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ECONOMIC DIGEST

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Economic Outlook 2025

Global Economy

- Global growth is **projected to stabilise at 2.7% in 2025-26 (2024: 2.7%; pre-pandemic average: 3.1%),** according to the World Bank's latest economic outlook (Jan 2025). This stabilisation is supported by: 1) easing inflation, 2) lower commodity prices, and 3) monetary easing across advanced and emerging economies. Key downside risks include: 1) heightened policy uncertainty, 2) adverse trade policies, 3) geopolitical tensions, and 4) lingering inflationary pressures.
- Contributing around 60% of global growth, **emerging markets and developing economies remain the main drivers of growth.** However, growth is expected to slow down to 4.1% this year, ending 2025 with the weakest long-term growth outlook since 2000 (2000 – 2019 average: 4.8%; 2023: 4.2%). Key ASEAN economies like Indonesia, Philippines, and Vietnam will benefit from strong domestic demand, infrastructure investments, and expanding trade.
- Meanwhile, growth in **advanced economies** is expected to be **subdued, with inflation easing towards target levels**. Despite this, **central banks are likely to keep interest rates above their historically low levels in 2010s.** The two largest economies in the world, **the US and China, are anticipated to grow at a slower rate in 2025**. A cooling labour market and more gradual interest rate cuts in the US than initially projected may slow consumption. The Fed's dot plot now indicates only two rate cuts in 2025 totaling 50bps, compared to 100bps reductions forecasted last year. While persistent **weakness in the property sector and low consumer confidence** are expected to **drag China's growth in 2025**, recent policy measures such as mortgage rate cuts for homebuyers may provide some cushion.
- There was a **temporary sense of relief during President Trump's inauguration day as he refrained from immediately imposing tariffs**. However, he has now gone ahead with **25% tariff on all US steel and aluminium imports starting 12 March, 25% tariff on all imports from Canada and Mexico and an additional 10% tariff on China**. Following his latest move, the Trump administration will evaluate **reciprocal tariffs**, including non-tariff barriers with partners (govt subsidies, value-added and digital taxes).
- Despite the rise in protectionist measures around the world, global trade is expected to grow faster. According to the World Trade Organization, **world merchandise trade volume is projected to expand by 3.0%** (2024e: 2.7%), as easing inflation (global inflation averages for 2025f: 4.3%; 2024e: 5.8%; 2023: 6.7%), allows lower interest rates, boosting consumption, investment and trade recovery.

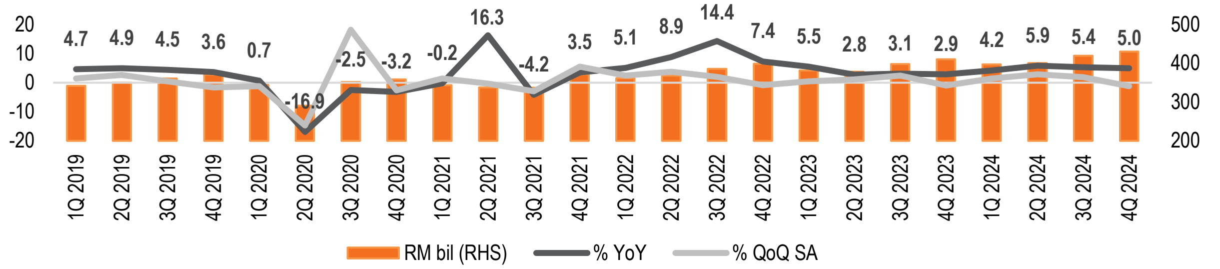
Table 1: World Bank's Real GDP Forecast (% YoY)	2023	2024e	2025f	2026f
World	**2.7**	**2.7**	**2.7**	**2.7**
Advanced Economies	**1.7**	**1.7**	**1.7**	**1.8**
United States	2.9	2.8	2.3	2.0
Euro Area	0.4	0.7	1.0	1.2
Emerging Market & Developing Economies	**4.2**	**4.1**	**4.1**	**4.0**
China	5.2	4.9	4.5	4.0
India	8.2	6.5	6.7	6.7
Malaysia	3.6	4.9	4.5	4.3

Sources: CEIC, BNM, World Bank, World Trade Organisation, Government of China and SME Bank Economic Research

Domestic Economy

- Malaysia's GDP growth accelerated to 5.1% YoY for full year 2024 (2023: 3.6%; average 2017 – 2019: 5.0%), well within our in-house estimate of 4.3% – 5.3% (MoF: 4.8% – 5.3%). Growth was driven by stronger household spending, supported by favorable labour market conditions, robust investment (net FDI in 2024: RM47.4 bil; 2023: RM40.4 bil; average 2015 – 2019: RM38.0 bil), and recovery in external trade.
- **For 2025, we forecast GDP to register between 4.5% and 5.0%**, at the lower range of government's GDP projection of 4.5% – 5.5% unveiled during Budget 2025. Our forecast is aligned with the IMF (4.5%), World Bank (4.5%) and Bloomberg (4.7%)'s consensus.

Figure 1: Malaysia Quarterly Real GDP



- We anticipate GDP growth performance in 2025 to be **driven by expansion in the services sector**, which will remain the primary engine of growth, with increased support from both consumer-related and business-related subsectors. Household expenditure is expected to be resilient amid positive labour market conditions and continued policy support. Under Budget 2025, higher cash handouts to lower income households (STR & SARA), civil servant salary revision (alongside govt pension review), and an increase in the minimum wage to RM1,700 (from RM1,500), are expected to boost consumer spending. However, other measures such as the expansion of SST to non-essential goods and business-to-business (B2B) commercial services, as well as the upcoming RON95 subsidy rationalisation, may weigh on consumption.
- Tourist arrivals for full year 2024 came in at 25.0 mil persons, equivalent to 96% of 2019's level (pre-pandemic). We have guided that a full return to pre-pandemic levels will **happen in 2025, capitalising on Malaysia's role as ASEAN Chairmanship for 2025**. Other **upside potential that will boost tourism** include: 1) higher allocation in Budget 2025 (RM1.4 bil vs Budget 2024: RM530 mil) leading up to Visit Malaysia 2026, 2) multiple-entry visas for tourists and investors, 3) revival of Forest City in Johor, and 4) new airline routes to Malaysia (e.g. 3 new routes by IndiGo Airlines connecting Malaysia and India (Bengaluru–KL and Bengaluru–Langkawi) and daily flights from Chennai to Penang; Batik Air's new route between Bangkok and Johor Bahru; and a new charter flight by Jeju Air between Muan and Kota Kinabalu).
- **The construction sector is expected to lead in 2025** with the highest growth rate, continuing its strong momentum since 2023, with double-digit growth of 17.5% in 2024 (2023: 6.1%, avg 2017-19: 3.8%), and 2024: 17.5%). Key contributors to construction activity include: 1) multi-year infrastructure projects, 2) data center developments, and 3) rising foreign direct investment. In fact, the annual value of projects awarded to contractors in Malaysia rose to RM199 bil in 2024 (2023: RM127 bil), the highest in 8 years, **indicating a stronger pipeline of construction projects in 2025.**
- **Manufacturing sector is also set to expand**, supported by the implementation of major policies such as the New Industrial Master Plan 2030, National Energy Transition Roadmap and the National Semiconductor Strategy. Investment approvals in this sector is led by E&E products, with total capital investment reaching RM55.8 bil in 2024 (2023: RM85.4 bil). However, downside risk include an economic slowdown in major trading partners amid heightening risks of trade and investment restrictions, particularly the 25% US tariff on semiconductors. To note, US is the 3rd largest export destination for our semiconductors, accounting for 14% of Malaysia's total semiconductor exports in 2024.
- However, the **mining sector** is expected to take a breather in 2025 due to **scheduled plant shutdowns for maintenance**, with **a contraction of -1.0% YoY** projected in **Budget 2025** (**2024: 0.9%**). Malaysia is increasing its focus towards renewable energy (RE) such as solar, natural gas, hydropower and biomass, targeting **31% RE installed capacity by 2025** (**2023: 22.8%**). Notwithstanding, PETRONAS's capex in Malaysia has increased to RM33.1 bil in 2024 (2023: RM26.2 bil) and has further plans to drill 415 wells (2024: 141) and undertake 39 upstream projects over the next three years.

Sources: DOSM, CEIC, BNM, Malaysia Budget 2025, Malaysia Investment Development Authority , PETRONAS and SME Bank Economic Research

Inflation

- We forecast **headline inflation** to settle between **2.1% – 3.1% in 2025** (2024: 1.8%)**,** within a tighter range compared to government's expectation of 2.0% – 3.5%. Inflation is anticipated to rise this year, given various cost-push factors such as the RON95 subsidy rationalisation (mid-2025), SST expansion to non-essential goods and B2B commercial services (May 2025), 14% electricity tariff hike (July 2025), rising medical insurance premiums (<10%) and 2% employer contribution to foreign worker's EPF. As these pressures are cost-push rather than demand-pull (upward revision of the civil servant salary and minimum wage), any increase in inflation is expected to be temporary and unlikely to prompt movements in overnight policy rate.
- Compared to diesel, the impact of **petrol subsidy rationalisation is expected to have a more significant effect on the overall inflation rate**, given petrol's higher weightage in the CPI basket. Petrol accounts for 5.5% of the total CPI basket, while diesel represents just 0.2%. Nonetheless, we believe the impact will be manageable due to the timing of its implementation – coinciding with a projected decline in global oil prices to USD74 per barrel in 2025 (2024: USD81 per barrel) – and 85% of consumers will continue to enjoy the subsidy as only the T15 earners and foreigners will pay the market price for RON95 petrol. Based on the latest update in Dec 2024, **targeted RON95 subsidy will be implemented via two-tier pricing**. The petrol prices (subsidised & non-subsidised) will be displayed at retail stations, where eligible recipients will immediately enjoy the subsidised price. This measure is envisaged to **pose less risk to potential inflation** compared to cash transfer method (currently used to subsidise diesel-powered vehicles).
- As **inflation is expected to remain manageable** in 2025, we foresee Bank Negara Malaysia to **continue maintaining its overnight policy rate at 3.00% till year end.**

Going forward, we **remain cautiously optimistic on Malaysia's overall growth performance in 2025 amid rising headwinds, mainly stemming from the external side**: 1) slower GDP growth in key trading partners (China, US, India), 2) potential escalation of the US – China trade war and rising global protectionist policies, 3) lingering geopolitical conflicts, and 4) lower than expected major commodity production and prices. **Slowdown in China and the US are seen as significant threats to Malaysia's GDP growth performance as the duo are our biggest trading partners**. In 2024, China and the US accounted for 12.4% (2023: 13.5%; 2019: 14.2%) and 13.2% of our total exports (2023: 11.3%; 2019: 9.7%).

Figure 2: Malaysia Inflation (% YoY)

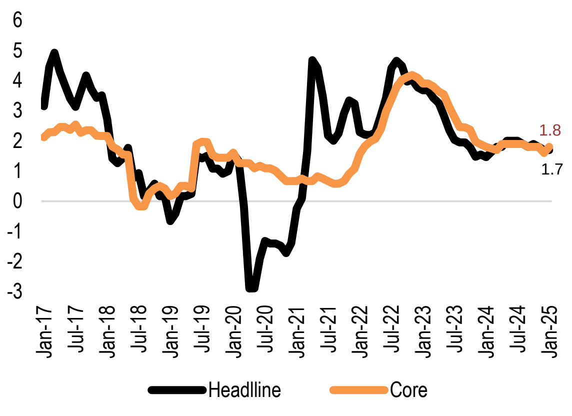


Figure 3: Malaysia OPR (%)

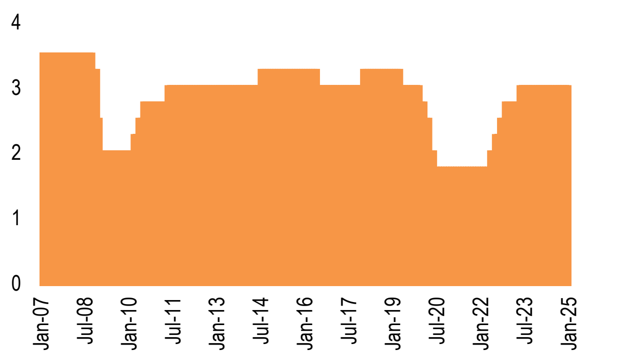


Table 2: Key Macroeconomic Forecasts	2023	2024	2025f		2024f	
			In-house	MOF	In-house	MOF
Real GDP (% YoY)	3.6	5.1	**4.5 – 5.0**	4.5 – 5.5	4.3 – 5.3	4.8 – 5.3
OPR (%)	3.00	3.00	**3.00**	-	3.00	-
Inflation (% YoY)	2.5	1.8	**2.1 – 3.1**	2.0 – 3.5	2.0 - 3.0	2.0 – 3.0
USD/MYR (average)	4.58	4.58	**4.40 – 4.50**	-	4.50 – 4.60	-
Brent crude oil (USD/bbl)	82.2	80.0	**70 – 80**	75 – 80	80 – 90	80 – 90

Sources: DOSM, CEIC, Bloomberg, BNM, Tenaga Nasional Berhad, International Energy Agency and SME Bank Economic Research

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