A Subsidiary of

Industry Focus:

Sectoral Scan

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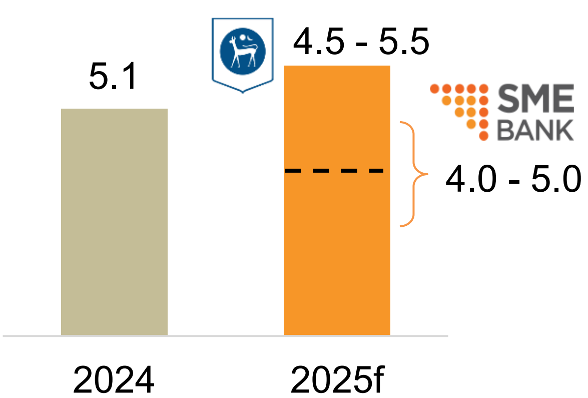
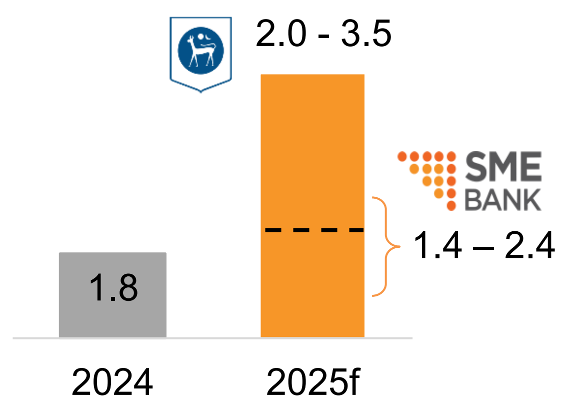
Summary

1 Malaysia's key economic indicators

Malaysia GDP growth (% YoY)



Headline inflation (% YoY)



2025f

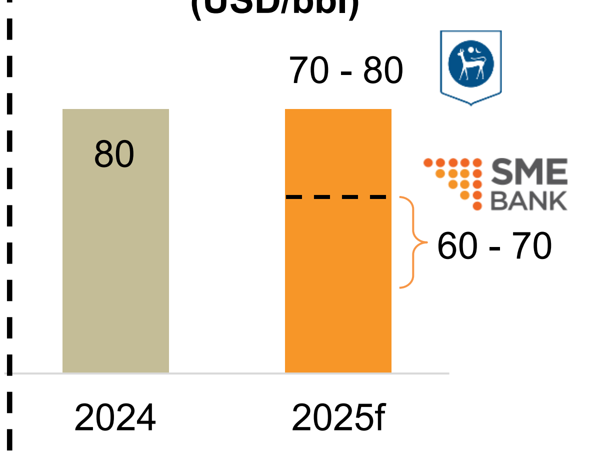
Ringgit (USD/MYR)

SME BANK 4.30 - 4.40

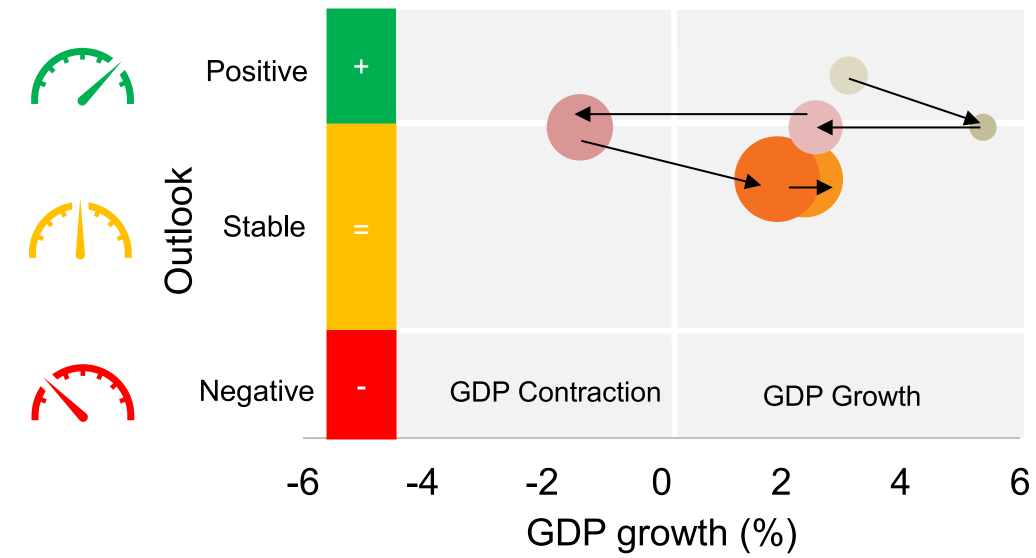
OPR (%)

SME BANK 2.75

Brent crude oil (USD/bbl)



2 Outlook movement 2022 - 2024



- The movement of our outlook in Sectoral Scan generally aims to be forward looking, anticipating subsector performance for the upcoming 6-18 months.
- For illustration, the chart beside shows the movement of outlook and GDP performance over the period of 2022 – 2024 for the manufacturing petroleum & chemical subsector.

3 1H 2025 Sectoral Outlook

	Positive	Stable	Negative
1H 2025	**11**	**29**	**0**
2H 2024	10	30	0

Customer's credit strengths/ weaknesses are important. Clients in positive outlook industries are not necessarily bankable and vice-versa

Brighter Prospects

Stable → Positive

- Civil Engineering

Stable

- Real Estate services

Face Challenges

Stable

- Mfg of Wood, Paper & Furniture
- Mfg of Petroleum & Chemical
- Mfg of Transport Equipment
- Motor Vehicles services
- Agriculture

Sources: Bank Negara Malaysia (BNM), CEIC, Department of Statistics Malaysia (DOSM), Bloomberg and SME Bank Economic Research

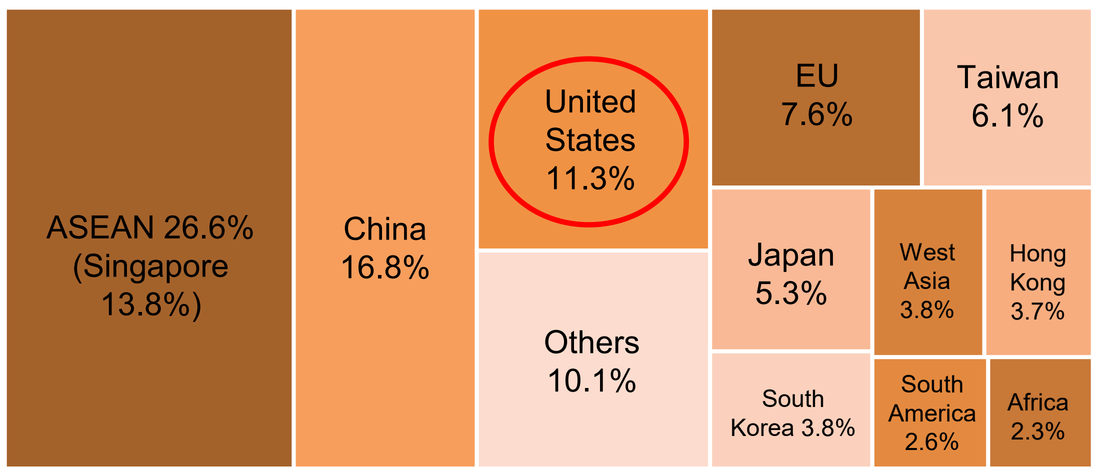
Presentation Outline

1. **Macro Developments**
2. Sectoral Scan, Movement & Outlook of Key Sectors
3. Appendix

Macro Developments

1 Trump tariff impact to growth

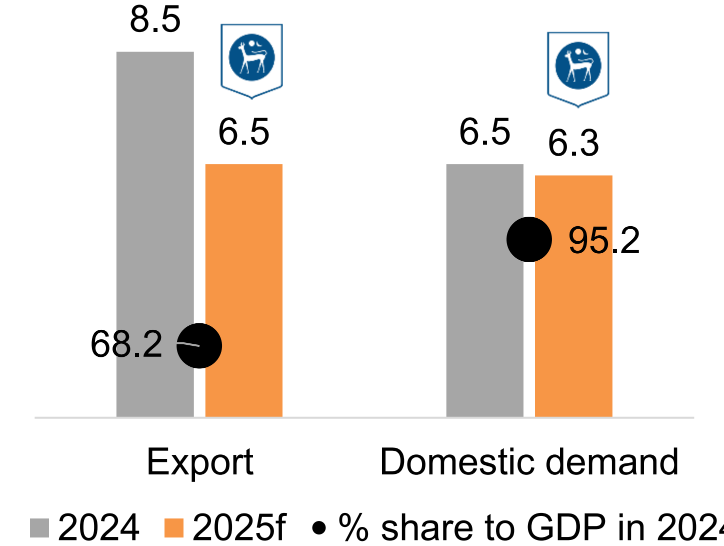
Malaysia trade destinations



MOF estimates a **1ppt drop in US GDP** could reduce Malaysia's export to the **US by 1.71ppt, leading to a 0.12ppt** lower in Malaysia's GDP growth

2 Resilient domestic demand to cushion trade moderation

Export & domestic demand (% YoY)



Key drivers

- Higher household spending
- Improving labour market conditions
- Sustain expansion in investment activities

2025 Key Macroeconomic Forecasts

Indicator	2024	YTD 2025	2025f			
			In-house	BNM	World Bank	IMF
Real GDP (% y-o-y)	5.1	4.4 (1Q)	**4.0 – 5.0**	**4.5 – 5.5**	**3.9**	**4.1**
OPR (%)	3.00	3.00	**2.75**	**-**	**-**	**-**
Inflation (% y-o-y)	1.8	1.5*	**1.4 – 2.4**	**2.0 – 3.5**	**-**	**2.5**
USD/MYR (average)	4.58	4.40	**4.30 – 4.40**	**-**	**-**	**-**
Brent crude oil (USD/bbl)	80.0	71.0	**60 – 70**	**70 - 80**	**79**	**72.8**

*Notes: *Inflation (y-o-y) is average Jan-Apr 2025*

Sources: BNM, CEIC, DOSM, Bloomberg, Ministry of Finance (MOF) and SME Bank Economic Research

Macro Developments: Impact Analysis on Economic Growth

Stronger-than-expected domestic demand

- Higher cash handouts to lower income households (STR & SARA), civil servant salary revision (RM10 bil allocation), an increase in the minimum wage to RM1.7k (from RM1.5k), and EPF account 3 withdrawal are **expected to boost consumer spending.** Beneficiary: services and wholesale & retail.
- **Resilient employment underpinned by domestic** oriented segment (60% of total employment in Malaysia) vs export–oriented employment could be vulnerable by outcome of tariff negotiation with US.
- **Improvement labor participation rate** to 70.7% in 1Q 2025 (4Q 2024: 70.6%; avg 20215-2019: 68.1%)

UPSIDE POTENTIAL

Continuously upbeat investment

- **Increase in approved investment** to RM378.5 bil in 2024 (2023: RM329.5 bil), the highest in history.
- **Progress in existing & new infrastructure** projects (ECRL, RTS, Penang LRT, Pan Borneo, SSLR Phase 2, West Ipoh Span Expressway, LRT3 Phase 2).
- National agenda e.g. digitalisation, Industrial Revolution 4.0, National Energy Transformation Roadmap, New Industrial Master Plan 2030
- **Notable data centre investments** include Amazon Web Services (RM29.2 bil), Microsoft (RM9.5 bil), and Google (RM9.4 bil). Beneficiary: construction, ICT, renewable energy, professional services (architectural and engineering activities)

Prolonged global uncertainty

- **Weaker than expected global trade.** WTO forecasts volume of world merchandise trade to fall by -0.2% in 2025 (2024: 2.9%)
  - The **tariff war** — US hit its trading partners with a minimum 10% import tariff (China: 145%; Malaysia: 24%). However, a 90 days pause in tariff (10% still imposed) was granted for negotiations to take place, except China. While tariff war opens trade opportunities for Malaysia with US (**substitute products from China**), **slower US growth** may reduce demand. Nonetheless, there are concerns over **dumping** from China & the US government **targeting China based company in Malaysia (rules of origin)**. Loser: Solar, household related sectors (e.g furniture). Beneficiary: sectors with direct substitutes of China (e.g rubber glove, E&E).
- **Global geopolitical risks:**
  - US-China & Taiwan-China tensions, US-Panama issue
  - Strained US-Mexico relationship (immigration & drug trafficking issues)
  - India-Pakistan tension
  - Ongoing wars (e.g. Russia-Ukraine, Israel-Palestine)

Fluctuations in Ringgit

- Beneficiary of **strong RM**: Import-oriented/ High **foreign input dependent sectors** (e.g. automotive, metal, food & textile)
- Beneficiary of **weak RM**: (1) Export-oriented sectors to benefit from price competitiveness. (e.g. E&E, CPO, LNG, chemicals & furniture); (2) Tourism – attract foreign tourists and limit outbound vacations

Upsurge in cost for businesses & pass-through to consumers

- Fuel subsidy rationalisation
- High value goods tax
- Sales and Service Tax (SST) expansion
- Increase in health insurance premium
- Electricity tariff hike
- Mandatory E-invoicing

DOWNSIDE RISK

- Consumers usually start to **cut spending on discretionary/leisure items** to prioritise essential / necessary spending

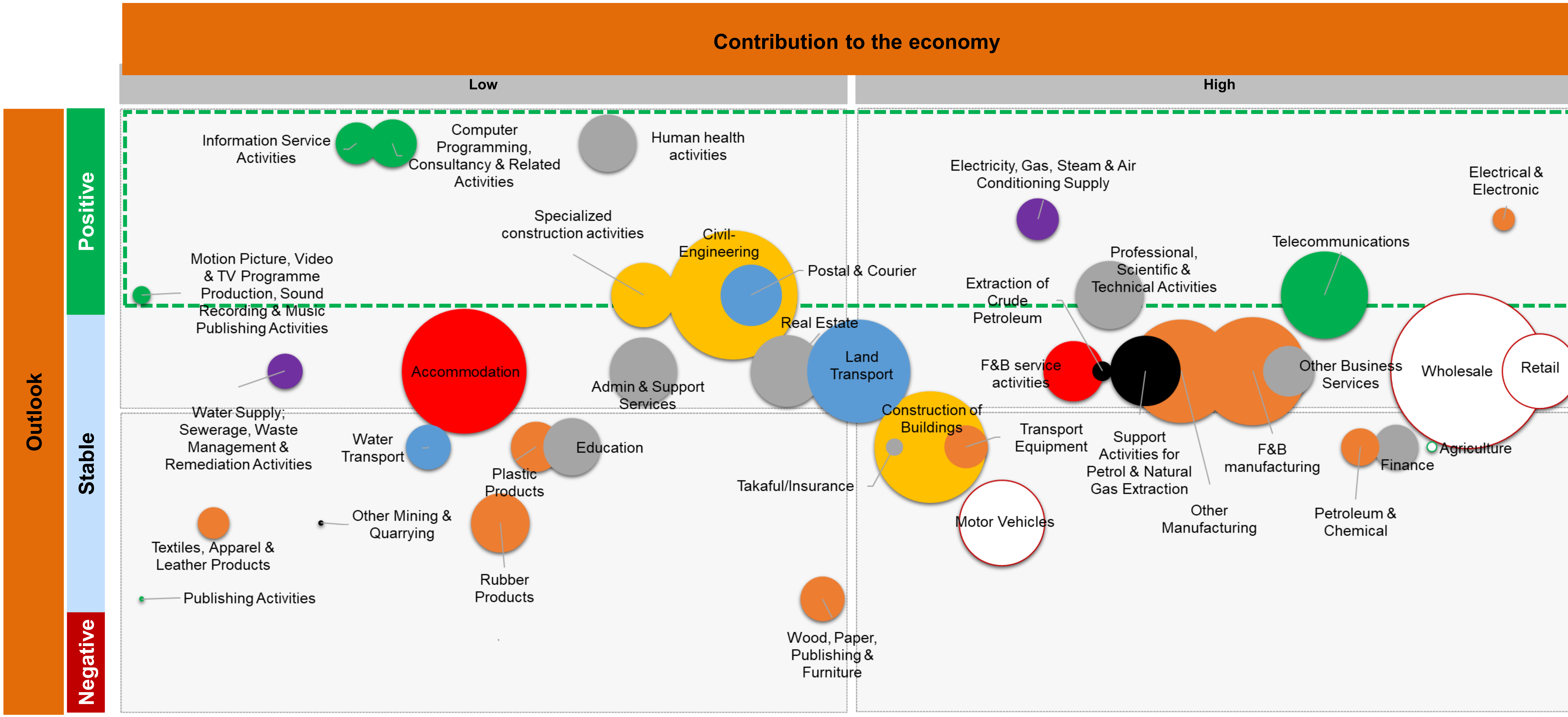
Sources: EMIS, CEIC, DOSM, BNM, Bloomberg, World Trade Organisation (WTO), World Bank, The Straits Times and SME Bank Economic Research

1 Macro Developments

2 Sectoral Scan, Movement & Outlook of Key Sectors

3 Appendix

Industry Focus: Outlook for 40 sectors

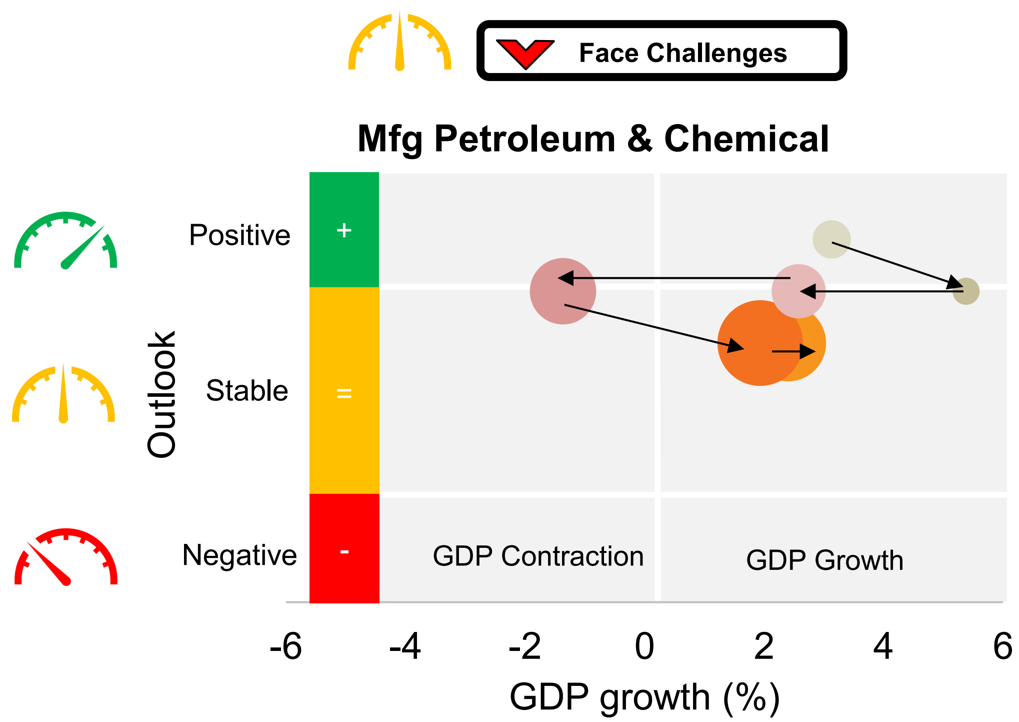


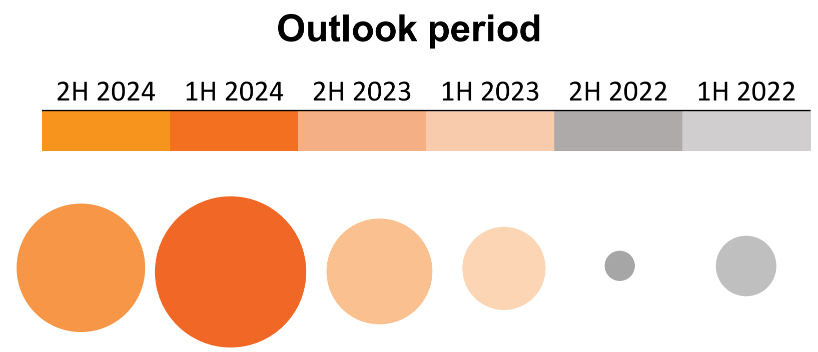
Legends

- Accommodation & F&B Services
- Real Estate, Business Services & Other Services
- Mining & Quarrying
- Utilities
- Construction
- Manufacturing
- Agriculture
- Information & Communication
- Transportation
- Wholesale, Retail & Motor Vehicles

Sources: EMIS, CEIC, DOSM and SME Bank Economic Research

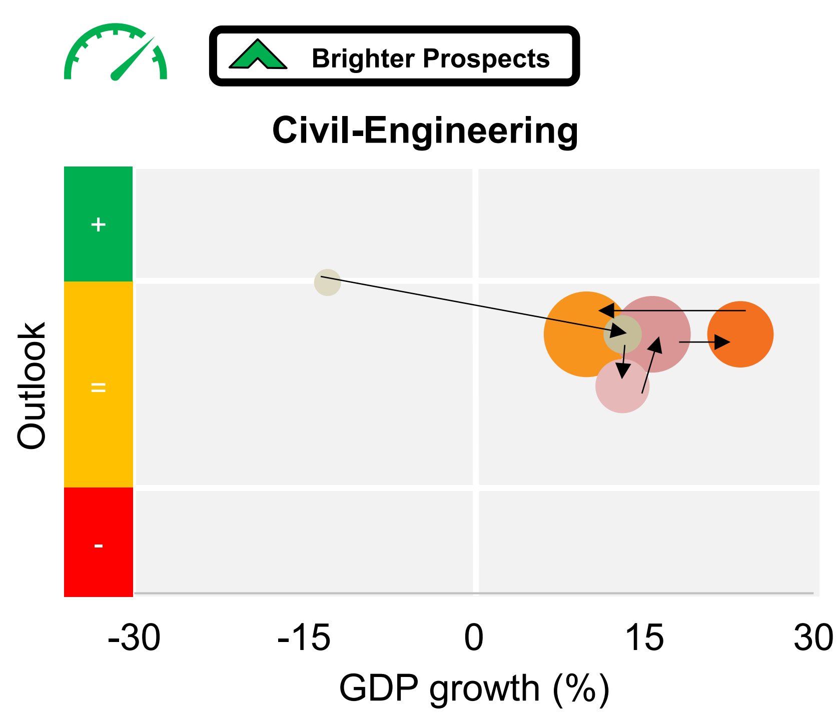
Sectoral Scan: Movement outlook 2022-2024



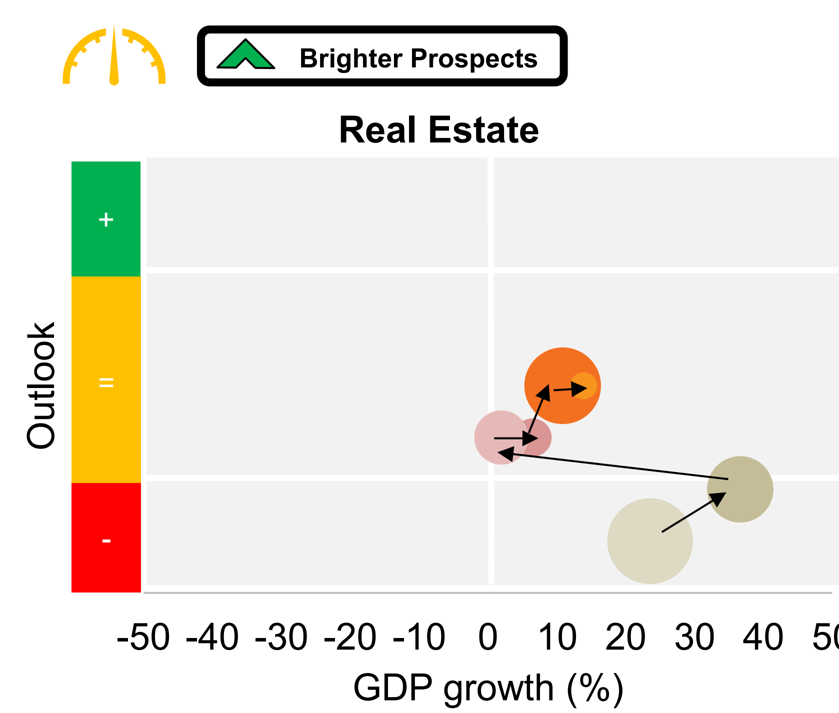


- The movement of our outlook generally aims to be forward looking, anticipating subsector performance for the upcoming 6-18 months.
- For illustration, the chart will show the movement of outlook in relation to its subsector's GDP performance over the period 2022-2024.
- For instance, the outlook for **Manufacturing Petroleum & Chemical** subsector was downgraded in 2H 2022. GDP growth later slipped into contraction in 2H 2023. Although, GDP growth for this subsector rebounded after that, the growth was still minimal and below its peak during 2H 2022.

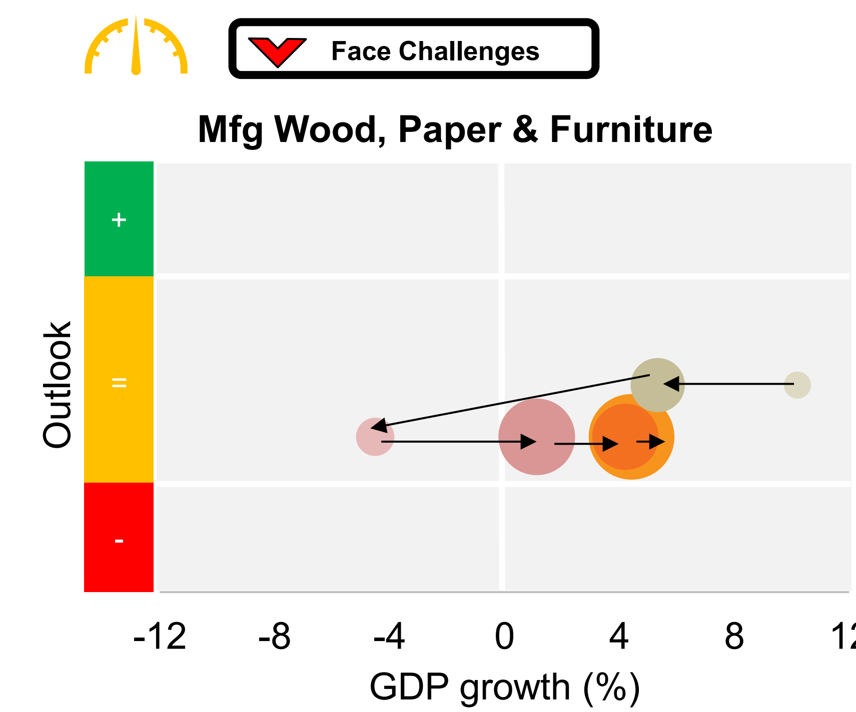
Selected Sectors



Continuously high GDP growth of this subsector over the last few years, but has moderated to a high single-digit growth in 2H 2024. Growth is expected to remain sturdy in the near term.



The outlook has moved upwards in tandem with resilient GDP growth



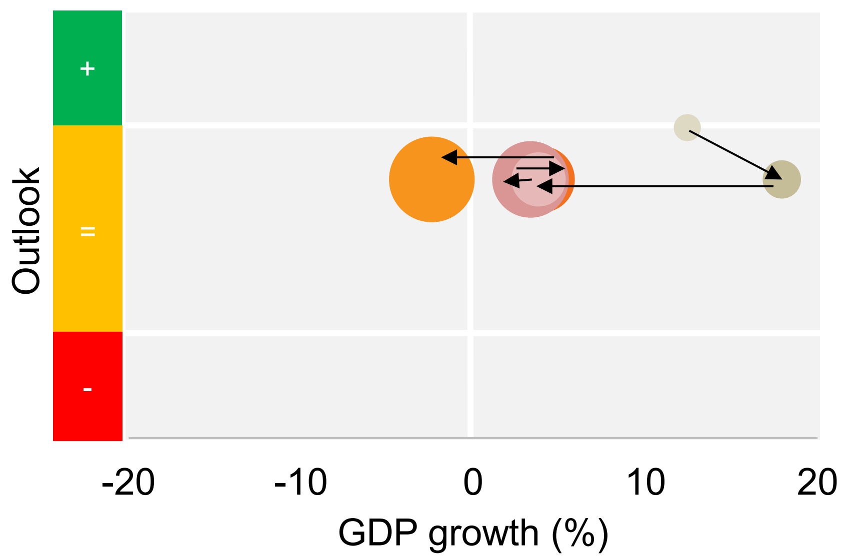
Outlook was revised downwards in 1H 2023, where the subsector's GDP later contracted

Sources: BNM, CEIC, DOSM and SME Bank Economic Research

Sectoral Scan: Movement outlook 2022-2024

Face Challenges

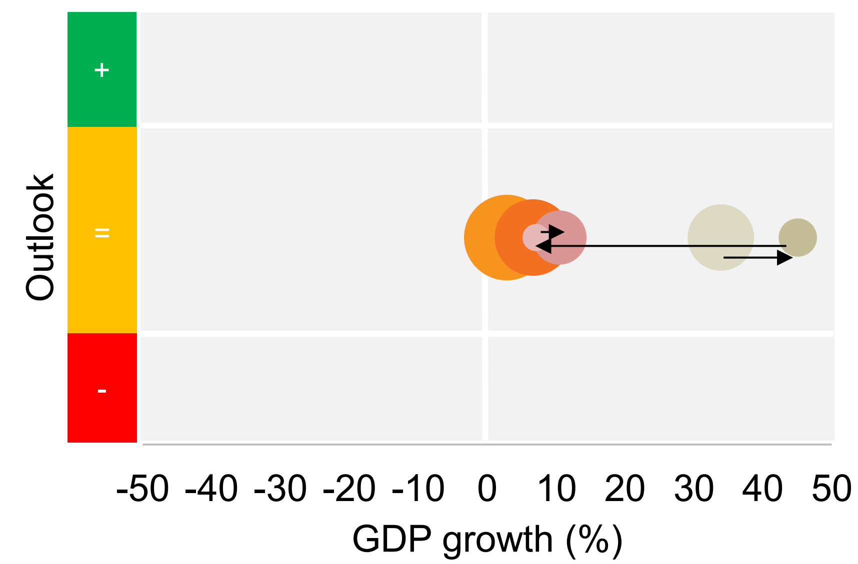
Mfg Transport Equipment



GDP growth of this subsector dipped into contraction in 2H 2024 but outlook has been downgraded from positive to stable since 2H 2022

Face Challenges

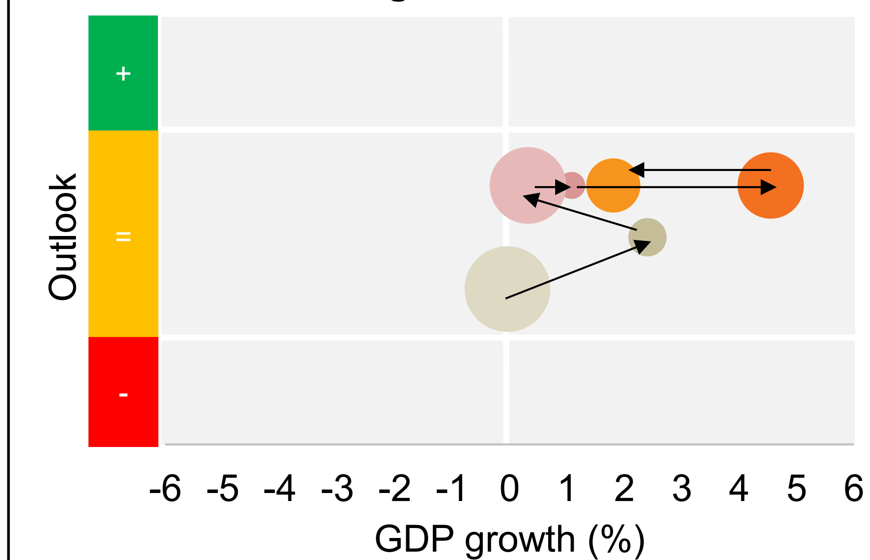
Motor Vehicles



The subsector's GDP growth eased sharply which prompted an assessment of "Face Challenges". A downward outlook adjustment could be warranted if the subsector falls into contraction

Face Challenges

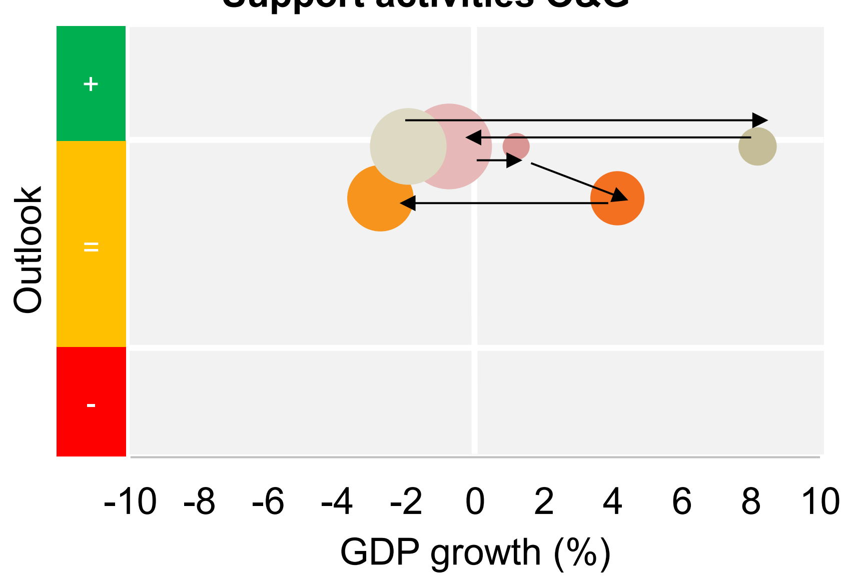
Agriculture



The outlook was upgraded twice since 2H 2022 where better GDP growth followed through subsequently

Balance Risks

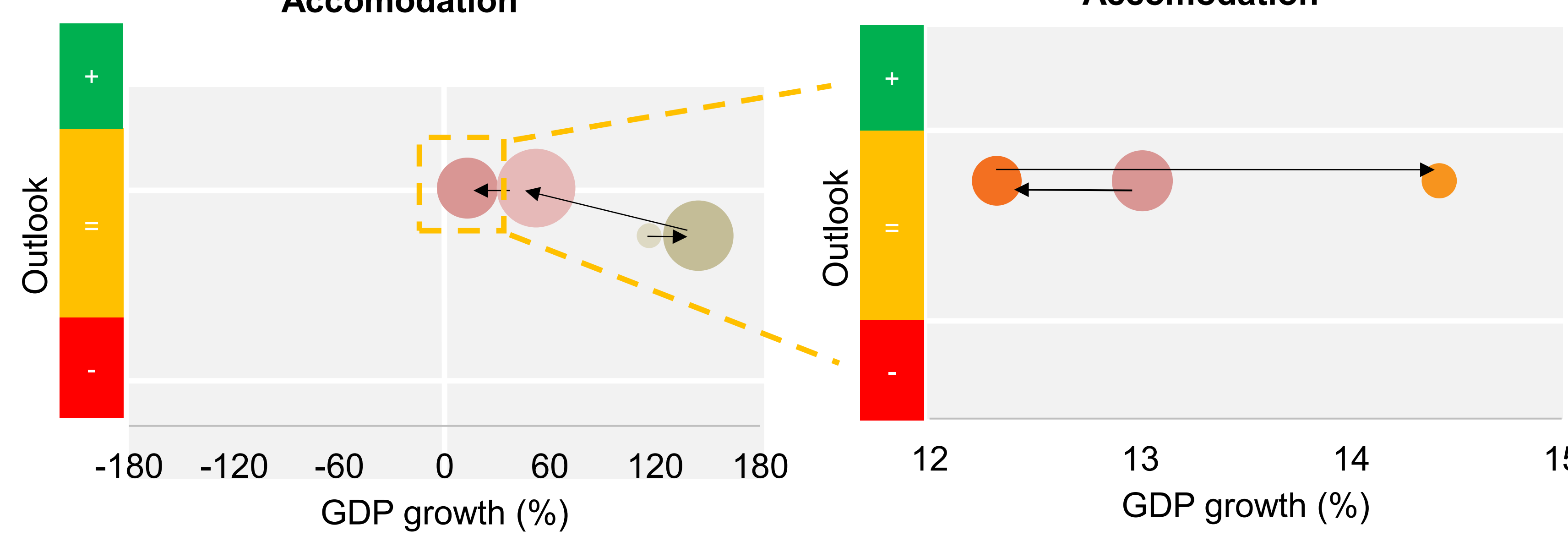
Support activities O&G



The outlook was downgraded from positive to stable in 1H 2024, reflective of the recent negative GDP growth of this subsector in 2H 2024

Balance Risks

Accomodation



Accommodation's GDP growth expanded exponentially in 2022 due to base effect from the uplifting of movement control order & COVID-19. Its growth moderated in recent years but stayed at double-digit levels. Overall, the upward movements of the outlook has been in line with/ in anticipation of better GDP growth performances.

Sources: BNM, CEIC, DOSM and SME Bank Economic Research

Construction: Civil Engineering

Brighter Prospects

SME BANK | A Subsidiary of BPMB Malaysia Development Bank

Construction sector is forecasted to register a **growth of 11.0% in 2025** (BNM). New & continuation of major projects as well as higher realisation of approved investment (2024: RM378.5 bil: 2023: RM329.5 bil) will underpin the sector's performance this year.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 1.2
4Q 2024 : 1.1

Work Done YoY (%)
Latest (1Q 2025): 3.7
4Q 2024: 9.3

Sector GDP YoY (%)
Latest (1Q 2025): 5.2
4Q 2024: 9.1

Diesel Price liter (RM)
Latest (Apr 2025): 2.95
Mar: 3.08

Outstanding loan/financing performance

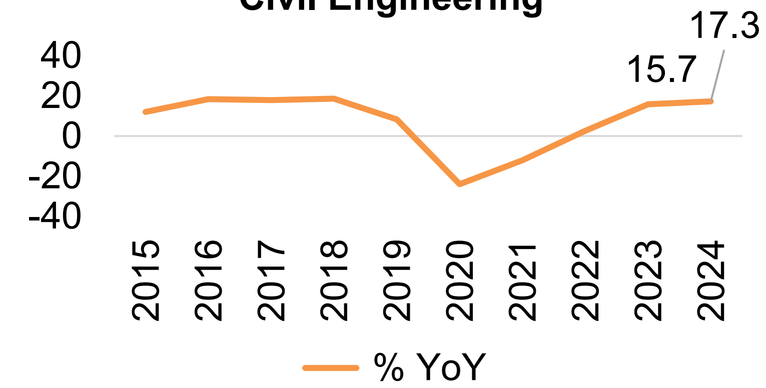
2024	RM bil	% Share	% YoY
Banking Industry	30.6	1.4	-5.9
SMEs Industry*	52.5	12.6	6.6

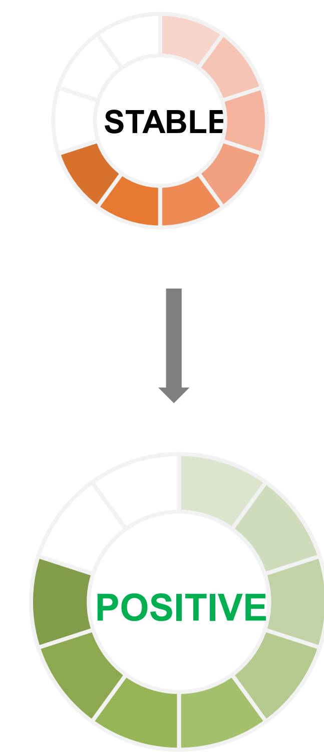
*Used total construction value due to absence of breakdown by subsectors

PROS

1 **Maintained double digit growth in 2024** for construction work done at 17.3% YoY (2023: 15.7%; avg 2015 - 2019: 5.0%). In terms of value (2024: RM61.1 bil; avg 2015 - 2019: RM51.4 bil)

Construction Work Done: Civil Engineering





2 **Government's major transport infrastructure projects are underway (~RM31.9 bil)**

- LRT Penang Mutiara Line (RM13.0 bil)
- Sarawak Sabah Link Road Phase 2 (RM7.4 bil)
- West Ipoh Span Expressway (RM6.2 bil)
- LRT3 Phase 2 (RM5.3 bil)

3 **Flood mitigation projects to start construction this year.** A total of 12 flood mitigation plans/projects costing **RM3 bil** have been issued Letters of Acceptance.

4 Johor will receive over **RM5 bil** to **develop 3 reservoirs and 3 water treatment plants,** increasing Johor's treated water supply by 41% to 3,061 mil liters per day (MLD) to meet the growing demand from both residents and industries (i.e. data centers).

CONS

1 **Rising labour costs**, including increase in minimum wages (RM1.7k) and 2% mandatory EPF contributions for foreign workers. This could impact the construction sector, which employs 28.3% of the total low-skilled foreign workers in Malaysia, the 2nd largest after manufacturing (31.2%)

2 Cement prices increased 2.6% YoY in 1Q 2025 (4Q 2024: 2.1%). The 5 materials used in construction made up >50% of total material cost for civil engineering work.

Type of materials used	Share to total material cost (%)
Cement & ready mixed concrete	14.2
Raw bitumen, tar & premix	14.2
Iron and steel rod	10.7
Iron / steel / aluminium / copper materials	7.8
Aggregate	7.6

3 **Rising cost of machineries due to US tariff measures**. Caterpillar, one of the top brands globally originates/is produced from the US. However, players can diversify to use other brands (Germany, Japan, China) to mitigate higher prices.

5 **Green energy transition.** UEM Lestra and TNB will invest to enhance the capacity of transmission and distribution networks and decarbonize industrial areas worth **RM16 bil**, announced in National Budget 2025.

Sources: CEIC, DOSM, EMIS, The Edge, Malaysia Construction Industry Databook 2023, MIDA and SME Bank Economic Research

Brighter Prospects

SME BANK | A Subsidiary of BPMB Malaysia Development Bank

Property sales in 2024 climbed to RM232.3 bil (2023: RM196.8 bil), Real estate approved investment also rose to RM64.5 bil in 2024 (2023: RM60.9 bil; average 2016 - 2019: RM45.1 bil).

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 1.5
4Q 2024 : 1.4

Real estate sales YoY (%)
Latest (1Q 2025): 13.5
4Q 2024: 14.3

Sector GDP YoY (%)
Latest (1Q 2025): 12.4
4Q 2024: 13.5

Residential Launched YoY (%)
Latest (1Q 2025): 5.9
4Q 2024: 1.8

Outstanding loan/financing performance

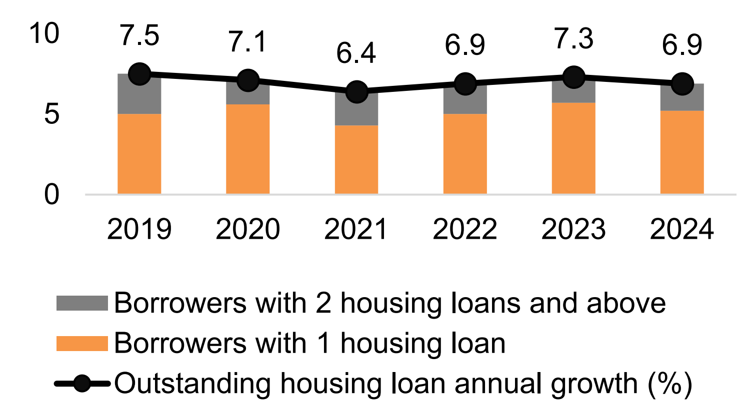
2024	RM bil	% Share	% YoY
Banking Industry	114.9	5.1	2.3
SMEs Industry*	67.7	16.2	9.5

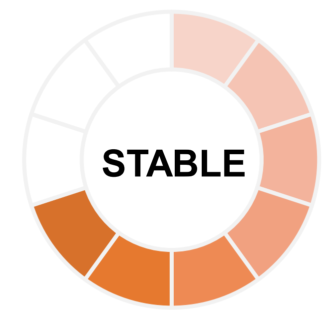
*Used total construction value due to absence of breakdown by subsectors

PROS

1. **More Govt fund & incentives for youth & 1st home buyers, a boost to the property industry.** As of Jun 2024, **76%** of outstanding housing loan was owner-occupiers (1 house) while 24% were investment-related (>2 houses). Moreover, the housing loan growth was also driven by owner-occupier.

Contribution to growth of housing loans by type of borrower (ppt)





2. **Primary** residential sales volume surged by 13.1% YoY in 2024 (2023: 9.6%) vs residential **sub-sales** (2024: 1.6%: 2023: 1.4%) **Residential primary** volume share enlarged to 22.6% (avg 2015 - 2019: 17.2%). **Spill over from major infra projects/ initiatives to boost property demand.**
   - New townships along ECRL line (16 stations) to boost property segment. ECRL slated to commerce operations early 2027.
   - Johor-Singapore Special Economic Zone, Johor-Singapore RTS,
   - LRT 3, LRT Mutiara Penang

3. **Gradual recovery of rental market in 2025**. Malaysia Home Rental Index grew by 3.9% YoY in 4Q 2024 (3Q: 2.9%). New lease rents are 24% higher than their 2020 low, but overall, renters still pay RM442 less per month than in 2019, on average.

4. **Shopping complex occupancy rate improved to 78.8% in 2024** (2023: 77.4%), but still underperformed the pre-pandemic 2016 - 2019 average of 80.3%. While 7 states/territory achieved occupancy rates exceeding 80.0%, Melaka (64.0%) had the lowest occupancy rate in the country.

CONS

1. **High overhang units for service apartments** totaling RM15.9 bil or 19.6k units in 2024 (2023: 20.8k; avg 2016 - 2019: 9.7k). The top 3 States with the highest overhang serviced apartment units are Johor (10.6k), KL (4.2k) and Selangor (2.6k).

2. **Further worsening of office space's occupancy rate** to 78.1% in 2024 (2023: 78.5%; avg 2015 - 2019: 82.5%) amid higher supply of office spaces in 2024 to 25.1 mil sqm (2023: 24.8 mil sqm).

3. **New supply of warehouses** coming in the next 36 months is close to 25 mil sq ft, which **raise concerns of oversupply** (+44% of existing space).
   - **Slower manufacturing growth**, especially export-oriented industries that are linked to slowdown in global trade in 2025 could reduce demand for industrial factories.

Sources: CEIC, DOSM, EMIS, The Edge, MIDA, NAPIC, IQI Malaysia and SME Bank Economic Research

Manufacturing: Wood, Paper and Furniture

Face Challenges

Wood, paper and furniture manufacturing face challenges: 1) lack of export diversification; and 2) increased labor and raw material costs. Nonetheless, robust construction sector growth could support demand for manufactured wood products.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 1.2
4Q 2024 : 1.1

Mfg. sales wood, paper & furniture
YoY (%)
Latest (Mar 2025): 0.1
Feb: 1.3

Sector GDP
YoY (%)
Latest (1Q 2025): 1.9
4Q 2024: 3.4

Export wood, paper & furniture
YoY (%)
Latest (Mar 2025): -11.5
Feb: -1.4

Outstanding loan/financing performance

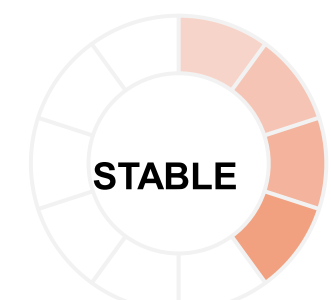
2024	RM bil	% Share	% YoY
Banking Industry	11.3	0.5	5.7
SMEs Industry*	60.4	14.5	6.7

*Used total manufacturing sector value due to absence of breakdown by subsectors

PROS

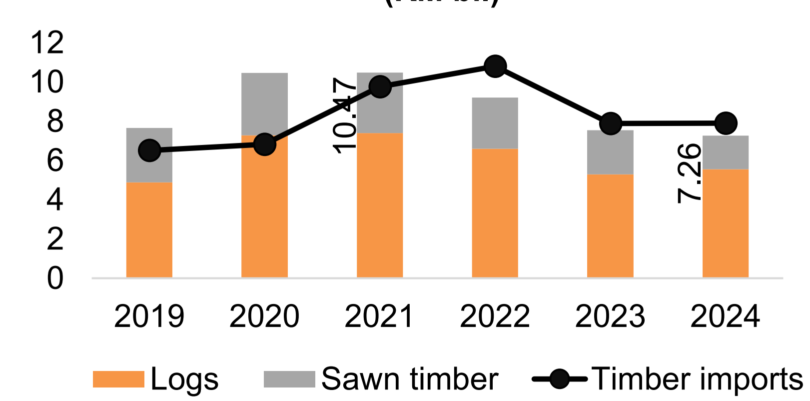
1. **Sturdy construction sector performance to benefit timber industry.** Census 2023 showed that the construction sector used RM5.6 bil worth of wood products in 2022 (32.7% of wood product manufacturing sales). Higher primary residential volume growth (2024: 13.1%; 2023: 9.6%) underscores wood product demand, as well as furniture.

2. **Paper product segment driven by growing e-commerce and out of home food.** Paper products make up 51.3% of all timber mfg. sales in 2024 (2023: 50.5%). Rising disposable income, internet penetration rates, and urbanization are catalysts for further growth (e.g packaging)



3. **Declining raw materials to affect production.** Raw timber production declined 3.7% YoY in 2024 (2023: -18.2%), the 3rd year of contraction. Coupled with lower imports, raw materials shortage could ramp up costs for producers.

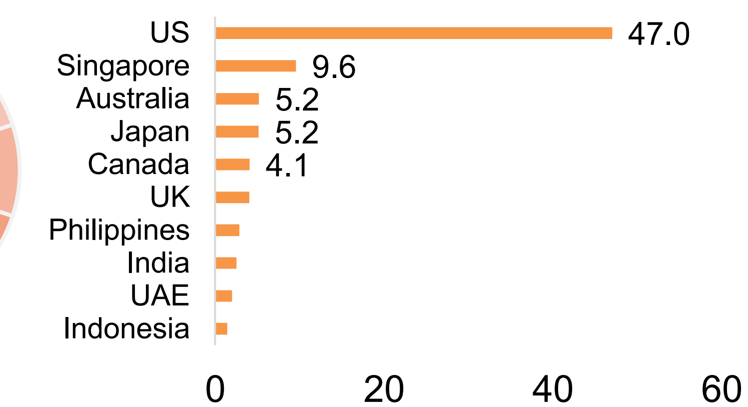
Timber production (mil m³) and imports (RM bil)



CONS

1. **High exposure to the US market** pose a threat to the furniture industry amid US reciprocal tariff (24%). 47% of Malaysia's furniture exports went to the US in 2024. Slower US economic growth and consumer spending could pull down demand for non-essential goods, including furniture. Nonetheless, manufacturers may diversify export destinations, to mitigate the risk.

% share of furniture exports



2. **Higher cost, a challenge to industry;**
   a) **Higher labour costs disproportionately affect timber industries.** Furniture has the highest labour required among manufacturing subsectors at 25.7 workers per RM100 mil sales. Wood products ranked 4th highest with 11.3 workers.
   b) **Electricity tariff hikes raises OPEX for manufacturers.** TNB announced a 14.2% tariff hike to 45.62 sen per kilowatt hour (kWh) for 2025 - 2027 (2022 - 2024: 39.95 sen/kWh).

Sources: Bloomberg, CEIC, EMIS, DOSM, US Census Bureau, UN COMTRADE, Malaysia Timber Industry Board (MTIB), TNB and SME Bank Economic Research

Manufacturing: Petroleum & chemical

Face Challenges

Overcapacity, shortage of local feedstock and competition may pressure refinery's profitability.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 4.8
4Q 2024 : 4.9

Export of manufactured petroleum products
YoY (%)
Latest (Mar 2025): -32.5
Feb: -11.7

Sector GDP
YoY (%)
Latest (1Q 2025): 1.9
4Q 2024: 1.5

Brent oil price
bbl (USD)
Latest (Apr 2025): 66.5
Mar: 75.1

Outstanding loan/financing performance

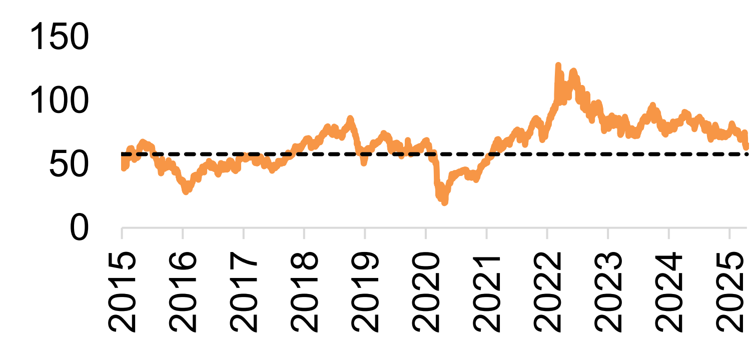
2024	RM bil	% Share	% YoY
Banking Industry	9.1	0.4	16.7
SMEs Industry*	60.4	14.5	6.7

*Used total manufacturing value due to absence of breakdown by subsectors

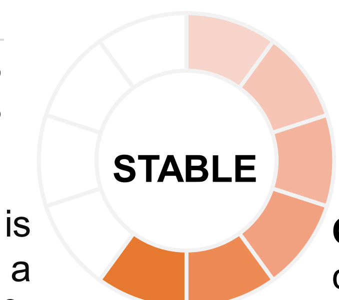
PROS

1. **Reduced feedstock prices supportive of this sector**, but local source may be limited (onshore shutdowns). US EIA forecasts Brent crude oil at **USD66 bbl in 2025**, due to increasing supply & slower global demand. Brent crude oil prices came in lower as at YTD 15 May, at an avg of USD71.7 bbl (2024: USD79.9; avg 2015 - 2019: USD57.8).

Brent oil price (USD/bbl)



2. Global **specialty chemicals market** size is forecasted to increase by USD383.2 bil, a **CAGR of 6.7%** between 2024 and 2029. The demand will be buoyed by agrochemical industry, with a trend towards growing demand for bio-based chemicals (plant-based & sustainable). Malaysia's overall chemical share to GDP hovered at 2.4% since 2015.



CONS

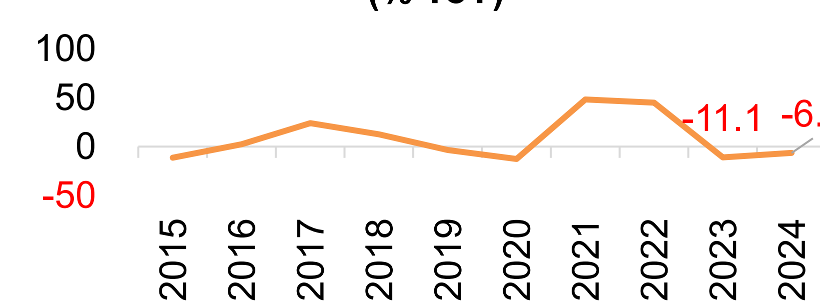
1. **Contribution to GDP reduced to 4.9% in 2024** (2023: 5.0%; avg 2015 - 2019: 5.3%) primarily due to the petroleum industry, which dropped to 2.5% of GDP (avg 2015 - 2019: 2.8%).

2. **Investment in this sector has been below historical average.** Approved investment stood at RM13.3 bil in 2024 (2023: RM9.8 bil; avg 2015 - 2019: RM23.0 bil). By subsector, investment in **petroleum industry dropped significantl**y to RM2.7 bil (avg 2015 - 2019: RM19.1 bil). Despite that, **chemical industry went up** to RM10.6 bil (avg 2015 - 2019: RM3.8 bil).

3. **Overcapacity persists.** China's refinery capacity is estimated to grow by 1,000 mil tonnes per annum (mtpa) in 2024 (2023: 950 mtpa). The increment is equivalent to the whole of Malaysia's estimated capacity (~49.5 mtpa). In 2024, China only ran 75.5% of its capacity (spare capacity: ~ 245mtpa).

4. **Weaker China & Singapore growth** amid US reciprocal tariffs may negatively impact the sector. Based on Malaysia's export destinations for petroleum & chemical products in 2024, **China** accounted for 19.7% share, while US 4.8%. **Singapore** (16.0% share) also among the largest – where MTI downgraded its GDP growth in 2025 to 0 - 2% (previous: 1- 3%).

Export petroleum & chemical (% YoY)



Sources: CEIC, EMIS, DOSM, MIDA, Singapore's Ministry of Trade & Industry (MTI), S&P Global and SME Bank Economic Research

Manufacturing: Transport Equipment

Face Challenges

Although approved investment surged, it was mainly driven by foreign investment, which could outsource vehicles parts via imports. Increasing import dependency for parts & accessories may limit opportunities for players in the local supply chain.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 1.4
4Q 2024: 2.0

Mfg sales transport equipment
YoY (%)
Latest (Mar 2025): -12.5
Feb: -12.2

Sector GDP
YoY (%)
Latest (1Q 2025): -10.3
4Q 2024: -4.4

IPI: Motor vehicles, trailers
YoY (%)
Latest (Mar 2025) : -10.8
Feb: -9.0

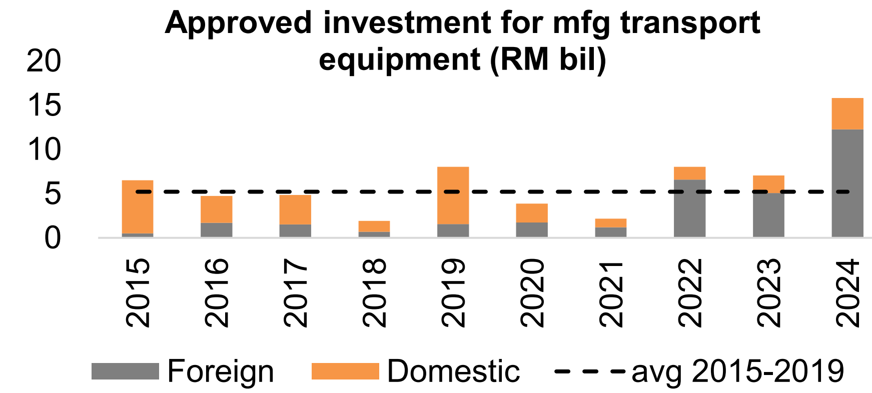
Outstanding loan/financing performance

2024	RM bil	% Share	% YoY
Banking Industry	6.0	0.3	-13.8
SMEs Industry*	60.4	14.5	6.7

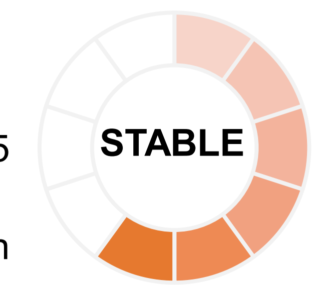
*Used total manufacturing value due to absence of breakdown by subsectors

PROS

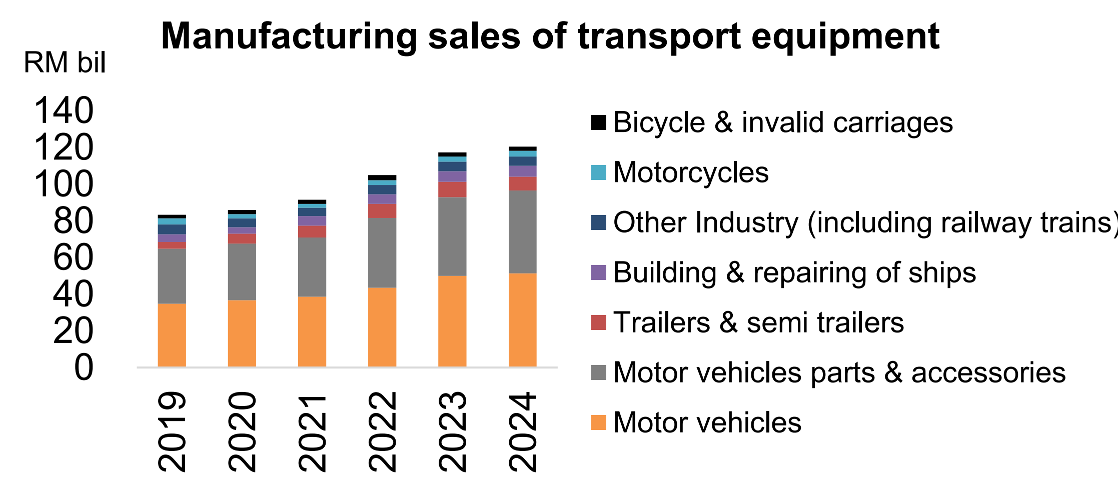
1. Approved investment for mfg transport equipment in 2024 **increased above historical average**. Recent foreign investments include Chery (RM2.2 bil) and Nacfo Aerospace (RM1.5 bil).



2. **Local EVs starts/plan production.**
   a) Proton e.Mas sold 1,853 units in 1Q 2025 (~30% of total EV sold)
   b) Perodua to launch its 1st EV (eMO-II) in late 2025 – price expected to be <RM100k, among the cheapest in Malaysia

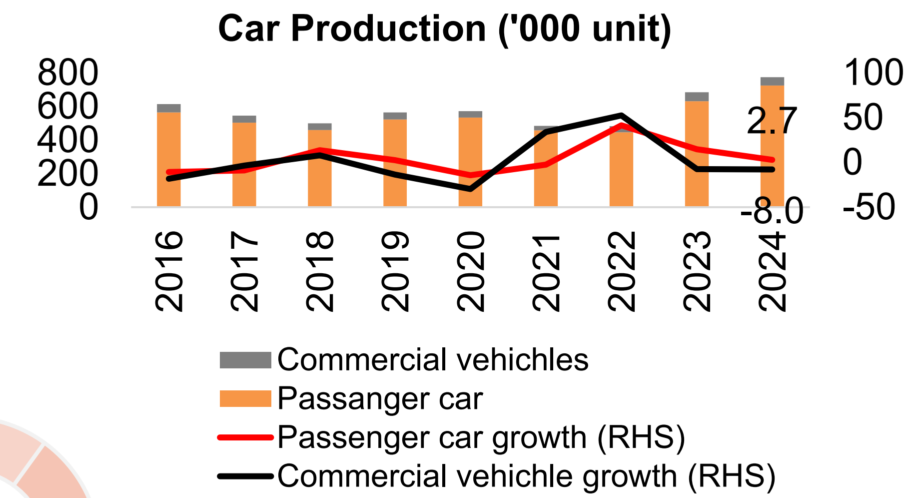


3. **Despite contraction in industry IPI, some segments still grew** including **railway trains** (8.5% YoY) and **building of ship and boat** (6.6%) in Jan - Feb 2025. However, both combined, their share to manufacturing transport equipment sales only make up 7.9% in 2024.



CONS

1. **Slower vehicle sales projection could affect production this year.**



2. The **share of transport equipment** to manufacturing GDP **has shrunk** to 7.9% in 2024 (2023: 8.2%; 2015 - 2019: 8.2%). Growth also slowed to 0.7% (2023: 3.6%), below manufacturing GDP growth of 4.2%.

3. **Increasing import dependency. Net import** of transport equipment **rose** above historical average (2024: RM34.4 bil; avg 2016 - 2019: RM25.6 bil). Imported parts & accessories almost doubled in 2024 to RM19.3 bil (avg 2016 - 2019: RM10.7 bil).

4. Rising cost of production due to **higher electricity tariff and labour cost.** However, labour cost for this sector (4.1% of total sales) is among the least compared to other manufacturing sectors due to its capital-intensive nature (high automation + electricity intensive).

Sources: CEIC, DOSM, EMIS, MIDA, MAA and SME Bank Economic Research

Face Challenges

SME BANK | A Subsidiary of BPMB Malaysia Development Bank

The automotive landscape is shifting towards the more affordable segment, as evidenced by the increasing market share of Proton and Perodua. Consumers continue to prefer new cars, depicted by a CPI weightage of 1.2% vs second-hand cars of 0.2% weightage.

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 1.7
4Q 2024 : 2.0

Sales value motor vehicles YoY (%)
Latest (Mar 2025): 1.5
Feb : 0.2

Sector GDP YoY (%)
Latest (1Q 2025): -3.7
4Q 2024: 2.2

Sales value repair motor vehicles YoY (%)
Latest (Mar 2025): 2.2
Feb: 0.6

Outstanding loan/financing performance

2024	RM bil	% Share	% YoY
Banking Industry	28.7	1.3	20.0
SMEs Industry*	123.8	29.7	8.9

*Used total wholesale & retail value due to absence of breakdown by subsectors

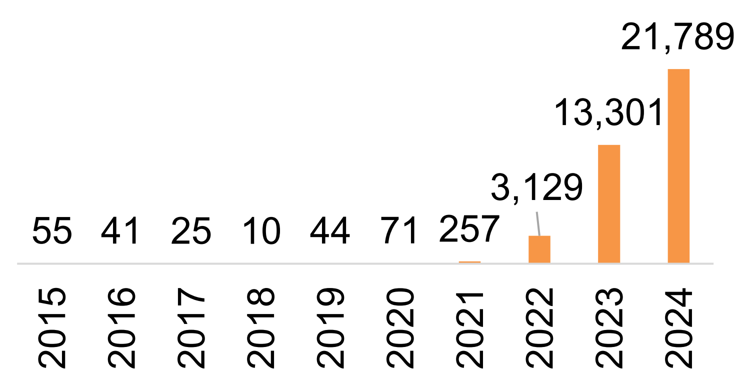
PROS

1. **Rise in young working population to spur demand for the affordable car segment.** Labour participation rate among the young working population aged 25 - 34 years rose to 88.7% in 2024 (2023: 87.9%). Among affordable segments, Perodua and Proton contributed 67.6% to total passenger vehicle sales in 2024 (avg 2015 - 2019: 55.6%).

2. **Increase in disposable income (i.e.** minimum wage of RM1.7k, increase in civil servant wages, progressive wages) are expected to support motor vehicle sales.

3. **Strong Electric Vehicles (EV) demand.**
   a) New EV registrations surged by 45.6% YoY in 1Q 2025 to 6,827 vehicles (4Q 2024: 0.7%). Launched of new EV model to boost sales i.e Proton e.Mas.
   b) Nonetheless, EV market share is still small, at only 2.5% of total new vehicles registration in 2024.

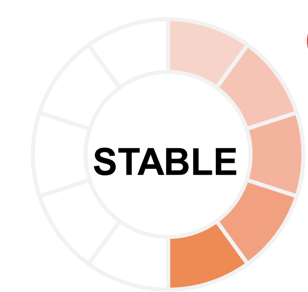
EV new registration (units)



CONS

1. **Vehicles sales is expected to fall by -4.5% YoY in 2025**, to a 3-year low of 780k units (2024: 816k; avg: 2015 - 2019: 605k), according to MAA. The number of vehicle registration also fell by 6.5% YoY in Jan - Feb 2025, dragged down by diesel (-31.1%) & petrol vehicles (-6.6%).

2. **RON95 subsidy rationalisation will increase fuel costs**, but 85% of the population still enjoy the subsidised price. This could reduce demand for petrol vehicles, but consumers may switch to fuel-efficient vehicles (hybrid, plug-in hybrid battery EV).



3. **E-invoicing** may negatively affect **new car** sales **rather than used car segment**. Markup price for full loan application (avoid downpayment) may be difficult for new car sales because prices will be tracked from manufacturers until dealers. However, **used car** can still enjoy (more flexible prices).

4. **Vehicle prices could increase by 10% - 30% with Open Market Value revision.** While this could affect sales upon implementation in Jan 2026, consumers may opt for **advance purchases this year** to avoid the price hike.

5. **Stiff competition**
   a) **Japanese passenger cars** (2024: 23.9% share; avg 2015 - 2019: 31.1% and **European cars** (2024: 3.2%; avg 2015 - 2019: 6.0%) are **losing market share in Malaysia**
   b) **New car brands from China** entering domestic market with competitive prices i.e Cherry, Jaecoo, BYD, Xpeng, Zeekr
   c) Additional Bumiputera approved permit (open for new players) has **loosened barriers to entry** for imported car dealership (mostly luxury). **High income consumers that are gradually moving towards EV** could pose risk to this segment. May lead to oversupply, depending on models, stock/inventories.

Sources: CEIC, DOSM, EMIS, MAA, JPJ and SME Bank Economic Research

Despite favorable demand ahead, slower production growth in 2025 may be the biggest challenge for the sector

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 5.7
4Q 2024 : 6.0

Agriculture export
YoY (%)
Latest (Mar 2025): 5.4
Feb: 27.3

Sector GDP
YoY (%)
Latest (1Q 2025): 0.6
4Q 2024 : -0.7

Production crude palm oil
YoY (%)
Latest (Mar 2025): -0.4
Feb: -5.6

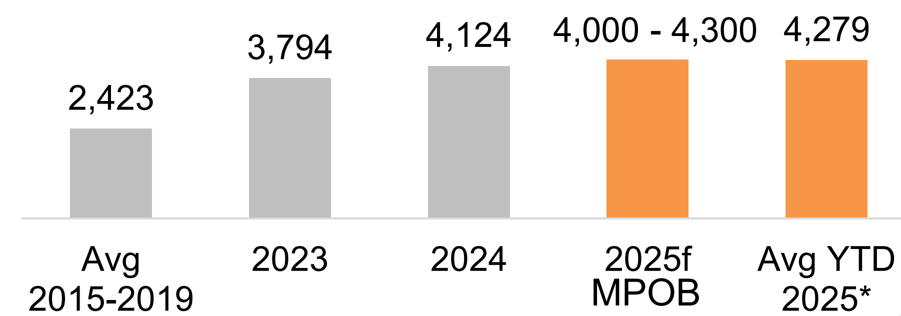
Outstanding loan/financing performance

2024	RM bil	% Share	% YoY
Banking Industry	33.0	1.5	-6.2
SMEs Industry	13.6	3.2	-7.2

PROS

1. **Palm oil prices still above historical average**, underpinned by tight supply amid Indonesia's B40 Biodiesel mandate and unfavorable weather conditions.

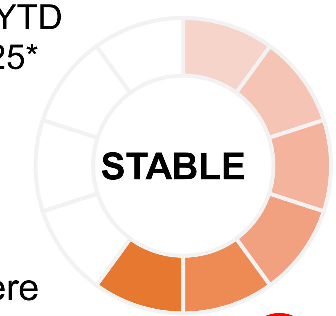
Crude palm oil (RM/tonne)



*1 Jan-16 May 2025

2. **Govt focuses on paddy industry**
   a) RM5.4 bil to boost rice production where ~RM1 bil allocation was provided to kickstart 5 season paddy planting
   b) Rice's Self Sufficient Ratio (SSR) stood at 56.2% in 2023 (2022: 57.9%)
   c) In terms of per capita consumption for crop, rice (76.7kg/year) was the highest followed by coconut (24.9) & durian (16.6).

3. Several livestock & fisheries are still below self-sufficient level (<100). This could provide opportunities in the domestic market. Meanwhile, products above 100 SSR level may diversify into the export market.



CONS

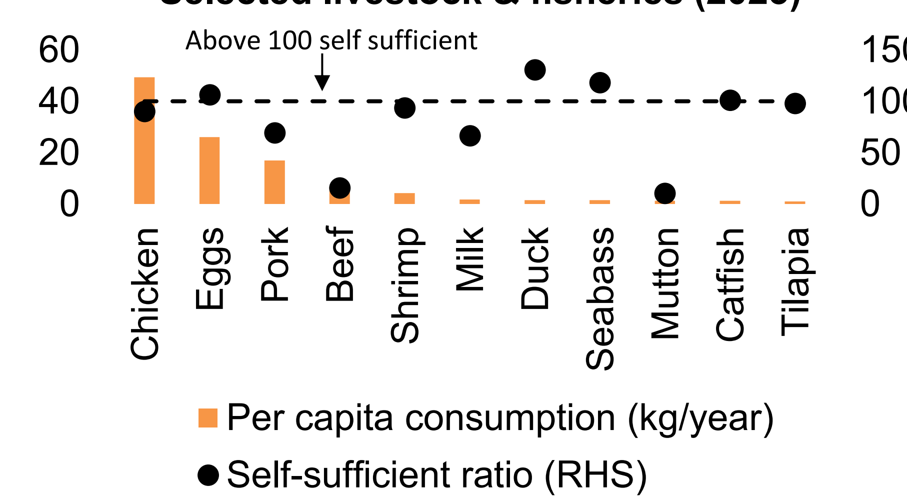
1. **MPOB forecasts slower production growth in 2025.** Palm oil production is only expected to increase marginally this year by 0.8% YoY to 19.5 mil tons in 2025 (2024: 4.2%) due to unfavorable weather conditions. Palm oil is the largest agriculture subsector (36.6% to agriculture GDP in 2024).

2. **Decreasing productivity** for the oil palm industry. In 2023, approximately 8.5% or 479,526ha of Malaysia's oil palm trees were expected to be above 25 years old. However, opportunity may arise along the stages/ supply chain of replanting trees.

3. **Rising cost of production** caused by higher minimum wage, EPF contribution for foreign workers & electricity tariff

4. Slower global trade in 2025 – food price index including grains, oils and meals, and other food to decline -4% YoY in 2025 (2024: -9%)

Selected livestock & fisheries (2023)



Sources: CEIC, EMIS, DOSM, MOF, MPOB, World Bank and SME Bank Economic Research

Mining & Quarrying: Support for petrol & natural gas extraction

Balance Risks

Although lower oil price and slower production in the near term, Oil & Gas, Services and Equipment (OGSE) segment still can reap the opportunity through higher maintenance activities

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2025): 6.1
4Q 2024: 6.1

Crude oil & gas export YoY (%)
Latest (Mar 2025): -21.3
Feb 2025: -37.8

Sector GDP* YoY (%)
Latest (1Q 2025): -2.7
4Q 2024: -0.7

Production crude oil YoY (%)
Latest (4Q 2024): -7.1
3Q 2024: -9.1

Outstanding loan/financing performance

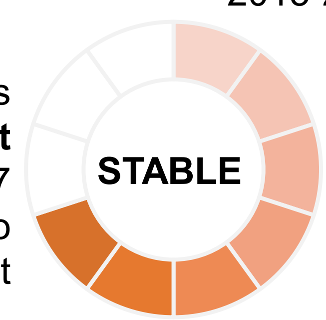
2024	RM bil	% Share	% YoY
Banking Industry*	9.3	0.4	-6.3
SMEs Industry*	2.1	0.5	32.7

*Used total mining & quarrying value due to absence of breakdown by subsectors

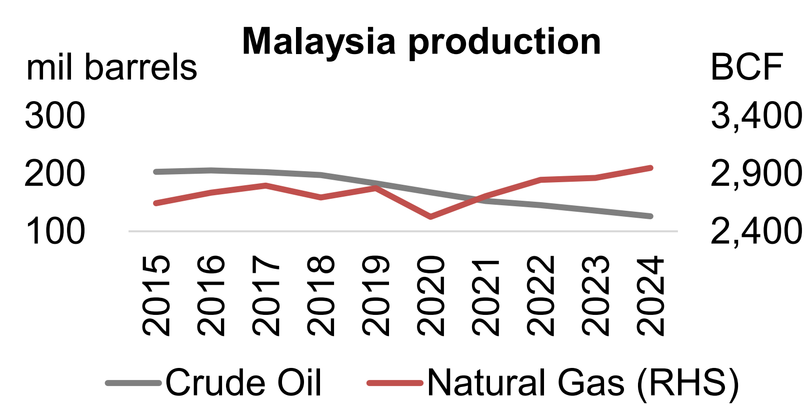
PROS

1 **Higher maintenance activities to provide opportunities to OGSE players.**
- Higher offshore maintenance, construction and modification in 2025 to 13.6 mil of man-hours (2024: 10.3 mil)
- Periodic shutdown in 4 onshore plants (2024: 1)
- Robust pipeline of construction activities for future greenfield projects (2024: 0; 2025: 346.6km; 2026: 107.5km)

2 Petronas to grow the country's oil & gas production to **2 mil barrels of oil equivalent** (mmboe) per day between 2025 - 2027 (2024: 1.7 mmboe). Petros is expected to complement Petronas in the Gas segment (require JV due to large capital requirement)

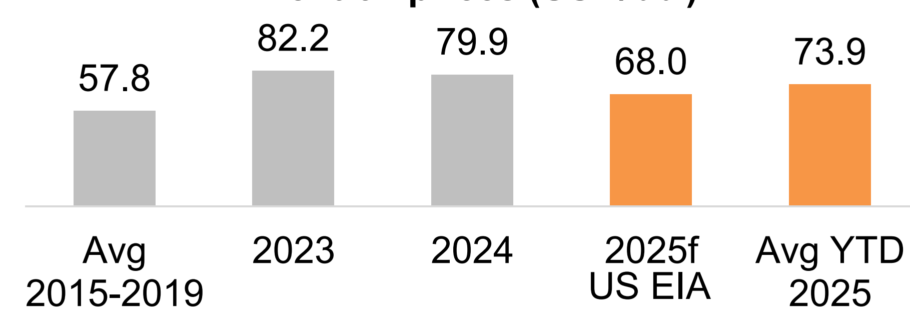


3 **Robust gas demand i.e generate electricity amid transitioning away from coal.** Natural gas production grew by 3.0% YoY to 2,949 bil cubic feet (BCF) in 2024 (2023: 2,862 BCF; avg 2015 - 2019: 2,728 BCF). Despite that, import also increased 43.0% YoY in 2024 to RM10.0 bil (2023: RM7.0 bil; average 2025-19: RM3.0 bil).



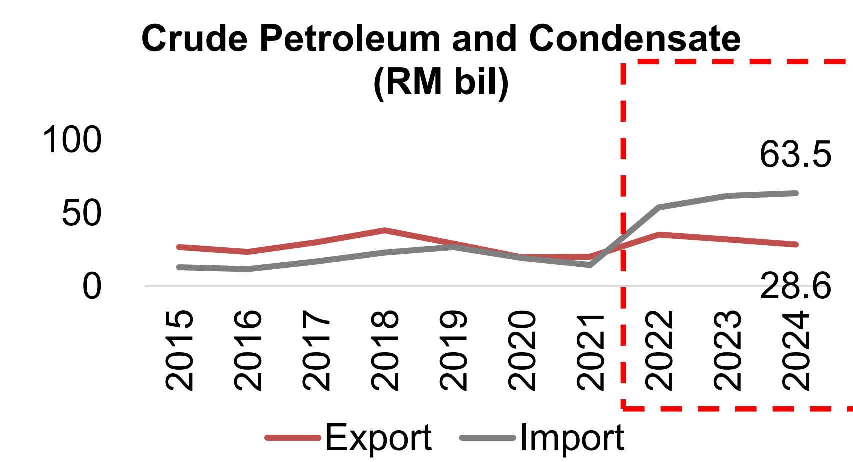
CONS

1 **Lower oil price to pressure** players' profitability



2 **Global crude oil to increase supply, but not in Malaysia.** More planned offshore plant shutdown in 2025 and less number of new rigs, but to improve in the medium term (2024: 23; 2025: 20; 2026: 25).

3 Crude Petroleum and Condensate **turned into net import** since 2022 (-RM18.6 bil). The net export widened in 2024 to -RM35.0 bil (2023: -RM29.8 bil; avg 2015 - 2019: +RM11.2 bil).



Sources: CEIC, EMIS, DOSM, OPEC, Petronas 2024 - 2026 Outlook and SME Bank Economic Research

Services: Accommodation

Balance Risks

SME BANK | A Subsidiary of BPMB Malaysia Development Bank

Even though the sector looks promising with Malaysia Visit 2026 and ASEAN Chairmanship, some hotels may face greater challenges to overcome the higher cost environment (i.e labour, electricity, operator fee)

Sector Key Indicators

Share to GDP (%)
Latest (1Q 2025): 0.8
4Q 2024: 0.8

USD/MYR (Average)
Latest (Apr 2025): 4.41
Mar: 4.43

Sector GDP YoY (%)
Latest (1Q 2025): 14.2
4Q 2024: 14.5

Tourist Receipts (RM bil)
Latest (4Q 2024): RM28.9
3Q 2024: RM27.9

Outstanding loan/financing performance

2024	RM bil	% Share	% YoY
Banking Industry*	21.9	1.0	10.6
SMEs Industry*	14.1	3.4	17.1

*Used total accommodation & F&B services due to absence of breakdown by subsectors

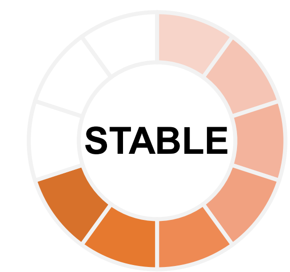
PROS

1. Tourism data indicates **a strong recovery**, with tourist arrivals reaching 25.0 mil in 2024 — 96% of pre-pandemic 2019 levels. MOTAC **targets 2025 for full recovery, at 31.4 mil** (2026: 35.6 mil)

2. **Malaysia has strong potential in medical tourism:**
   a) **High success rate** in fertility treatment (IVF success rate: Malaysia (MY) up to 82.9% vs Indonesia (ID) 44%)
   b) **Low IVF cost per cycle** (MY: USD3-4k, ID: USD3.9-4.6k, TH: USD6-7k, SG: USD13-15k, US: USD15-20k)
   c) Leading cardiac centers, recognised in SEA, listed 4 times in **Newsweek 2024** Top 250 World's Best Hospitals for cardiac

3. Programs **to encourage tourists to extend their overnight stays:**
   - ASEAN Chairmanship (hosting 300+ ASEAN meetings, programs & summits)
   - Govt to boost entertainment/concert – initial RM10 mil rebate allocation for Concert and Event in Malaysia Incentives
   - Durian Tourism Package
   - Sarawak Coffee Bean Trails Experience

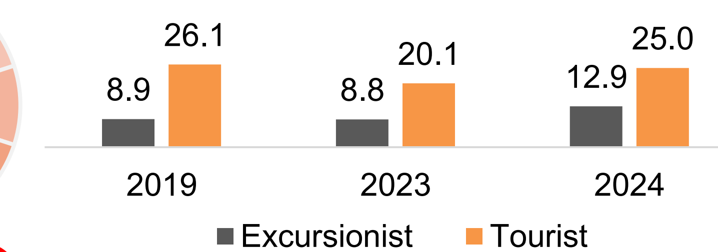
4. Number of **hotels rooms rose by 2% YoY** in 2024 to 280.2k rooms (2023: 275.1k; 2017 - 2019: 256.7k), with **occupancy rates also increasing to 54.9% (2023: 52.9%),** indicating strong and steady demand.



CONS

1. Increasing **daycation** — the number of excursionists has increased rapidly, reaching 145% of pre-pandemic levels with a 47% YoY rise in 2024

Visitor arrivals 2024 (mil)

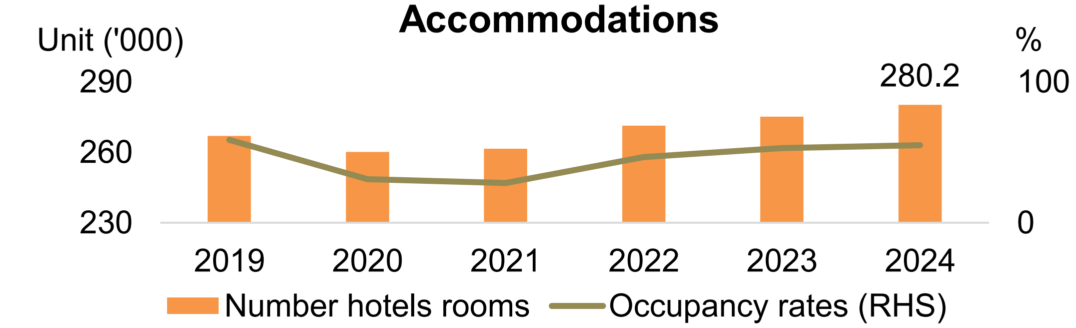


2. **Global competition is rising** as 1) Thailand extends visas to 60 days, 2) Vietnam offers 45-day visa-free stays, and 3) Singapore boosts Changi as an ASEAN hub.

3. **Operational costs may rise** due to higher electricity rates, foreign labour EPF, new RM1.7k minimum wage (current: RM1.5k) and higher operator licensing fees for occupied hotel rooms in Kota Kinabalu (KK). Malaysia Association Hotel cited that KK's operator would need to pay up to RM57k/year for operator fees (assuming 60% occupancy rate for Class 2 category), exponentially up from the previous rate of RM1k/year.

4. According to BNM, Hotel & Restaurants are listed among the highest firms at risk (44% vs 24% of overall businesses) & has the lowest cash-to-short term debt (1.3 ratio vs 1.6) due to persistently higher materials, labour and operating costs.

Accommodations



Sources: Bloomberg, CEIC, EMIS, BNM, The Edge, DOSM, Ministry of Tourism, Arts and Culture (MOTAC), Newsweek (2024),The Star and SME Bank Economic Research

Transportation and Storage: Air transport

Balance Risks

Despite supply chain disruptions delaying aircraft deliveries, air passenger transport is forecasted to improve in 2025, propped up by 1) increased airline capacity; 2) increased demand for international trips; and 3) increased household income. Air cargo to benefit as well due to growing e-commerce sector

Sector Key Indicators

Share to GDP* (%)
Latest (1Q 2025): 4.4
4Q 2024 : 4.2

Tourist arrival YoY (%)
Latest (4Q 2024): 17.0
3Q 2024: 23.8

Sector GDP* YoY (%)
Latest (1Q 2025): 9.5
4Q 2024: 10.7

Export by air YoY (%)
Latest (Mar 2025): 30.5
Feb: 24.9

Outstanding loan/financing performance

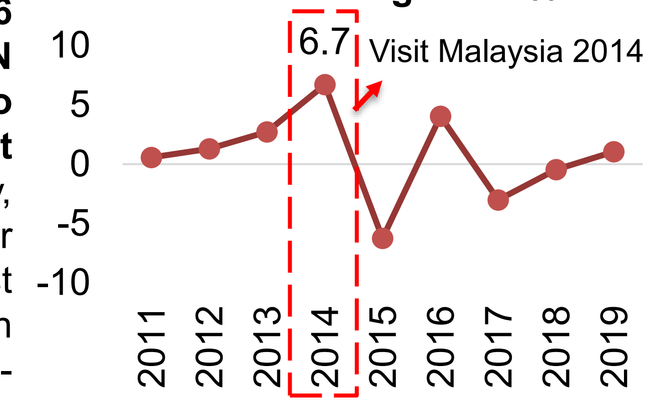
2024	RM bil	% Share	% YoY
Banking Industry*	31.6	1.4	0.8
SMEs Industry*	14.8	3.5	6.1

*Used total transportation & storage value due to absence of breakdown by subsectors

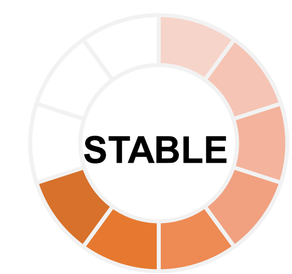
PROS

1. **Visit Malaysia 2026 and ASEAN Chairmanship to promote tourist inflow.** Historically, Visit Malaysia year has the highest tourist arrival growth compared to non-Visit Malaysia years.

Tourist arrival growth %

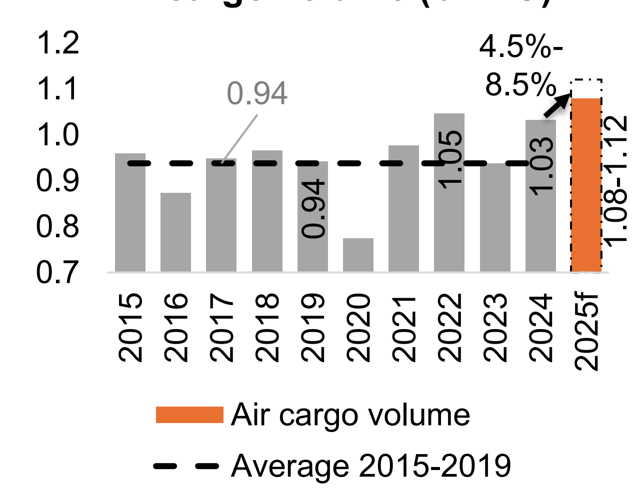


2. MAVCOM forecasts **air passenger traffic to fully recover in 2025:**
   - Passenger to reach 105.8 - 112.9 mil in 2025 (2024: 89.0% of 2019 levels; 2023: 77.9%).
   - Increased airline seat capacity, with total seat capacity estimated to increase to 106.3 mil in 2025 (2024e: 91.8 mil).



3. **MAVCOM predicts 4.5% - 8.5% YoY increase in cargo volumes for 2025** (2024: 10.1%; avg 2015 - 2019: -0.8%). Trade via air transport is becoming more attractive due to the fast-paced e-commerce landscape, with consumers expecting shorter delivery times. Air trade value accounted for 35.3% of all trade in 2024, steadily rising from 26.0% in 2014.

Air cargo volume (bil KG)



CONS

1. **Global fleet's average age has risen** to 14.8 years in 2024, from an average of 13.6 from 1990 - 2023. Older fleets are less fuel efficient and costs more to maintain. However, this might benefit **MSMEs that can offer upkeep/maintenance services for airlines.**

2. **High barriers to entry:**
   - A Boeing 737, one of the most common commercial airplanes, costs around USD89.1 – USD112.6 mil to purchase
   - Sustainable Aviation Fuel costs 2 - 5 times more than fossil-based jet fuel
   - Retrofitting needs will push maintenance costs (currently 8.4% of total airline operating costs)

3. **Slower GDP growth among ASEAN countries** could hinder international tourist arrivals. Singapore (37.3% share), Indonesia (14.4%), and Thailand (6.5%) are the top 3 regional tourists into Malaysia. World Bank forecasts 4.6% GDP growth in 2025 for the East Asia and Pacific region, down from 4.9% in 2024.

Sources: Bloomberg, CEIC, EMIS, MOT, MOTAC, Malaysian Aviation Commission (MAVCOM), IATA, OPEC+, World Bank and SME Bank Economic Research

Presentation Outline

1 Macro Developments

2 Sectoral Scan, Movement & Outlook of Key Sectors

3 **Appendix**

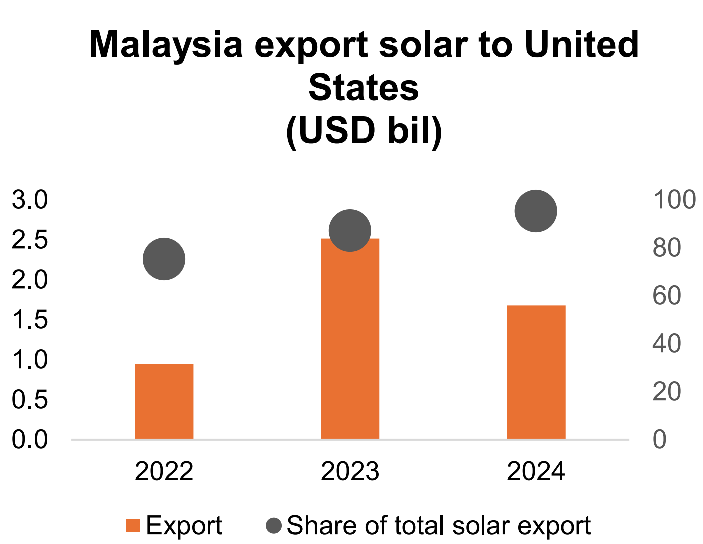
Malaysia's Headline Recap

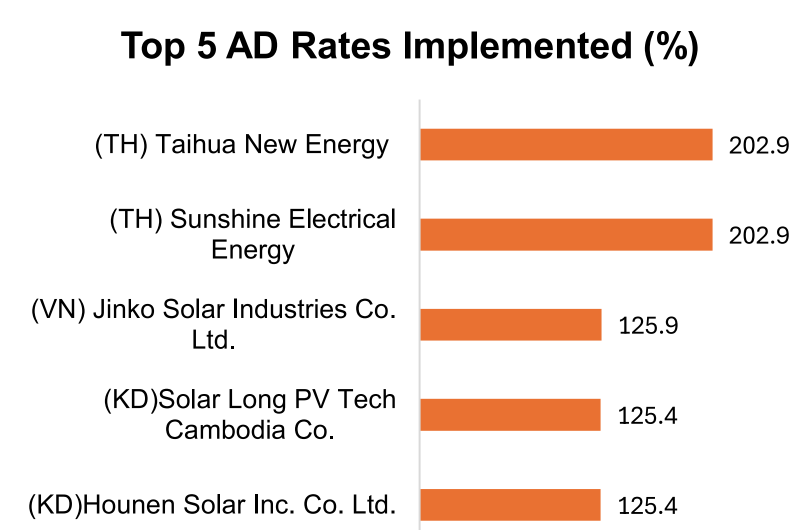
1 U.S. imposes final dumping and subsidy duties on solar equipment

- On 21 Apr 2025, the US Commerce Department finalized anti-dumping and countervailing duty rates on crystalline solar cells and modules from Vietnam, Malaysia, Thailand, and Cambodia.
- The **countervailing and anti-dumping duties are in addition** to existing section 201 solar tariffs that are currently 14% (scheduled to end on 6 Feb 2026).
- Following table shows the **country-wide final rates announced in early April 2025** in comparison to the preliminary rates that were announced in Nov 2024

	Anti Dumping cash deposit rate (%)		Countervailing cash deposit rate (%)		Avg Final Duty (%)
	Preliminary	Final	Preliminary	Final	AD+CVD
Cambodia	117.1	117.2	8.3	534.7	651.9
Malaysia	17.8	1.9	9.1	32.5	34.4
Thailand	57.7	111.5	23.1	263.7	375.2
Vietnam	271.3	271.3	2.9	124.6	395.9

- Malaysia (34.4%) is assigned the **lowest duty rate compared to** Cambodia (651.9%), Thailand (375.2%), and Vietnam (395.9%).
- Malaysia export solar panels USD1.8 bil in 2024, down -39.0% YoY (2023: USD2.9 bil, 2022: USD1.3 bil). Of those, **95.4% of its total solar exports to the US,** amounting to USD1.7 bil in 2024 (1% of total national export). Solar export to US had decreased by 33.3% in 2024 (2023: 165.7% YoY) mainly due to preliminary anti-dumping duties ranging from 21.3% to 81.2% on Malaysian's solar manufacturer.





2 Gradual termination of egg subsidy

- Govt will **gradually reduce the egg subsidy, cutting it from RM0.10 to RM0.05** per egg, and will fully remove it by 1 Aug 2025.
- It is estimated that the country will **save RM100 mil per month**, amounting to around RM1.2 bil annually
- The **reduction in subsidy is in line with lower global prices** for key feedstock ingredients such as wheat and soybean meal. In Jan-Mar 2025, average soybean meal prices dropped by 14.4% YoY to USD328.9 per metric ton (Jan-Mar 2024: USD384.2; avg 2015–2019: USD351.9). Similarly, global wheat prices decreased by 14.7% YoY to USD186.8 per MT in Jan-Mar 2025 (Jan-Mar 2024: USD219.1; avg 2015–2019: USD164.7).
- In addition, 2024 GMO research reveals that consumers desire more cage-free eggs (non subsidy egg), with **60% consumers willing to pay more for it** which could support the termination plan. However, sectors such as bakeries and F&B (hawkers), may feel the brunt of this subsidy removal.
- As for inflation, eggs **accounted for only 0.4% weightage of consumer price index (CPI)**. The reducing of RM0.05 cents per egg is likely to have minimal impact on CPI.
- Current Average Malaysian's egg price :

	Before removing subsidy (cents)	**Expected Egg price starting Aug 2025 (cents)**
Grade A Egg	0.42	0.52
Grade B Egg	0.40	0.50
Grade C Egg	0.38	0.48

3 The visa- free access for Chinese tourists will be extended for another 5 years

- Malaysia and China **have agreed to extend their mutual visa-free travel policy** that allow Chinese tourist stay up for up 90 days for another 5 years starting in 2026, as the current agreement remains valid until Dec 2025.
- Reciprocal treatment is expected, with China likely to match the 90-day visa-free stay for Malaysians (currently 15–30 days). To note, **Chinese tourist arrivals to Malaysia rose to 710K in Jan–Feb 2025** (Jan-Feb 2024: 530K), accounting for 16% of total arrivals and ranking second after Singapore, which recorded 1.3 mil tourists.

Sources: DOSM, CEIC, UN Comtrade, Internation Trade Administrations, Ministry of Agriculture and Food Security & SME Bank Economic Research

Special Parliamentary meeting to tackle US tariffs possible impacts

1 Impact of US tariff to industry

- Malaysia's total trade with US (11.3% share) ranked 3rd among nations/region after China (16.8%) & Singapore (13.8%).
- With the imposition of US tariff (24% on Malaysia), sectoral impact/ impact on firms may **vary depending on their contracts, products & pricing competitiveness, as well as market share/concentration.**
- **All items imported by the US will be affected by the tariff** with the exemptions of copper, pharmaceuticals, **semiconductors,** lumber articles, certain critical minerals & bullions, energy & energy products, laptops and desktop computers, smartphones, communication devices, computer components and storage devices.
- Malaysian exporters that could be directly affected by this 24% tariff include sectors such as furniture & parts, rubber gloves, textiles, apparels and footwear, and plastic products.

Who could be impacted?

Direct players

- Manufacturers
- Trading companies

Importer to bear cost: Shipment contract to port, clearance by US local vendor/ company

Exporter to bear cost: Contract to deliver to warehouse/ factory/shop

Indirect players (supply chain)

- Raw material suppliers
- Packaging providers
- Real estate (Warehouse/ factory)
- Transportation (automotive spare parts) & logistics
- Legal/ ICT/ aftersales support/ agents/ custom brokers/ financial institutions etc

Investment flows

- China-linked company (Maxeon) exits Malaysia's solar market. The company has put up for sale a 126-acre industrial site in Melaka *(29 Mar 2025)*

+ Semiconductor giant (Advanced Micro Devices) eyes Malaysia as hub for advanced chip packaging and design in Penang & Cyberjaya *(6 May 2025)*

+ Taiwan ASE has launched its 5th plant in Penang, significantly enhancing its chip packaging and testing capabilities (*18 Feb 2025*)

Substitution vs dumping

+ Given that China's tariff (>145%) is significantly higher than Malaysia's, **Malaysian products could be more marketable in the US market**, providing us the opportunity to be **substitutes for China.**

- However, China's products may **flood/be dumped** to other markets **at lower prices** due to excess supply **(unfavourable to Malaysian products that are in direct competition locally & those markets)**
  - **Textiles, aluminium, ceramics, and steel** may face tougher competition from high-volume, low-cost producers.
  - **Small firms** without the capacity to produce and sell at scale will struggle to compete

Selected **US import share by products** where Malaysia ranks top (2024):

Rubber gloves:
1. **Malaysia** (46.1% share)
2. China (21.2%)
3. Thailand (21.1%)

Semiconductor:
1. **Malaysia** (20.3%)
2. Taiwan (18.8%)
3. Vietnam (11.3%)
8. China (3.3%)

Vacuum:
1. Vietnam (31.4%)
2. China (29.6%)
3. **Malaysia** (14.1%)

E&E (Display):
1. Vietnam (30.3%)
2. China (18.8%)
3. Canada (9.7%)
4. **Malaysia** (8.7%)

2 New strategies announced in Special Parliamentary Meeting on 5 May

SMEs Aids & Financing

1. **RM1.5 bil in govt guarantees and** financing, with **RM500 mil allocated for soft loans,** to assist SMEs impacted by US tariffs.
2. **Raised Quotation Limit to RM3 mil** from RM1 mil for Small-Scale Contractors (G1 to G4)
3. **Raised Balloting Limit for maintenance** work to RM200K from RM100K
4. RM50 mil allocation to help SMEs **diversify their markets** and support export

New Export Facilitation & Trade Negotiations

1. MITI will be the **sole issuer** of non-preferential certificates of origin (NPCO) **starting 6 May 2025.**
2. 4 demands from the United States:
   a) **Address Non-Tariff Barriers (NTBs):** wants Malaysia to improve trade-related processes, such halal certification process, which they claim is slow
   b) **Reduce Trade Deficit**
   c) **Safeguard US Technology-** prevent the misuse or illegal re-export of US-made technologies (like microchips) to countries under US sanctions.
   d) **Invest in US Industries**: urging Malaysia to support and invest more in sectors they have identified for reciprocal support.

Sources: CEIC, Bloomberg, DOSM, UN Comtrade, MOF, MITI, & SME Bank Economic Research

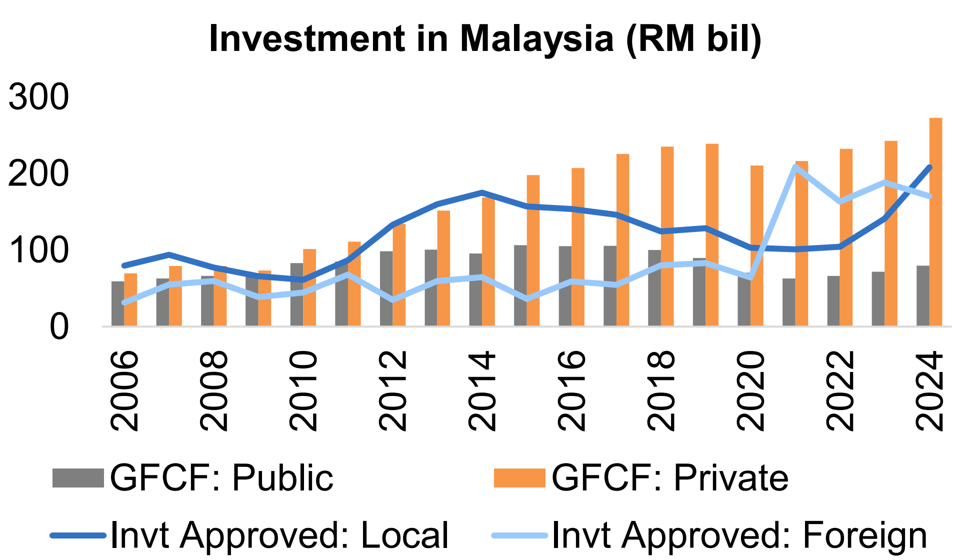
BNM Annual Report 2024: Selected Box Articles (1/2)

1 Deciphering investment cycles in Malaysia

i) Investment upcycle

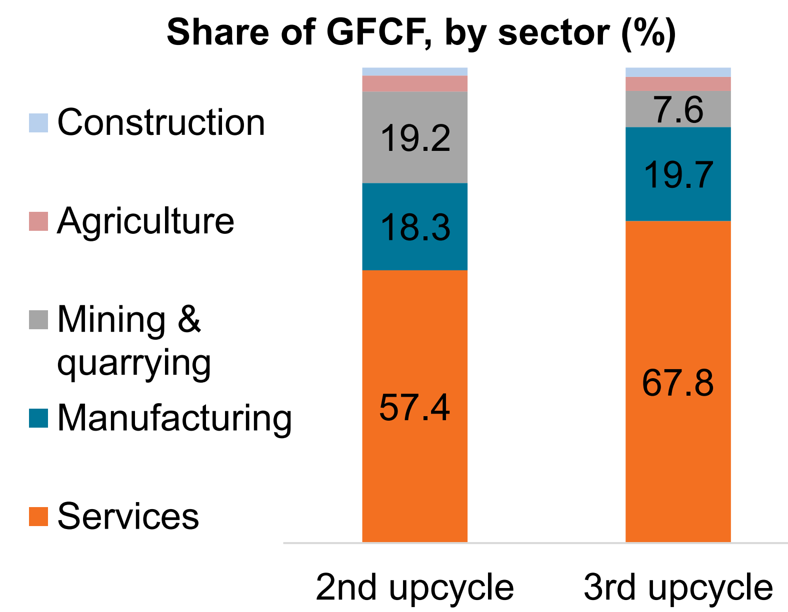
	1st investment upcycle	2nd investment upcycle	3rd investment upcycle
Period	1980s-1997	2011-2015	2023-current
Key sectors	Manufacturing and infrastructure	Oil & gas and real estate	Services and digitalisation
Avg. investment growth	19.3%	8.5%	9.9% (3Q 2023-4Q 2024)
Avg. GDP growth	9.3%	5.3%	4.4% (3Q 2023-4Q 2024)

ii) Rising share of private investments

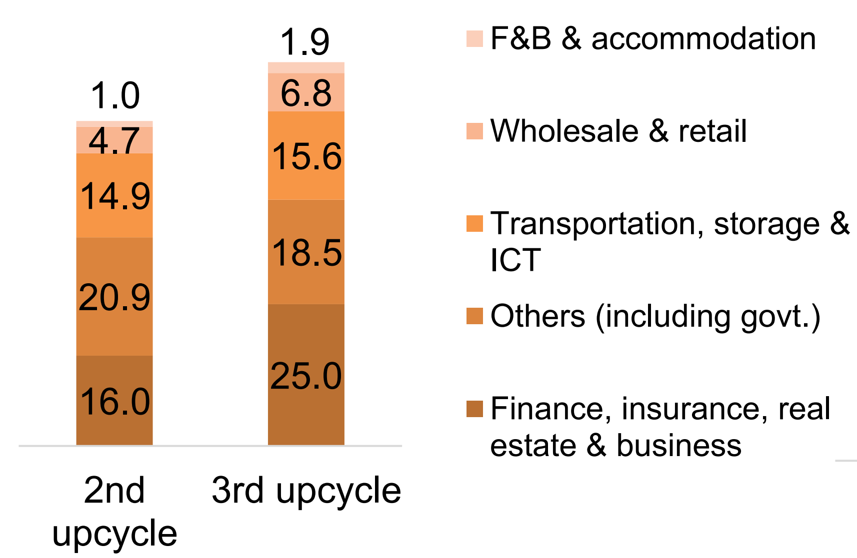


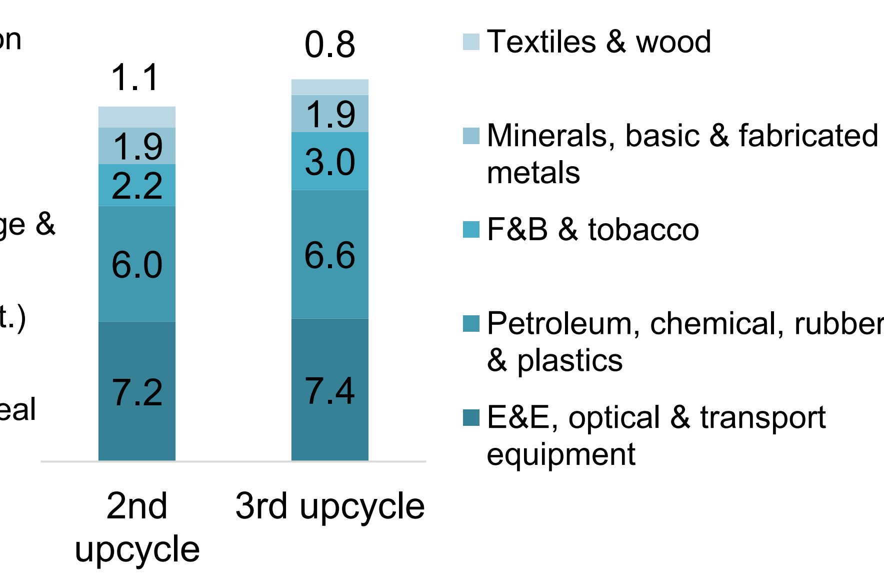
- Public investments focus more on connectivity infrastructure and utilities, such as renewable energy and 5G and fibre networks.
- Better public infrastructure attracts more private investment by providing an environment for businesses to grow.

iii) Investments expanded in the services & manufacturing sector



- **Services investments share** of Gross Fixed Capital Formation increased by 10.4 percentage points in 3rd investment upcycle, while manufacturing (+1.4ppt), construction (+0.2ppt)
- Mining & quarrying share shrunk significantly by -11.6ppt & agriculture (-0.4ppt)



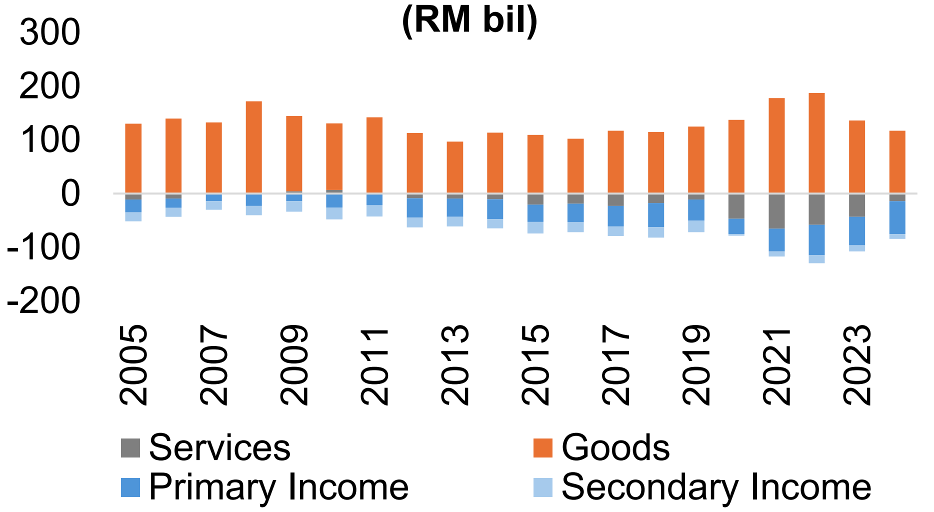


Sources: Bloomberg, CEIC, EMIS, BNM Annual Report 2024, and SME Bank Economic Research

BNM Annual Report 2024: Selected Box Articles (2/2)

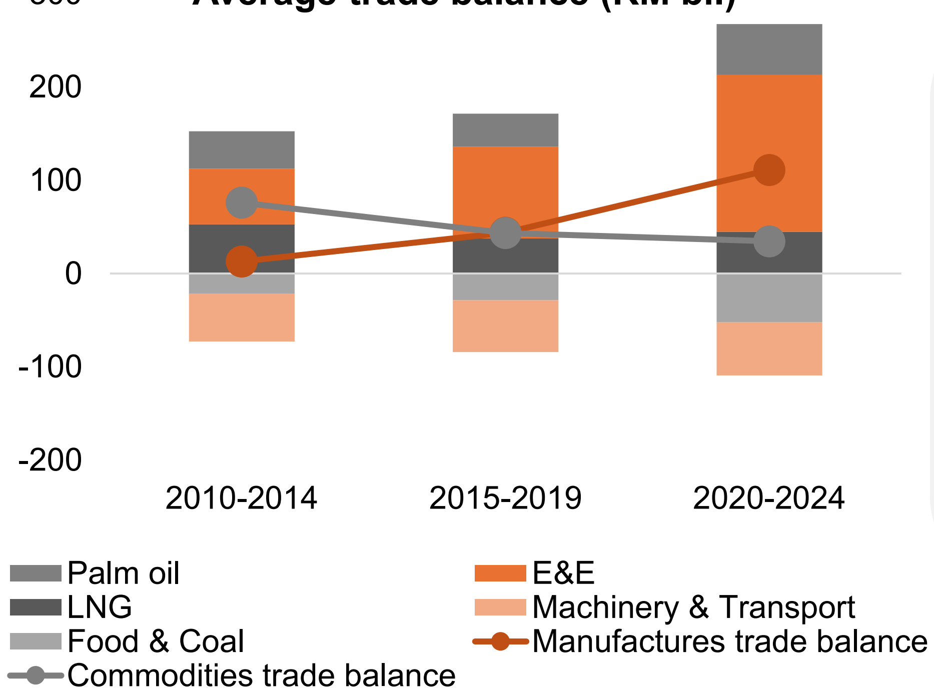
2 Drivers of Malaysia's current account of the balance of Payments in the Post-covid-19 Period

Balance of payments, by components (RM bil)



- Current account surplus has been driven by net goods exports over the past decade.
- Meanwhile, services deficit has been narrowing over the last 3 years since 2021.

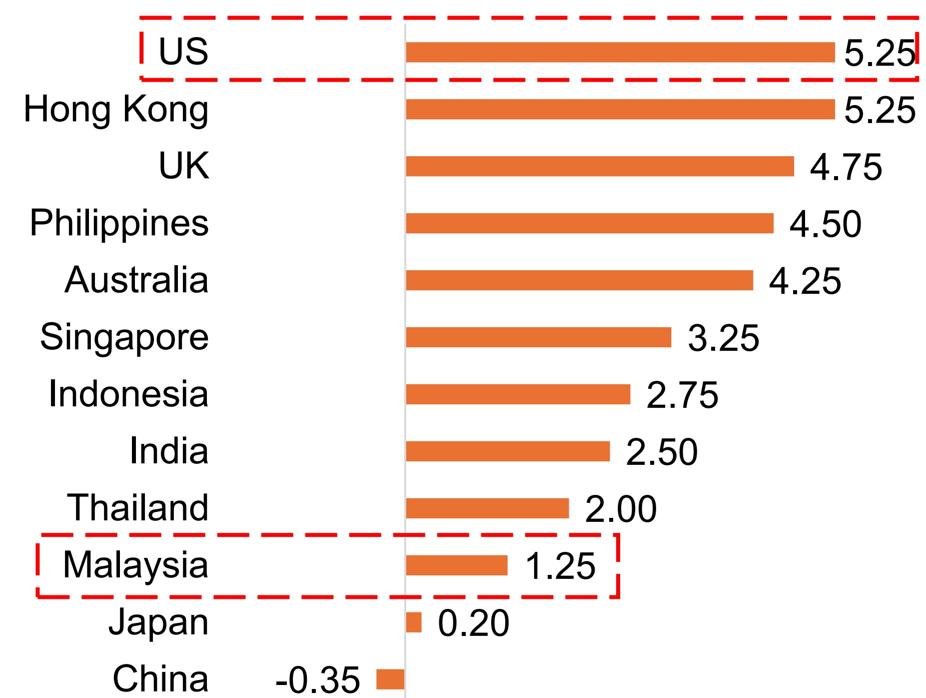
Average trade balance (RM bil)



- Trade has switched prioritized towards manufactured goods over commodities in recent years, with the bulk of trade surplus being carried by E&E exports. Commodities trade balance has decreased mainly due to a larger deficit in food & coal.

3 The Drivers of the Ringgit

Changes in central bank policy rate* (%)

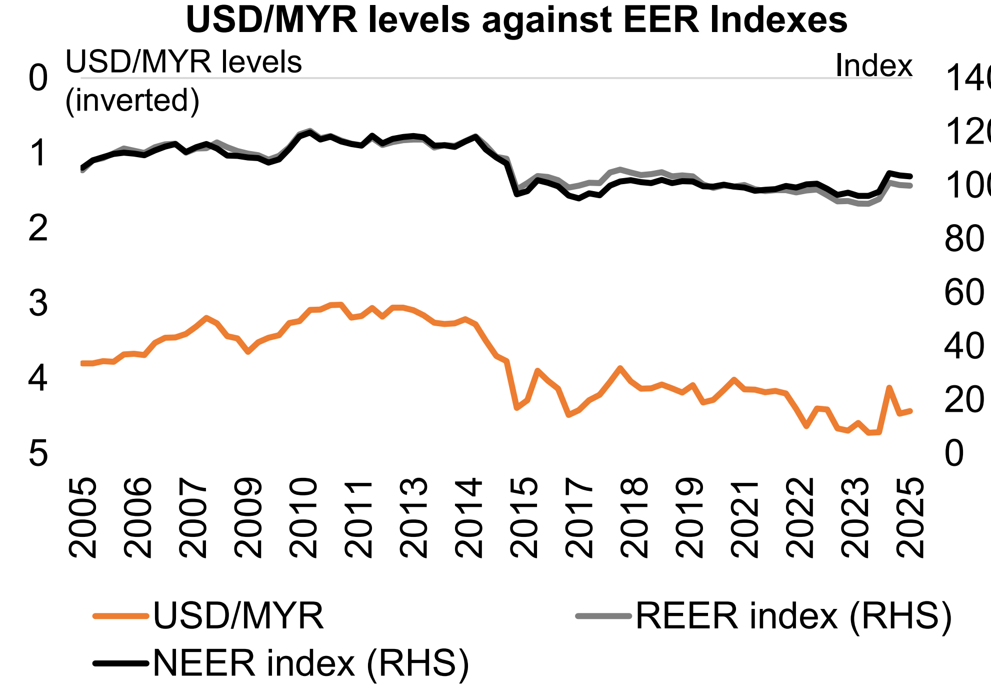


The short-term drivers of the MYR with USD

- Higher interest rate in US (5.50% as at July 2024) spurring global investors to shift their funds towards the US, further strengthening the USD against MYR (Malaysia OPR: 3.0% as at July 2024)
- USD considered as 'safe haven' currency so investor sought protection from geopolitical tensions in the Middle East and Ukraine and thus added to the pressure on the MYR .

*Mar 2022-July 2024

USD/MYR levels against EER Indexes



The long-term drivers of the ringgit

- The Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) have remained stable, especially during periods of US dollar strength.
- However, over a longer horizon since 2014, both measures showed a gradual depreciation of the ringgit.

Sources: Bloomberg, CEIC, EMIS, BNM Annual Report 2024, and SME Bank Economic Research

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