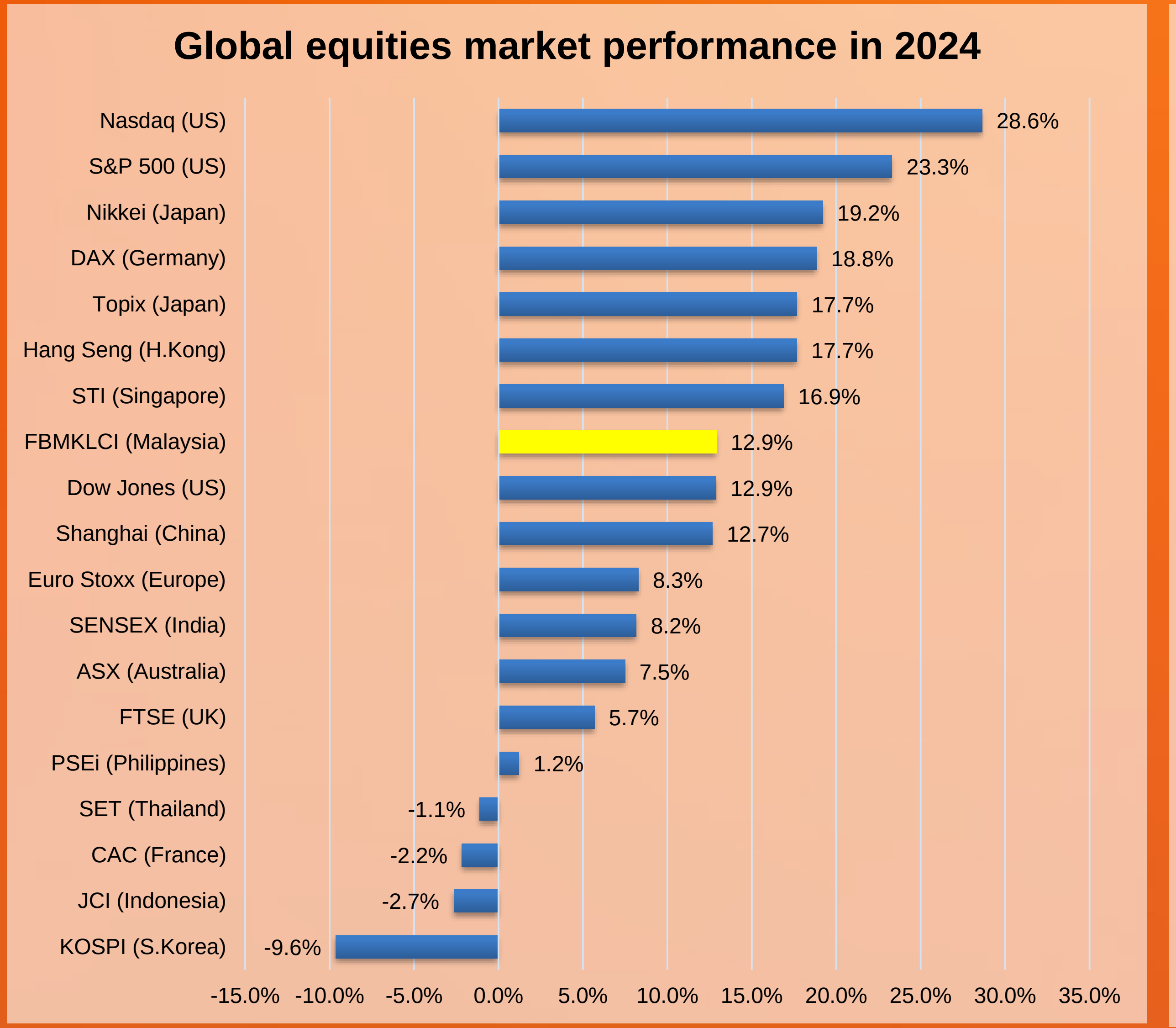
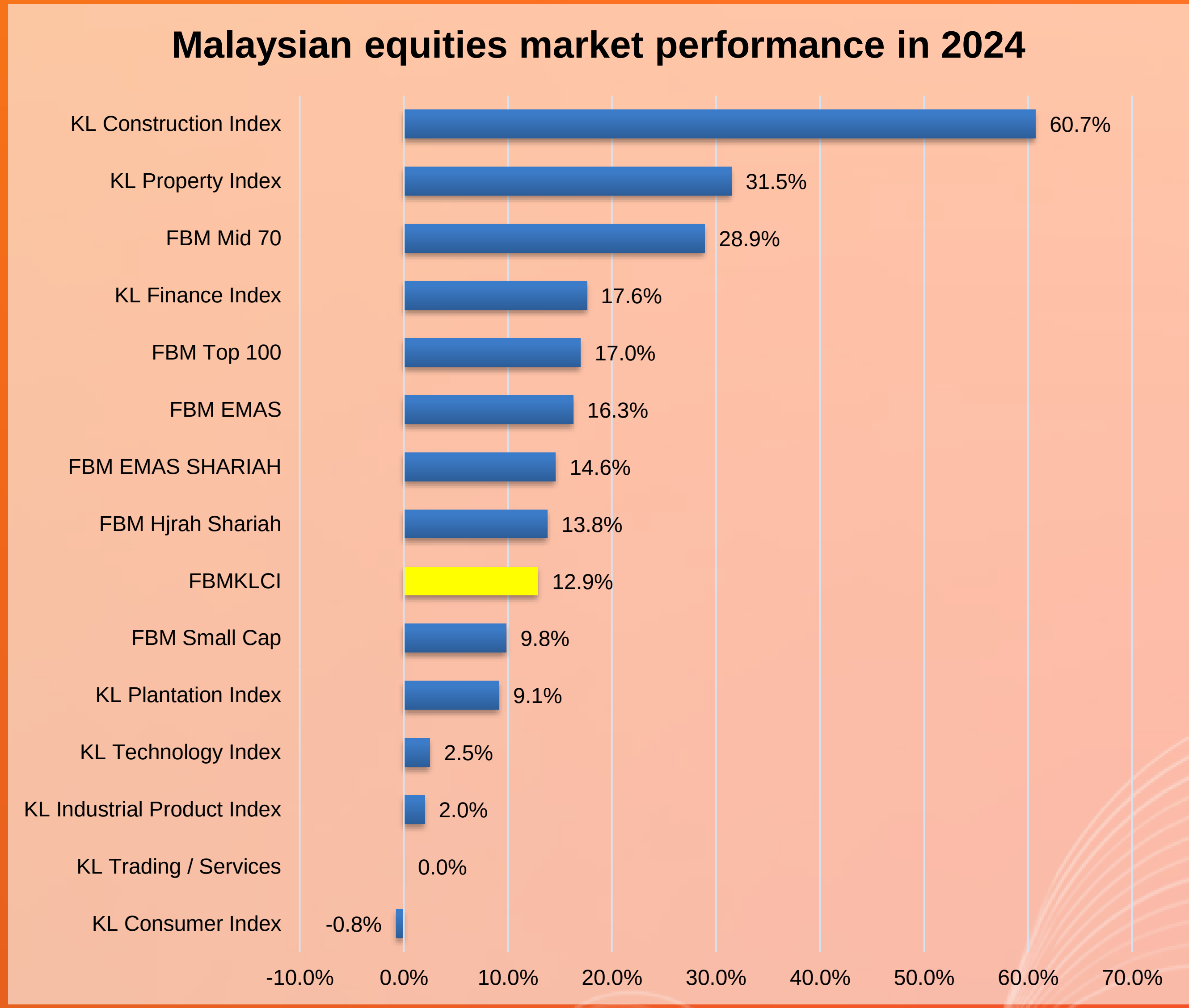
Review of 2024: Malaysian ringgit and equities have done well last year

The Malaysian ringgit performed strongly in 2024, appreciating by 2.7% against the US dollar to close at RM4.4722, making it the best-performing currency in the Asian region. Similarly, the FBMKLCI posted an impressive 12.9% gain during the year, signaling a revitalization of the Malaysian equities market after three years of stagnation. Foreign inflows into Malaysia's equities and bond markets during several months of 2024 contributed to the strengthening of the ringgit and boosted equity and bond prices. This indicates a heightened level of interest among foreign investors in the Malaysian market. The global enthusiasm for Artificial Intelligence (AI) has spurred demand for establishing data centers (DC) in Malaysia, benefiting the construction and property sectors as immediate recipients of this trend. Consequently, these sectors have seen significant upward momentum, reflected in their higher index levels.



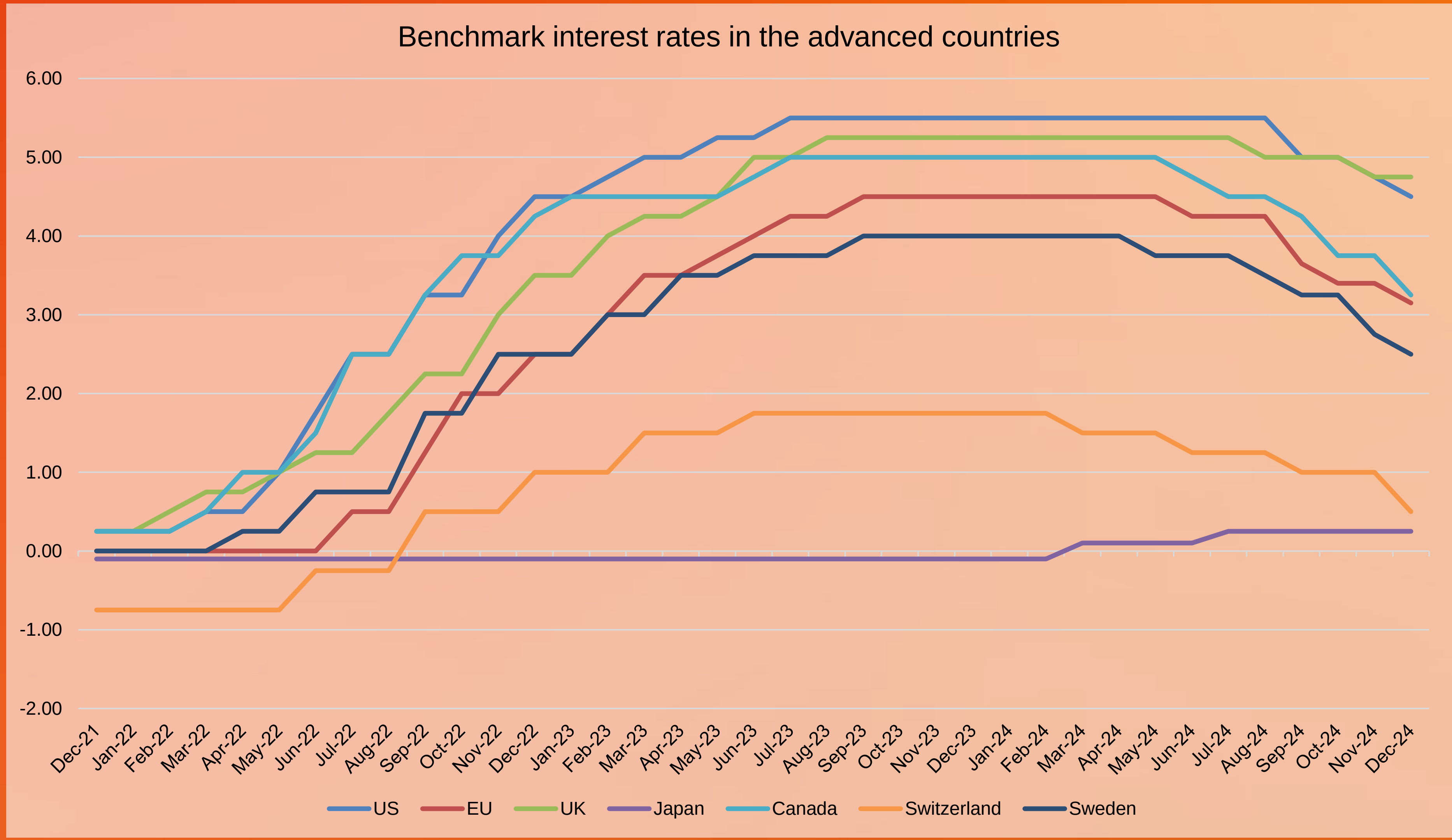


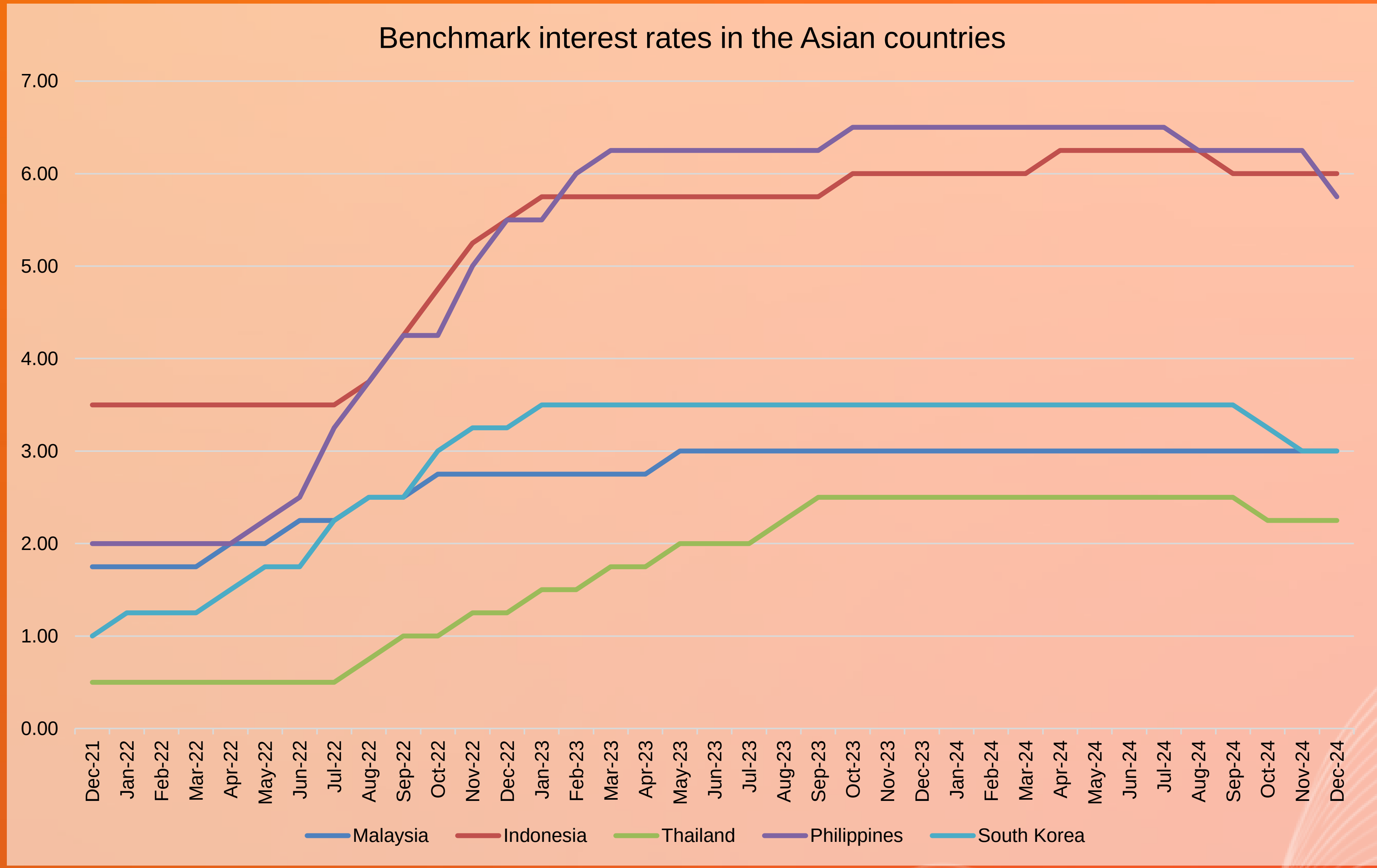


Source: Bloomberg

Review of 2024: Global monetary easing has started

In 2024, most major economies initiated monetary easing measures. The Swiss National Bank (SNB) was among the first G7 central banks to reduce its benchmark interest rates in March 2024. Similarly, the highly anticipated decision from the US Federal Reserve came in September 2024, with a 25-basis-point cut to the Federal Funds Rate (FFR), following a cautious start earlier in the year. Overall, the global monetary easing cycle has begun, although some countries continue to raise policy rates to address persistent inflationary pressures. In contrast, Bank Negara Malaysia (BNM) maintained its Overnight Policy Rate (OPR) at 3.00% throughout 2024, following its last hike in May 2023. This steady approach reflects BNM's cautious stance, particularly in light of potential fuel subsidy adjustments for RON95, which are expected to impact inflation in 2025. BNM is prioritizing striking the right balance between supporting economic growth and managing inflation risks effectively, ensuring stability in the face of upcoming challenges.





Source: Bloomberg

Key challenges for 2025

1.0 Geopolitics

The United States' unwavering support for the Israeli government has been evident through substantial military, economic, and diplomatic aid. Between 1946 and 2023, total assistance amounted to USD 158.7 billion, with an additional USD 17.9 billion provided from October 7, 2023, to September 2024. The critical question remains whether such support contributes to global peace. Based on current trends, achieving global peace appears to be a significant challenge with far-reaching economic implications, particularly in logistics and supply chains. For example, daily traffic through the Suez Canal—handling 12% to 15% of global trade—has declined sharply. Between January 1, 2019, and October 7, 2023, the canal averaged 42 cargo ships and 19 tankers daily. However, from October 8, 2023, to December 15, 2024, this dropped to 27 cargo ships and 14 tankers per day due to the Middle East conflict. This disruption forces many vessels to reroute via the Cape of Good Hope, resulting in increased fuel costs, higher insurance premiums, and extended delivery times—further complicating global trade and economic stability.

Table 1: Total U.S. Foreign Aid Obligations to Israel: 1946-2023

Fiscal Year	Military	Economic	Missile Defense	Total
1946-2020	104,506	34,348	7,411	146,265
2021	3,300	-	500	3,800
2022	3,300	-	1,500	4,800
2023	3,300	-	500	3,800
Total	114,406	34,348	9,911	158,665

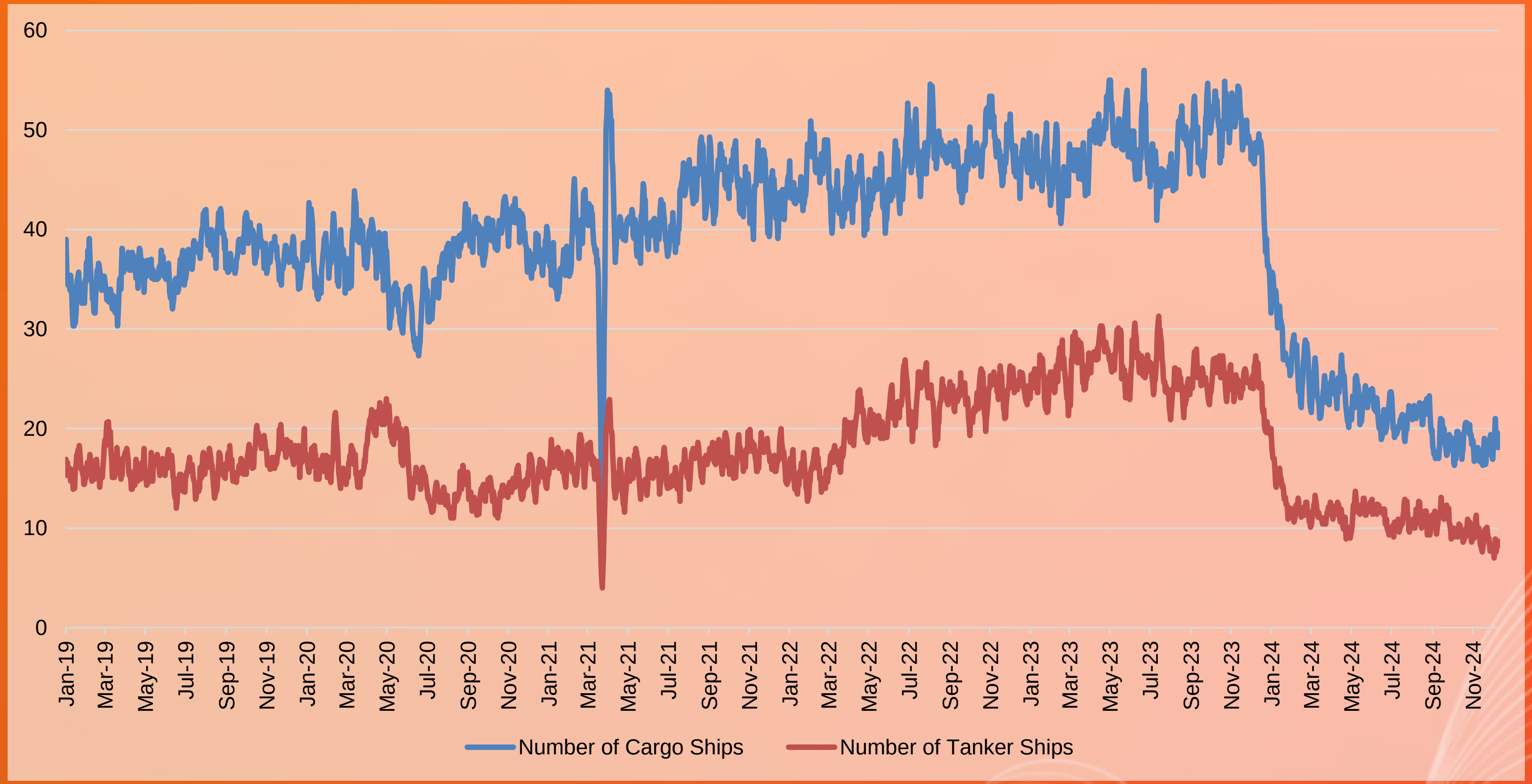
Source: U.S. Overseas Loans and Grants (Greenbook), the U.S. State Department, and the Missile Defense

Table 2: U.S. Military Aid to Israel from October 7, 2023 to September 2024 (US million)

Foreign Military Financing	6,800
Missile Defense	4,500
Missile Defense (Iron Beam)	1,200
Enhancing Artillery Production	1,000
Replenishing Arms Delivered to Israel from U.S. Stocks	4,400
Total	17,900

Source: Costs of War, Watson Institute for International Public Affairs, Brow n University

Suez Canal daily traffic from 7 Jan 2019 to 15 Dec 2024

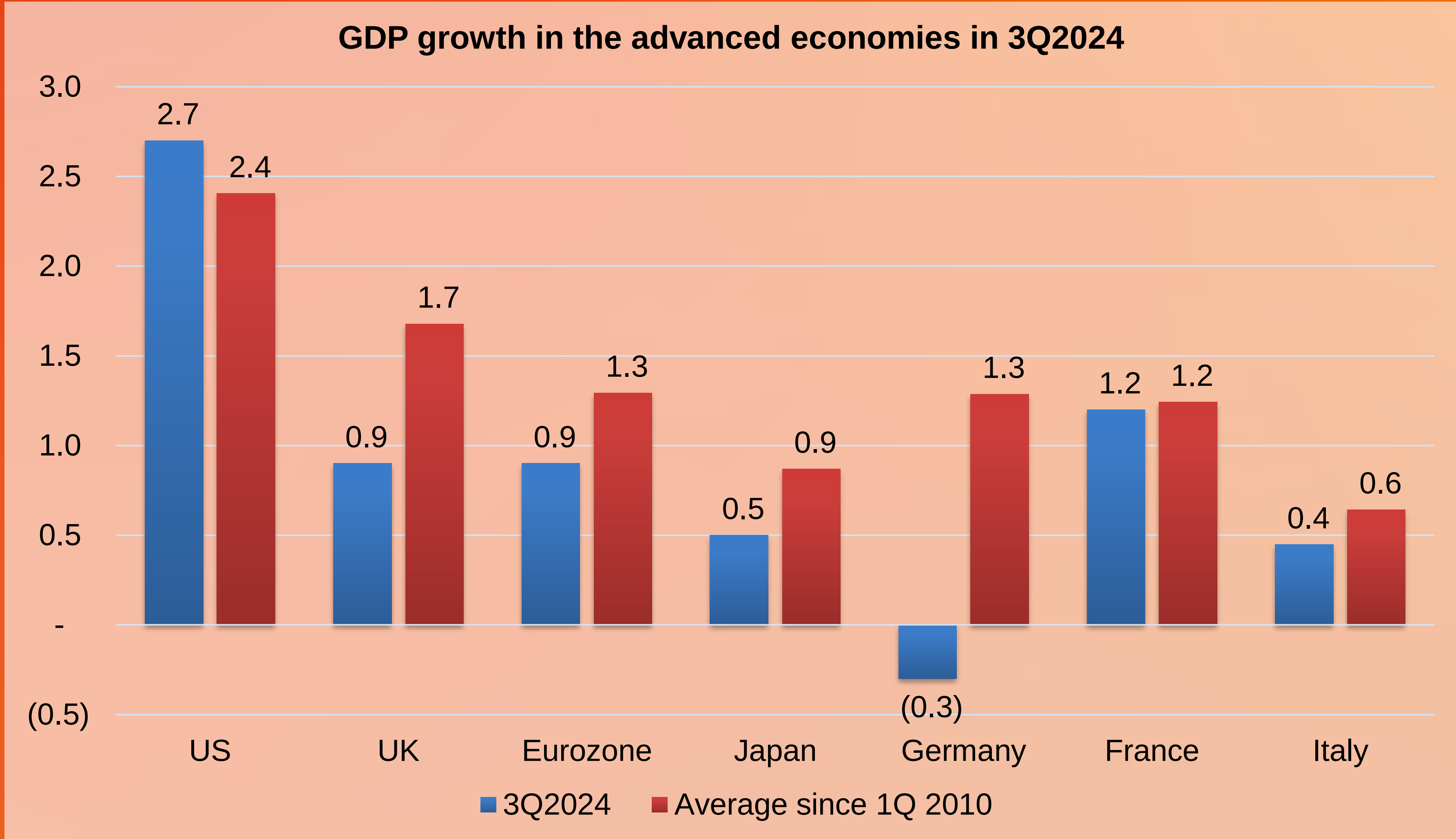


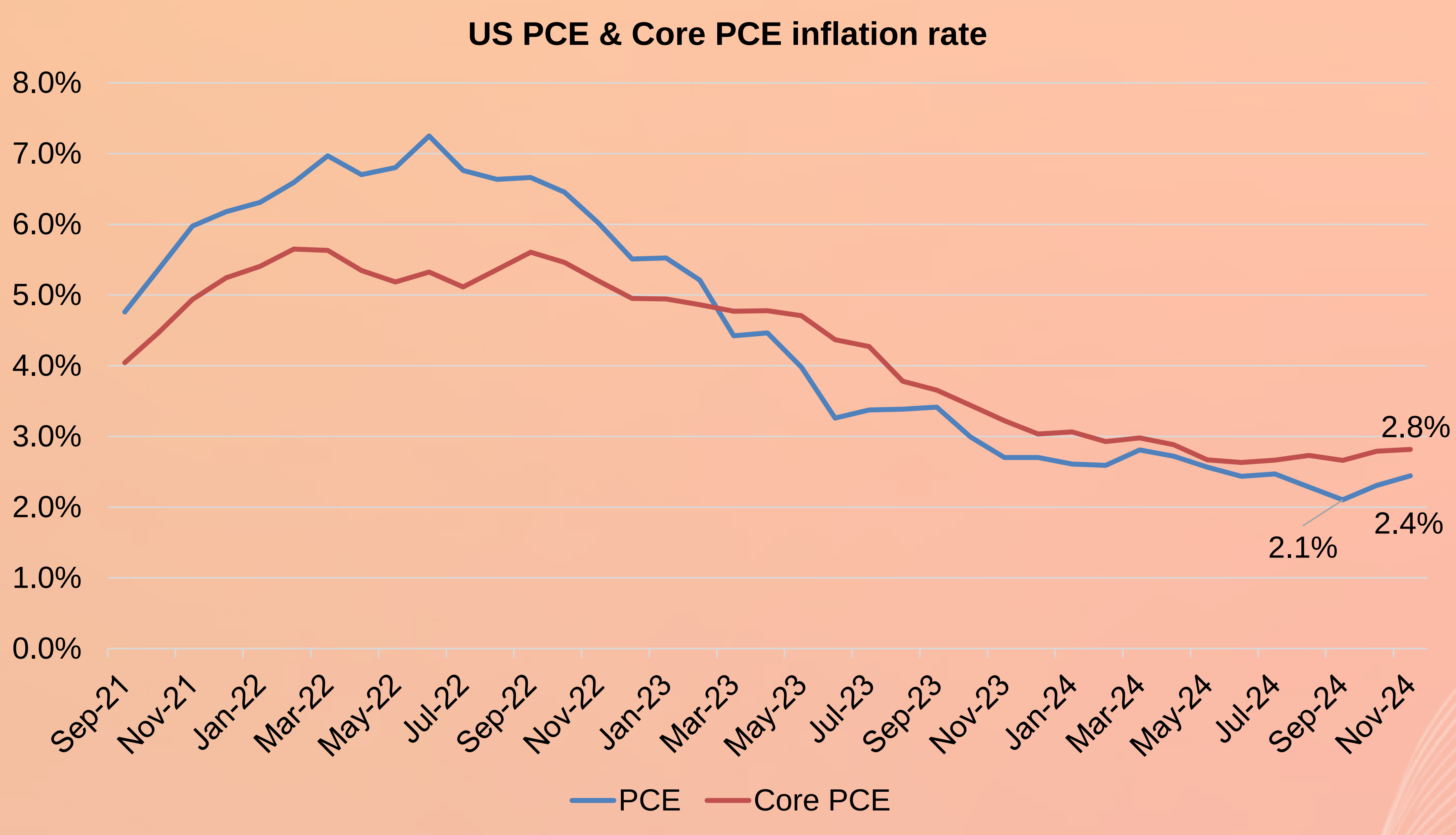
Source: Portwatch

Key challenges for 2025

2.0 Strong US economy, Trump 2.0 and ultimately the US Fed

Despite consecutive interest rate hikes in 2022 and 2023, the U.S. economy has outperformed its G7 peers. U.S. GDP grew by 2.7% in Q3 2024, exceeding its average growth rate of 2.4% since Q1 2010. In contrast, the Eurozone, the UK, and Japan all reported growth below their historical averages. The Federal Reserve's monetary policy decisions are once again in the spotlight this year, particularly regarding the extent to which it may further reduce the Federal Funds Rate (FFR). Market sentiment remains sensitive to these developments, especially as the incoming 47th U.S. President, Donald J. Trump, is expected to pursue policies perceived as inflationary. At the same time, the U.S. dollar has gained momentum early this month, signaling strong investor confidence in the economy's resilience.



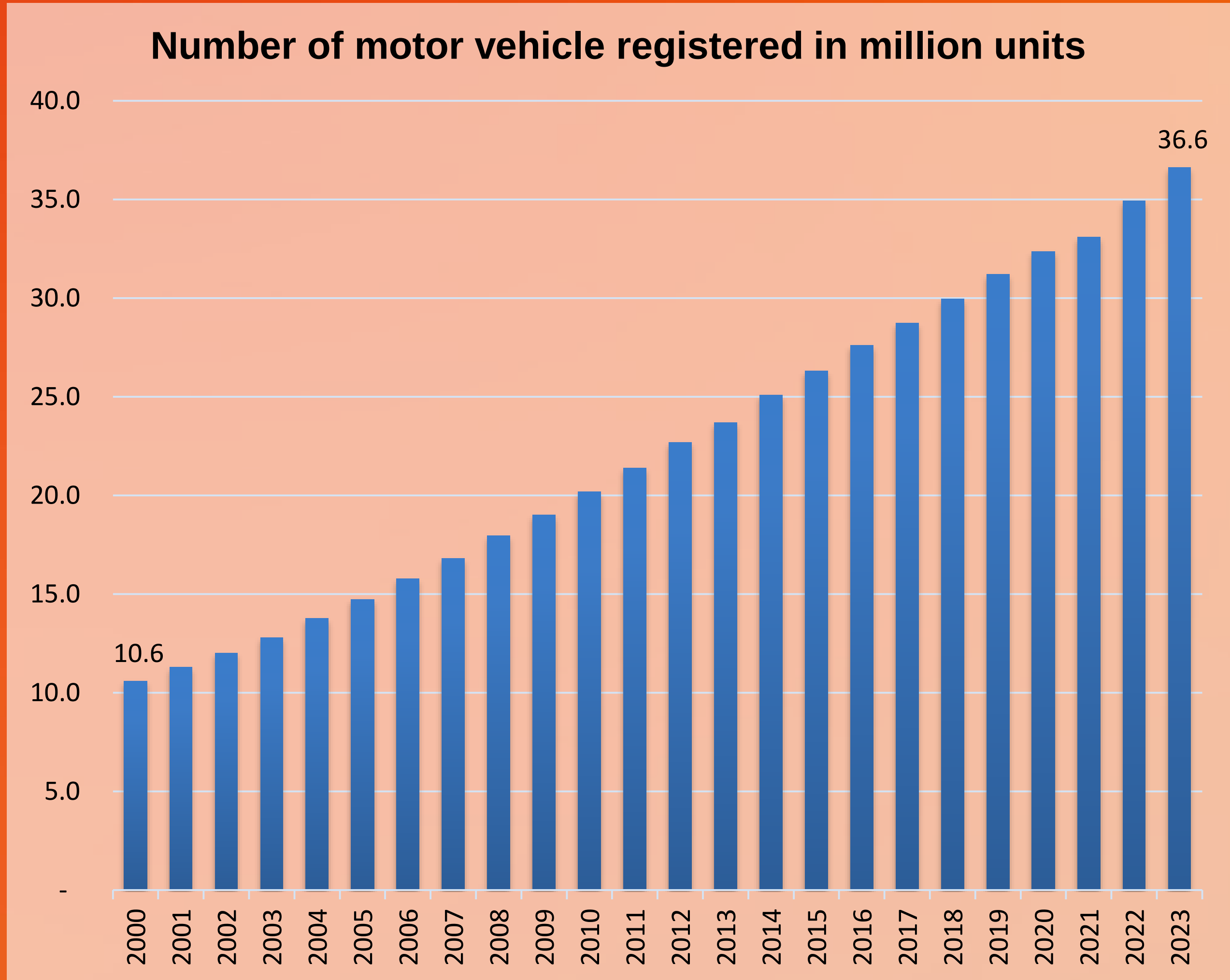


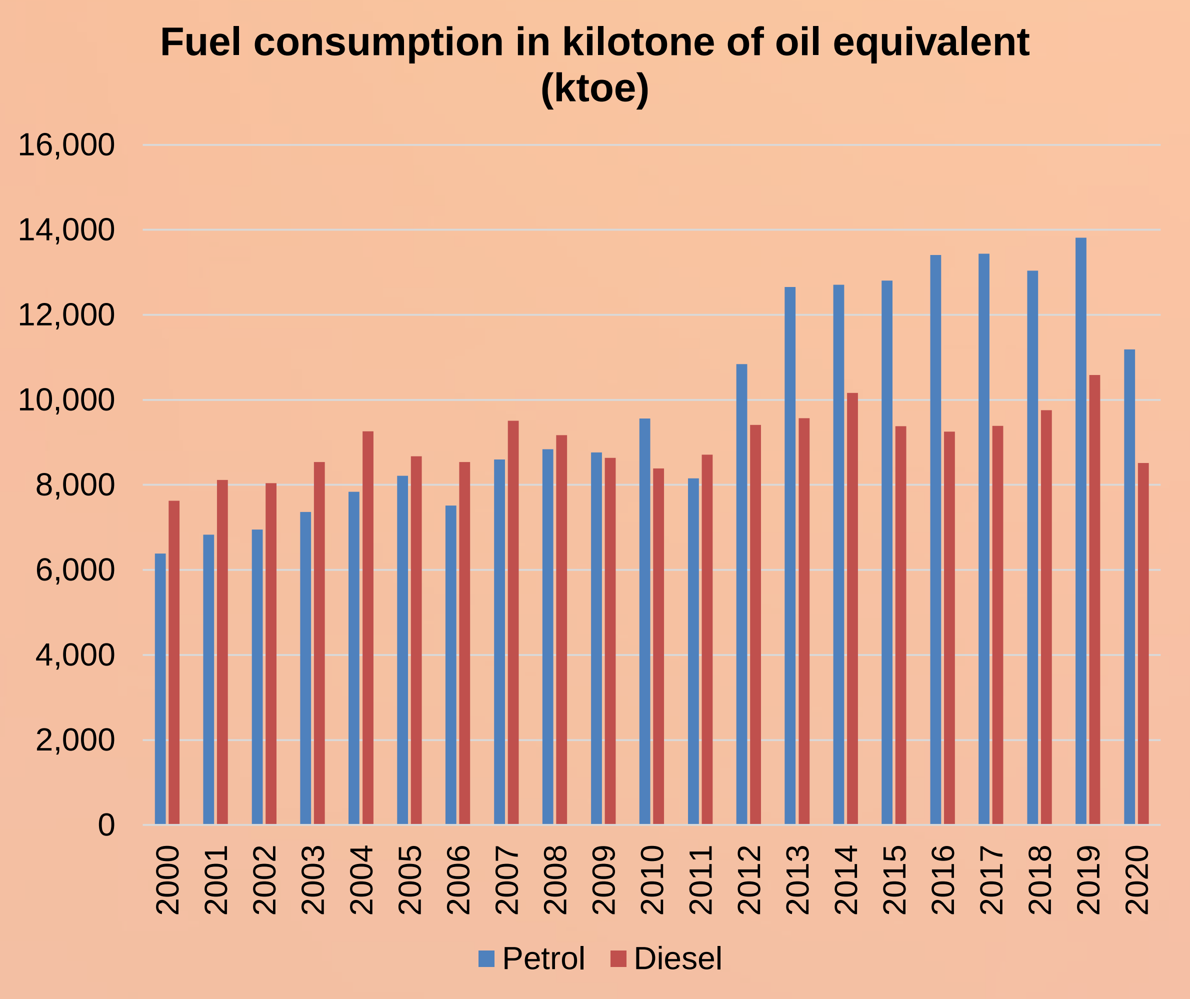
Sources: Bloomberg & CEIC

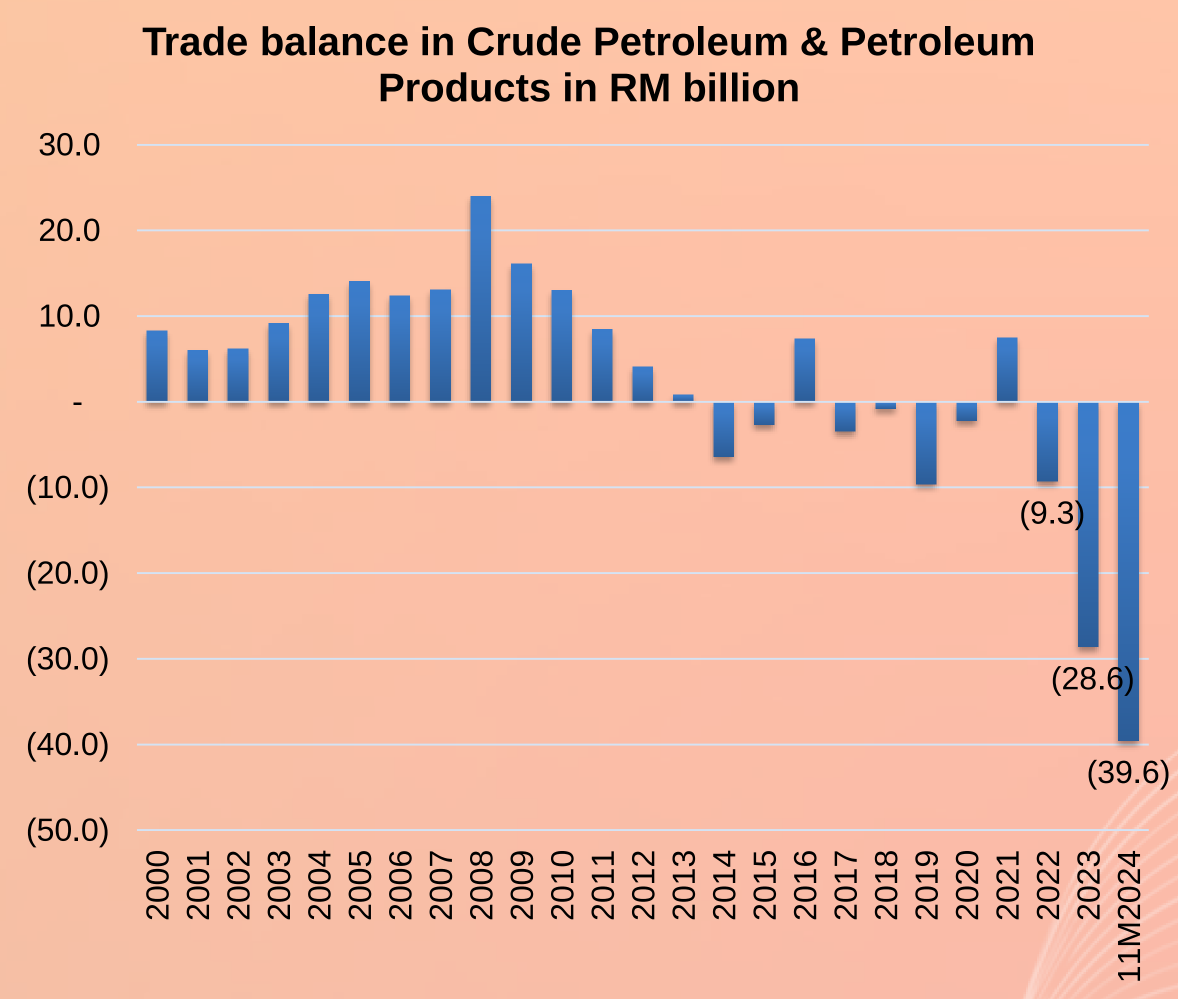
Key challenges for 2025

3.0 RON95 subsidies rationalization

During the tabling of Budget 2025, the government announced plans to rationalize RON95 subsidies by mid-2025. However, the mechanism for the new subsidy scheme has yet to be revealed. The steady rise in fossil fuel consumption is evident from the increasing number of registered motor vehicles, which reached 36.6 million in 2023, growing at an average annual rate of 5.8% since 2000. This surge in vehicle numbers has contributed to a trade balance deficit in crude petroleum and petroleum products, amounting to RM39.6 billion for the first eleven months of 2024. Notably, this marks the third consecutive year of deficits. Implementing targeted fuel subsidies is therefore essential, despite its political sensitivity. Successfully executing this reform could significantly enhance the government's credibility in pursuing meaningful economic reforms.





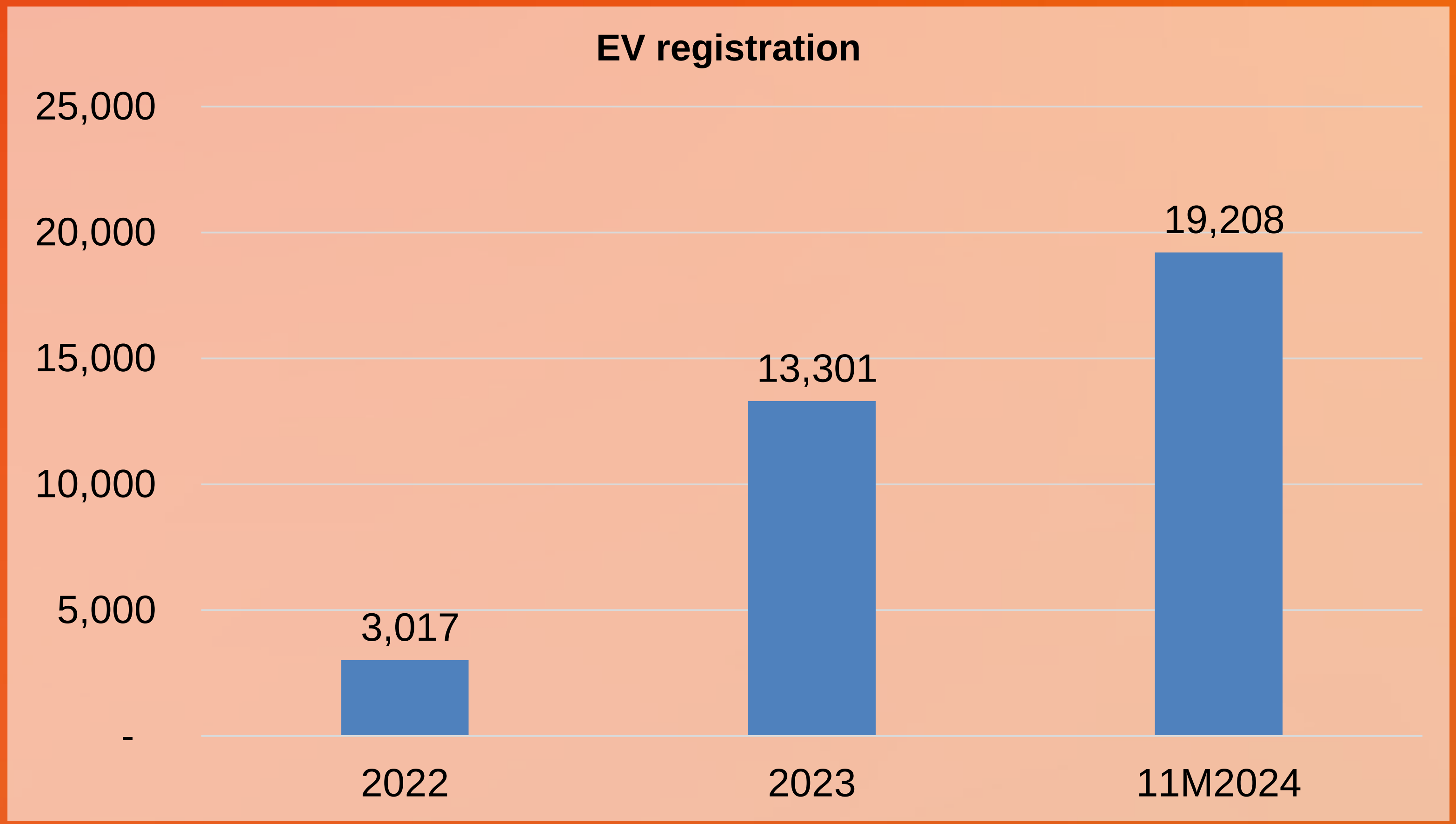


Source: DOSM, EC & CEIC

Opportunities for 2025

1.0 More EV sales and charging station

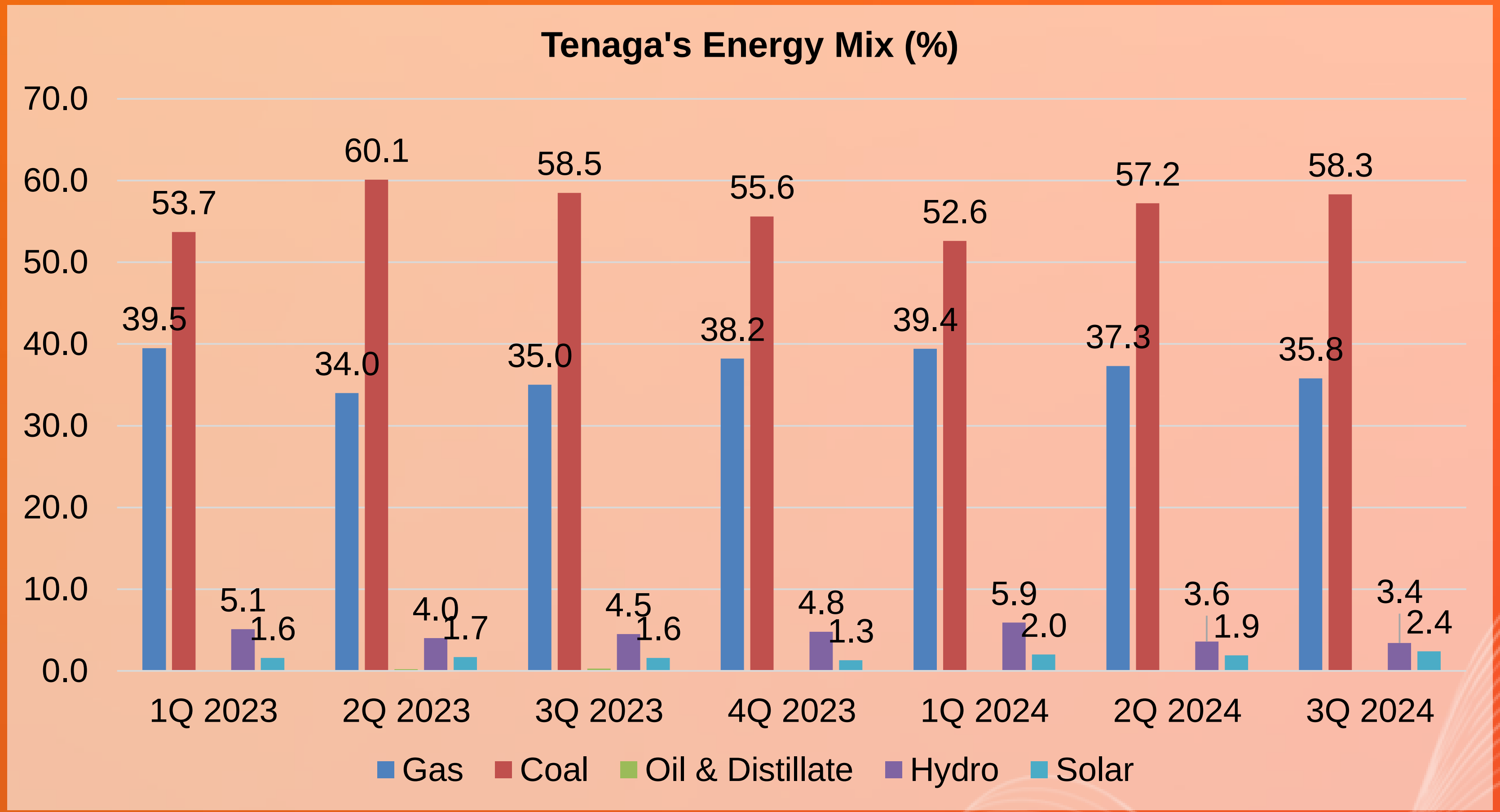
- Based on Road Transport Department (JPJ) data, a total 19,206 units of EV has been registered in the first 11 months of 2024.
- This represents 5-year (2020-2024) CAGR of 43.6% per annum. Assuming such growth rate, 2025 EV could reach circa 28,000 units.
- As of October 2024, there are 3,354 units of EV charging station, according to Malaysia Productivity Corporation (MPC). This is still fall short from 2025 target of 10,000 units.



Sources: Soyacincau & data.gov.my

2.0 More energy transition

- The share of solar in Tenaga's energy mix has risen from 1.6% in 1QFY2023 to 2.4% in 3QFY2024.
- Net Energy Metering (NEM) 3.0 which runs from 2021 to 2025 has received positive response.
- NEM Rakyat: Total quota = 600MWac / Approved = 434MWac
- NEM GoMen: Total quota = 100MWac / Approved = 55MWac
- NEM NOVA: Total quota = 1700MWac / Approved = 1,041MWac



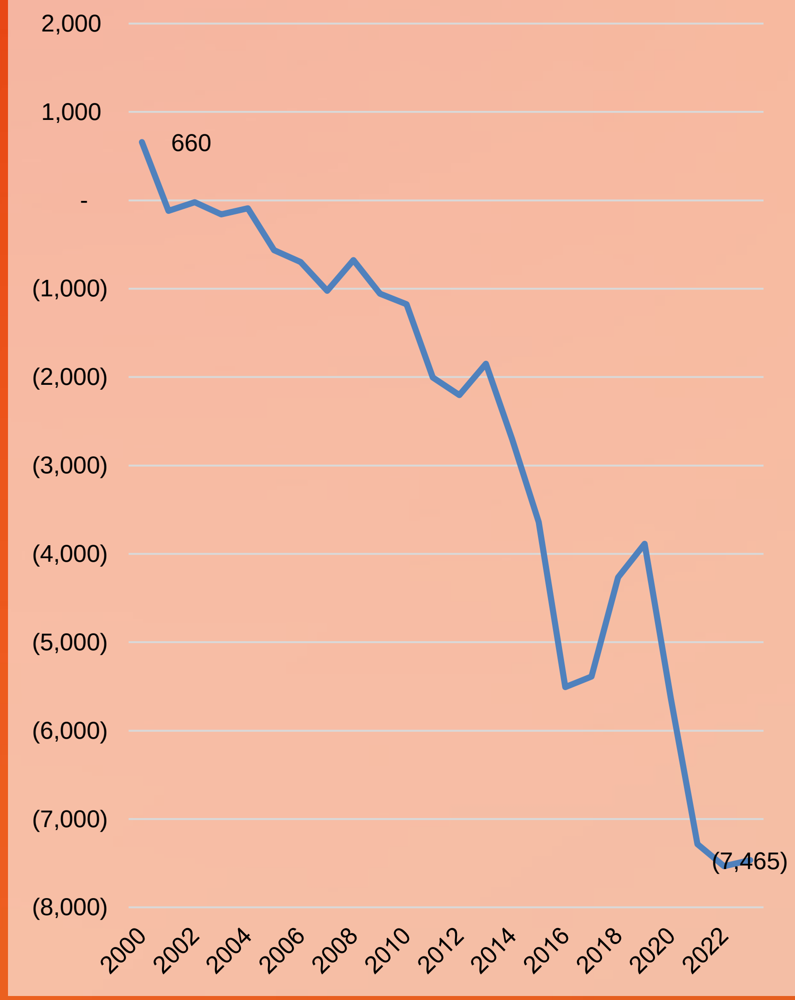
Sources: Tenaga & EC

Opportunities for 2025

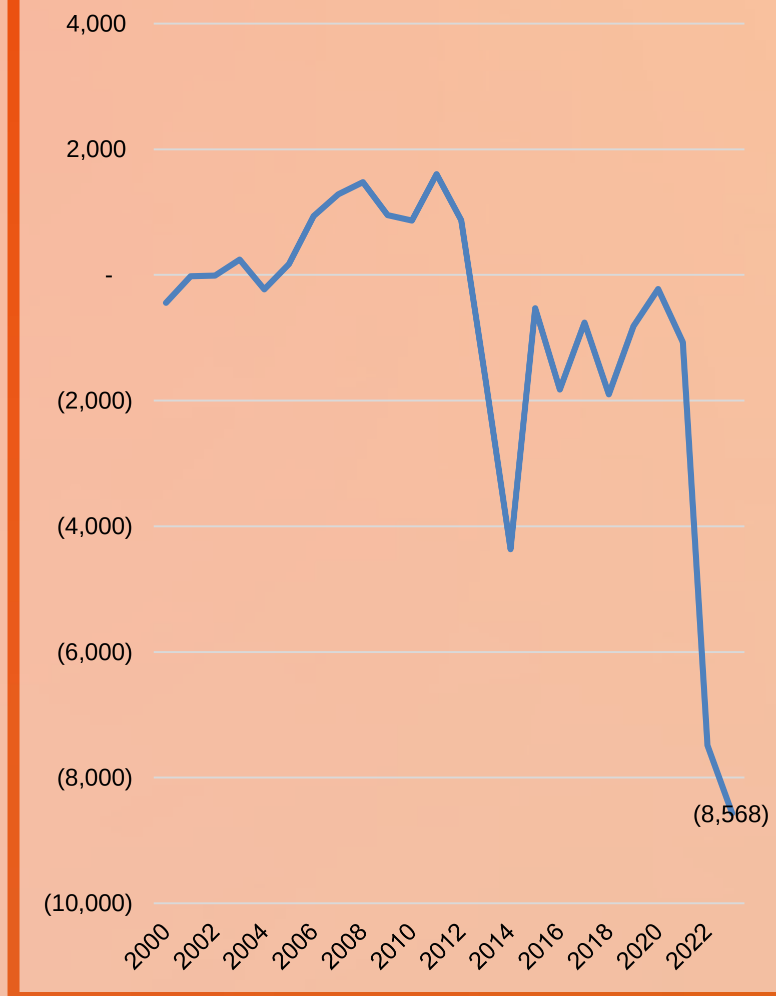
3.0 More trades with BRICS

- Malaysia has recorded persistent trade deficits with China, Brazil and Russia.
- Perhaps having more trade relationship with BRICS community would mitigate the risks of trade protectionists policies adopted by the West.
- It could open more doors for further trade integration with BRICS which could, to some degree facilitate the dedolarisation effort.
- Also, it could help accelerate our MSME integration with the global supply chain and getting access to export markets.

Trade balance with Brazil (RM million)



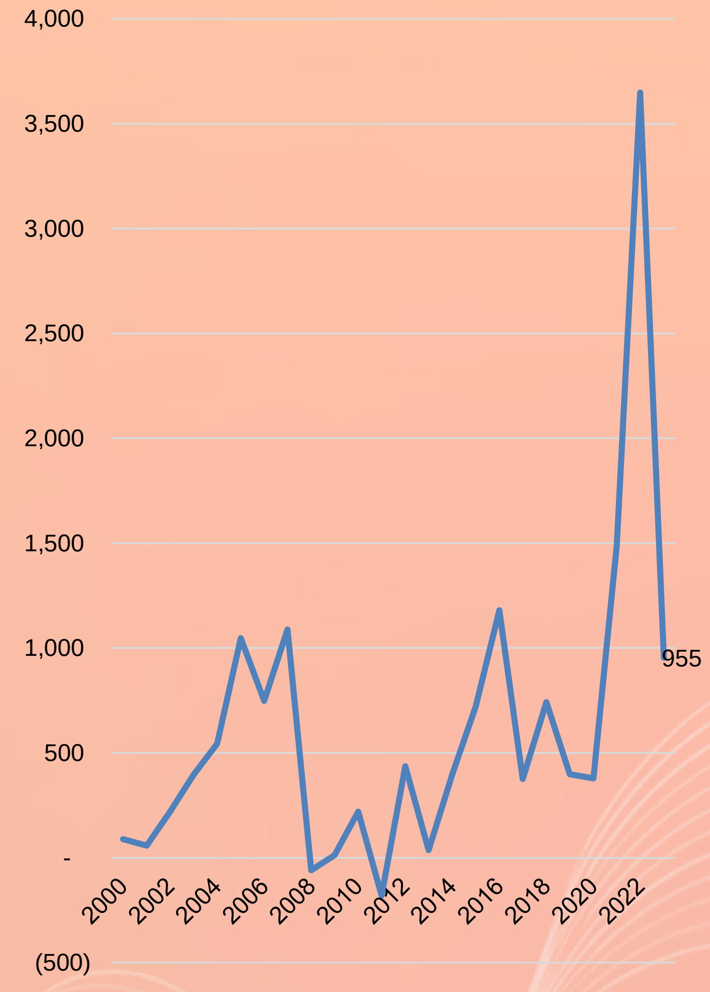
Trade balance with Russia (RM million)



Trade balance with India (RM million)

Trade balance with China (RM million)

Trade balance with South Africa (RM million)



Source: CEIC

Economic outlook for 2025 – quality growth is what matters

The Malaysian economy is expected to maintain a sustainable growth rate this year at 5.0% from an estimated 4.9% in 2024. Stable labour market condition and conducive fiscal and monetary policies amidst the external uncertainties would allow the economy to grow at a healthy rate. This time around, we foresee investment activities are likely to be the main driver for growth as the Malaysian government is committed to transition its economy into a developed nation. In this regards, the Government Linked Investment Companies (GLICs) through GEAR-uP initiative will allocate RM120 billion into direct domestic investment over five years. This would unlock the Malaysia's potential growth through investments in high-growth high value (HGHV) such as the energy transition sector, advanced manufacturing especially in the semiconductor industries, investments across all life cycle of firms from start-ups, venture capital to mid-tier companies.

The rise of Artificial Intelligence (AI) has brought increased focus to the technology sector as a key driver for enhancing productivity and efficiency in the economy. In this context, the development of data centers (DCs) has emerged as a catalyst for growth, with significant involvement from the private sector. These projects have directly benefited industries such as construction, property, energy, water, and other supporting services. Meanwhile, Malaysia's semiconductor-related exports are anticipated to align with sustained global demand in 2025. According to the World Semiconductor Trade Statistics (WSTS), global semiconductor sales are projected to grow at a robust double-digit rate of 11.2% in 2025, following a strong 19.0% growth in 2024.

Beyond technology, increased government development expenditure will also provide significant support for domestic growth, with a total allocation of RM86 billion for 2025. Recognizing the vital role of the private sector, the introduction of the Public-Private Partnership Masterplan 2030 (PIKAS 2030) aims to enhance project governance and management, expediting execution. Major infrastructure projects under this initiative include expressways, railways, ports, and airports, which are set to drive economic development and connectivity.

Furthermore, state-level economic initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ), the Malaysia IC Design Park in Selangor, and the Blue Economy in the East Coast are poised to act as key catalysts for Malaysia's economic growth. In this regard, the 13th Malaysia Plan (13MP), to be tabled this year, is expected to provide greater clarity on the country's mid-term economic development strategies.

Economic outlook for 2025 – quality growth is what matters (cont.)

Although the Malaysian economy performed well in 2024, foreign equity investors remained cautious due to volatile fund flows into the country. For example, foreign investors were net buyers of Malaysian equities, with RM112 million and RM4.4 billion recorded in Q2 2024 and Q3 2024, respectively. However, this trend reversed in the final quarter of the year, with net sales amounting to RM7.7 billion. As a result, the FBMKLCI dropped from its peak of 1,678.8 points on August 30, 2024—its highest since December 2020—to close the year at 1,642.33 points. The Price-to-Earnings Ratio (PER) is currently around 15 times earnings, which is lower than the historical average of 17.1 times. This suggests the FBMKLCI is undervalued, as investors in the past were willing to pay a premium for Malaysian stocks. To attract more foreign investors, further measures are necessary to enhance the appeal and competitiveness of the Malaysian stock market.

As for the bond market, foreign investors were net buyers in the first eleven months of 2024, with total net purchases amounting to RM6.2 billion (11M2023: +RM23.7 billion). This was primarily driven by Malaysian Government Securities (MGS), which saw net inflows of RM3.7 billion (11M2023: +RM17.0 billion), and Malaysian Islamic Treasury Bills (MITB), with net purchases of RM2.2 billion (11M2023: -RM2.3 billion). However, Government Investment Issues (GII) recorded net sales of RM431 million during the same period (11M2023: +RM12.7 billion). All in all, it appears that foreign investors are still generally comfortable with the Malaysian government credit matrix.

As for key risk factors, geopolitics is our top list especially event surrounding the military conflict in the Middle East and Ukraine as this could have major impact on financial market sentiments and potentially disrupt the supply chain. Import tariff by Trump administration is also another concern as this could lead to higher inflation in the US which would force the Fed to keep a restrictive monetary policy stance. Domestically, possible U-turn in key economic reforms especially fuel subsidies rationalization could have an adverse impact on market confidence especially the ringgit.

Given these trends, maintaining the Overnight Policy Rate (OPR) at 3.00% throughout 2025 is a prudent approach. This will help narrow the gap between the OPR and the Federal Funds Rate (FFR), particularly as the U.S. Federal Reserve is expected to implement a 50-basis-point cut in 2025. Our year-end target for the USD/MYR exchange rate is RM4.30. In summary, "keep the faith" aptly captures our outlook for 2025.

Appendix

Macroeconomic variables	2022	2023	2024E	2025F
GDP	8.9%	3.6%	4.9%	5.0%
By expenditure:				
Domestic Demand	9.4%	4.6%	6.8%	6.2%
Consumption	10.1%	4.4%	5.2%	5.5%
-Private	11.3%	4.7%	5.3%	5.6%
-Public	5.1%	3.3%	4.5%	4.7%
Investment	6.8%	5.5%	12.8%	8.6%
-Private	7.2%	4.6%	13.0%	9.3%
-Public	5.3%	8.6%	12.0%	6.3%
Net Export	-1.5%	-16.2%	-11.7%	-0.7%
Exports	14.5%	-8.1%	6.5%	4.0%
Imports	16.0%	-7.4%	7.8%	4.3%
By industry:				
Agriculture	1.3%	0.7%	1.2%	1.5%
Mining and quarrying	3.5%	0.5%	0.5%	0.3%
Manufacturing	8.1%	0.7%	4.5%	4.7%
Construction	5.1%	6.1%	16.5%	9.1%
Services	11.0%	5.1%	5.5%	5.7%
Other macroeconomic variables				
Unemployment rate	3.9%	3.3%	3.2%	3.2%
Inflation rate	3.3%	2.5%	2.0%	2.5%
Overnight Policy Rate (OPR)	2.75%	3.00%	3.00%	3.00%
USDMYR	4.4040	4.5940	4.4718	4.3000
MGS 3-year	3.67%	3.48%	3.47%	3.45%
MGS 5-year	3.84%	3.58%	3.62%	3.60%
MGS 10-year	4.07%	3.74%	3.81%	3.75%
FBMKLCI	1,495	1,455	1,642	1,700

Source: BMMB's Economics Department

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