



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Economic and
Monetary Review
2024

EMR

Contents

Foreword

Key Highlights

Executive Summary **11**

Economic, Monetary and Financial Developments in 2024 **17**

Outlook and Policy in 2025 **43**

Box Article: Malaysia's Position in the Global E&E Value Chain and Prospects 56

Box Article: Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period 68

Box Article: Supply Shocks and Implications for Monetary Policy 80

Box Article: Deciphering Investment Cycles in Malaysia 88

Annex

Foreword

Where we've been

The Malaysian economy surpassed initial projections and demonstrated marked resilience amid global uncertainties in 2024. Growth was higher at 5.1% compared with 3.6% in 2023. This outperformance was due in large part to the highest investment growth we have seen in a decade, in addition to better exports and continued expansion in household spending. In the foreign exchange (FX) market, while external developments caused volatility earlier in the year, the ringgit rebounded following strong domestic economic performance and monetary policy easing by the US Federal Reserve (the Fed). Coordinated actions by Bank Negara Malaysia (BNM) and the Government provided further support by ensuring more balanced and healthy flows in the FX market. Against this backdrop, the Government continued its steady rollout of structural reforms. Notably, while some policy measures (such as the implementation of targeted diesel subsidies, higher electricity and water tariffs, and increase on sales and service tax (SST) rates) raised prices for selected goods and services, overall inflation remained modest at 1.8% for the year. Mitigation measures which accompanied these policy measures helped to contain spillovers on the broader economy.

A key factor which contributed to economic strength during the year was the advancement of the third investment upcycle – a topic we expand upon in more detail in the box article titled 'Deciphering Investment Cycles in Malaysia'. Malaysia's compelling investment narrative, combined with initiatives laid out in various strategy documents such as the New Industrial Master Plan (NIMP) and National Energy Transition Roadmap (NETR), enabled the country to leverage on catalytic investment opportunities. Global megatrends such as artificial intelligence (AI), data storage and cloud computing, as well as renewable energy provided strong tailwinds to the resurgence in both private and public investments. These investments will enhance the productivity of our domestic economy, taking us closer to becoming a high-income economy. The Government's progress of fiscal consolidation under the Medium-Term Fiscal Framework (MTFF), having surpassed its fiscal deficit target for 2024, further strengthened investor optimism in the economic stewardship of the country, and positioned the country as an attractive investment destination.

Where we are

Looking to 2025, we anticipate an increasingly challenging external environment. Heightened uncertainties surrounding the resurgence of protectionist actions, alongside continuing geopolitical conflicts, pose headwinds to Malaysia as a small and open economy. The strength of global demand in particular will depend on developments in trade restrictions and countermeasures imposed by major economies. Risks to growth could arise from strained trade relationships affecting the global trade momentum, geopolitical developments potentially disrupting supply chains, and heightened financial market volatility. These considerable uncertainties and rapidly unfolding events present significant challenges for forecasting the 2025 outlook. In pre-empting some of these uncertainties, BNM formulated several global economic scenarios to assess their potential impacts to our economy. As a small, open economy, we will not be totally insulated. Nevertheless, there are reasons to be cautiously optimistic about domestic prospects. Our domestic sources of growth, combined with a diversified export structure will help the economy withstand challenges in the year ahead. Investment activity, driven by multi-year projects, remains a key bright spot while positive labour market conditions and income-boosting policies provide continued support to household spending. Consequently, the Malaysian economy is projected to grow between 4.5% and 5.5% in 2025.

The ringgit, like other regional currencies, would continue to be influenced by external developments, particularly from potential policy shifts in major economies. Nevertheless, narrowing interest rate differentials between the US and other economies, should the Fed continue easing monetary policy, will lend support to the ringgit. In the longer term, Malaysia's solid economic prospects and ongoing reforms will provide more enduring support to the ringgit.

Easing global costs and steady demand will help keep price pressures at bay. Recent labour market policies will support household incomes, but their impetus to prices is expected to be contained. Continued efforts on fiscal reforms, with the RON95 subsidy rationalisation and SST expansion to be implemented in 2025, are anticipated to result in some short-term price increases. Nevertheless, we assess their effects on underlying inflation to be limited and temporary. Our simulations on various policy scenarios suggest that headline inflation will remain between 2% and 3.5% in 2025, even under conservative assumptions, before eventually reverting lower as policy effects fade.

There are valid concerns that some household segments may be affected by the price increases as a result of these policy reforms. The Government has, therefore, factored these concerns into the design and implementation of policy adjustments, with the aim of minimising spillovers. Most importantly, these reforms will pay off over the long term. They are intended to remove deep distortions in the economy and free up fiscal resources for more productive spending, such as on social protection, education, health, and infrastructure, ultimately lifting growth and improving the income and well-being of the *rakyat*.

While inflation has trended lower, rising cost of living remains a salient issue. This is primarily due to the fact that in the past several years, wages have grown at a slower pace relative to price increases and productivity gains. Post-pandemic, although productivity has increased modestly, real wages have remained relatively flat. Recent policies to ensure commensurate wages and efforts to attract investments that create high paying jobs are promising steps forward. Yet, employers also need to ensure their workers are compensated fairly and adequately for their contributions.

On monetary policy, BNM will continue to stand firm on our mandate of maintaining price stability conducive to sustainable growth in Malaysia. Given the considerable uncertainties in the operating environment, risks to growth loom large in our considerations. At the same time, we acknowledge that the continued domestic policy reforms will affect prices as economic agents adjust. Our approach to monetary policy will necessarily remain data-driven and forward-looking, informed by thorough assessments on the evolving risks to domestic inflation and growth prospects. Towards this end, we will keep a close watch on global developments and potential spillovers of ongoing domestic policy reforms. This entails continuous assessments on the persistence and pervasiveness of inflation, while considering external shocks and the overall trajectory of the Malaysian economy.

Where we must venture

We are now at an important juncture for the nation. To navigate the increasingly complex economic environment and steer the economy towards high-income status, it is imperative to deepen our efforts for structural reforms. Positive economic momentum from the past year provides us with firm footing to carry the momentum forward. We have seen the successes of thoughtful policy design paired with timely implementation. The first phase of reforms reflected our most urgent priorities, such as affirming our commitment to fiscal discipline and enhancing the national investment ecosystem. While we continue to build on these successes, we must also intensify our focus on other critical areas of deep reforms.

Foremost among these is strengthening our national social protection system. A comprehensive and inclusive social protection system is critical to provide a safety net for vulnerable segments of the *rakyat*. In turn, this ensures that everyone can benefit from economic growth. A well-designed social protection system also promotes upward social mobility and labour market dynamism through active labour market policies (ALMPs) and strengthens household and labour market resilience to economic shocks. One of the prevailing issues with Malaysia's social protection system is the gaps in the coverage for certain groups, such as workers in the informal sector. Steps have been taken to address these gaps, including measures by the Social Security Organisation (SOCISO) to directly pursue bilateral agreements with employers whose workers were not previously covered. Still, more lasting improvements could be achieved by taking measures such as automatic enrolments to the social security system. Additionally, gains made by the Government in optimising expenditure can be re-channelled towards initiatives to streamline and improve the quality of social security programmes, ensuring the sustainability of the system in the long term. Collectively, these efforts will strengthen the resilience of households by reducing inclusion and exclusion errors and enhancing protection for the vulnerable.

Complementary to developing a comprehensive social protection framework are areas of deeper and longer-term reforms: Ensuring the provision and quality of basic needs such as education and healthcare amid evolving socio-

economic shifts. A high-skilled workforce is the backbone of a dynamic economy. Although Malaysia has made significant gains in educational attainment in general, findings from recent surveys on Trends in International Mathematics and Science Study (TIMSS) show mathematics and science skills deteriorating among Malaysian students. Moreover, gaps in critical expertise in the local labour force and readiness of graduates continue to be cited as key concerns by employers and prospective investors. Significant rethinking of Malaysia's education system and life-long learning ecosystem are needed. Periodic reviews must be undertaken to ensure the curriculum remains relevant and evolves in tandem with technological advances. A key priority here is to improve students' proficiency in science, technology, engineering and mathematics (STEM) subjects, which is essential to drive innovation and competitiveness in high-value industries. Additionally, there is room for industry involvement in education policy to ensure that students are equipped with the right skillsets for the workforce of tomorrow.

Looking ahead, in view of demographic shifts towards an aging society, steps should be taken to advance Malaysia's healthcare system. As it stands, the healthcare system in Malaysia is one of the most accessible in the world. Recent challenges, however, have highlighted capacity constraints and issues with uneven distribution of resources among the public and private healthcare sectors. Meanwhile, rising medical costs amid subdued wage growth in 2024 have exacerbated cost of living issues for some households. In line with the reform agenda outlined by the Ministry of Health (MOH), concerted actions should focus on transforming delivery of healthcare services and enhancing public health functions, while ensuring sustainable and equitable financing in the healthcare system.

As Malaysia assumes the ASEAN Chairmanship this year, the regional bloc stands at a pivotal point in an increasingly multipolar world where major economies vie for economic supremacy. The shifts in global supply chains amid rising protectionism have made the region vulnerable. Global industries such as semiconductors are becoming more bifurcated along geopolitical lines. Therefore, it is crucial to carefully rethink our approach to economic resilience. In addition to continuing our collaboration with multinational corporations, we must further nurture local startups and mid-sized players to fortify our ecosystem. Enhancing resilience also requires an advanced financial system capable of withstanding shocks. Aligned with Malaysia's ASEAN Chairmanship theme, 'Inclusivity and Sustainability', BNM will steer financial sector initiatives to support ASEAN's post-2025 vision of a future-ready economy. Along with greater regional integration, ASEAN and its global partners must find win-win solutions to grow sustainably together.

Beyond this, Malaysia must continue to support open and fair trade by advocating for effective functioning of the rules-based trading system. Building on Malaysia's diversified trade and investment structure, we must remain steadfast to deepen cooperation with existing trade partners, explore new markets and advance Malaysia's global competitiveness. Free trade agreements, investment guarantee agreements and international cooperation initiatives remain relevant and important tools to support the attainment of these goals.

Whilst we benefit from the positive momentum of 2024, it is clear there are significant hurdles ahead. The external environment is highly fluid and unpredictable, and we cannot rest on our laurels. One of the best recourses against uncertainty is committed and coordinated action. Deeper and continuous reforms will lay the foundations needed to build inclusive and sustained growth. The design, timing and sequence of these reforms remain key. At its core, the long-term aim of these reforms is about people, about creating systems that uplift and enhance the wellbeing of the *rakyat* in the future. Transforming challenges into opportunities require not just a whole-of-nation approach, but also close integration with our regional peers. On our part, BNM remains committed to maintaining vigilant monetary and financial policies, ensuring stability while supporting sustainable economic growth. We will continue to monitor global and domestic developments closely, ready to adjust our policies as needed to uphold the nation's economic resilience and advance our vision of becoming a high-income economy.



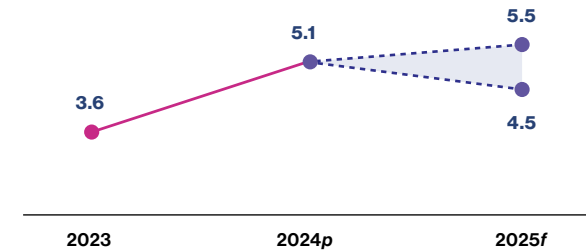
Abdul Rasheed Ghaffour

24 March 2025

Key Highlights on Economic Development and Outlook

Malaysia's economy to grow between 4.5% and 5.5% in 2025

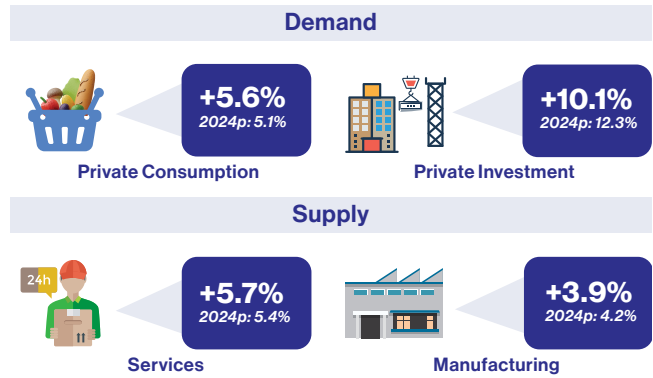
Malaysia's real GDP growth
Annual change (%)



p Preliminary
f Forecast

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

Key drivers of growth in 2025
Annual change (%)



Growth will be driven by sustained strength in domestic demand amid external uncertainties

Factors driving growth outlook



Higher household spending
Improving labour market conditions and continued policy support



Robust investment activity
Driven by new and existing projects as well as implementation of national master plans



Moderate expansion in exports
Ongoing global technology upcycle and sustained external demand

Upside potential to growth

- Higher external demand from successful trade negotiations and pro-growth policies
- Greater positive spillovers from global tech upcycle
- More robust tourism activity
- Faster implementation of investment projects



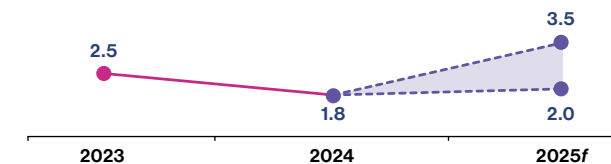
Downside risks to growth

- More restrictive trade policies
- Escalation of geopolitical conflicts
- Weaker business confidence and consumer sentiments
- Lower-than-expected commodity production

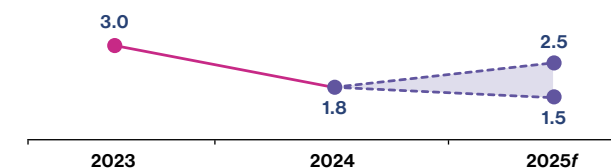


Headline inflation to average between 2% and 3.5% in 2025

Headline Inflation
Annual change (%)



Core Inflation
Annual change (%)



f Forecast

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

Risks to the inflation outlook



Larger-than-expected spillovers from policy measures
Higher external costs amid geopolitical developments

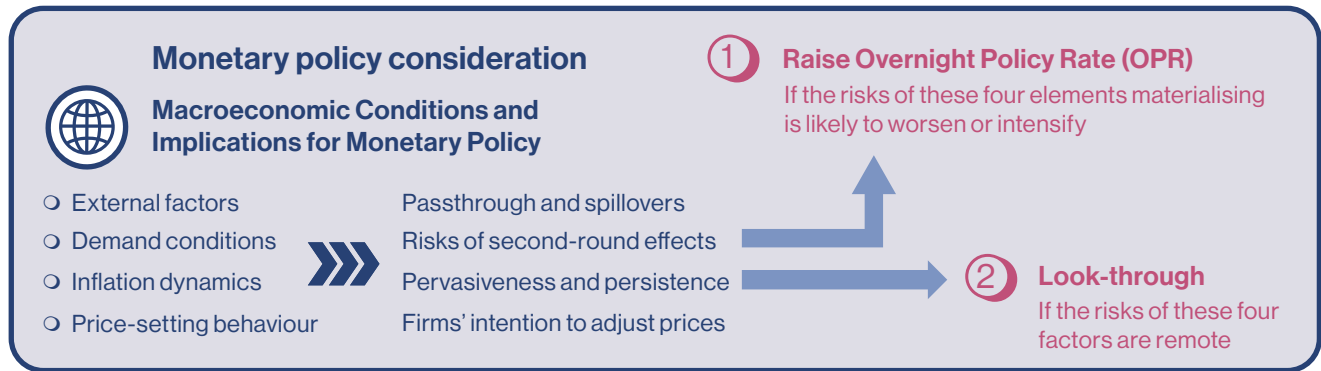
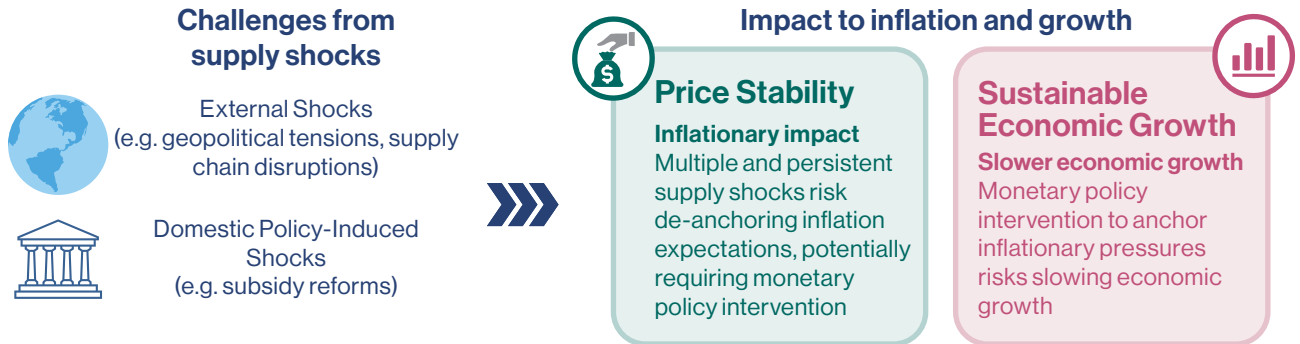


Weaker global growth from rising trade tensions
Larger moderation in commodity prices

Key Highlights on Box Articles

Supply Shocks and Implications for Monetary Policy

A well-grounded analytical framework in managing supply shocks is key to ensure price stability and sustainable growth

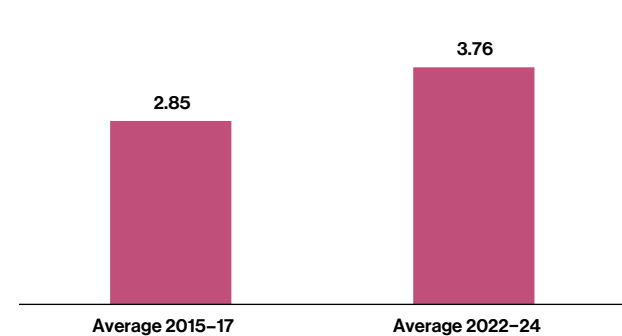


Malaysia's Position in the Global E&E Value Chain and Prospects

Electrical and Electronics (E&E) industry recovery will remain intact in 2025

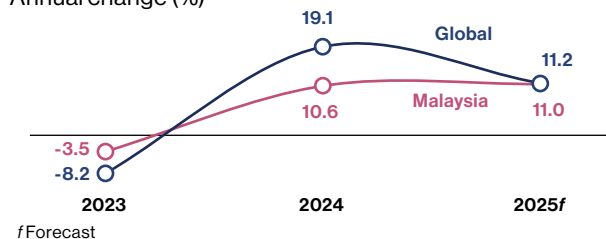
- Malaysia's presence in the global E&E value chain has strengthened in recent years
- Exports will continue to benefit from the ongoing global tech upcycle

Malaysia's Share of Global E&E Exports
% share of Global E&E exports



Source: S&P Global and Bank Negara Malaysia estimates

Global and Malaysia-implied WSTS Semiconductor Sales Forecast
Annual change (%)



Note: The Malaysia-implied WSTS semiconductor sales is constructed using the aggregate WSTS global semiconductor forecast by product weighted by Malaysia's semiconductor export shares by product in 2024.

Source: World Semiconductor Trade Statistics and Bank Negara Malaysia estimates

- Malaysia must pursue the right strategies to compete in the global semiconductor race

- Invest in E&E ecosystem enhancement
- Strengthen supply chain resiliency through bilateral trade agreements
- Pursue relevant research, development, commercialisation and innovation (RDCI) strategies
- Mobilise financing of differing modalities
- Pragmatic labour market and immigration reforms

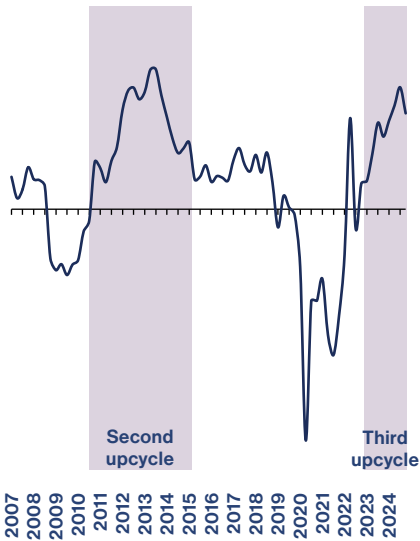
Key Highlights on Box Articles

Deciphering Investment Cycles in Malaysia

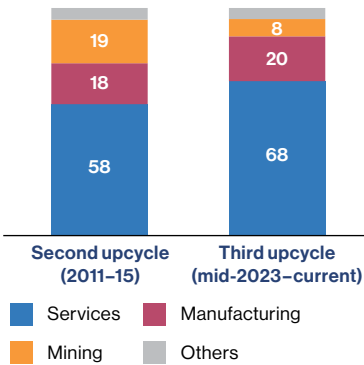
Malaysia's third investment upcycle is characterised by high quality investments

- 1** Investment consistently above long-term trend since mid-2023
- 2** Shift towards high-value added investments
- 3** Policy strategies to sustain upcycle and maximise benefits

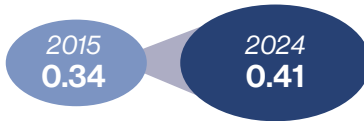
Cyclical Component of Investment
% deviation from seasonally-adjusted long-term trend



Share of Real GFCF by Sectors
% of overall GFCF



Ratio of M&E to Real GFCF



Sustaining the upcycle

- Foster conducive domestic investment ecosystem
- Provide policy certainty, stabilise business sentiments and facilitate investment realisation

Maximising the benefits

- Focus on high-quality investment
- Monitor pressures from upcycle
- Localise supply chains, develop intangible capital and facilitate structured talent development

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

Executive Summary



Executive Summary

Economic, Monetary and Financial Developments in 2024

In 2024, global growth remained sustained: Global economic growth remained sustained at 3.2% (2023: 3.3%) amid resilient domestic demand and a rebound in global trade. The US economy benefitted from stronger-than-expected domestic demand while euro area growth improved as the effects of the conflict in Ukraine receded. Meanwhile, China's growth was weighed down by continued sluggishness in the property market and weak consumer sentiments but a recovery in exports and policy support helped to sustain growth at a relatively high level. Global trade improved, registering 3.4% growth (2023: 0.7%) supported by the ongoing global technology upcycle and increased investments in emerging areas such as digitalisation and green energy. International tourism continued to recover while supply chain conditions improved as the trade route disruptions at the start of 2024 subsided.

Global headline inflation continued to moderate in 2024: Global headline inflation moderated, primarily due to lower commodity prices and improved supply chain conditions. However, the pace of disinflation was uneven among advanced economies, prompting major central banks to ease monetary policy at different times and to varying degrees. Oil prices declined during the year, following slower-than-expected demand growth in China and increased production from non-Organization of the Petroleum Exporting Countries (non-OPEC) member nations, notably the US. While shipping prices increased in the first half of the year due to the rerouting of trade routes, shipping rates trended down in the latter half as port congestion eased. Overall, advanced economies continued their disinflation trajectories, while inflation in emerging market economies remained below its long-term average.

Global financial conditions began loosening towards the second half of the year amid monetary policy easing among major central banks:

Throughout the year, global financial conditions were largely influenced by the trajectory of monetary policy of major central banks, particularly the US Federal Reserve (Fed). Following that, investors continued to adjust their portfolios and reallocated capital flows as their expectations surrounding global monetary policy evolved. The start of the Fed's easing cycle reduced interest rate differentials, leading to increased portfolio inflows into emerging markets and strengthening regional currencies against the US dollar. However, this was partially reversed following the outcome of the US election as markets expect inflationary policies by the new US administration and a more gradual Fed easing path in 2025.

Domestic financial market developments were affected by global factors, but spillovers remained contained:

Malaysia's financial market conditions were largely influenced by external factors, particularly shifts in the monetary policy of major economies. Compared to 2023, domestic bond yields increased at the 5- and 10-year tenures while trending in line with regional peers throughout the year. Net non-resident inflows into debt securities reflected optimism in Malaysia's economy and credit quality. Meanwhile, the equity market saw improvements due to strong economic performance, a stable political environment and expected stronger earnings amid the implementation of economic masterplans. While the uncertainty over the Fed's policy rate cuts and the US election, among others, put downward pressure on the ringgit, the impact was partly cushioned by the coordinated actions by the Government and BNM which encouraged more consistent and timely repatriation and conversion of foreign earnings by resident corporates and institutional investors. Consequently, the ringgit was one of the few currencies in Asia to appreciate against the US dollar in 2024.

Despite external pressures, spillovers to financial intermediation remained contained owing to liquid financial markets and a sound banking system, as well as BNM's monetary operations.

The Malaysian economy recorded higher growth, driven by stronger domestic demand and a rebound in exports: The Malaysian economy grew by 5.1% (2023: 3.6%), anchored by stronger domestic demand. Of significance, the ongoing investment upcycle led to the highest investment growth in a decade, with added impetus from the realisation of electrical and electronics (E&E) and information and communication technology (ICT) projects. Household spending remained resilient, benefitting from favourable labour market conditions, continued wealth accumulation and effective policy support. On the external front, exports strengthened following improving demand from key trade partners and positive spillovers from the global technology upcycle. Meanwhile, imports grew at a much faster pace, driven by stronger demand for capital and intermediate goods to support rising investments and trade. From a sectoral perspective, services and manufacturing remained the primary growth drivers, with all sectors recording higher growth relative to 2023 due to improved domestic and external conditions.

Headline and core inflation moderated in 2024 below their long-term averages: Headline and core inflation both averaged 1.8% (2023: 2.5% and 3%, respectively; 2011–19 average: 2.2% and 2%, respectively), amid easing global cost conditions and stable demand. Inflation was moderate across most Consumer Price Index (CPI) segments, with lower inflation seen primarily in food and non-alcoholic beverages. This was offset by pockets of inflationary pressures following the implementation of domestic policy measures, such as the upward revision in water tariff rates and increase in the service tax for selected CPI segments. Although the diesel price adjustment pushed transport inflation slightly higher, broader spillovers were limited given the policy's targeted nature, as well as effective mitigation and enforcement measures by the Government to minimise the cost impact on businesses and curb profiteering activities. Overall, price pressures were less pervasive with the share of CPI items recording monthly price increases trending lower for most of 2024.

Monetary policy remained unchanged amid a stronger domestic economic outlook and modest inflation: The Overnight Policy Rate (OPR) was maintained at 3.00%, with the focus of ensuring price stability conducive to the sustainable growth of the economy. The Monetary Policy Committee (MPC) assessed limited impact of supply shocks on inflation arising from both external disruptions

and domestic policy shifts, and thus 'looked through' these shocks. Further, demand conditions were not overly strong, given that private consumption growth remained below its long-term average. With prospects of growth remaining forthcoming and inflationary pressures contained, the MPC kept the OPR unchanged throughout the year. BNM's monetary operations ensured that domestic banking system liquidity remained facilitative of financial intermediation. Lending rates also remained broadly stable, amid stable interbank conditions and a slight easing in banks' cost of funds.

Continued flow of credit to the private non-financial sector: In line with stronger domestic economic activity, credit to the private non-financial sector grew by 5.2% (2023: 4.8%). Outstanding loans grew higher at 5.6% (2023: 5%) while corporate bonds grew by 3.4% (2023: 4.2%). Households remained the major borrower segment contributing to this growth with continued labour market improvements providing impetus to credit demand. Meanwhile, business loans recorded higher growth driven mainly by an increase in investment-related loans, owing to the increase in private investment amid the positive economic and business outlook. A stronger investment appetite spurred by large-scale public investment initiatives also supported business demand for financing. Across business sizes, loan growth in small and medium enterprises (SMEs) continued to be strong, while non-SMEs recorded a more modest increase given the availability of alternative funding sources such as capital market funding and retained earnings. Overall, credit conditions remained supportive of household and business needs, underpinned by stable loan approvals. Additionally, banks continued to provide repayment assistance for borrowers who faced difficulties servicing their debt obligations.

Outlook and Policy in 2025

Broadly sustained global growth: In 2025, global economic growth is expected to be broadly sustained, supported by favourable labour market conditions, moderating inflation and continued global monetary policy easing. Global trade is expected to remain supported by demand across both the E&E and non-E&E sectors, as well as continued expansion in tourism. Global inflation is expected to continue moderating, facilitated by moderating commodity prices and dissipating effects of past monetary policy tightening. All these projections are premised upon there being some degree of tariff actions and retaliations among major economies. As such, this outlook is subject to downside risks amid considerable uncertainties surrounding higher trade restrictions alongside potential

retaliatory measures from affected countries and escalations in geopolitical conflicts. In contrast, successful trade negotiations between the US and its partners, the resolution of various geopolitical conflicts and country-specific initiatives, such as pro-growth policies in the US and China, could provide support to the global economy. The pace and magnitude of monetary policy easing amongst major central banks, including the Fed, will remain highly subject to these developments and how they affect inflation. In the scenario of higher inflation prompting the Fed to take an extended pause in easing their monetary policy stance, high-for-longer interest rates in the US would lend support to continued US dollar strength. Further, the interplay of multiple global uncertainties may lead to heightened volatility in global financial markets. Despite the expected increase in market volatility, narrower interest rate differentials between emerging market economies and the US could spur capital flows into the region. This hinges upon the Fed's continued monetary policy easing.

The Malaysian economy is projected to grow between 4.5%–5.5% in 2025: In the face of external uncertainties, domestic demand is expected to remain Malaysia's anchor of growth amid steady private sector expenditure. Higher household spending will be driven by employment and faster income growth as well as policy support. Meanwhile, investment activity will continue to see a robust expansion as the investment upcycle is expected to extend into 2025. The domestic growth outlook is subject to several downside risks, stemming primarily from the considerable uncertainties from the external front. More restrictive trade policies, subsequent retaliatory measures, and the potential escalation of geopolitical conflicts could disrupt global trade, and in turn affect Malaysia's trade performance. On the domestic front, downside risks could emanate from further disruptions in commodity production which could weigh on growth. Notwithstanding, higher external demand, greater positive spillovers from the global technology upcycle, more robust tourism activity and quicker implementation of new and existing investment projects could lift domestic growth. The materialisation of these downside or upside risks will land the economy closer to the lower or the upper end of the forecast range, respectively.

Headline and core inflation are expected to average between 2%–3.5% and 1.5%–2.5% respectively in 2025: Inflation is expected to trend higher but will remain manageable amid easing global cost conditions and the absence of excessive demand pressures. Globally, commodity prices are expected to continue moderating, leading to lower production costs for firms. Domestically, underlying demand conditions will remain moderate in

view of stable private consumption growth and wage gains that are in line with productivity growth. The inflationary impact from announced domestic policy measures and tax adjustments, including the targeted RON95 subsidy rationalisation and SST expansion, is expected to be temporary and well-contained. The direct impact of these measures is anticipated to dissipate within a year and remain manageable, given the targeted approach of the policies. Upside risks to Malaysia's inflation outlook remain subject to the implementation details of domestic policy measures and the extent of their interactions with demand conditions. On the external front, the imposition of potential trade restrictions, retaliatory measures, and higher commodity prices also pose upside risks to inflation. On the other hand, downside risks to inflation mainly stem from weaker global growth.

Domestic monetary and financial conditions to remain supportive of financing needs amid sustained economic expansion:

Credit demand will be driven by positive prospects on domestic growth and income. Meanwhile, credit supply will continue to be supported by banks' healthy liquidity and capital buffers, coupled with robust competition among banks. The Fed's monetary policy easing path will remain a key factor in influencing the movement of global capital flows and consequently, the performance of the ringgit. Nevertheless, positive domestic economic prospects and the ongoing structural reforms will provide enduring support to the ringgit. Domestic bond yields may trend moderately lower amid gradual inflows into the domestic bond market. Domestic equities are anticipated to continue their upward trend from 2024, underpinned by continued political stability and improved earnings prospects in core sectors like banking and utilities. Ongoing structural reforms will also uplift investor confidence and support the performance of domestic equities. Despite potential risks from external developments, Malaysia's financial markets are expected to remain resilient and well-positioned to manage any potential ensuing effects from the global front. BNM will maintain vigilance by continuously monitoring domestic financial market developments while ensuring uninterrupted financial intermediation to the economy.

Monetary policy will remain focused on maintaining an environment of price stability conducive to sustainable economic growth:

In 2025, the MPC will remain vigilant of spillovers from an uncertain global environment and the impact of potential domestic policy changes. Amid this uncertainty, the formulation of monetary policy will continue to be guided by the evolving balance of risks surrounding the outlook on Malaysia's inflation and growth.



Economic, Monetary and Financial Developments in 2024

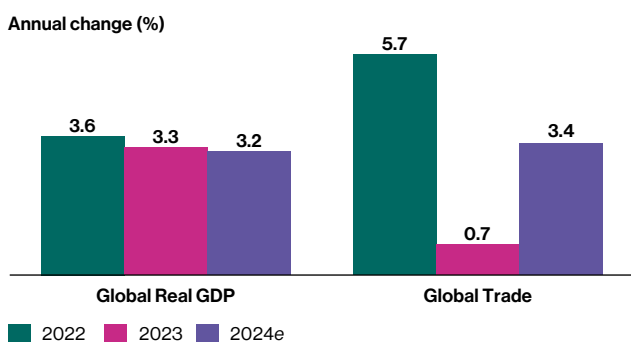
Economic, Monetary and Financial Developments in 2024

2024: MALAYSIAN ECONOMY RECORDED A STRONGER GROWTH, DRIVEN BY ROBUST DOMESTIC DEMAND AND REBOUND IN TRADE

Global growth was sustained amid resilient domestic demand and rebound in global trade

In 2024, global growth expanded at a steady pace. Domestic demand was sustained in major economies, due to resilient labour market conditions and easing monetary policy (Chart 1.1). Global trade rebounded, supported by both the electrical and electronics (E&E) and non-E&E segments. Headline inflation continued to soften, albeit at a varied pace across economies. As

Chart 1.1: Global Real GDP and Trade Growth



e Estimate

Note: Global real GDP is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.

Source: International Monetary Fund (IMF) January 2025 World Economic Outlook (WEO)

a result, central banks began easing monetary policy at different points, reflecting the differences in demand and inflation dynamics across countries.

In advanced economies, growth was sustained, bolstered by robust labour markets and a rebound in global trade. The US economy experienced solid growth, driven by strong private consumption and investment. Positive labour market conditions and healthy household balance sheets continued to underpin consumer spending. Meanwhile, private investment was fuelled by firms focusing on productivity enhancements, such as strengthening supply chain resilience. Investment activity also benefitted from policy incentives such as the Inflation Reduction Act (IRA) and the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act. Although monetary policy stance remained restrictive, the effects on households' and businesses' net interest payments were partly contained given the prevalence of long-duration fixed liabilities, excess savings, and healthy corporate balance sheets. In the euro area, growth improved as the effects of the conflict in Ukraine receded. The bloc addressed the previous year's gas shortages by enhancing energy security through increased regasification capacity, leading to lower LNG prices. In addition, resilient labour market conditions supported consumer spending, while exports were buoyed by stronger external demand. There were nevertheless growth divergences within the euro area, with France and Spain leading the recovery, while Germany remained in contraction amid sluggish manufacturing activity.¹

China's economy expanded at a slower pace, weighed by continued sluggishness in the property market and muted consumer sentiments. In 2023, China's growth was primarily driven by the temporary uplift from the post-lockdown reopening. However, by 2024, the post-pandemic boost had largely dissipated, and the economy no longer benefitted from these base effects despite recovering external demand. The ongoing downturn in the property market, coupled with below-average growth of

¹ Germany GDP growth 2024: -0.2%; 2023: -0.3%

real disposable income, continued to weaken consumer confidence and spending. The key impetus to growth stemmed from export recovery and policy support, from both fiscal stimulus and low interest rates.

Global trade improved, supported by growth in both the E&E and non-E&E segments (Chart 1.2). The ongoing global technology upcycle continued to drive E&E growth, while non-E&E segments, such as machinery and equipment (M&E), benefitted from increased investments in emerging areas such as digitalisation and green energy. In 2024, semiconductor sales increased by 19% year-over-year, mainly driven by the logic and memory segments. International tourist arrivals nearly reached 2019 levels, with tourism receipts in many countries surpassing pre-pandemic figures. Although supply chain conditions improved compared to 2023, challenges remained. Early in the year, the escalation of geopolitical tensions in the Middle East led to a rerouting of trade from the Red Sea to the Cape of Good Hope. This was followed by congestion in East Asian ports due to the clustering of arrivals, adverse weather, and the front-loading of trade. However, as these issues subsided in the latter half of the year, shipping conditions improved, supporting the recovery of trade in 2024.

Global headline inflation moderated (Chart 1.3), primarily due to declining commodity prices and improved supply chain conditions. The pace of disinflation, however, varied across advanced economies, reflecting country-specific factors. As a result, major central banks eased monetary policy at different times and to varying degrees, in contrast to the synchronised tightening observed in 2022. Oil prices

declined in 2024, attributed to slower-than-anticipated demand growth in China and increased production from non-OPEC countries, notably the United States. Shipping prices initially rose in the first half of the year, due to the aforementioned rerouting of trade. However, as the intensity of these eased, shipping rates trended downward in the latter half of the year. Underlying inflation, as measured by core inflation, remained persistent. Although core goods inflation continued to ease, services inflation remained elevated. In part, this reflected resilient wage growth and persistence in selected inflation components, such as shelter services. Advanced economies remained on a disinflationary path, while inflation in emerging market economies remained below average. In China, inflation stayed below historical averages due to lower food prices, subdued consumer spending amid weak sentiments and price competition among car producers.

Chart 1.3: Global Headline Inflation

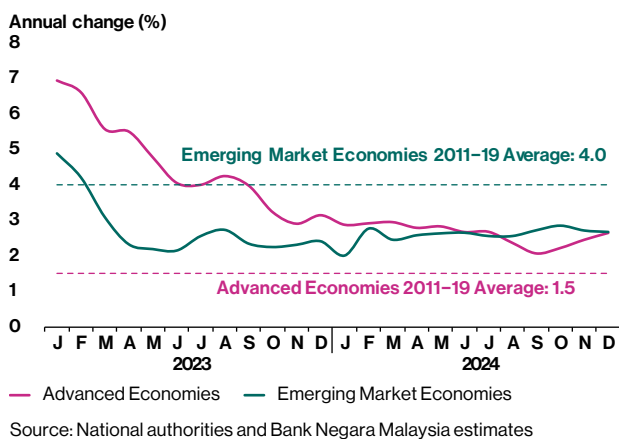
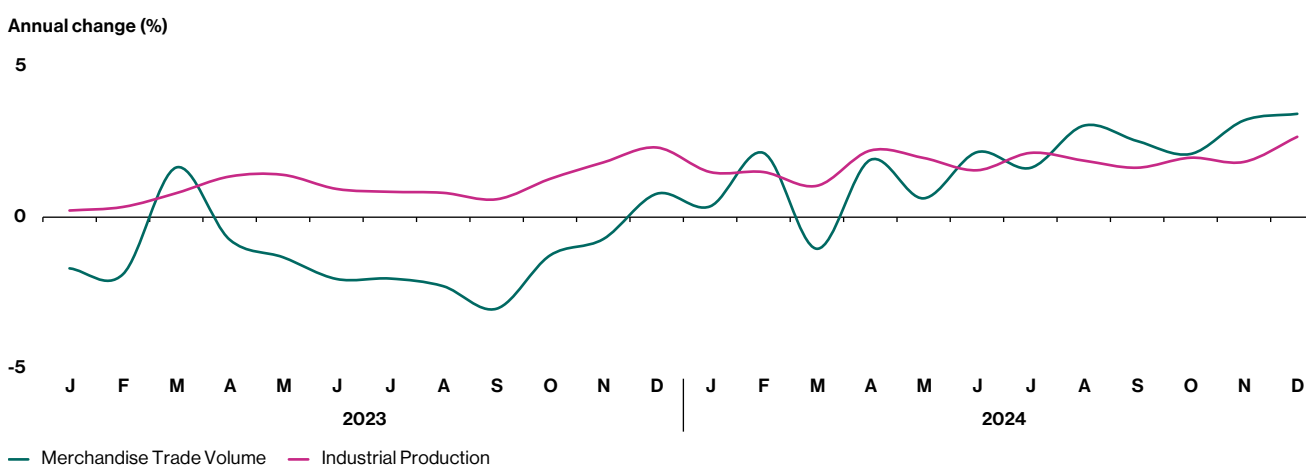


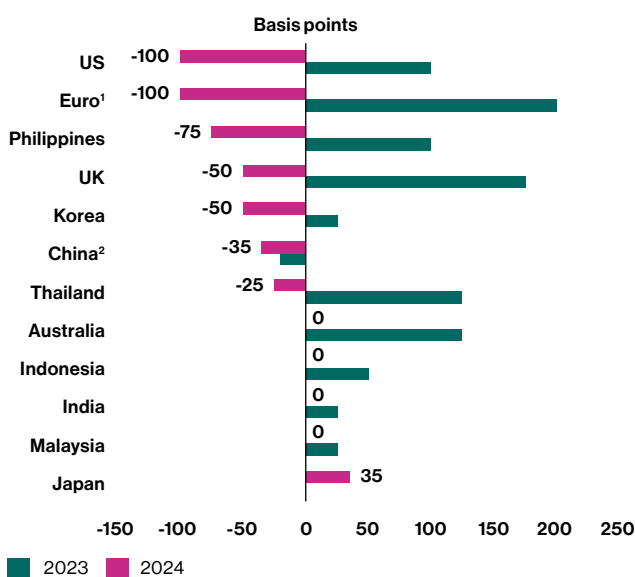
Chart 1.2: Global Merchandise Trade Volume and Industrial Production Growth



Global financial conditions began loosening towards the second half of the year amid monetary policy easing among major global central banks

Global financial conditions transitioned from being relatively tight to more accommodative, as inflation pressures started to abate in the second half of 2024. This shift was largely driven by the monetary policy decisions of major central banks, particularly the US Federal Reserve (Fed), which had a prominent influence on global financial market sentiment (Chart 1.4). As global financial conditions loosened, investors adjusted their portfolios and reallocated capital flows in search of higher returns.

Chart 1.4: Change in Policy Rate of Selected Economies



¹ Refers to the European Central Bank's Deposit Facility Rate.

² Refers to the People's Bank of China's 1-year Medium-term Lending Facility Rate.

Source: Bloomberg

At the beginning of 2024, global financial markets experienced heightened volatility as investors reassessed the monetary policy outlook of major central banks, particularly the trajectory of the Fed's policy rate. While some central banks in advanced economies had begun cutting interest rates ahead of the Fed, global financial conditions remained tight amid persistently elevated inflation. Although inflationary pressures were gradually easing, inflation rates remained above central banks' targets in most advanced economies. The Fed's delay in implementing the planned rate cuts,

relative to other central banks, widened the interest rate differentials between the US and the rest of the world. This divergence continued to favour portfolio flows into the US, strengthening the US dollar against most currencies (Chart 1.5). Consequently, emerging market currencies, including the ringgit, faced further pressure. Additionally, heightened geopolitical risks arising from escalating tensions in the Middle East, further contributed to financial market volatility throughout the year.

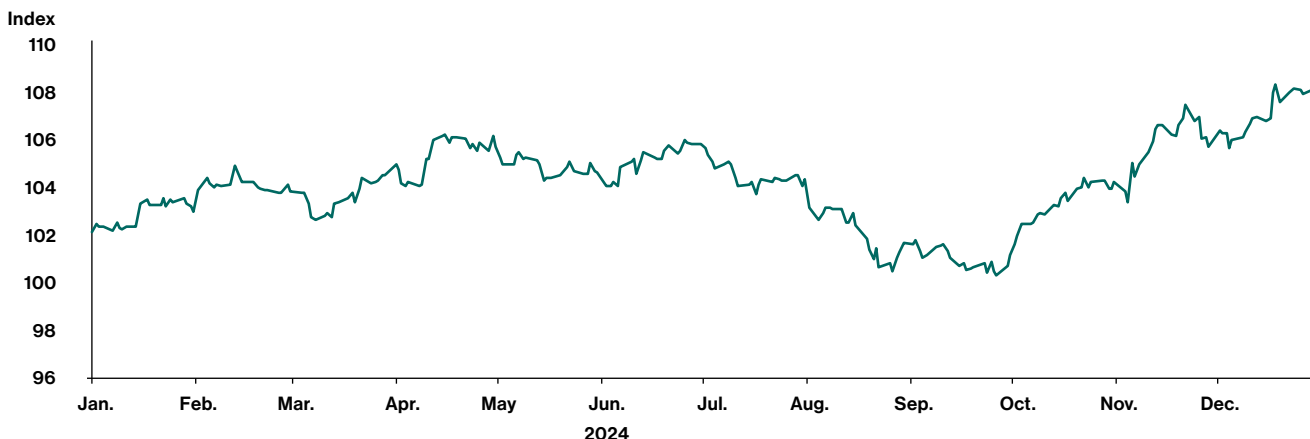
From July 2024, global financial conditions began to ease as financial market participants increasingly anticipated an imminent rate cut by the Fed's September Federal Open Market Committee (FOMC) meeting. The shift in financial market expectations was driven by softer US labour market and inflation data, which led to a more dovish monetary policy outlook. The Fed's decision to cut the policy rate resulted in a decline in the 10-Year US Treasury (10Y UST) yields and a narrowing of interest rate differentials between the US and the rest of the world. Consequently, the US dollar weakened against major and emerging market currencies.

Despite the ongoing easing cycle, uncertainties surrounding the November US election introduced pockets of tightening pressure on global financial conditions in the fourth quarter. Following the election outcome, global bond yields rose, while the US dollar strengthened against most currencies. This was driven by financial market expectations for pro-growth US policies and a higher fiscal deficit under the new US administration, which are both deemed to be inflationary for the US. This resulted in increased financial market volatility alongside a partial reversal of earlier portfolio inflows into emerging markets, as investors adjusted their expectations towards a more gradual Fed easing path for 2025.

Domestic financial markets were affected by global factors, but spillovers to financial intermediation remained contained

Developments in Malaysia's domestic financial markets in 2024 were largely shaped by external events, particularly shifts in global monetary policy. The resulting periodic volatility in portfolio flows influenced domestic financial conditions primarily in terms of exchange rate fluctuations. Notwithstanding this, Malaysia's resilient financial system, coupled with positive macroeconomic prospects amid robust domestic demand and ongoing

Chart 1.5: US Dollar Index (DXY)



Note: The US dollar Index (DXY) is an index of the value of the US dollar against a basket of foreign currencies, namely EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), and CHF (3.6%).

Source: Bloomberg

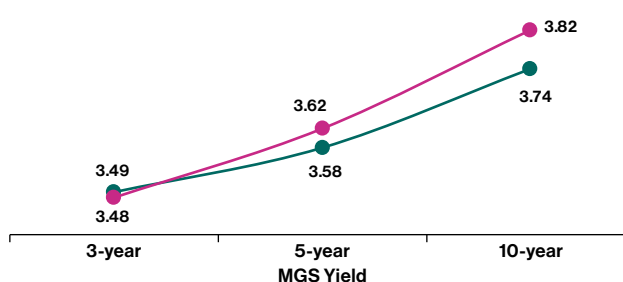
structural reforms, helped cushion adverse impacts from global financial market spillovers and maintain positive investor confidence.

In the bond market, Malaysian Government Securities (MGS) yields were broadly stable, in line with regional peers, amid financial market participants' reassessment of policy rate reductions by the Fed. However, domestic yields declined in the second half of the year as foreign inflows into the bond market increased, driven by global monetary policy easing. Nonetheless, bond yields trended higher towards the end of the year, in line with global yield movements amid increased inflation expectations, particularly in the US. This was accompanied by a repricing for fewer US interest rate cuts in 2025. Overall, for the year, the 3-year MGS yield decreased by one basis point while the 5-year and 10-year MGS yields increased by 4 and 8 basis points, respectively (Chart 1.6). Over the course of the year, investors remained optimistic on the domestic market, evident through the total net non-resident inflows into debt securities, amounting to RM1.2 billion. This confidence was supported by favourable domestic economy prospects along with low and stable inflation, leading to attractive real yields and robust credit quality in the domestic bond market.

The domestic equity market delivered a strong performance and saw net inflows in 2024, supported by stronger economic growth alongside a stable political environment. The FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) rose by 12.9% (2023: -2.7%) to close the year at 1,642.3 points (Chart 1.7).

The implementation of national master plans² amid the domestic investment upcycle underpinned prospects for stronger domestic corporate earnings. The rally was further fuelled by spillovers from inflow of data centres and global technology upcycle, benefiting the construction, utility and technology sectors. Overall, with net inflows of RM22.7 billion recorded in 2024 (2023: RM2.5 billion), foreign participation in the equity market increased to 19.7% (2023: 19.5%),³ reflecting growing confidence in Malaysia's long-term growth prospects.

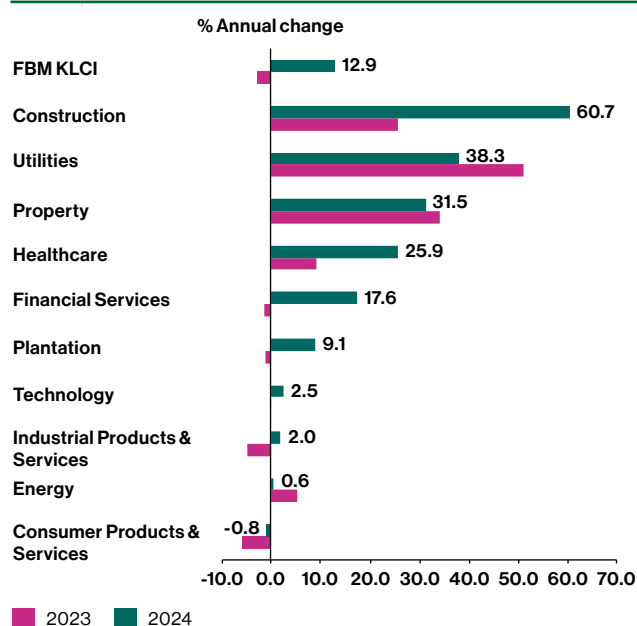
Chart 1.6: Malaysian Government Securities (MGS) Yield Curve (%)



Source: Bank Negara Malaysia

² These included the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS), National Energy Transition Roadmap (NETR) and Twelfth Malaysia Plan (12MP).

³ These figures refer to the share of total market capitalisation held by non-residents.

Chart 1.7: Performance of FBM KLCI and Sectoral Stock Indices

Source: Bursa Malaysia

In the foreign exchange (FX) market, the ringgit experienced increased volatility throughout 2024, driven mainly by external factors. Early in the year, the US dollar's strength – driven by shifting expectations on Fed's policy and heightened geopolitical risks – exerted downward pressure on the ringgit. Starting February 2024, the Government and BNM took coordinated actions to promote a more balanced two-way flow in the FX market. These efforts included wide-ranging engagements with Government-Linked Investment Companies (GLICs), corporates and domestic institutional investors to encourage more consistent and timely repatriation and conversion of foreign earnings and overseas investment income. As a result, downward pressure on the ringgit eased amid a strong US dollar environment. Additionally,

FX market liquidity improved, with daily average FX trading volumes rising to USD17.6 billion in 2024 from USD15.6 billion in 2023, alongside a narrower bid-ask spread in the ringgit exchange rate.

In July 2024, the ringgit rebounded against the US dollar amid growing expectations of a rate cut by the Fed. On the domestic front, investors' optimism on positive economic prospects, underpinned by the stronger-than-expected GDP growth in the second quarter of the year and the structural reform measures undertaken by the Government, also provided support to the ringgit. While the ringgit faced renewed depreciation pressures amid heightened uncertainties surrounding the November US election, it recorded an overall year-on-year appreciation of 2.7% against the US dollar. The ringgit was one of the few currencies in Asia to appreciate against the US dollar in 2024, besides the Hong Kong dollar, whilst other regional currencies experienced a depreciation. Of note, the ringgit also appreciated against other major and Asian currencies, including the Singapore dollar, Korean won, and Japanese yen, with an overall appreciation of 7.5% recorded on a nominal effective exchange rate (NEER) basis (Chart 1.8).

Notwithstanding the developments on the global front, spillovers to financial intermediation remained contained. Malaysia's deep and liquid financial markets along with a sound banking system provided sufficient buffer against global volatility. Furthermore, BNM's liquidity and FX operations ensured orderly market conditions. Following this, domestic credit growth remained robust, amid continued confidence in the economy's strength. Financing conditions continued to be supportive, with sustained fund-raising activity in the capital market and steady bank credit flows. Overall, Malaysia's financial system demonstrated resilience despite external challenges, supported by positive macroeconomic prospects and ongoing structural reforms.

Chart 1.8: Performance of Major and Regional Currencies against the US Dollar and Ringgit Nominal Effective Exchange Rate (NEER)



Note: (+) indicates an appreciation of currencies against the US dollar. NEER shows the value of the ringgit against a trade-weighted basket of Malaysia's major trading partners' currencies.

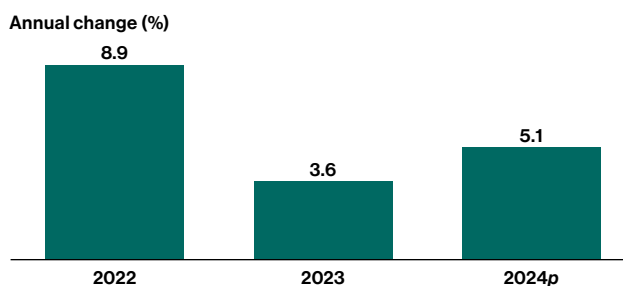
Source: Bank Negara Malaysia

The Malaysian economy recorded higher growth in 2024, driven by stronger domestic demand and a rebound in exports

In 2024, the Malaysian economy registered stronger growth of 5.1%, compared with 3.6% in 2023 (Chart 1.9). Of significance, the year was marked by an investment upcycle, representing the highest investment growth in a decade and surpassing pre-pandemic levels. The external sector also thrived, benefiting from the global technology upcycle. However, the economy was not without its challenges. Wage growth remained subdued, particularly in the *manufacturing* sector, following weak export performance in 2023. Additionally, the commodity sector encountered supply disruptions during the middle of the year. Despite these headwinds, the economy demonstrated resilience, reflecting the diversified nature of the economy.

Domestic demand continued to anchor growth, driven by improved household spending and stronger investment activity (Chart 1.10). Favourable labour market conditions, net wealth accumulation, and continued policy support underpinned the resilience of household

Chart 1.9: Malaysia's Real GDP Growth



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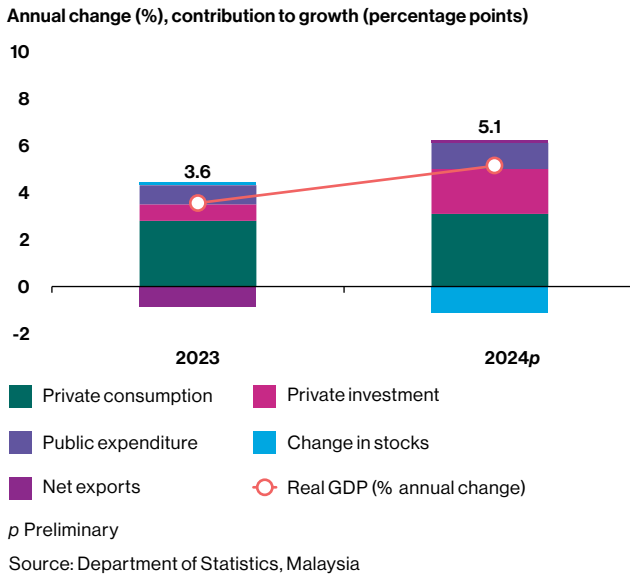
Source: Department of Statistics, Malaysia

spending. Despite moderate growth in nominal wages,⁴ labour market conditions remained positive as the unemployment rate declined further to below pre-pandemic levels. At the same time, the labour force participation rate reached a historic high of 70.6% in the fourth quarter of 2024. Household wealth improved, alongside strong domestic and foreign equity market performance. Withdrawals from the EPF Akaun Fleksibel starting in May 2024 and early incentive payments to civil

⁴ The moderate growth in nominal wages was attributable to firms' conservative wage-setting behaviour following lower revenue in the previous year, competing business priorities such as business expansions, and anticipation of government policy implementations including minimum wage revision.

servants and pensioners helped to partly cushion cost of living pressures. Meanwhile, targeted policy support, such as Sumbangan Tunai Rahmah, remained available to assist lower-income groups.

Chart 1.10: Real GDP by Expenditure



Following high project approvals in 2023, Malaysia is experiencing its third investment upcycle.⁵ The combined share of private and public investments rose from 20.1% of GDP in 2023 to 21.4% in 2024. The realisation of investment projects was evident particularly in the electrical and electronics (E&E), and information and communications technology (ICT) sub-sectors. This strong performance can be attributed to the expansion of semiconductor production capacity, as well as Malaysia's emergence as a data centre hub in Southeast Asia. Of the manufacturing investment projects approved by MIDA since 2021, 84.5% have been implemented at various stages. The continued progress of large infrastructure projects in the public sector also provided further impetus to investment growth.

In the external sector, exports rebounded due to improving demand from key trade partners and positive spillovers from the global technology upcycle (Chart 1.11). In the first half of 2024, E&E exports remained in contraction, albeit at a reduced pace compared to 2023. This reflected Malaysia's limited exposure to memory chips, one of the main drivers in the ongoing global

⁵ The first investment upcycle took place in the late 1980s to 1997, while the second investment upcycle was from 2011 to 2015. This is discussed further in the box article 'Deciphering Investment Cycles in Malaysia'.

technology upcycle.⁶ However, the pace of E&E exports picked up in the second half of the year, as the recovery in chip demand became more entrenched across segments related to Malaysia's E&E export products. Non-E&E exports were bolstered by stronger investment activities in regional countries, increasing demand for exports of machinery and construction materials. Commodities exports posted modest growth, as higher palm oil and gas exports offset the contraction in crude oil exports.

Chart 1.11: Gross Exports by Products

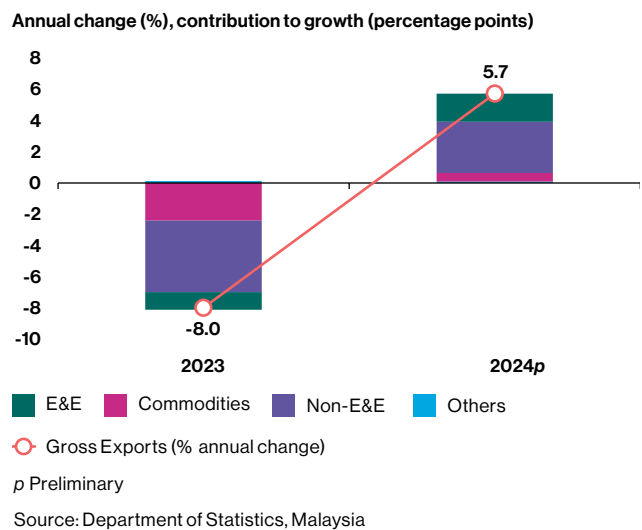
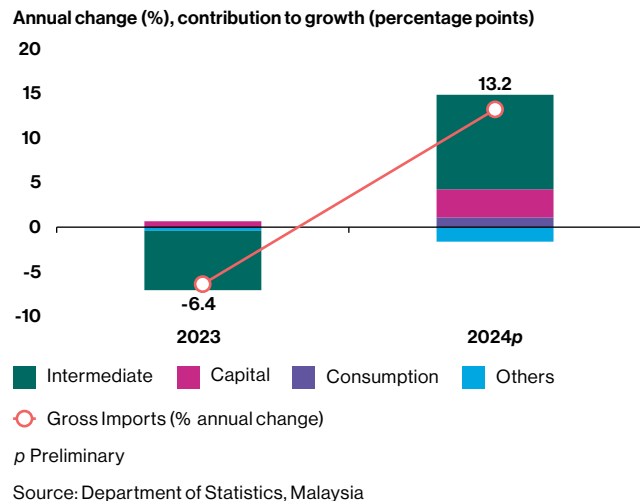


Chart 1.12: Gross Imports by End Use



⁶ Memory chips accounted for 8% of Malaysia's semiconductor exports, as compared to 23% for global semiconductor exports. More detailed insights can be found in the box article 'Malaysia's Position in the Global E&E Value Chain and Prospects'.

Meanwhile, imports grew at a much faster pace (Chart 1.12), driven by stronger demand for capital and intermediate goods to support rising investments and trade. Intermediate imports rebounded, as manufactured exports recovered across both E&E and non-E&E products. Capital imports registered double-digit growth, fuelled by higher investment activities by domestic firms to expand production capacity. Consumption imports also recorded higher growth underpinned by improving household spending.

As imports grew faster than exports, the goods balance within the current account of the balance of payments

narrowed. Notably, a significant portion of these imports was intermediate goods, which are essential for export production. Furthermore, the surge in capital imports is expected to enhance exports and the current account balance in the medium term.⁷ Meanwhile, the services account recorded a smaller deficit amid higher travel receipts. Tourist arrivals increased and reached 25 million persons in 2024, with travel receipts exceeding 2019 levels.⁸ The income account deficit widened, as a larger deficit in primary income had offset the improving secondary income balance. Overall, the current account surplus rose to 1.7% of GDP in 2024 (2023: 1.5%).

⁷ For in-depth coverage, see the box article 'Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period'.

⁸ In 2024, travel receipts amounted to RM95.7 billion, which was 16.5% higher than 2019 levels (2019: RM82.1 billion).

Table 1.1

Malaysia - Key Economic Indicators

	2022	2023	2024p	2025f
Population (million persons)	32.7	33.4	34.1	
Employment (million persons)	15.8	16.2	16.6	17.0
Unemployment (as % of labour force)	3.9	3.4	3.2	3.1
Per Capita Income (RM)	53,121	52,991	54,894	57,803
(USD)	12,070	11,605	12,012	12,967 ⁴
NATIONAL PRODUCT (% change)				
Real GDP at constant 2015 prices	8.9	3.6	5.1	4.5 – 5.5
(RM billion)	1,514.1	1,568.0	1,648.2	1,729.3
Agriculture	1.3	0.7	3.1	2.2
Mining and quarrying	3.5	0.5	0.9	-0.8
Manufacturing	8.1	0.7	4.2	3.9
Construction	5.1	6.1	17.5	11.0
Services	11.0	5.1	5.4	5.7
Nominal GNI	15.3	1.9	5.6	6.0
(RM billion)	1,737.0	1,770.0	1,869.6	1,982.7
Real GNI	8.3	4.0	4.7	5.1
(RM billion)	1,484.0	1,543.1	1,616.3	1,699.2
Real aggregate domestic demand ¹	9.4	4.6	6.5	6.3
Private expenditure	10.5	4.6	6.6	6.5
Consumption	11.3	4.7	5.1	5.6
Investment	7.2	4.6	12.3	10.1
Public expenditure	5.2	4.6	6.3	5.3
Consumption	5.1	3.3	4.7	4.9
Investment	5.3	8.6	11.1	6.4
Gross national savings (as % of GNI)	27.7	24.7	24.3	23.3
BALANCE OF PAYMENTS (RM billion)				
Goods balance	187.3	136.2	117.1	118.9
Exports	1,237.2	1,055.2	1,134.3	1,192.9
Imports	1,050.0	919.0	1,017.2	1,074.0
Services balance	-58.2	-43.2	-13.9	-8.1
Primary income, net	-56.9	-52.9	-61.5	-59.3
Secondary income, net	-14.9	-11.8	-8.9	-10.5
Current account balance	57.2	28.2	32.8	41.0
(as % of GDP)	3.2	1.5	1.7	1.5 – 2.5
Bank Negara Malaysia international reserves, net ²	503.3	520.8	520.1	-
(in months of imports of goods and services) ³	4.8	5.4	4.9	-
(in months of retained imports)	6.3	7.0	5.8	-
PRICES (% change)				
Consumer Price Index (2010=100)	3.3	2.5	1.8	2.0 – 3.5
Producer Price Index (2010=100)	7.8	-1.9	0.3	-

¹ Exclude stocks.² All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank Negara Malaysia's audited accounts.³ For further details, please refer to 'Expansion of the Measure on Reserves Coverage of Imports – from Retained Imports to Imports of Goods and Services' article in BNM's Fourth Quarter of 2021 Quarterly Bulletin.⁴ Based on average USD exchange rate for the period of January–February 2025.

p Preliminary

f Forecast

Note: Figures may not necessarily add up due to rounding.

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

Table 1.2

Malaysia - Financial and Monetary Indicators

FEDERAL GOVERNMENT FINANCE (RM billion)	2022		2023		2024	
Revenue	294.4		315.0		324.6	
Operating expenditure	292.7		311.3		321.5	
Net development expenditure	70.2		95.1		82.3	
COVID-19 Fund	31.0		-		-	
Overall balance	-99.5		-91.4		-79.2	
Overall balance (% of GDP)	-5.6		-5.0		-4.1	
Public sector net development expenditure	151.8		178.0		181.8	
Public sector overall balance (% of GDP)	-6.0		-5.9		-6.1	
EXTERNAL DEBT						
Total debt (RM billion)	1,145.7		1,242.6		1,345.4	
Medium- and long-term debt	663.1		723.1		770.0	
Short-term debt	482.6		519.5		575.4	
Debt service ratio ¹ (% of exports of goods and services)						
Total debt	11.4		13.3		14.0	
Medium- and long-term debt	11.1		12.3		13.1	
	Change in 2022		Change in 2023		Change in 2024	
MONEY AND BANKING						
	RM billion	%	RM billion	%	RM billion	%
Money supply						
M1	24.7	4.3	35.5	5.9	28.0	4.4
M3	93.9	4.3	136.4	6.0	86.4	3.6
Banking system deposits	132.0	5.9	132.1	5.6	75.3	3.0
Banking system loans ²	108.9	5.7	107.4	5.3	117.3	5.5
Loan to fund ratio (% of end of year) ^{3,4}	82.4		81.7		83.2	
Loan to fund and equity ratio (% of end of year) ^{3,4,5}	71.8		71.4		72.7	
INTEREST RATES (% AS AT END-YEAR)						
	2022		2023		2024	
Overnight Policy Rate (OPR)	2.75		3.00		3.00	
Interbank rates (1-month)	2.95		3.34		3.26	
Commercial banks						
Fixed deposit						
3-month	2.55		2.72		2.61	
12-month	2.65		2.83		2.74	
Savings deposit	0.85		0.94		0.89	
Weighted average base rate (BR)	3.42		3.67		3.66	
Base lending rate (BLR)	6.42		6.68		6.68	
Treasury Bill (3-month) ⁶	2.93		3.18		3.14	
Malaysian Government Securities (1-year) ⁶	3.25		3.30		3.28	
Malaysian Government Securities (5-year) ⁶	3.86		3.57		3.62	
EXCHANGE RATES (AS AT END-YEAR)						
	2022		2023		2024	
Movement of Ringgit (%)						
Change against SDR	-0.4		-5.0		5.8	
Change against USD	-5.4		-3.9		2.7	

¹ Includes prepayment of medium- and long-term debt

² Includes loans sold to Cagamas with recourse. Data from 2021 onwards are based on the new set of loan data reflecting the latest requirements and cannot be directly compared to previous years' data.

³ Loans exclude loans sold to Cagamas and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment accounts.

⁴ Funds comprise deposits (excluding deposits accepted from banking institutions and Bank Negara Malaysia) and all debt instruments (including subordinated debt, debt certificates/sukuk issued, commercial paper and structured notes).

⁵ Equities comprise ordinary and preferred shares, share premium and retained earnings.

⁶ Refers to data from Fully Automated System for Issuing/Tendering (FAST), Bank Negara Malaysia.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Domestic demand expanded in 2024 amid exports recovery

In 2024, the Malaysian economy registered a higher growth of 5.1% (2023: 3.6%). The growth performance was driven by improvements in domestic demand, underpinned by both private and public sector expenditure. Household spending continued to increase, reflecting improvements in employment and income levels. Investment activity recorded a strong expansion of 12% (2023: 5.5%), the highest annual growth since 2012 (19.2%). The investment performance reflected further progress of multi-year projects in both the private and public sectors, and the implementation of catalytic initiatives under the national master plans. On the external front, net exports rebounded to 2.2% (2023: -16.2%), driven by recovery in exports amid the global technology upcycle and improved external demand.

Table 1

Real GDP by Expenditure (2015=100)

	2024p	2023	2024p	2023	2024p
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand[*]	95.2	4.6	6.5	4.3	6.1
Private sector expenditure	77.2	4.6	6.6	3.5	5.0
Consumption	60.7	4.7	5.1	2.8	3.1
Investment	16.5	4.6	12.3	0.7	1.9
Public sector expenditure	18.0	4.6	6.3	0.8	1.1
Consumption	13.1	3.3	4.7	0.4	0.6
Investment	4.8	8.6	11.1	0.4	0.5
Gross Fixed Capital Formation	21.4	5.5	12.0	1.1	2.4
Change in stocks	0.5			0.1	-1.1
Net Exports of Goods and Services	4.3	-16.2	2.2	-0.9	0.1
Exports	68.2	-8.1	8.5	-6.0	5.6
Imports	63.9	-7.4	8.9	-5.1	5.5
Real Gross Domestic Product (GDP)	100.0	3.6	5.1	3.6	5.1

* Excluding stocks

p Preliminary

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Private consumption expanded by 5.1% in 2024 (2023: 4.7%) driven by improvement in employment and income levels. Overall employment grew by 2.6% while aggregate nominal wages expanded by 2.9% and 5% in the private and public sectors, respectively. Expenditure on necessities increased mainly due to higher spending on transport, food and beverages, and housing and utilities. Meanwhile, higher discretionary spending was mainly driven by restaurant and hotel expenditures. Policy measures also continued to support households, including larger cash transfers, special incentive payment for civil servants and pensioners, and the introduction of EPF's Akaun Fleksibel withdrawal facility.

Gross fixed capital formation (GFCF) grew by 12% (2023: 5.5%), driven mainly by the private sector. Growth was supported by higher investments across all types of assets. In particular, robust growth was recorded in structures (15.3%; 2023: 6.1%) and machinery and equipment (M&E) (9.2%; 2023: 5.2%). Evidence suggests that an investment upcycle has begun since the second half of 2023. Notably, throughout 2024, GFCF significantly outpaced GDP and private consumption growth, leading to higher share of GFCF in GDP, while GFCF levels consistently exhibited positive cyclical deviations above its long-term trend.⁹

Private investment registered a strong growth of 12.3% in 2024 (2023: 4.6%). This marked the highest growth rate in the past decade. Growth was driven by the steady implementation of projects, amid the high investment approvals in 2023.

⁹ For more details on investment cycles, please refer to 'Deciphering Investment Cycles in Malaysia' box article in BNM's Economic and Monetary Review 2024.

The overall performance benefitted from improving business sentiments and increased automation and digitalisation efforts. Investment projects were mainly concentrated in the services and manufacturing sectors, especially in high-technology activities such as electrical and electronics (E&E), as well as data centre and cloud services under information and communication technology (ICT). The strong investment activity was also reflected in private sector construction work done (2024: 23%; 2023: 9.2%) and robust growth in capital imports (2024: 29.6%; 2023: 7.1%).

Public investment expanded by 11.1% in 2024 (2023: 8.6%). The higher growth was supported by both fixed asset spending by the Government and expansion by public corporations, primarily in transportation, oil and gas (O&G) and utilities. Continued progress in large infrastructure projects such as the East Coast Rail Link (ECRL), Pan Borneo Highway Sabah, Johor Bahru–Singapore Rapid Transit System (RTS) Link and flood mitigation projects also supported growth.

Public consumption expanded by 4.7% (2023: 3.3%), supported by higher spending on emoluments as well as supplies and services. In particular, emolument spending was driven by annual salary increment and new hirings in the public sector.

Continued expansion across all economic sectors

All economic sectors recorded higher growth during the year. Strong performance was recorded by the *services* and *manufacturing* sectors, which benefited from improved domestic and external demand conditions.

Table 2

Real GDP by Kind of Economic Activity (2015 = 100)

	2024p	2023	2024p	2023	2024p
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.3	5.1	5.4	3.0	3.2
Manufacturing	23.2	0.7	4.2	0.2	1.0
Agriculture	6.3	0.7	3.1	0.0	0.2
Mining and quarrying	6.0	0.5	0.9	0.0	0.1
Construction	4.0	6.1	17.5	0.2	0.6
Real Gross Domestic Product (GDP)	100.0*	3.6	5.1	3.6	5.1

* Figures may not necessarily add up due to rounding and exclusion of import duties component.

p Preliminary

Source: Department of Statistics, Malaysia

The *services* sector grew by 5.4% (2023: 5.1%), driven mainly by business-related subsectors. The real estate and business services subsector expanded in line with the robust growth in construction activities. The transport and storage subsector was driven by the recovery in trade activities and continued air passenger traffic growth. The rebound in the finance and insurance subsector was supported particularly by higher net interest income amid stronger financing activity. In addition, government services provided further boost to growth driven by annual salary increment and new hirings in the public sector. Meanwhile, consumer-related subsectors remained supported by improved labour market conditions. It was also supported by policy measures such as larger cash transfers and the introduction of EPF's Akaun Fleksibel withdrawal facility as well as increased tourist arrivals.

The *manufacturing* sector expanded by 4.2% (2023: 0.7%). Growth was driven by a recovery in export-oriented clusters following stronger global trade and tech upcycle. The E&E industry gained from the global tech upcycle, as reflected by increased semiconductor sales. This was attributed to stronger demand in end-segments like consumer electronics, computing and data centres. The primary-related cluster was lifted by higher refined petroleum output, on account of improved production at a key refinery in Johor. Consumer-related growth was underpinned by higher crude palm oil production and a continued increase in motor vehicle output. Meanwhile, the construction-related cluster was supported by further progress in ongoing infrastructure activities.

Growth in the *agriculture* sector was higher at 3.1% (2023: 0.7%), mainly attributable to increased oil palm production. Higher oil palm yields were supported by increased productivity from better trained workers and higher fertiliser application during 2022-23 period, following normalisation in fertiliser prices. This more than offset the lower production from Sabah due to dry weather and the spread of Sooty Mould disease in the first quarter.

The *mining* sector expanded by 0.9% (2023: 0.5%). Overall growth during the year was driven mainly by increased gas production in existing fields and operationalisation of new fields such as Jerun and Kasawari in Sarawak. However, oil and gas production declined in the second and third quarters of the year amid a power outage at the Bintulu MLNG complex and maintenance activity in several key oil and gas fields, which have since been resolved.

The *construction* sector registered a double-digit growth of 17.5% (2023: 6.1%). This was the highest growth in a decade, consistent with the strong rise in investment activity. Growth was driven mainly by special trade and civil engineering subsectors. Strong expansion in the special trade subsector was supported by early- and end-stage works such as site preparation and electrical installation for civil engineering and industrial projects. The civil engineering subsector continued to be driven by further progress of multi-year infrastructure projects, particularly in the transportation segment. The residential subsector recorded higher activity, benefiting from new housing projects. This was in line with stronger housing demand as income and employment conditions improved. Additionally, the non-residential subsector rebounded strongly driven by industrial and commercial projects.

Supportive labour market conditions in 2024

In 2024, labour market conditions remained supportive of growth. Employment grew by 2.6% (+423,800 persons; 2023: 2.8%, +439,200 persons) while the labour force participation rate continued to rise to 70.5% in 2024 (2023: 70%). At 3.2%, the unemployment rate has declined to below pre-pandemic levels (2023: 3.4%; 2019: 3.3%).

Services were the main contributor to employment growth, particularly within the *wholesale and retail trade* and *food and beverages* subsectors. Manufacturing employment growth moderated to 1% (2023: 1.7%), with domestic-oriented subsectors contributing a larger share of the sector's employment growth. By employment status, own-account workers' contribution to employment growth (2024: 0.6%; 2023: 1.1%) remains elevated and above pre-pandemic levels (2016-19 average: 0.4%). This may be due to the expansion of location-based gig work in areas outside of Klang Valley, which is associated to the continued growth of e-commerce activities driven by mobile penetration as well as technological advancement. On average, own-account workers tend to earn wages comparable to the median wage earned by their counterparts in conventional employment albeit not being covered by the social security system.¹⁰ Nevertheless, employees still represent the largest share by employment status, with strong growth in 2024 (2.5%; 2023: 2.1%), amidst resilient economic activity in the services sector. Semi-skilled workers were the main driver of employment growth by skill level (2024: 2.4%; 2023: 2.2%) and continued to account for the largest share of employment at 59% (2023: 59.1%). Meanwhile, high-skilled workers, accounting for 27.7% of employment, grew at a slower pace in 2024 (1.9%, 2023: 2.7%). To some extent, this reflected the existing issue of underemployment and skills mismatch, whereby 36.7% of employed persons with tertiary education have reported working in mid- or low-skilled jobs, which is higher than the pre-pandemic (2017-19) average of 32.7%.

The Social Security Organisation's (SOCSO) Employment Insurance System (EIS) reported a total of 57,719 jobless claims in 2024, which accounts for approximately 0.3% of the total labour force. Similar to 2023, jobless claims primarily came from the manufacturing sector and *wholesale and retail trade* subsector of services.

The 2.6% rise in foreign worker participation during the year, was one of the main drivers for the increase in the labour force participation rate. The expansion in this segment was larger than the previous year (2023: 1.7%), as well as its long-term average¹¹ growth of 0.5%, which points to the long-standing issue of over reliance on foreign workers amongst

¹⁰ Although it is not mandatory for own-account workers to participate in the social security system, they can voluntarily contribute to schemes such as Employee Provident Fund's (EPF) *i-Saraan* and Social Security Organisation's (SOCSO) *Employment Injury Scheme*.

¹¹ Refers to pre-pandemic average between 2016 to 2019.

Malaysian firms. Another contributing factor was the growth amongst the 55 to 64 age group, whose participation rate grew by 1.6% due to workers electing to continue working for longer. By educational attainment, notable growth was observed amongst those with basic education. Both male and female participation rates remained positive in 2024, slightly rising to 83.4% (2023: 82.9%) and 56.6% (2023: 56.2%) respectively. However, at the current level, Malaysia's female labour participation remains among the lower ones in the region.¹²

Overall wage growth in the year has been modest with aggregate nominal private sector wages growing by 2.9% (2023: 3.8%), due to conservative wage setting behaviour among employers. BNM industrial engagements revealed several factors behind the cautious wage setting behaviour by employers. These include uncertainty with regards to minimum wage revision, concerns over the sustainability of demand and rising input costs. In addition, firms also retained a larger than usual workforce post-pandemic, which led to additional labour cost. This additional cost burden may have exerted downward pressure on wage growth during the year. The enlarged workforce reflected two factors. First, despite weaker external demand from 2023, firms continued to retain their workers due to concerns over cost of rehiring. This has led to slower hiring in 2024 despite the recovery in exports. Second, the expiry of unused foreign worker quotas in May 2024 prompted some firms to bring in more foreign workers to meet this deadline, further adding to the elevated labour supply.¹³ By sector, services wages grew by 3.6% (2023: 3.8%) which was driven by the *wholesale and retail trade* subsector, while manufacturing wage growth moderated to 1.5% (2023: 3.5%), driven mostly by export-oriented sectors (0.3%; 2023: 2.7%). On the other hand, public sector wage growth remained strong in 2024 (5%; 2023: 5.2%), in line with past years.

Labour productivity growth, in terms of real value-added per employment, improved significantly in 2024 (2.4%; 2023: 0.7%). The improvement was broad based across all sectors, and notably for manufacturing, productivity growth turned positive compared to 2023. Services productivity continued to grow (2024: 1.8%; 2023: 1.6%), while the construction sector recorded the largest improvement in productivity (16.5%; 2023: 4.9%) due to the higher amount of construction activity undertaken in 2024 while levels of employment was sustained. Despite recent growth in productivity, this has not translated to higher wages, which is a trend that has been observed post-pandemic. Cumulatively since 2019, productivity has risen by 5.3%, but real wage per worker declined by 1.9% within the same period.

Table 3

Selected Labour Market Indicators

	2018	2019	2020	2021	2022	2023	2024
Employment ('000 persons)	14,810	15,126	15,096	15,290	15,762	16,201	16,625
Annual change (%)	2.4	2.1	-0.2	1.3	3.1	2.8	2.6
Unemployment rate (% of labour force)	3.4	3.3	4.5	4.6	3.9	3.4	3.2
Labour force participation rate (% of working age population)	68.4	68.9	68.4	68.5	69.3	70	70.5
Jobless claims (persons)	23,697	40,084	107,024	61,360	34,388	49,982	57,719
Non-Malaysian citizens employment ('000 persons)	2,239	2,254	2,214	2,149	2,136	2,200	2,359

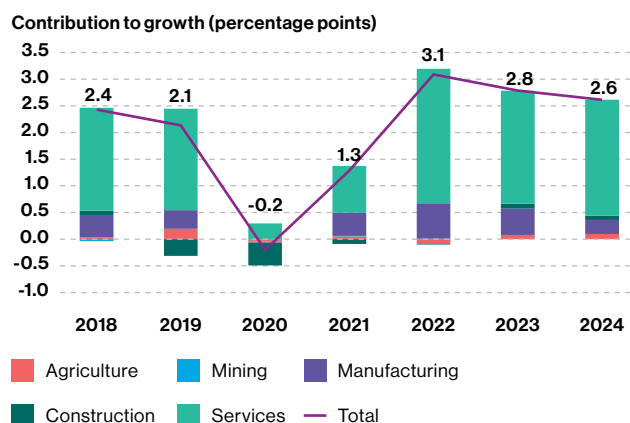
Note: 1. The employment, unemployment, labour force participation rates and non-Malaysian citizens employment are estimated based on quarterly averages from the Labour Force Survey.

2. Jobless claims refers to claims by insured person who had lost his employment and does not include voluntary resignations and retrenchment due to misconduct.

Source: Department of Statistics, Malaysia, Social Security Organisation (SOCSO) and Bank Negara Malaysia estimates

¹² In ascending order of selected regional countries: Philippines (52.1%), Indonesia (54.7%), **Malaysia (56.6%)**, Korea (63.5%), Thailand (68.4%), China (69.7%), Singapore (70.6%), Vietnam (75.4%), Japan (76.2%). (Source: International Labour Organization, ILO)

¹³ In the second quarter of 2024, employment of foreign workers increased by 125,600 compared to the previous quarter. (Source: Labour Force Survey, Department of Statistics, Malaysia)

Chart 1: Employment Growth by Sector, 2018-2024

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

Current & financial accounts of the balance of payments

External sector remained resilient in 2024

Malaysia's external position remained resilient despite continued challenges in the global environment. The current account balance registered a higher surplus of RM32.8 billion or 1.7% of GDP in 2024 (2023: RM28.2 billion, or 1.5% of GDP). This was supported by the continued surplus in the goods account as well as narrowing deficits in services and secondary income accounts amid a wider deficit in the primary income account. From the savings-investment (S-I) gap perspective, gross national savings grew faster at 3.9% (2023: -8.9%) to RM454.8 billion (23.6% of GDP), surpassing gross domestic investment which expanded by 3% (2023: -3.3%) to RM422 billion (21.9% of GDP), resulting in the slight widening of the S-I gap. The increase in domestic investment was mainly driven by higher growth in private investment (13.4%, 2023: 6.5%).

In the goods account, the surplus was lower at RM117.1 billion (2023: RM136.2 billion) as the rebound in exports was outpaced by the strong growth in imports. The recovery in exports (2024: 7.5%; 2023: -14.7%) was supported by the global technology upcycle and improved external demand. Meanwhile, the strong imports growth (2024: 10.7%; 2023: -12.5%) was driven by higher intermediate and capital goods. The higher growth of imports for intermediate goods was accounted for by the rebound in manufactured exports. Capital imports also grew strongly in tandem with robust investment activities. The services account registered a smaller deficit of RM13.9 billion in 2024 (2023: -RM43.2 billion) given improvements in most services components, and driven primarily by higher travel receipts at RM95.7 billion (2023: RM68 billion) amid higher tourist spending and arrivals of 25 million persons (2023: 20.1 million persons). Of significance, visa liberalisation for tourists from China and India provided a major boost to inbound tourism. Tourist arrivals from China and India accelerated by 123% and 68.7% respectively in 2024 (2016-19 pre-pandemic long-term average: 17.2% and 1.5% respectively).

In the income account, the primary income deficit widened to RM61.5 billion (2023: -RM52.9 billion). This was due mainly to higher investment income accrued to foreign investors in Malaysia following increased export earnings. The secondary income account recorded a smaller deficit of RM8.9 billion (2023: -RM11.8 billion), as the growth in receipts (17.4%, 2023: 45%) outpaced the growth in payments (6.3%, 2023: 19.2%).

The financial account improved, especially during the first half of 2024. In particular, there were higher deposit placements by foreign banks, primarily in the interbank market. This mainly reflected their liquidity management

Table 4

Balance of Payments¹

Item (Net)	2022	2023r	2024p
	RM billion		
Current account	57.2	28.2	32.8
Goods ²	187.3	136.2	117.1
Services	-58.2	-43.2	-13.9
Primary income	-56.9	-52.9	-61.5
Secondary income	-14.9	-11.8	-8.9
Capital account	-0.5	-0.3	0
Financial account	8.5	-15.5	-14.8
Direct investment	12.6	-0.2	11
Portfolio investment	-50.1	-36.4	-84
Financial derivatives	-2.2	-3.9	2.9
Other investment	48.3	25	55.3
Net errors and omissions³	-11.9	-33	-2.2
Overall balance	53.4	-20.5	15.8

¹ In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

² Adjusted for valuation and coverage of goods for processing, storage and distribution.

³ The net E&O excludes reserves revaluation changes.

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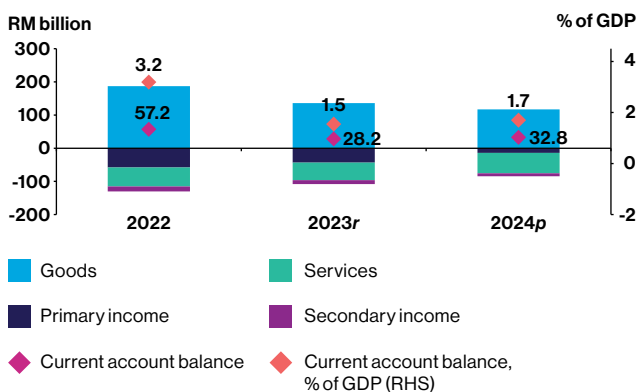
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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

strategies. Overall for the year, the financial account recorded a lower net outflow of RM14.8 billion (2023: -RM15.5 billion). This was primarily attributed to larger inflows in other investment and direct investment accounts compared to the previous year, which partly offset the continued outflows in portfolio investments.

The direct investment account registered a net inflow of RM11 billion (2023: -RM0.2 billion). Of significance, net foreign direct investments (FDI) recorded an inflow of RM47.4 billion (2.5% of GDP; 2023: +RM40.4 billion, or 2.2% of GDP). This

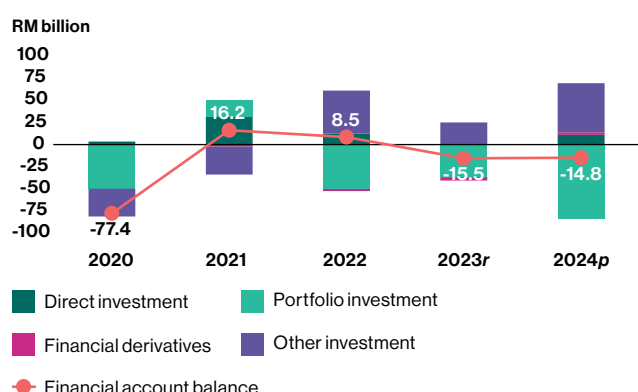
Chart 2: Current Account Balance



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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 3: Financial Account Flows by Key Components



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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

reflected the continued interests of foreign investors in expanding their production capacity in Malaysia. In particular, FDI inflows for the year originated mainly from Hong Kong SAR (39.9% of net FDI), Singapore (38.9%) and the United States (25.6%). From a sectoral perspective, foreign investments were mainly channelled into the *services* sector. This included the ICT services subsector (2024: +RM20.9 billion; 2023: +RM9.8 billion) amid strong ongoing investors' interest in capital spending on data centres, as well as the finance and insurance subsector (2024: +RM7 billion; 2023: +RM13.3 billion). The *manufacturing* sector also continued to register an inflow of RM6.7 billion (2023: +RM6.5 billion), supported mainly by sustained capacity expansions, particularly in E&E. Malaysia continued to benefit from the ongoing global technology upcycle and firms' strong interests to develop their digital infrastructure.

Direct investment abroad (DIA) outflows were lower at RM36.4 billion (-1.9% of GDP; 2023: -RM40.6 billion, or -2.2% of GDP), as subdued global investment sentiment amid external headwinds in the first half of 2024 affected Malaysian companies' overseas investment. The sentiments improved slightly towards the second half of the year, resulting in a marginally higher DIA outflow compared to the first half of 2024. From a sectoral perspective, DIA in 2024 was mainly directed towards the *services* sector, particularly the finance and insurance, as well as transport and storage subsectors. Singapore (23.7% of net DIA), Indonesia (22.2%) and Thailand (8.8%) were the major recipients of DIA in 2024.

The portfolio investment account recorded a higher net outflow of RM84 billion (2023: -RM36.4 billion). This was due mainly to higher investments abroad by resident investors (-RM108 billion; 2023: -RM46.6 billion) in both equity and debt securities, which were mostly hedged. These outflows were partly offset by the larger acquisition of domestic equity securities by non-resident investors (2024: +RM22.7 billion; 2023: +RM2.5 billion).

The other investment account continued to register a net inflow of RM55.3 billion (2023: +RM25 billion). This was driven mainly by higher interbank borrowing and continued placement of deposits by non-residents into resident banks. Net errors and omissions (E&O) amounted to -RM2.2 billion or -0.1% of total trade during the year (2023: -RM33 billion or -1.3% of total trade).

Malaysia's international investment position remained favourable

As at end-2024, Malaysia's net international investment position (IIP) recorded a net external liability position of -RM6.7 billion, equivalent to -0.3% of GDP (2023: RM123.7 billion, equivalent to 6.8% of GDP). This was due mainly to the larger increase in external liabilities of RM197.9 billion, primarily driven by higher FDI. This has more than offset the increase in external assets of RM67.5 billion arising mainly from portfolio investments. Nevertheless, the increase in both external assets and liabilities were partially offset by exchange rate valuation effects, particularly due to the stronger ringgit against the US dollar.

The net foreign currency (FCY) external asset position¹⁴ stood at RM1.3 trillion or 65.4% of GDP (2023: RM1.3 trillion or 70.6% of GDP). Given this position, the appreciation of the ringgit against the US dollar and other major currencies resulted in a smaller increase in FCY external assets compared to FCY external liabilities.

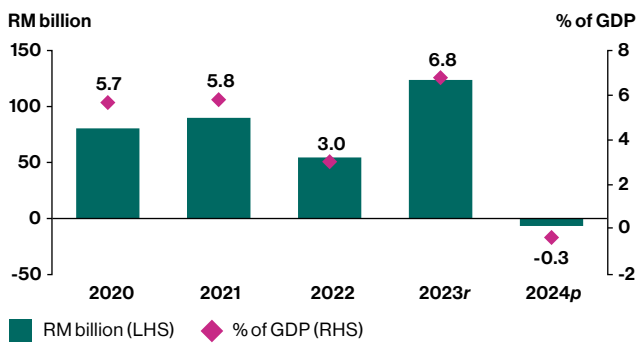
Malaysia's external debt amounted to RM1,345.4 billion as at end-2024 or 69.7% of GDP (2023: RM1,242.6 billion or 68.2% of GDP). The higher external debt was due mainly to higher trade credits and intragroup loans by corporates. These were partly offset by exchange rate valuation effects following the ringgit's appreciation, particularly against the US dollar, as well as the redemption upon maturity of FCY bonds, primarily by banks.

Risks surrounding Malaysia's external debt were well contained given the favourable maturity and currency profiles. Coupled with BNM's prudential and hedging requirements¹⁵ on corporates and banks, external debt remained manageable.

¹⁴ As measured by external assets in FCY less external liabilities in FCY.

¹⁵ For more details on Malaysia's external debt management, please refer to the 'Malaysia's Resilience in Managing External Debt Obligations and the Adequacy of International Reserves' box article in BNM's Annual Report 2018 on external debt.

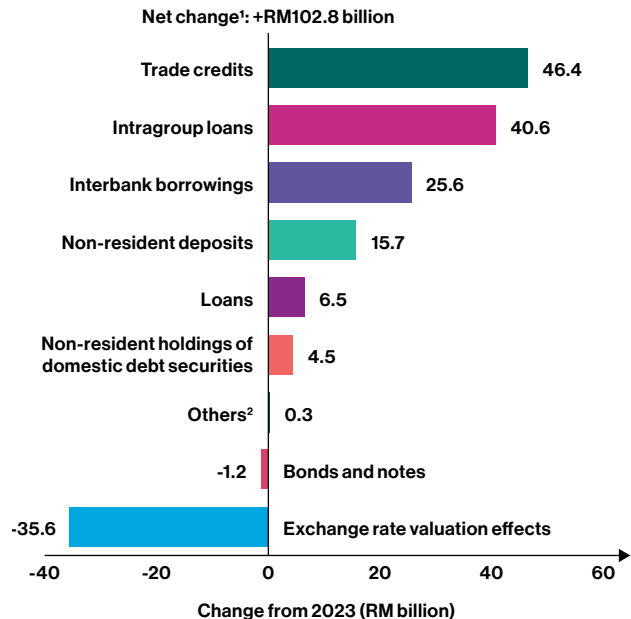
Chart 4: Net International Investment Position (IIP)



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Source: Department of Statistics, Malaysia

Chart 5: Changes in External Debt



¹ Changes in individual debt instruments exclude exchange rate valuation effects. Positive indicates net borrowing or issuance of debt securities.
² Comprises IMF allocation of SDRs and other debt liabilities.

Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia, Department of Statistics, Malaysia and Ministry of Finance, Malaysia

As at end-2024, the external debt-at-risk¹⁶ for corporates and banks amounted to RM7.8 billion and RM103 billion respectively (2023: RM9.2 billion and RM90.9 billion respectively). In particular, the increase in external debt-at-risk for banks was primarily due to interbank borrowings and deposit placements by non-residents. Nevertheless, the risk of this exposure remained limited as banks' external debt-at-risk accounted for only 23.1% of their total external exposure. The bulk of the banks' remaining external exposures was with related counterparties or in the form of long-term stable debt, thus minimising rollover and withdrawal risks. Cumulatively, corporates and banks' external debt-at-risk amounted to 8.2% of Malaysia's total external debt and 21.3% of international reserves (2023: 8.1% and 19.2%) respectively. About a third of external debt was denominated in ringgit (31.3%; 2023: 33%), and therefore not affected by fluctuations in the ringgit exchange rate (Chart 6b). They were mainly in the form of non-resident holdings of domestic debt securities (65.1% of total ringgit-denominated external debt) and non-resident deposits (17.8%). The remainder of external debt denominated in FCY was largely subject to prudential requirements on liquidity and funding risk management.¹⁷ Moreover, intragroup borrowings¹⁸ accounted for 44% of FCY external debt, which was generally more stable and on concessionary terms.

BNM's international reserves amounted to USD116.2 billion (or RM520.1 billion) as at end-2024 (2023: USD113.5 billion or RM520.9 billion). This was sufficient to finance 4.9 months of imports of goods and services and was 0.9 times the short-term external debt.¹⁹ Notwithstanding this, other means of meeting external obligations remained available and continued to be strengthened. BNM's long-standing policy of decentralising international reserves has led to the accumulation of sizeable non-reserve external assets and expanded Malaysia's external position. In particular, the accumulation of FCY external assets by banks and corporates over the years, with the liquid portion amounting to RM945.9 billion,²⁰ can be drawn upon to meet short-term external debt obligations of RM575.4 billion without leading to any claims on the international reserves (Chart 7).

¹⁶ Corporates' external debt-at-risk refers to offshore loans raised and bonds issued by high-risk corporate borrowers. Banks' external debt-at-risk refers to external debt that is more susceptible to sudden withdrawal shocks, such as financial institutions' deposits, interbank borrowings, and short-term loans from unrelated non-resident counterparties.

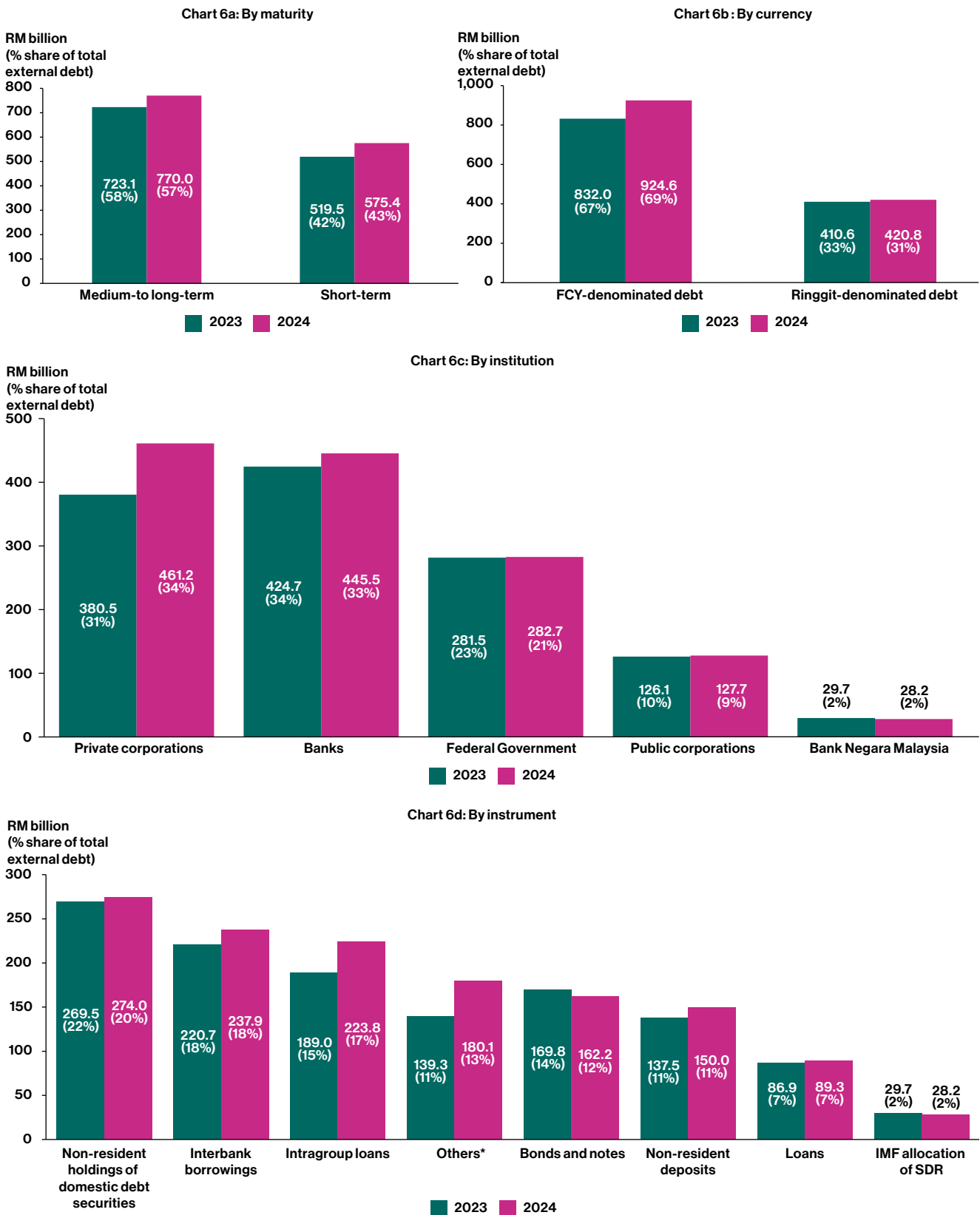
¹⁷ Including requirements imposed on banks under local banking regulations.

¹⁸ Comprises intragroup loans and interbank borrowings.

¹⁹ For more details on BNM's international reserves, please refer to the 'Building Buffers: Roles and Functions of BNM's International Reserves' box article in BNM's Annual Report 2020.

²⁰ Corporates and banks' liquid external assets.

Chart 6: Profile of Malaysia's External Debt

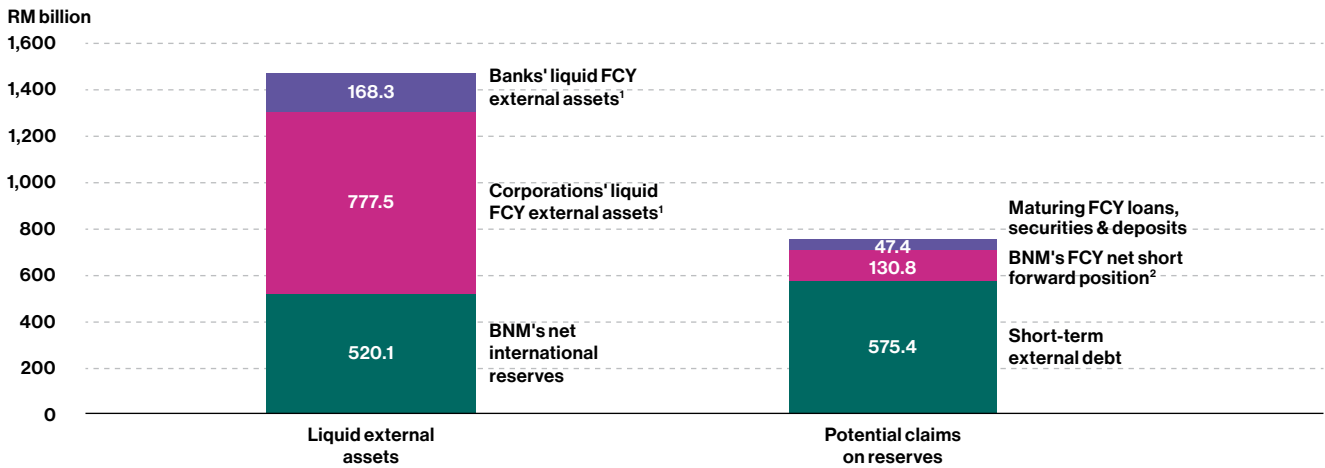


* Comprises trade credits and other debt liabilities, such as insurance claims yet to be disbursed and interest payables on bonds and notes.

Note: Figures may not necessarily add up due to rounding.

Source: Bank Negara Malaysia

Chart 7: Liquid External Assets and Potential Claims on International Reserves



¹ Consist of portfolio investments and currency and deposits.

² Including the forward leg of currency swaps.

Source: Bank Negara Malaysia

Headline and core inflation moderated in 2024 below their long-term averages

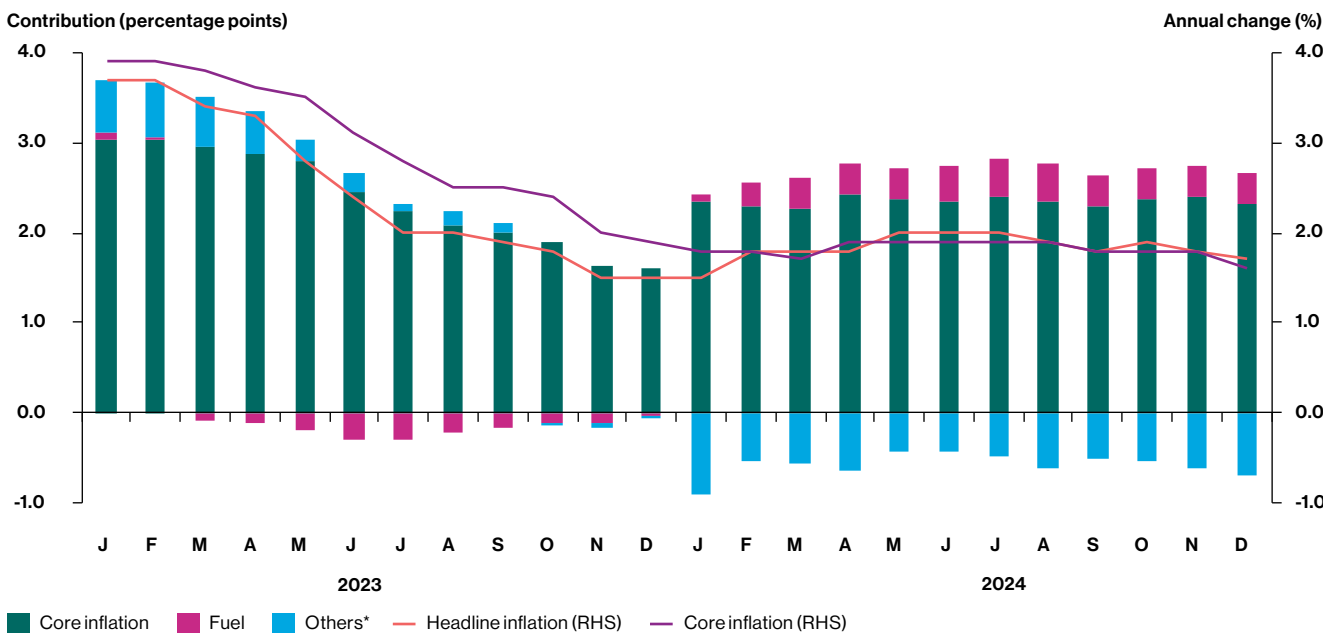
Headline inflation moderated in 2024, averaging at 1.8%, below its historical average (2011–19 average: 2.2%). In the environment of contained cost conditions and stable demand, inflation was moderate across most Consumer Price Index (CPI) segments. Of note, the moderation could be seen most prominently in food and non-alcoholic beverages (2024: 2%; 2023: 4.8%) and restaurants and hotels (2024: 3.1%; 2023: 5.6%) (Chart 1.13). Nevertheless, the broad moderation was partly offset by pockets of price pressures from policy adjustments, including higher water tariff rates, an increase in the service tax rate for selected CPI segments and the implementation of targeted subsidies for diesel. However, the overall impact of these policy adjustments was manageable given effective mitigating efforts. In the case of targeted diesel subsidies, the continued provision of subsidised diesel to major commercial users, such as those in the logistics sector, under the Subsidised Diesel Control System (SKDS) 2.0, limited the cost impact on businesses. This was coupled with strict enforcement by authorities aimed at curbing profiteering activities by businesses. These actions helped contain spillovers to broader CPI prices. Additionally, non-commercial diesel users in Sabah and

Sarawak were exempted from the subsidy rationalisation and continued to pay the lower price of RM2.15/litre. All these measures resulted in a modest direct impact on headline inflation.

Underlying inflation, as measured by core inflation, moderated below its historical average to 1.8% for the year (2023: 3%; 2011–19 average: 2%). Although domestic demand strengthened during 2024, private consumption growth remained below its long-term average (2024: 5.1%; 2023: 4.7%; 2011–19 average: 7.1%). This suggested that demand conditions remained moderate and not overly strong. In terms of components, the continued moderation in food away from home inflation (2024: 3.6%; 2023: 6.7%) was a key driver of lower core inflation. Price pressures were broadly less pervasive during the year, notwithstanding intermittent periods of higher pervasiveness which reflected seasonal factors. Overall, the share of CPI items recording monthly price increases trended lower for most of the year and remained below the long-term average (2024: 43%; 2023: 43.9%; 2011–19 average: 47.7%) (Chart 1.14).

In the first half of 2024, there was a slight increase in production costs, as reflected by a 1% increase in the Producer Price Index (PPI) (2023: -1.9%). This was mainly attributable to sustained US dollar strength against the ringgit, higher freight cost as well as higher prices of beverage commodities, agricultural raw materials, and

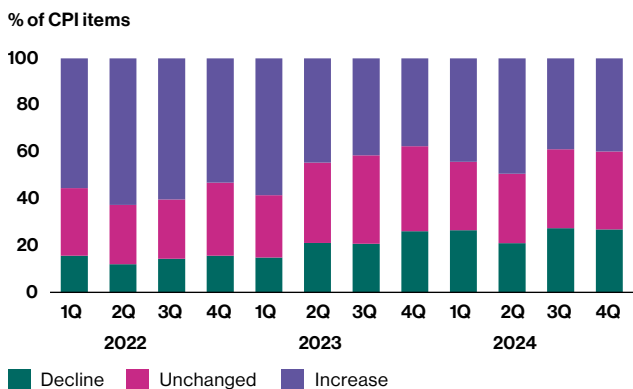
Chart 1.13: Contribution to Headline Inflation by Components



* Others include price-volatile items and other price-administered items (excluding fuel)

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

Chart 1.14: Month-on-Month Price Changes of CPI Items*



* Based on the month-on-month inflation for 172 CPI items at the 5-digit level (average for the quarter).

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

metals. The extent of exchange rate pass-through to consumer prices was partially mitigated by existing price controls and subsidies on key expenditure items such as retail fuel, as well as relatively stable pricing behaviour among firms. Around mid-year, as the ringgit strengthened and freight costs began to decline, production costs trended lower. Although the ringgit pared some of these gains towards the end of 2024, the earlier improvements in supply chain conditions and ringgit stabilisation contributed to an overall decline in production costs, as evidenced by a 0.5% decline in the PPI in the second half of 2024. Overall, PPI increased by 0.3% in 2024.

Monetary policy remained unchanged amid the outlook of a stronger domestic economy and modest inflation

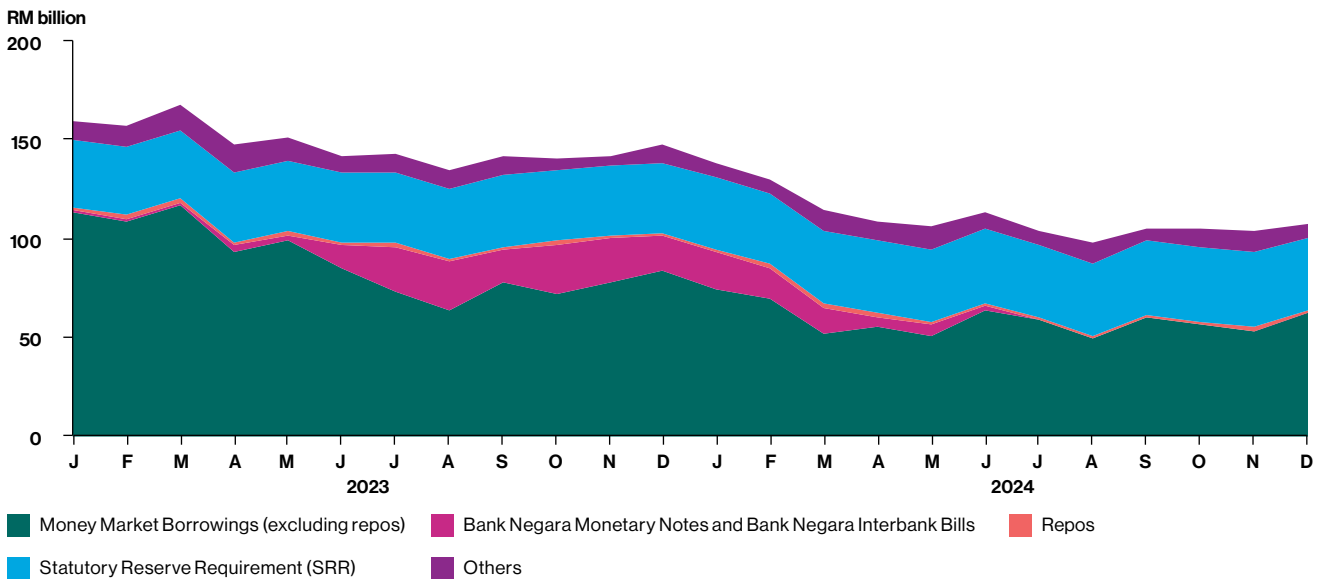
During the year, the Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.00%, with the focus of ensuring price stability conducive to the sustainable growth of the economy. In 2024, the Malaysian economy continued to be strong, underpinned mainly by robust domestic demand, following improved household spending and expansion in investment activity. Furthermore, exports activity had also benefitted from the global technology upcycle and continued strength in non-E&E goods. Against a backdrop of external developments and domestic policy adjustments, the MPC continued to remain vigilant on potential spillovers to inflation and growth.

Throughout the year, the MPC focused on assessing the potential impact of supply shocks arising from both external developments, such as global supply chain disruptions early in the year, and domestic policy reforms. As a tool to manage demand conditions, the role of monetary policy in containing cost pressures and addressing supply shocks is less direct. In this regard, the MPC carefully considered the short-term and long-term effects of these shocks. This included the assessment on inflation persistence and pervasiveness, as well as the impact on the broader economy. Overall, the assessment pointed to a limited impact of supply shocks on inflation in 2024. The impact of diesel price subsidy rationalisation in June 2024 on inflationary pressures was assessed to be contained due to effective mitigation measures by the Government to minimise the cost impact on businesses. Additionally, cost pressures from external developments early in the year moderated. This was due mainly to declining commodity prices, improvement in external supply chain conditions and the ringgit's appreciation against major currencies. As such, the MPC looked through these supply shocks and kept the OPR unchanged for the year. Further, the MPC assessed that domestic demand was not excessive, as indicated by private consumption growth remaining below its long-term trend. Overall, the monetary policy stance was consistent with the outlook of the Malaysian economy.

In line with unchanged monetary policy throughout the year, domestic monetary conditions remained conducive to the economy. Overall banking system liquidity continued to facilitate financial intermediation amid higher interbank trading activity, supported by BNM's monetary operations including liquidity injections via reverse repos and foreign exchange swaps. As at end-December 2024, total banking system liquidity stood at RM107.5 billion (2023: RM147.7 billion) (Chart 1.15). At the institutional level, most banking institutions maintained surplus overnight placements with BNM.

Interbank rates remained broadly stable in 2024, despite some bouts of fluctuation in selected markets. This was indicated by the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) generally prevailing in the range of 3.53% to 3.59%, albeit with some seasonal movements due to the effects of year-end deposit competition. In the fourth quarter, the 3M KLIBOR edged upwards as banks, as a precaution, competed for funding to shore up liquidity positions and strengthen regulatory ratios.

Chart 1.15: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)

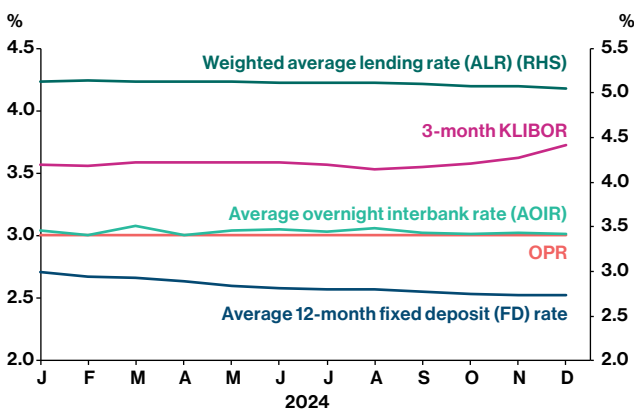


Source: Bank Negara Malaysia

Amid stable interbank conditions, banks' cost of funds eased slightly during the year, in line with their continued strategy to manage funding costs by adjusting retail board fixed deposit (FD) rates. The easing was also due, in part, to a decline in banks' cost of foreign currency borrowings in the second half of 2024, amid the global monetary policy easing, especially following the sharp cut in the Fed's policy rate.

These developments in interbank and funding conditions contributed to broadly stable lending rates. Lending rates, as indicated by the weighted average lending rate (ALR) on outstanding loans, were broadly stable following the MPC's decision to keep the OPR unchanged at 3.00% throughout the year (Chart 1.16). Lending rates on new loans for home purchases eased slightly, owing to stronger competition between banks.

Chart 1.16: Policy, Interbank, Fixed Deposit and Lending Rates (at end-period)



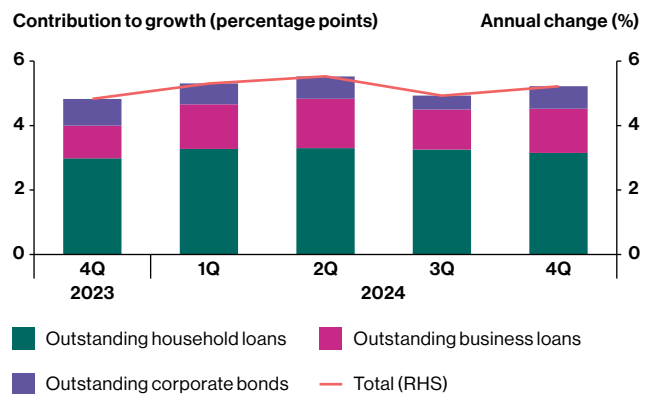
Source: Bank Negara Malaysia and Bloomberg

Continued flow of credit to the private non-financial sector

In line with stronger domestic economic activity, credit to the private non-financial sector grew by 5.2% (2023: 4.8%) (Chart 1.17). This increase in credit growth was driven mainly by higher growth in outstanding loans (5.6%; 2023: 5.0%), particularly for businesses amid a sustained household loan growth, while corporate bonds recorded a more subdued growth in 2024 (3.4%; 2023: 4.2%).

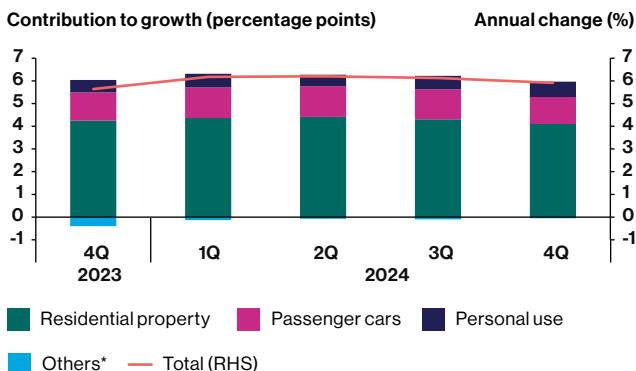
Households remained the major borrower segment contributing to loan growth in 2024, with a sustained growth in outstanding household loans of 5.9% (2023: 5.6%), particularly for the purchases of houses and cars (Chart 1.18). Continued labour market improvements, as reflected by

Chart 1.17: Credit to the Private Non-Financial Sector



Source: Bank Negara Malaysia

Chart 1.18: Households - Outstanding Loans by Purpose



* Includes purchase of non-residential property, securities, credit card and others.

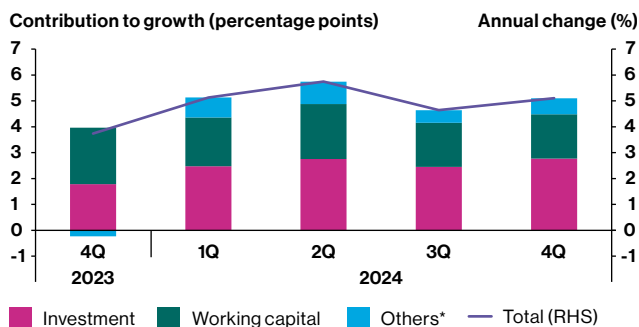
Source: Bank Negara Malaysia

higher employment and income growth, provided impetus to household credit demand. Households' repayment capacity remained intact, while the share of household borrowers with repayment assistance continued to be small and on a decline.

Outstanding business loans recorded higher growth (5.1%; 2023: 3.7%) (Chart 1.19), driven mainly by an increase in loans for investment-related purposes. The improvement in investment-related loans reflected the increase in private sector investment activities amid the positive economic and business outlook. In particular, this was more notable in sectors such as ICT and E&E. Large-scale public investment initiatives such as the NETR and the NIMP also contributed to spurring a stronger investment appetite among businesses, supporting the demand for financing. The pick-up in investment-related loans was more pronounced for SME borrowers, which continued to record a strong overall loan growth in 2024. Loan

growth for non-SMEs, on the other hand, improved slightly compared to the previous year. Nevertheless, it remained below the long-term average, driven in part by large firms' preference to use alternative sources of financing, such as capital markets, retained earnings and intercompany loans.

Chart 1.19: Businesses - Outstanding Loans by Purpose



* Includes purchase of securities, credit card and others.

Source: Bank Negara Malaysia

Overall, financing conditions remained supportive of household and business needs. Loan approval rates remained stable in 2024, with banks maintaining prudent lending standards. Banks continued to provide repayment assistance for borrowers who faced difficulties servicing their debt obligations, while various debt advisory and management arrangements including those under Credit Counselling and Debt Management Agency (AKPK) remained in place. Financial measures, such as credit guarantees and BNM's various financing facilities, also provided targeted support to segments in need, such as SMEs, which ensured uninterrupted intermediation of credit to support the economy.

Outlook and Policy in 2025

<i>Box Article: Malaysia's Position in the Global E&E Value Chain and Prospects</i>	56
<i>Box Article: Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period</i>	68
<i>Box Article: Supply Shocks and Implications for Monetary Policy</i>	80
<i>Box Article: Deciphering Investment Cycles in Malaysia</i>	88

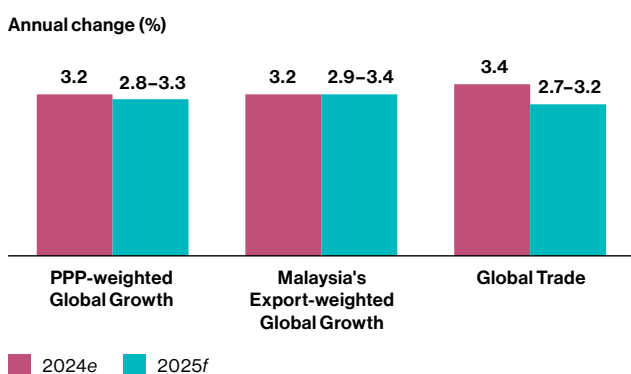
Outlook and Policy in 2025

2025: RESILIENT GROWTH DESPITE EXTERNAL UNCERTAINTIES

Broadly sustained global growth in 2025

The global economy is expected to be broadly sustained in 2025 (2.8%–3.3%; 2024: 3.2%). Economic activity will continue to be supported by positive labour market conditions, moderating inflation and continued monetary policy easing across most major countries. These factors will help cushion against potential headwinds from the uncertainties surrounding tariff and other policies from major economies, alongside geopolitical developments.

Chart 2.1: Global Real GDP and Trade Growth



e Estimate
f Forecast

Notes: 1. PPP-weighted global growth is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
2. Export-weighted global growth is the aggregate growth of Malaysia's key trading partners, as weighted by their shares in Malaysia's exports. This measure of global growth is more reflective of Malaysia's exports and growth prospects.

Source: Bank Negara Malaysia estimates

In advanced economies, growth will remain resilient, supported by positive labour markets and household balance sheets. Growth in the US economy will be supported by sustained consumption activity. The baseline projection is for inflation in the US to moderate. In line with this, the expected gradual easing of monetary policy by the Fed will also provide an additional lift to growth. The euro area is expected to stage a gradual recovery, supported by resilient labour markets, moderating inflation and continued easing of monetary policy, alongside receding effects from the conflict in Ukraine. This rebound, however, may be weighed down by political and policy uncertainties as well as restrained fiscal policy.

Regional economies are projected to grow at a sustained pace, driven by resilient domestic demand and continued trade expansion. Trade-reliant countries, however, will face waning support from 2024's rebound in global trade as well as new anticipated headwinds as tariffs and other policies unfold in the major economies. China's economy, on the other hand, is expected to soften further. Ongoing challenges in its real estate market will continue to weigh heavily on consumer sentiment and the economy. This will be partially mitigated by government measures including the issuance of special treasury bonds alongside other policy initiatives, such as the increases in civil servant salaries and pensions.

Global trade growth is expected to remain supported by demand across both the E&E and non-E&E sectors. The global technology upcycle will continue to be spurred by the device replacement cycle amid increased artificial intelligence (AI) adoption across end-products and software upgrades. Other factors such as the greater usage of cloud technology and a higher demand for electric vehicles (EVs) will also continue to bolster E&E trade. Meanwhile, continued investments in key strategic areas such as automation and the low-carbon transition will uplift demand for non-E&E products, especially machinery and equipment (M&E). Global tourism will keep its positive momentum, with global air passenger traffic projected to surpass pre-pandemic levels against

a backdrop of increased flight capacity and more liberal visa policies. Although the baseline projection is for continued growth in global trade, external demand conditions are expected to face considerable challenges arising from heightened uncertainties surrounding tariffs and other policies from major economies, and geopolitical developments.

Global inflation is projected to continue moderating towards its long-term average, driven by disinflation especially amongst advanced economies. Lower demand from China and higher oil supply from both OPEC and non-OPEC countries will drive a moderation in energy-related commodity prices. Similarly, global food prices are expected to decline, albeit with pockets of volatility stemming from adverse weather conditions. Services inflation is expected to gradually moderate, reflecting the lagged impact of previous monetary policy tightening. Tariffs and other policies from major economies, however, could exert upward pressure on prices. The exact impact of these restrictions on inflation is highly uncertain and could be significant, should countries retaliate or if demand is stronger than expected, especially in the US.

Global financial conditions will remain primarily driven by the pace and magnitude of global monetary policy easing. Should inflationary pressures materialise and persist following increased trade restrictions, central banks in advanced economies, particularly the Fed, may adopt a more measured approach to monetary policy easing than earlier anticipated. Against this backdrop, interest rates in the US being kept high for longer would lend continued support to the US dollar's current strength, with investors favouring relatively higher-yielding assets globally. An interplay of multiple global uncertainties may further lead to increased market volatility as investors react to developments surrounding monetary, trade and key economic policies.

Despite the expected increase in market volatility, narrower interest rate differentials between emerging market economies and the US could spur shifts in global capital flows in favour of regional financial markets. This hinges upon the Fed's continued easing of monetary policy. Nevertheless, the magnitude of inflows will depend on country-specific factors, including risks to the regional economies' outlook for growth and inflation.

Global growth outlook subject to downside risks amid considerable uncertainties on policy developments in major economies

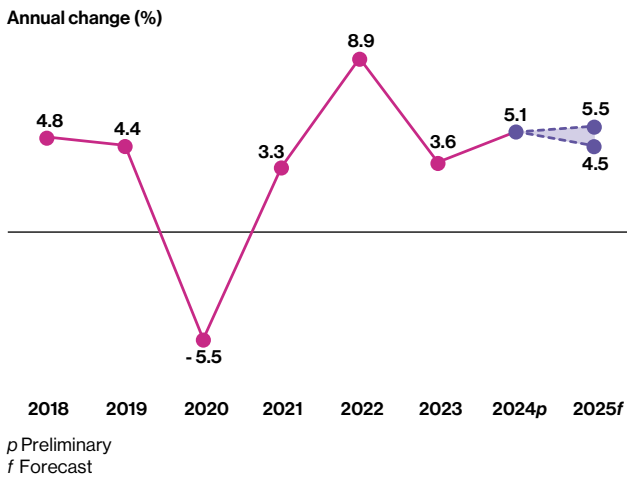
The outlook for global growth, inflation and trade is subject to considerable uncertainties surrounding tariffs and key policies by major economies, as well as geopolitical developments. Downside risks persist from higher trade restrictions alongside potential retaliatory measures from the affected countries. Geopolitical conflicts may also escalate if peace negotiations are unsuccessful. These developments could contribute to increased volatility in global financial conditions. Jointly, these factors could weigh on global growth, placing it towards the lower end of the range. On the upside, the global economy may be lifted by successful trade negotiations between the US and its partners. This, together with the resolution of some geopolitical conflicts could lift sentiment, boost consumption and investment activity, and lower commodity prices. Country-specific initiatives, including the effective rollout of pro-growth policies in the US and increased fiscal policy stimulus in China and possibly Europe, would further raise economic activity. Should these tailwinds materialise, growth will be boosted towards the upper end of the range.

The Malaysian economy is projected to grow between 4.5%–5.5% in 2025

Despite external uncertainties, domestic growth will remain resilient (Chart 2.2). This is underpinned by sustained strength in domestic demand and the diversified nature of Malaysia's economy.¹ Employment and income growth will continue to drive household spending. Investment activity is also expected to remain robust driven by the new and ongoing progress of multi-year projects. Measures outlined in Budget 2025, including initiatives on income enhancement, will further support consumption. Against an uncertain backdrop, Malaysia's external sector is projected to grow more moderately. Exports, however, are still expected to benefit from the continued global technology upcycle and higher tourist spending.

¹ For further details on Malaysia's diversified economy, please refer to the white box article on 'Malaysia's Resilience: A Diversified Economic and Export Structure'.

Chart 2.2: Malaysia's Real GDP Growth



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

Domestic demand will remain Malaysia's anchor of growth amid steady private sector expenditure. Improving labour market conditions alongside continued policy support will drive higher household spending. Employment is expected to grow further, reducing the unemployment rate to 3.1%, which is below its long-term average. Income is anticipated to grow at a faster pace, supported by increased labour utilisation amid continued expansion in economic activity as well as wage-related policy measures. These measures include the salary increment for civil servants under the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA) and a higher minimum wage. The higher household income, alongside a larger disbursement of targeted cash transfers, will help to alleviate the cost-of-living pressures faced by low- and middle-income earners. In addition, the targeted approach towards the policy reforms, such as the RON95 subsidy rationalisation and expansion of the sales and services tax (SST), is intended to minimise their impact on cost of living and domestic spending.

Malaysia will continue to see a robust expansion in investment activity. The investment upcycle is expected to extend into 2025, driven by the implementation of new and existing projects. In the private sector, investment intentions for 2025 remain strong, as reflected in the high level of approved investments of RM378.5 billion in 2024, which grew by 14.9% on an annual basis (2023: RM329.5 billion). The realisation of these investments in the year ahead will be underpinned by continued global demand supporting key industries such as E&E and information and communication technology (ICT), including data centres. The progress of these investments will also be accelerated by government initiatives to expedite

approval processes and facilitate project implementation, enhanced by active engagements between authorities and investors. In addition, Malaysia's well-established and conducive investment ecosystem will provide continued impetus,² attracting new investors and promoting investment retention in the country. Catalytic initiatives under national master plans³ will further support investment activity. Notable examples include PETRONAS's Kasawari Carbon Capture and Storage (CCS) project and Tenaga Nasional Berhad's Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project.

Following Malaysia's strong trade recovery in 2024, exports and imports will expand at a more moderate pace in 2025 amid global policy uncertainties. Gross exports will benefit from the ongoing global technology upcycle, in line with the double-digit growth in global semiconductor sales as projected by the World Semiconductor Trade Statistics (WSTS).⁴ Non-E&E manufactured products will remain supported by continued external demand and investment activities in regional countries. These factors will mitigate the impact of the planned maintenance of key oil and gas facilities, affecting both upstream and downstream commodity products. Gross imports will be driven by an expansion in intermediate and capital goods, reflecting Malaysia's sustained manufacturing exports and strong investment activity. The projected growth in tourist spending, bolstered by improving global travel demand, more liberal visa policies and higher flight connectivity, will lift services exports.

The growth outlook for the Malaysian economy is subject to several downside risks, stemming primarily from considerable external uncertainties. These include more restrictive trade policies and subsequent retaliatory measures, as well as potential escalation of geopolitical conflicts. These factors could disrupt global trade, leading to an economic slowdown in Malaysia's key trading partners and subsequently affecting the country's trade performance. Collectively, these uncertainties may also affect investment and spending decisions amid weaker sentiments. In addition, further disruptions in commodity production could weigh on the growth outlook. These factors, if realised, would place growth towards the lower end of the projected

² For further details on investment upcycles and investment facilitation efforts, please refer to the box article 'Deciphering Investment Cycles in Malaysia' in BNM's Economic and Monetary Review 2024.

³ These include the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS) and National Energy Transition Roadmap (NETR).

⁴ In its Fall 2024 forecast, the WSTS projected that the global semiconductor market will grow further by 11.2% in 2025, following the 19.1% growth achieved in 2024.

range. Notwithstanding, growth could be lifted by several positive factors to potentially exceed 5%, within the upper bound of the projected range. These include higher external demand from successful trade negotiations and pro-growth policies in major economies, as well as greater spillovers from the global technology upcycle. More robust tourism activity, alongside faster implementation of new and existing investment projects, could also provide an upside to growth.

Headline and core inflation are expected to average between 2%–3.5% and 1.5%–2.5% respectively in 2025. The outlook largely reflects potential upside from domestic policy measures and shifts in external cost conditions

Inflation is expected to trend higher in 2025, with the wider forecast range taking into consideration impact arising from the rollout of major policy reform measures. Inflation, however, will likely remain manageable, in line with easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to moderate. This will contribute towards lower pressures on production costs in the near term, particularly for items dependent on imported products, including fresh food. Meanwhile, underlying demand conditions will remain moderate in view of stable private consumption growth and wage gains that are in line with productivity growth. In this environment, while the announced domestic policy measures are expected to contribute to higher inflation during the year, the overall impact is expected to be contained. This includes policy reforms such as the RON95 subsidy rationalisation and SST expansion, alongside wage-related measures.

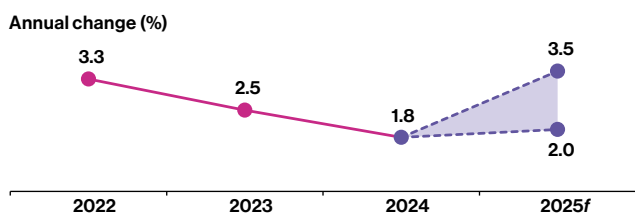
The impact of policy measures to inflation is subject to details surrounding implementation. The effects, however, are expected to be transitory and manageable. The direct impact from a one-off RON95 fuel price adjustment is projected to lapse a year after its implementation as base effects diminish. Further, planned expansions to the SST are primarily focused on non-essential food and durable products, which are applicable to only a small subset of the consumer price index (CPI) basket.

More broadly, the indirect effects of these policy measures on inflation through spillovers to the prices of other goods and services will be largely contained. Primary usage of RON95 for personal rather than commercial purposes

should limit spillovers via businesses’ operating costs. Meanwhile, although the upward revisions to the minimum wage and civil servant salaries will provide additional support to demand, these are unlikely to fuel excessive demand pressures. The minimum wage revision will primarily benefit lower-income workers who account for a proportionally smaller share of total wages. Importantly, it mainly addresses prevailing wage-productivity gaps through a normalisation of real wages. The continued productivity enhancements by businesses will further contribute towards containing the pass-through of higher costs to consumers. Collectively, the increase in unit labour costs is therefore projected to stay moderate and broadly in line with Malaysia’s productivity growth.

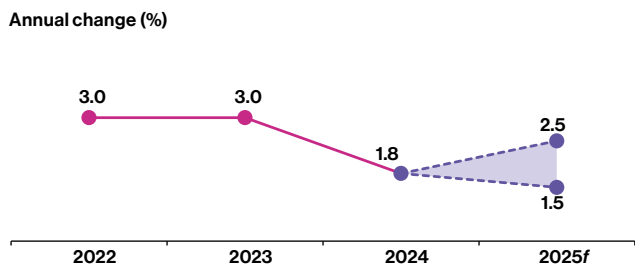
Furthermore, these policy adjustments will be carried out at a time of moderating global commodity prices while domestic demand pressures are unlikely to be excessive. Given this, the risk of a generalised and sustained increase in prices is assessed to be contained. On balance, headline inflation is projected to remain manageable, averaging between 2% and 3.5% in 2025. Core inflation is also projected to remain moderate, averaging between 1.5% and 2.5%. The wider forecast range incorporates some potential upside, including projections on various policy scenarios and their impact on inflation.

Chart 2.3: Malaysia's Headline Inflation



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

Chart 2.4: Malaysia's Core Inflation



f Forecast
Note: Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

The risks to Malaysia's inflation outlook primarily hinge on domestic policy reforms as well as shifting external cost conditions. Domestically, upside risk to inflation would be dependent on further implementation details of these policy reforms and the extent of their interactions with demand conditions. While the impact is expected to be contained, there remains a tail risk of higher inflation arising from these effects taking place against a stronger-than-expected demand environment where firms find it easier to raise prices and pass on costs to consumers. This may lead to knock-on effects on the prices of other goods and services, contributing to pressures on underlying inflation. The degree of these interactions and spillovers are expected to be reflected in the pervasiveness and persistence of inflation, which are monitored very closely.

On the external front, upside risks to inflation stem from the imposition of potential trade restrictions alongside possible retaliatory actions amongst key trading nations. Such developments may lead to higher domestic inflation through three channels: increased imported inflation; a stronger dollar due to risk aversion in financial markets; and higher production costs as a result of supply chain disruptions. Global commodity prices may also experience upward pressure from geopolitical tensions and weather disruptions. In these events, sectors sensitive to import prices, such as food and transport, would be subject to a more material impact. In contrast, downside risks to inflation are rooted primarily in weaker global growth as trade tensions weigh on international trade, as well as the resulting lower commodity prices.

Domestic monetary and financial conditions are expected to remain supportive of financing needs amid sustained economic expansion

Domestic financial conditions will be subject primarily to spillovers from external developments, mainly through the movement of capital flows. Greater clarity on the Fed's monetary policy easing path will be a key factor in shaping domestic financial market trends and influencing overall financial conditions. Narrowing interest rate differentials amid continued global monetary easing will support capital inflows. Nevertheless, this is subject to the risk of a potential slowdown in foreign inflows amid volatile financial markets driven by more gradual monetary policy easing, global policy uncertainties and geopolitical developments.

The ringgit's performance for the year will be driven mainly by fluctuations in capital flows. Foreign inflows due to narrower interest rate differentials are expected to lend support to the ringgit. However, the Fed keeping rates high for longer may weigh on the ringgit's performance. This may be compounded by continued investor demand for the US dollar as a 'safe haven' asset. Further, given policy uncertainties across major economies, the ringgit may be subject to heightened bouts of volatility as investors react to policy announcements and details on implementation, as well as developments on geopolitical conflicts. While these cyclical factors may drive short-term ringgit volatility, Malaysia's favourable economic prospects, domestic structural reforms and ability to attract long-term investments, complemented by ongoing initiatives to encourage flows, will provide an enduring longer-term support to the ringgit.

Developments in domestic capital markets are expected to be broadly favourable. Malaysian Government Securities (MGS) yields may trend moderately lower amid gradual inflows into the domestic bond market. Domestic equities are expected to build on last year's gains, underpinned by continued political stability and improved corporate earnings prospects across core sectors including banking and utilities. In the medium-term, the Government's commitment to structural reforms, including continued fiscal consolidation and industrial upgrading initiatives, is expected to raise investor confidence and support the performance of domestic equities. This would be augmented by foreign inflows into high-growth sectors, supported for instance, through planned and ongoing catalytic investments in the E&E and ICT subsectors under NIMP 2030.

Domestic financing conditions will stay conducive to sustained credit growth. Credit to the non-financial private sector will remain forthcoming in line with banks' steady lending outlook for 2025. Credit demand, particularly amongst households and small and medium enterprises (SMEs), will be driven by positive prospects on domestic growth and income. Furthermore, loan growth momentum towards businesses, especially SMEs, will be lifted by robust investment activity. Credit supply will continue to be enabled by banks' healthy capital and liquidity buffers coupled with continued robust competition among banks. In addition, corporate bond activity will remain supported by favourable bond yields.

Overall, Malaysia is well-positioned to weather the global volatility, with its solid economic fundamentals and robust financial system. Importantly, our deep and liquid financial

markets will cushion spillovers arising from fluctuations in global financial conditions. BNM will remain vigilant on global developments while ensuring uninterrupted financial intermediation for the economy. To this end, BNM stands ready to provide sufficient liquidity and safeguard the stability of the financial system with the tools at its disposal. While external developments may have some impact to financial conditions domestically, Malaysia's financial markets are expected to remain resilient and well-positioned to manage any potential ensuing effects from the global front.

Monetary policy will remain focused on maintaining an environment of price stability conducive to sustainable economic growth

Monetary policy decisions throughout the year will remain guided by the Monetary Policy Committee's (MPC) assessment of risks to Malaysia's inflation and growth outlook. The MPC aims to maintain an environment of price stability that is conducive to sustainable growth. In ensuring this, the MPC will continue to assess global developments and potential spillovers to the domestic economy. The MPC will also remain vigilant on the implications of ongoing domestic policy reforms on the economy, and the general pace and drivers of price increases going forward.

Domestic growth will be underpinned by sustained strength in domestic demand. This is supported by improving labour market conditions and robust investment activity. External headwinds present a downside risk to growth, including slower-than-expected global demand amid considerable uncertainties surrounding trade policies and ongoing geopolitical developments. Meanwhile, growth could potentially benefit from greater spillovers from the global tech upcycle, more robust tourism activity and faster implementation of investment projects.

Inflation is projected to remain broadly manageable in line with modest global cost conditions and the absence of excessive domestic demand. Notwithstanding the upside risks to inflation, the impact of policy reforms on overall price pressures is expected to remain contained in this environment. The effects of shifting labour market dynamics on inflation, arising from wage-related policies and the subsequent impact on demand, is unlikely to fuel excessive demand pressures.

Amidst an uncertain global environment, the MPC's formulation of monetary policy will take into consideration the trajectory of economic growth and the ensuing impact of global developments on the domestic economy. The MPC will also continue to assess the persistence and pervasiveness of inflation alongside potential second-round effects arising from policy measures. As such, the monetary policy approach will remain data-dependent going forward, guided by the evolving balance of risks surrounding the outlook on Malaysia's inflation and growth.

Domestic demand continues to be the anchor of growth

In 2025, Malaysia's economy is expected to be supported by the steady growth of domestic demand and moderate expansion in exports. Further improvements in labour market conditions and income-related government policy measures will provide support to household spending. Investment activity would be sustained by existing and new multi-year projects across key economic sectors on the back of the strong investment approvals as well as implementation of catalytic projects under the national master plans. Amid uncertain global trade environment, the external sector is expected to register more moderate growth, driven by continued growth in the electrical and electronic (E&E) sectors and further increase in tourism activity.

Table 1

Real GDP by Expenditure (2015=100)

	2024p	2024p	2025f	2024p	2025f
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand*	95.2	6.5	6.3	6.1	6.0
Private Sector Expenditure	77.2	6.6	6.5	5.0	5.0
Consumption	60.7	5.1	5.6	3.1	3.4
Investment	16.5	12.3	10.1	1.9	1.7
Public Sector Expenditure	18.0	6.3	5.3	1.1	1.0
Consumption	13.1	4.7	4.9	0.6	0.6
Investment	4.8	11.1	6.4	0.5	0.3
Gross Fixed Capital Formation	21.4	12.0	9.3	2.4	2.0
Change in Stocks	0.5			-1.1	-1.3
Net Exports of Goods and Services	4.3	2.2	4.5	0.1	0.2
Exports	68.2	8.5	6.5	5.6	4.4
Imports	63.9	8.9	6.6	5.5	4.2
Real Gross Domestic Product (GDP)	100.0	5.1	4.5-5.5	5.1	4.5-5.5

* Excluding stocks.

p Preliminary

f Forecast

Note: Figures may not necessarily add up due to rounding.

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

Private consumption is expected to grow by 5.6% in 2025 (2024: 5.1%) driven by the continued improvement in labour market conditions and higher income growth. Employment is projected to expand by 2.1% (2024: 2.6%) with total employment projected at 17 million persons (2024: 16.6 million). The unemployment rate is estimated to decline to 3.1%. Income growth is projected to improve supported by higher labour utilisation and government policy measures, including the implementation of a higher minimum wage and civil servant salary under the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA).

Gross fixed capital formation (GFCF) is expected to grow by 9.3% (2024: 12%). The strong growth is driven by the continued robust investments in both structures as well as machinery and equipment (M&E).

Private investment growth is expected to remain strong at 10.1% (2024: 12.3%). This is underpinned by the global technology upcycle and sustained external and domestic demand conditions. The realisation of new and ongoing investments is progressing well, with 84.5% of manufacturing projects approved since 2021 in various phases of implementation. In addition, construction activities are expected to record high growth, as reflected in the increased value of early-stage construction work done (2024: RM33.9 billion; 2023: RM31.5 billion). Moving forward, high investment approvals in 2024 reaching RM378.5 billion (2023: RM329.5 billion) signal strong investment intentions.

Notably, the quality of investments has improved amid the shift towards higher value-added subsectors including E&E and information and communication technology (ICT), as well as emerging industries such as green technology.

Public investment is projected to grow by 6.4% (2024: 11.1%) driven by higher capital expenditure by public corporations. Transportation and utilities-related industries are expected to drive investments amid the expansion of railway and public transportation systems. In addition, higher demand for electricity is poised to support electricity grid network enhancement and energy transition projects. Continued progress of existing projects and rollout of new infrastructure investment such as Pan Borneo Highway Sabah Phase 1B, Mutiara Light Rail Transit (LRT) line and expansion of airports will also continue to support growth into 2025.

Public consumption is estimated to expand by 4.9% (2024: 4.7%). Growth will be supported mainly by the Government's higher emoluments amid salary increment for civil servants under the SSPA.

Expansion in most economic sectors

On the supply side, most sectors are projected to expand in 2025. The *services* and *manufacturing* sectors will again be the key drivers to overall growth.

Table 2

Real GDP by Kind of Economic Activity (2015 = 100)

	2024p	2024p	2025f	2024p	2025f
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.3	5.4	5.7	3.2	3.4
Manufacturing	23.2	4.2	3.9	1.0	0.9
Agriculture	6.3	3.1	2.2	0.2	0.1
Mining and quarrying	6.0	0.9	-0.8	0.1	0.0
Construction	4.0	17.5	11.0	0.6	0.4
Real Gross Domestic Product (GDP)	100.0*	5.1	4.5–5.5	5.1	4.5–5.5

* 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

The *services* sector is expected to register a higher growth of 5.7% in 2025 (2024: 5.4%), with continued expansion across all subsectors. The transport and storage subsector will be driven by continued support from air passenger traffic, launching of new and upgraded highways, operationalisation of LRT 3 and steady growth in logistics and storage activities. Growth in the finance subsector will be underpinned by sustained loan demand. The real estate and business services subsector will benefit from strong growth in construction activities. Consumer-related subsectors are also expected to lift services growth, driven by higher household spending amid improving income supported by policy measures. These policy measures include the implementation of a higher minimum wage and salary increment for civil servants under the SSPA. Additionally, tourism-related sectors will continue to benefit from incoming tourists with the more intensive promotion activities leading up to Visit Malaysia Year 2026. The higher emoluments for civil servants under the SSPA will also support government services.

The *manufacturing* sector growth is expected to moderate slightly to 3.9% (2024: 4.2%), as the continued expansion of the E&E and consumer-related industries are offset by slower growth in primary and construction-related industries. Primary-related industry is expected to be affected by lower natural gas output and scheduled upstream maintenance. As key infrastructure projects are near completion, construction-related manufacturing growth is also expected to record a moderation. Nevertheless, the E&E industry is set to benefit from the broader spillovers of the global tech upcycle, which

is expected to record growth across all semiconductor segments. This is underpinned by the continued growth in global sales outlook, driven by external demand for consumer electronics and AI-related semiconductors. Consumer-related industries will gain support from continued household spending and the launch of domestic electric vehicle models.

The *agriculture* sector is projected to expand by 2.2% (2024: 3.1%). Production of food crops such as rice, fruits and vegetables are expected to improve amid better weather conditions. Meanwhile, crude palm oil production is expected to continue to expand but at a more moderate pace as further productivity gains from better trained workers and improved fertiliser application will be offset by limited growth in mature hectareage. Growth in the livestock subsector will be sustained due to stable demand conditions and ongoing technological enhancements to the sector's production processes.

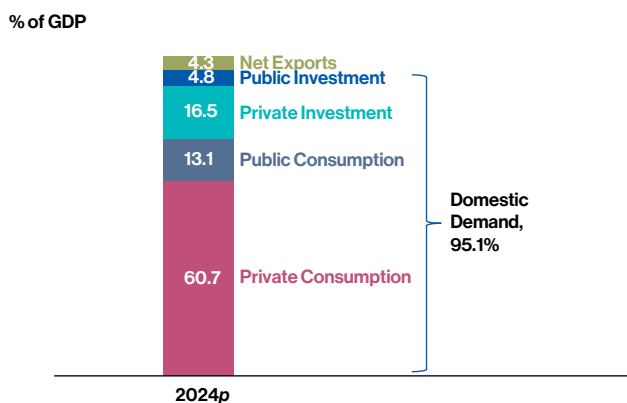
The *mining* sector is estimated to contract by 0.8% (2024: 0.9%), due to planned maintenance at key oil and gas facilities. In addition, production declines in maturing fields will continue to weigh on oil production. These factors will more than offset the support from the commencement of new fields in 2024 such as Jerun and Kasawari in Sarawak, as well as ongoing expansions and enhanced recovery measures in some existing fields.

The *construction* sector is expected to continue to record high growth, albeit at a more moderate pace than in 2024 (11%, 2024: 17.5%). Growth will be driven by continued activities in non-residential, special trade and residential subsectors. In the non-residential subsector, growth is expected to remain robust. This will be underpinned by projects in both the industrial and commercial property segments. The special trade subsector will be supported by the implementation of small-scale projects announced under the Budget 2025 and end-stage works from large infrastructure projects that are nearing completion. The residential subsector will benefit from new housing projects, particularly in the affordable housing segment. Government incentives such as the personal tax relief for first-time homebuyers are expected to stimulate housing demand. However, the near-completion of infrastructure projects such as LRT 3 and Johor Bahru–Singapore Rapid Transit System (RTS) Link will result in a moderate growth in the civil engineering subsector.

Malaysia's Resilience: A Diversified Economic and Export Structure

Domestic demand will continue to drive Malaysia's growth, accounting for 95% of the economy. On the supply side, the services and construction sectors, which are predominantly domestic-oriented, account for more than 60% of the economy.

Chart 1: Real GDP by Expenditure (2015=100)

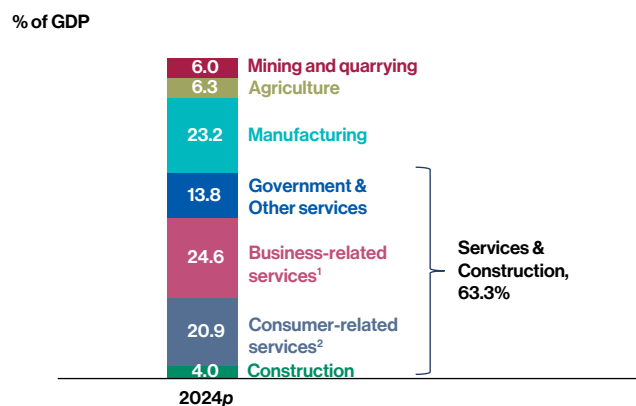


p Preliminary

Note: Figures may not add up due to rounding and exclusion of stocks component.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 2: Real GDP by Kind of Economic Activity (2015=100)



¹ Refers to finance and insurance, information and communication, real estate and business services, transport and storage as well as utilities services.

² Refers to wholesale trade, retail trade, motor vehicles, food, beverage and accommodation services.

p Preliminary

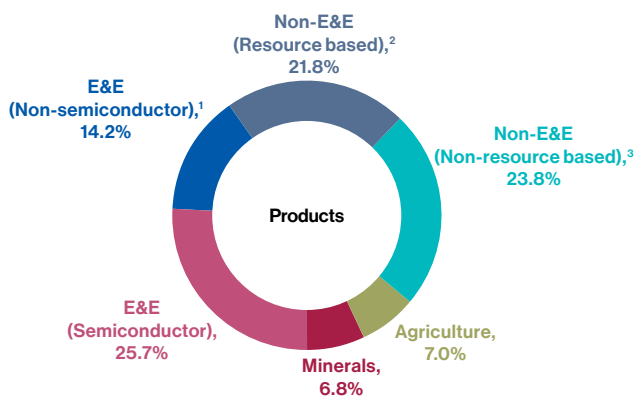
Note: Figures may not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Diversified export products and markets will cushion Malaysia against potential shocks on any particular market or product. 60% of Malaysian exports comprise of non-E&E products. Beyond the US and China, almost half of the demand for Malaysian exports come from regional countries in Asia.

Chart 3: Exports by Product (2024)

Share of total exports, %



¹ Examples include telecommunications equipment, computer parts and electrical household appliances.

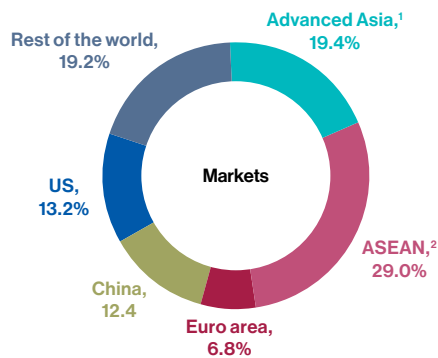
² Examples include chemicals & chemical products, wood products, rubber products, processed food, palm oil-based manufactured products and petroleum products.

³ Examples include manufactures of metal, optical and scientific equipment, iron and steel products as well as manufactures of plastics and jewellery.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 4: Exports by Market (2024)

Share of total exports, %



¹ Japan, Korea, Taiwan and Hong Kong.

² Singapore, Thailand, Indonesia, the Philippines, Brunei, Vietnam, Cambodia, Myanmar and Laos.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Trade and Current Account Outlook

Continued growth in exports and imports in 2025

Malaysia's gross exports are expected to grow by 5.2% in 2025 (2024: 5.7%). Manufactured exports, particularly electrical and electronics (E&E), will continue to drive this growth, offsetting the decline in commodity exports.

Manufactured exports, which constituted 86% of Malaysia's total exports in 2024, are projected to expand by 5.5% (2024: 6%). Growth will be led by E&E exports, underpinned by the global technology upcycle. The growth of cloud computing, widespread adoption of AI-powered devices during the replacement cycle and rising demand for devices with enhanced processing capability will continue to drive the broad-based expansion across key end-segments of personal computers, mobiles and servers.

Commodity exports are expected to decline by 1.6% in 2025 (2024: 3.8%) on account of lower oil and gas production due to plant maintenance and lower commodity prices. This is expected to weigh on overall non-E&E exports. Meanwhile, agriculture exports are expected to register sustained growth as crude palm oil (CPO) production continues to expand amid improved labour productivity and fertilisation.

The escalation of geopolitical tensions and trade restrictions as well as unexpected supply disruptions to domestic commodities production pose downside risks to Malaysia's export growth projections. On the other hand, exports could potentially be higher from stronger-than-expected spillover from the global technology upcycle and more robust tourism activity leading up to Visit Malaysia 2026.

Meanwhile, gross imports growth is expected to moderate to 7.4% from the strong growth last year (2024: 13.2%). Capital imports will continue to increase amid the implementation of investment projects while the growth of intermediate imports will move in tandem with manufactured exports.

Table 3

External Trade			
	2015–19 average	2024 ^p	2025 ^f
	Annual change (%)		
Gross exports	5.6	5.7	5.2
<i>of which:</i>			
Manufactured	7.6	6.0	5.5
Agriculture	-0.6	11.4	10.3
Minerals	-3.1	-3.1	-14.1
Gross imports	4.7	13.2	7.4
<i>of which:</i>			
Capital goods	1.2	29.6	7.4
Intermediate goods	3.1	20.7	8.7
Consumption goods	8.4	12.8	2.9
Trade balance (RM billion)	109.5	136.8	113.5

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Sustained current account surplus

The current account of the balance of payments is expected to continue registering a surplus of 1.5%–2.5% of gross domestic product (GDP) in 2025 (2024: 1.7% of GDP). This is driven mainly by sustained goods surplus amid a lower deficit in the services account.

The goods account is projected to record a surplus of RM118.9 billion (2024: RM117.1 billion), as exports continue to exceed imports. Meanwhile, the services account is expected to post a narrower deficit of RM8.1 billion (2024: -RM13.9 billion), supported by a higher surplus in the travel account, as tourist arrivals and receipts in 2025 are projected to grow further and exceed pre-pandemic levels.

The primary income account is projected to remain in deficit (-RM59.3 billion, 2024: -RM61.5 billion). This is driven by the continued income payment accrued to foreign investors in Malaysia amid improving exports earnings. Similarly, the secondary income account is expected to remain in deficit (-RM10.5 billion, 2024: -RM8.9 billion), due mainly to higher outward remittances by foreign workers. Nevertheless, this is expected to be partly cushioned by higher inward remittances from Malaysians working abroad.

Table 4

Current Account of the Balance of Payments*

Item (Net)	2024 ^p	2025 ^f
	RM billion	
Goods	117.1	118.9
Services	-13.9	-8.1
Primary income	-61.5	-59.3
Secondary income	-8.9	-10.5
Current account balance	32.8	41
<i>% of GDP</i>	<i>1.7</i>	<i>1.5–2.5</i>

* In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Potential Output and the Output Gap of the Malaysian Economy

Potential output is the highest non-inflationary level of output that can be produced in an economy, based on prevailing factors of production (i.e. labour and capital) and productivity.

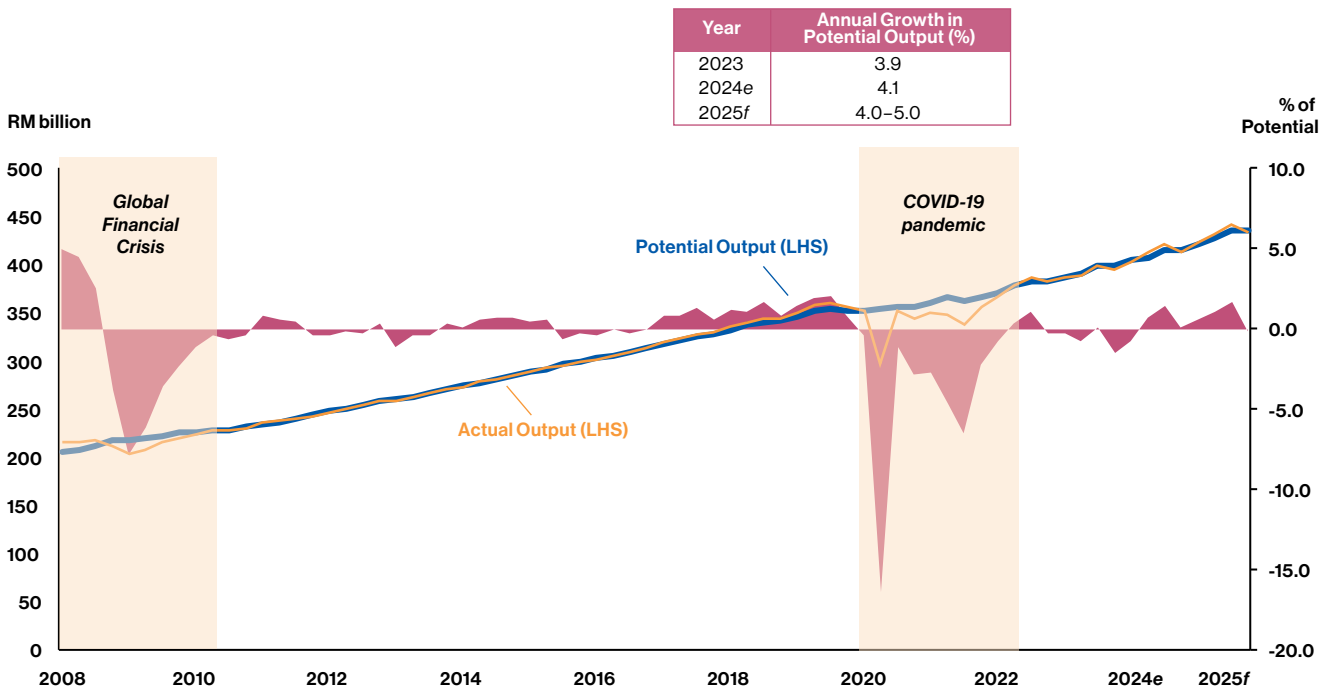
In 2024, potential output⁵ expanded by 4.1% (2023: 3.9%; 2011–19 average: 4.9%). The expansion was driven by higher capital accumulation in line with robust investment activity (2024: 12%; 2023: 5.5%). Total factor productivity (TFP) growth was also higher as firms' increased capital investments helped raise technological efficiency and resource utilisation. Labour utilisation improved with the unemployment rate declining to below pre-pandemic level while labour force participation rate increased to 70.5% (2023: 70%). The output gap turned positive in 2024 at 0.4% (2023: -0.6%)⁶ as the level of actual output was higher relative to the potential output.

Going forward, the output gap is expected to remain positive in 2025. While the potential output is projected to grow at its pre-pandemic levels of 4%–5%, the actual output growth could grow at a faster pace of 4.5%–5.5%, driven by sustained strength in domestic demand. Over the medium term, potential output will remain supported by higher investments and improvements in productivity amid the continued implementation of multi-year investment projects, as well as national masterplans such as New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS), National Energy Transition Roadmap (NETR), and the upcoming 13th Malaysia Plan (RMK-13).

⁵ Potential output is derived through an average of estimations based on the following methodologies: Production Function, Laubach-Williams model, Real Business Cycle (RBC) model, Kalman Filter and Dynamic Stochastic General Equilibrium (DSGE) model.

⁶ The output gap is formally defined as $\frac{(\text{Actual output level} - \text{Potential output level})}{\text{Potential output level}} \times 100\%$.

Chart 5: Actual and Potential Output



■ Output Gap (RHS)

e Estimate

f Forecast

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

Malaysia's Position in the Global E&E Value Chain and Prospects

Introduction

The electrical and electronics (E&E) industry is a critical linchpin in the global economy. It powers the digital transformation that touches all aspects of modern society. In this dynamic landscape, Malaysia has carved out a significant position to become an integral player within the global E&E value chain (E&E GVC). Leveraging its strategic geographical location, robust infrastructure and skilled workforce, Malaysia has emerged as a critical hub for E&E production. Recent developments ranging from geopolitical shifts to the artificial intelligence (AI) led revolution have brought immense challenges and opportunities in the E&E industry. The E&E GVC is being recalibrated as countries adopt aggressive industrial policies to protect their economic, security and socio-political interests. These changes have significant implications for small, open economies such as Malaysia, affecting production, trade and income growth.

Against this backdrop, this article presents a primer on semiconductors, the E&E GVC and recent trends in the global tech cycle. It then analyses Malaysia's current standing in the E&E GVC, examining its contributions to the domestic economy, recent export performance and near-term outlook. The implication of key megatrends on future growth prospects and their challenges to Malaysia's E&E industry are also explored. Lastly, the article discusses strategies to seize the opportunities that would further solidify Malaysia's position in the ever-evolving global semiconductor ecosystem.

The global E&E value chain is highly complex and interconnected across countries

As a critical part of many capital and consumer goods, the E&E industry has been a key catalyst for productivity gains and innovation in most other industries and economic sectors. At 18.8% share of global trade in 2024,¹ the global E&E industry is also highly integrated across regions, leveraging free trade to move inputs and products between nations.

At its core, semiconductors are the 'brains' of all modern electronic devices, accounting for 32.7% share of global E&E exports. They are critical components that provide essential functionality to process data, store information and control the function and communication with other devices in various end-segments. Semiconductors are typically divided into three main types of chips: logic, memory as well as discrete, analog and others (DAO) (Diagram 1). Meanwhile, the complexity of semiconductors is determined by their process node size.² Much of the current technological breakthroughs involve making nodes smaller. This allows for the development of highly advanced and cutting-edge chips with greater performance and efficiency. Nevertheless, older or legacy chips remain integral in most end-segments due to their cost-effectiveness and reliability. Given its intricacy, semiconductor manufacturing is distinguished by a highly specialised and often geographically dispersed but interconnected value chain. This value chain, along with a host of supporting activities, form a complex and globalised semiconductor ecosystem.

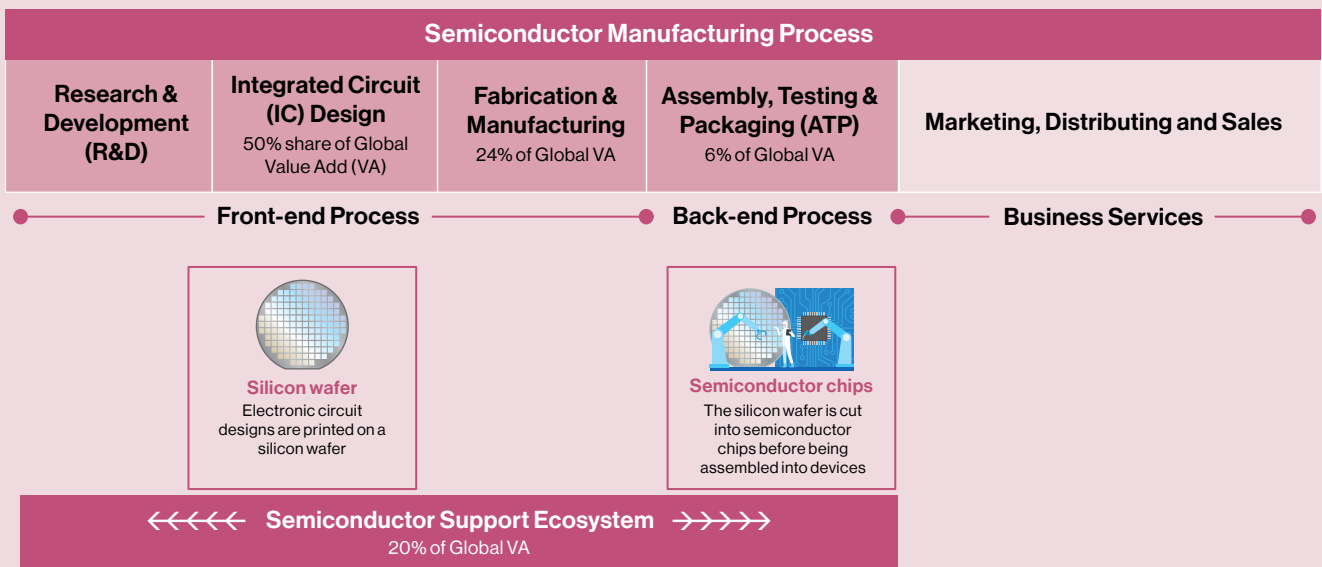
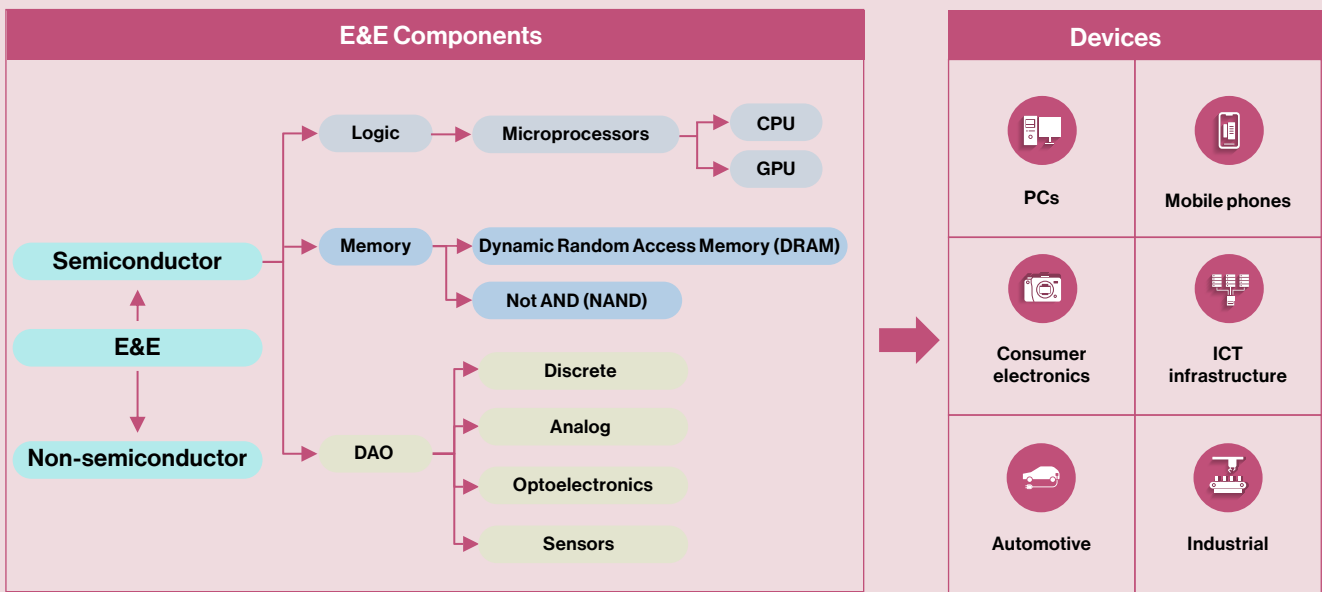
In general, the value chain can be divided into two main sections: the front-end and the back-end (Diagram 1). The front-end of the value chain consists of research and development (R&D), integrated circuit (IC) design and wafer fabrication of the different types of chips. These processes usually require highly skilled expertise and are both capital- and technology-intensive. Meanwhile, the back-end of the value chain comprises assembly, testing and packaging (ATP) activity. This is a crucial step to ensure that the chip's function and performance are reliable, durable and ready for integration with other E&E components in various devices of the end-segments. ATP activity is relatively more labour-intensive and less technically intricate. However, this activity has progressed to become more complex and capital-intensive because of advances in packaging technology.³ At the final stage, once these devices are integrated, they are then handled by business services entities for marketing, distribution and sales. Complementing this value chain is an extensive support ecosystem that produces the materials, specialty chemicals, machinery and equipment, software design and core intellectual property for semiconductor manufacturing activities.

¹ Estimated using S&P Global Trade Atlas data.

² 'Cutting-edge' chips generally apply to process nodes at 5nm or below, whereas 'highly advanced' chips are those within 10nm to 7nm. Meanwhile, the US CHIPS and Science Act 2022 defines 'legacy' chips as those produced at 28nm or larger.

³ Historically, chip packaging entails a straightforward bonding process onto external systems. However, recent innovation in advanced packaging employs 2.5D and 3D techniques, where multiple chip layers are stacked and bonded closer together for greater performance and energy efficiency.

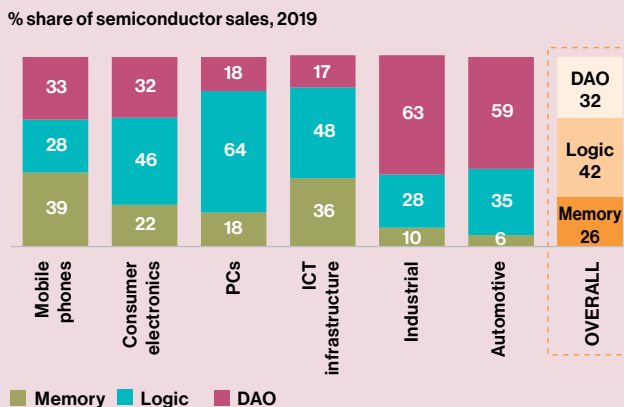
Diagram 1: Stylised Illustration of the E&E Value Chain



Note: Under Memory, DRAM refers to short-term memory component for active computing tasks while NAND functions as long-term memory for data retention and file storage.

Source: Semiconductor Industry Association and Boston Consulting Group

Chart 1: Global Semiconductor Sales by Type of Chips



Source: Boston Consulting Group, Gartner and World Semiconductor Trade Statistics

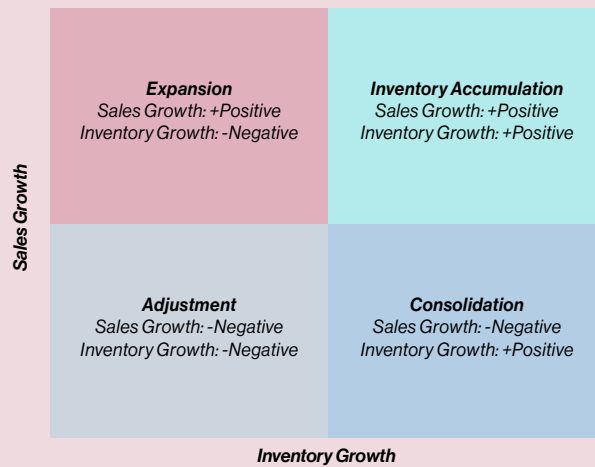
Global demand for semiconductors is mainly dictated by the growth trends of the various end-segments. In terms of breakdown by type of chips, the end-segments collectively comprise 42% logic, 32% DAO and 26% share in memory chips (Chart 1). However, the exact composition of chips differs for each end-segment respectively. Therefore, the growth trend in the demand for each type of chip will also vary over time depending on market-specific factors influencing the various end-segments.

The global tech cycle is currently in an expansion phase

The global semiconductor ecosystem underwent significant changes in recent years, influenced by both cyclical and structural factors. The 'tech cycle', as proxied by global semiconductor sales, is prone to large growth swings. These cycles are typically divided into four phases namely adjustment, expansion, inventory accumulation and consolidation. The phases reflect the changing demand and supply conditions as characterised by the trend in the sales and inventory growth of chips (Chart 2).

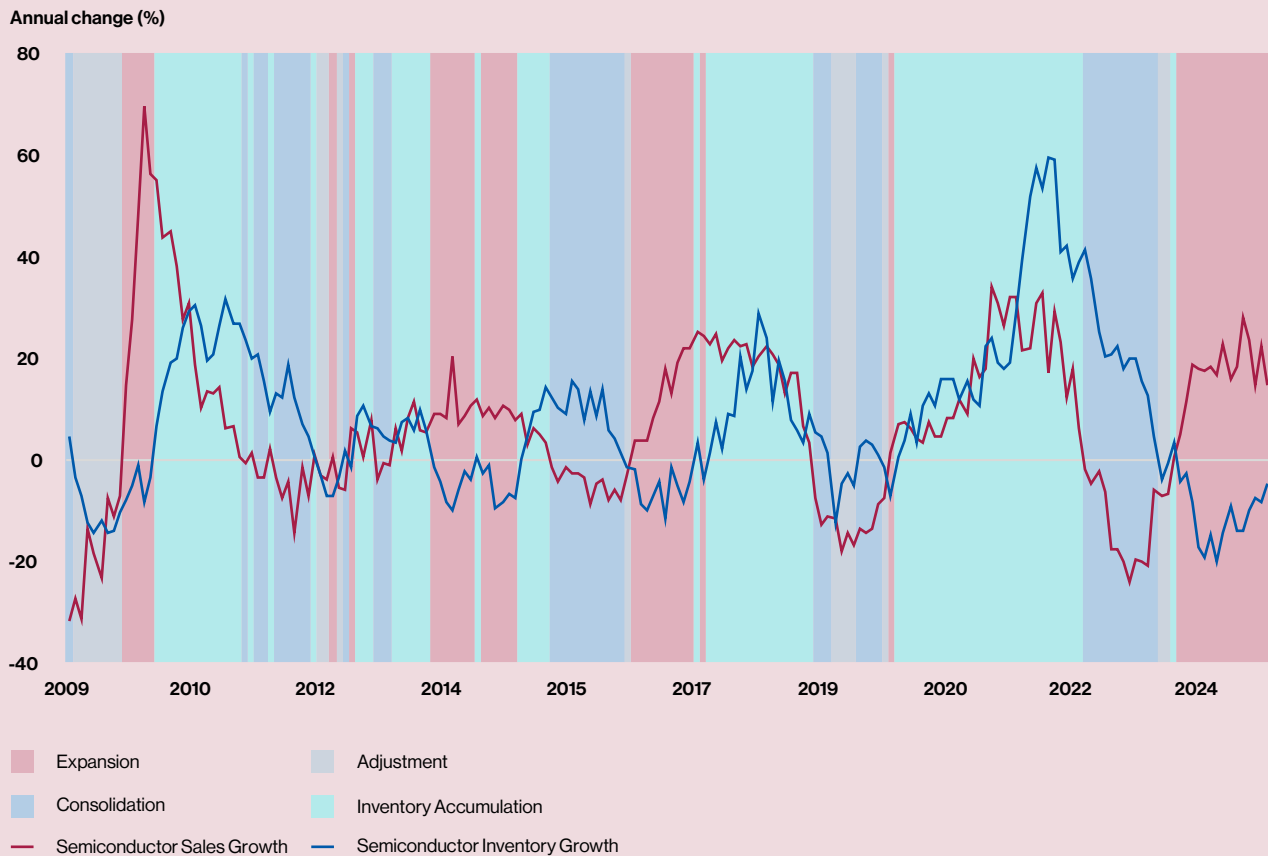
In the last five years, the shifting phases can be traced through major developments and events affecting the global tech cycle (Chart 3). During the COVID-19 pandemic, demand-supply dynamics for semiconductors shifted dramatically. The rise in remote work and online activities led to a broad-based surge in demand across most end-segments such as PC, mobile phones and consumer electronics. Firms aggressively ramped up production and inventories to meet rising demand amid supply chain disruptions and lockdowns. By June 2022, as pandemic-driven demand waned, sales growth slowed and inventory started building up, prompting firms to shift from expansion to consolidation. Subsequently, firms entered an adjustment phase as declining sales forced them to reduce excess inventories.

Chart 2: Phases of the Global Tech Cycle



Source: Adapted from Monetary Authority of Singapore Macroeconomic Review, April 2024.

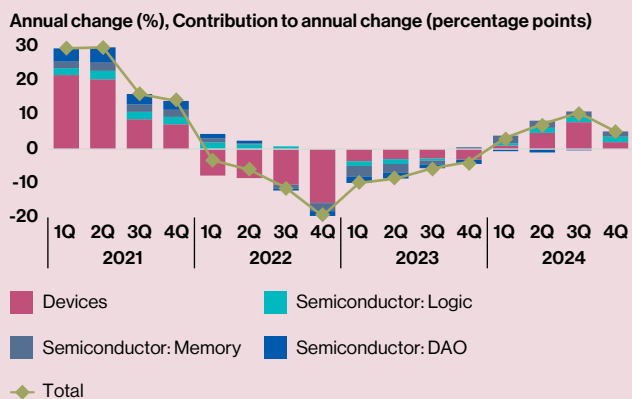
Chart 3: Global Semiconductor Sales and Inventory Growth by Tech Cycle Phase



Note: The global tech cycle comprises of four phases: (i) expansion (+ve sales growth, -ve inventory growth); (ii) inventory accumulation (+ve sales growth, +ve inventory growth); (iii) consolidation (-ve sales growth, +ve inventory growth) and (iv) adjustment (-ve sales growth, -ve inventory growth). Global inventory is proxied by the average semiconductor inventory levels in the US, Korea and Chinese Taipei, weighted by their export shares.

Source: Adapted from Monetary Authority of Singapore Macroeconomic Review, April 2024 using data from CEIC, World Semiconductor Trade Statistics and Bank Negara Malaysia estimates

Chart 4: Global E&E Exports Growth by Product



Source: S&P Global and Bank Negara Malaysia estimates

By late 2023, a resurgence in sales emerged and inventories were drawn down, spurred by technology advancement and hardware replacement cycles. The global tech cycle experienced an upswing in 2024 with semiconductor sales growth of 19.1% (2023: -8.2%). The recovery was driven mainly by logic and memory chips (Chart 4), owing to high demand in the PC and information and communication technology (ICT) infrastructure end-segments. This reflects the pivot towards AI-related devices and expansion of new capacity for cloud computing and data centres. The recovery, however, remains uneven with sluggish improvement in other end-segments. Mobile phone demand is soft due to longer replacement cycles, while excess inventory accumulation dampened DAO chip demand in the automotive end-segment.

Beyond cyclical trends, more lasting structural shifts in aggregate chip demand have been driven by technological advancements such as Industry 4.0 and AI. In addition, flexible working arrangements and rising geopolitical fragmentation have also reshaped the structure of the E&E industry. Ongoing structural shifts will continue to shape the industry and will provide strong support to the current expansion phase of the global tech cycle.

Malaysia is deeply integrated into the global E&E value chain

E&E has been one of the major drivers of the nation’s industrial development. Over the past five decades, Malaysia’s E&E industry has experienced rapid progress. The E&E industry now accounts for 40% of Malaysia’s total gross exports, contributing 3.7% to global E&E exports and capturing a notable 7.3% share of global semiconductor exports in 2024. It is also a vital source of employment, supporting 614,051 jobs⁴ with an average monthly wage of RM4,019, well above the manufacturing sector’s average of RM3,448. It also makes up 7.4% of total output, with a compounded annual growth rate (CAGR) of 6.4% between 2015 and 2024, higher than the GDP CAGR of 3.8%. Overall, Malaysia is now the world’s ninth largest E&E exporter.⁵

Malaysia has gained a comparative advantage within the global semiconductor ecosystem by developing specialised capabilities in the E&E value chain. It has an entrenched presence in the back-end particularly the outsourced semiconductor assembly and test (OSAT) players, holding 13% share of global ATP activity, as well as some presence in the front-end (Table 1). Further supporting the value chain is a wide array of domestic automated test equipment (ATE) makers.

In terms of products, 64% share of Malaysia’s E&E exports are semiconductors while 36% are comprised of devices such as parts for computers and telephones (Chart 5). Within semiconductor exports, logic chips make up the largest share at 49.5%, followed by DAO (43%) and memory (7.5%). Given the product mix, the recovery for Malaysia’s E&E exports was broadly gradual in 2024. The initial recovery in the early part of the year lagged regional peers. This was primarily due to Malaysia’s limited presence in advanced high-bandwidth memory chips (Table 2). Nevertheless, the recovery took hold in the second half of 2024 as the memory, logic chips and devices segment began to significantly improve (Chart 6).

⁴ Source: Monthly manufacturing data (2024 average), Department of Statistics, Malaysia.

⁵ As of 2024 based on Global Trade Atlas (GTA).

Table 1: Malaysia's Involvement in the Global E&E Value Chain

Devices		Front-End Activities			Back-End Activities
		R&D	Design	Fabrication	ATP
Electronic Components		Low	Medium	Medium	High
Consumer Electronic		Low	Low	Medium	High
Industrial	Computer Equipment	None	Low	Medium	High
	Communication Equipment	None	None	High	Medium
Electrical		Low	Medium	High	High

Source: Ministry of Investment, Trade and Industry, Malaysia

Chart 5: E&E Exports by Product

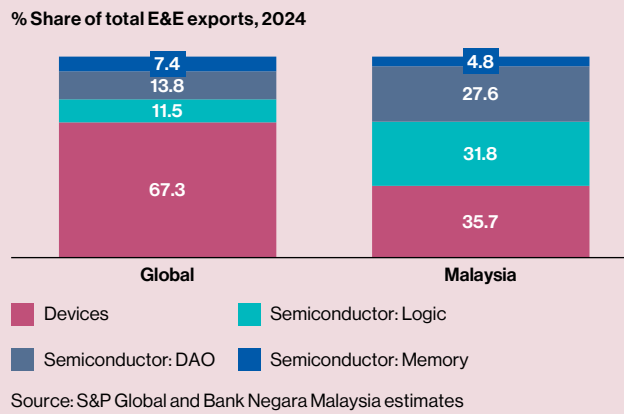


Chart 6: Malaysia E&E Exports Growth by Product (USD)

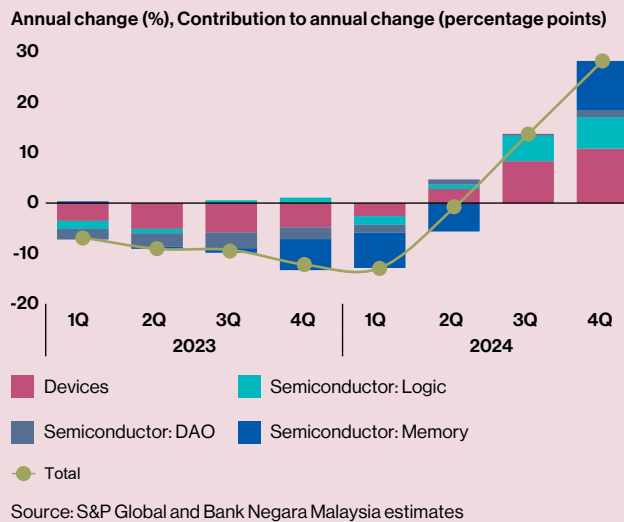


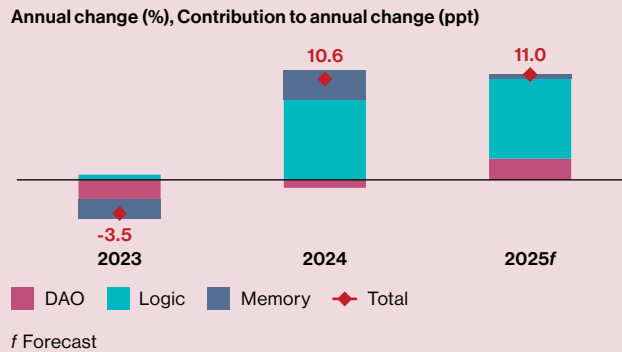
Table 2: Comparison of Malaysia's E&E Exports Growth with Frontrunner Countries by Products

E&E Product	Development
<p>Semiconductor: Memory Annual change (%)</p> <p>— Top 5 exporters — Malaysia — Rest of World</p>	<p>Malaysia's memory chip export growth in 2023 and the first half of 2024 was initially lagging the frontrunner economies due to limited presence in high bandwidth chips but has since recovered.</p>
<p>Semiconductor: Logic Annual change (%)</p> <p>— Top 5 exporters — Malaysia — Rest of World</p>	<p>Malaysia's logic chips exports growth move in tandem with other frontrunner countries such as China, Korea, Singapore and the US, benefitting from increased demand from AI servers and data centres globally.</p>
<p>Semiconductor: DAO Annual change (%)</p> <p>— Top 5 exporters — Malaysia — Rest of World</p>	<p>Overall, DAO chip export growth continues to lag memory and logic chips amid uneven recovery particularly in the automotive and industrial end-segments. For Malaysia, export growth were broadly in line with frontrunner countries and improved further in the fourth quarter of 2024.</p>
<p>Devices Annual change (%)</p> <p>— Top 5 exporters — Malaysia — Rest of World</p>	<p>Malaysia leads in export growth of devices driven mainly by demand for automated data processors.</p>

Note: The top five E&E export frontrunners may differ for each product but are largely comprised of Hong Kong, China, the US, Korea, Chinese Taipei, Germany and the Netherlands.

Source: S&P Global and Bank Negara Malaysia estimates

Chart 7: Malaysia-implied WSTS Semiconductor Sales Forecast by Type of Chips



Note: The Malaysia-implied WSTS semiconductor sales is constructed using the aggregate WSTS global semiconductor forecast by product weighted by Malaysia's semiconductor export shares by product in 2024.

Source: World Semiconductor Trade Statistics and Bank Negara Malaysia estimates

Outlook and drivers for Malaysia's E&E industry

Despite heightened geopolitical tensions and potential trade and investment restrictions, Malaysia's E&E industry recovery is expected to be sustained. It will continue to reap the benefits from the ongoing global tech upcycle. The World Semiconductor Trade Statistics (WSTS) forecasts a continued strong expansion for the global semiconductor industry with a growth of 11.2% in 2025 (2024: 19.1%). This will be driven mainly by memory and logic chips supported by a wider range of end-segments. Demand for PC and mobile phones are expected to grow amid the hardware replacement cycle, rising demand for AI-enabled devices and further adoption of the 5G network. Meanwhile, DAO are expected to expand amid the continued rising chip content per vehicle in the automotive segment, albeit more modestly compared with memory and logic chips.

For Malaysia, the recovery trend in E&E exports across all major product groups is consistent with leading E&E players globally. Estimation of Malaysia's implied semiconductor sales⁶ suggest that it could grow to 11% in 2025 (2024: 10.6%), driven primarily by logic chips (Chart 7). The prospect is further corroborated by findings by the domestic E&E industry. According to the Malaysia Semiconductor Industry Association's (MSIA) quarterly survey for the fourth quarter of 2024, 66% of companies expressed optimism about their overall outlook for the next 12-months.

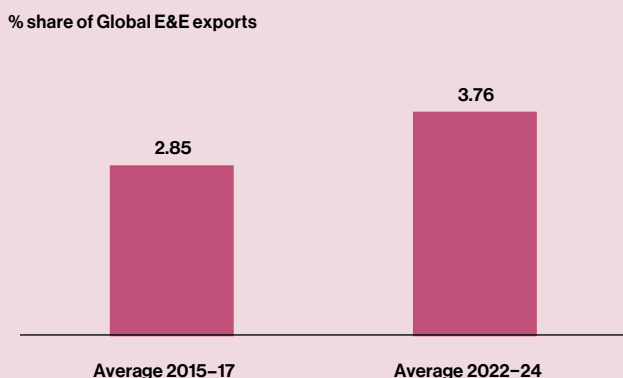
Growth opportunities and challenges for Malaysia's E&E industry

At present, the global economy is confronted with two megatrends with profound implications for the E&E value chain. First, heightened geopolitical tensions have increased economic fragmentation as nations trade and invest more with those they deem as geopolitically allied. Rising protectionism and imposition of tariff and non-tariff barriers have diverted international trade and investment flows. This has caused supply chain disruptions, technology restrictions and elevated uncertainties. Second, the digital revolution, marked by advances in AI, 5G and EV adoption, could greatly transform economic activities. Of significance, AI has the potential to disrupt labour markets notably those involved in cognitive and non-routine tasks. The IMF estimates that about 40% of global employment is exposed to AI,⁷ suggesting that even skilled jobs will need to adapt to the new technology. At the intersection of these two megatrends is the rise of 'techno-nationalism', whereby technological prowess becomes an imperative for national security and economic prosperity. This has led governments to protect their domestic E&E industries while attempting to onshore the semiconductor ecosystem entirely or build a supply chain with allied countries.

⁶ Estimated using the aggregate WSTS global semiconductor forecast by product weighted by Malaysia's semiconductor export shares by product in 2024.

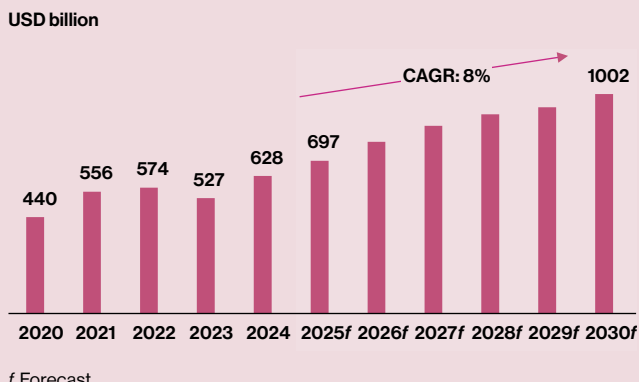
⁷ IMF (2024), Gen-AI: Artificial Intelligence and the Future of Work.

Chart 8: Malaysia's Share of Global E&E Exports



Source: S&P Global and Bank Negara Malaysia estimates

Chart 9: Global Semiconductor Market, 2020–30



Source: World Semiconductor Trade Statistics, PwC Semiconductor Centre of Excellence and Bank Negara estimates

In this evolving landscape, there is potential for Malaysia’s E&E industry to capitalise on emerging opportunities by building on its existing solid foundation and moving to the frontier of higher value-added activities. As countries and MNCs reassess their supply networks amid the ongoing E&E GVC recalibration and bifurcation along dominant trading blocs, many major players are pursuing a strategy to spread out their operational and production base. Given Malaysia’s neutrality and diversified export structure for both products and market destinations, the country is favourably positioned to secure a larger share of the trade and investment diversion, therefore helping attenuate the costs of economic fragmentation. This is already evidenced by the larger share of Malaysia’s E&E exports within the global E&E market (Chart 8).

Meanwhile, the digital revolution is also providing a more enduring support to the global demand for semiconductors, with the market size projected to reach USD1 trillion by 2030 (Chart 9). With rapid developments in AI, the rising demand for cutting-edge chips has led to advanced packaging becoming the latest frontier for innovation. At the same time, the existing cluster of Malaysian IC design companies is at the stage where they are ready to develop chips in-house. These positive developments accord Malaysia the potential to ascend the E&E GVC. This entails expanding its foothold in the more capital and technology-intensive front-end processes while continuously innovating on its prevailing strength at the back-end. Amid the current investment upcycle,⁸ there are forthcoming investments that would deepen Malaysia’s integration into the global semiconductor ecosystem. In 2024, MIDA reported E&E manufacturing investment approvals amounting to RM55.8 billion (2023: RM 85.4 billion). These investment approvals were mainly for capacity expansion and diversification of semiconductor production, such as advanced packaging and wafer fabrication.

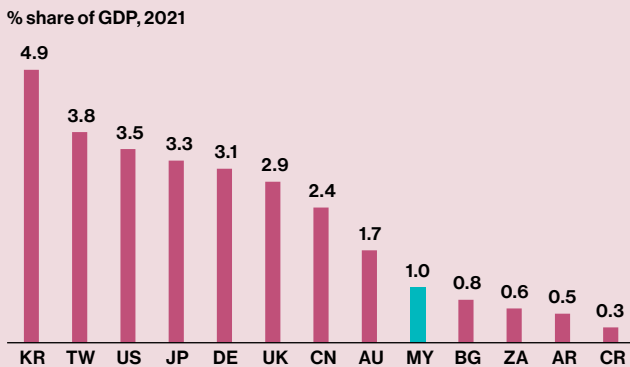
Amid these positive developments, the domestic E&E industry needs to address several key challenges. Among them, the struggle for talent is the most pressing. Based on MSIA survey findings, 72% of E&E firms remained focused on recruitment to cope with talent shortages and high turnover rates, particularly for engineers.⁹ The insufficient availability of highly skilled workers has become a core challenge faced by companies (35% of E&E firms surveyed). If left unaddressed, this could potentially reduce new investments, lead to lost opportunities on new projects and delay Industry 4.0 deployment. Equally critical is the limited creation of home-grown intangible capital¹⁰ and technologies. This can be observed from the low gross R&D expenditure (Chart 10) and domestic value added embedded in gross E&E exports compared to other countries (Chart 11).

⁸ Please refer to detailed analysis on Malaysia’s investment upcycle in the EMR2024 box article ‘Deciphering Investment Cycles in Malaysia’.

⁹ Malaysia Semiconductor Industry Association (MSIA) 4Q24 Quarterly Pulse Survey.

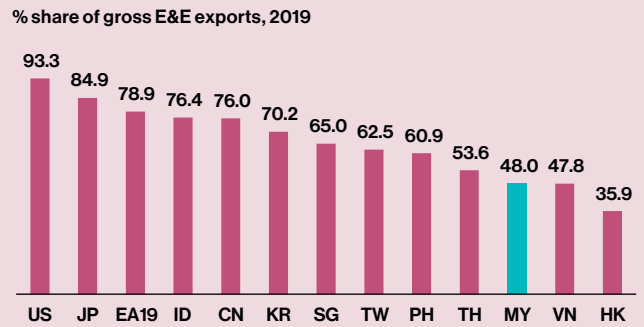
¹⁰ E.g. intellectual properties (IPs), computer software and databases.

Chart 10: Gross Expenditure on R&D



Source: Organization for Economic Cooperation and Development and New Industrial Master Plan 2030

Chart 11: Domestic Value Added Embedded in Gross Exports of E&E

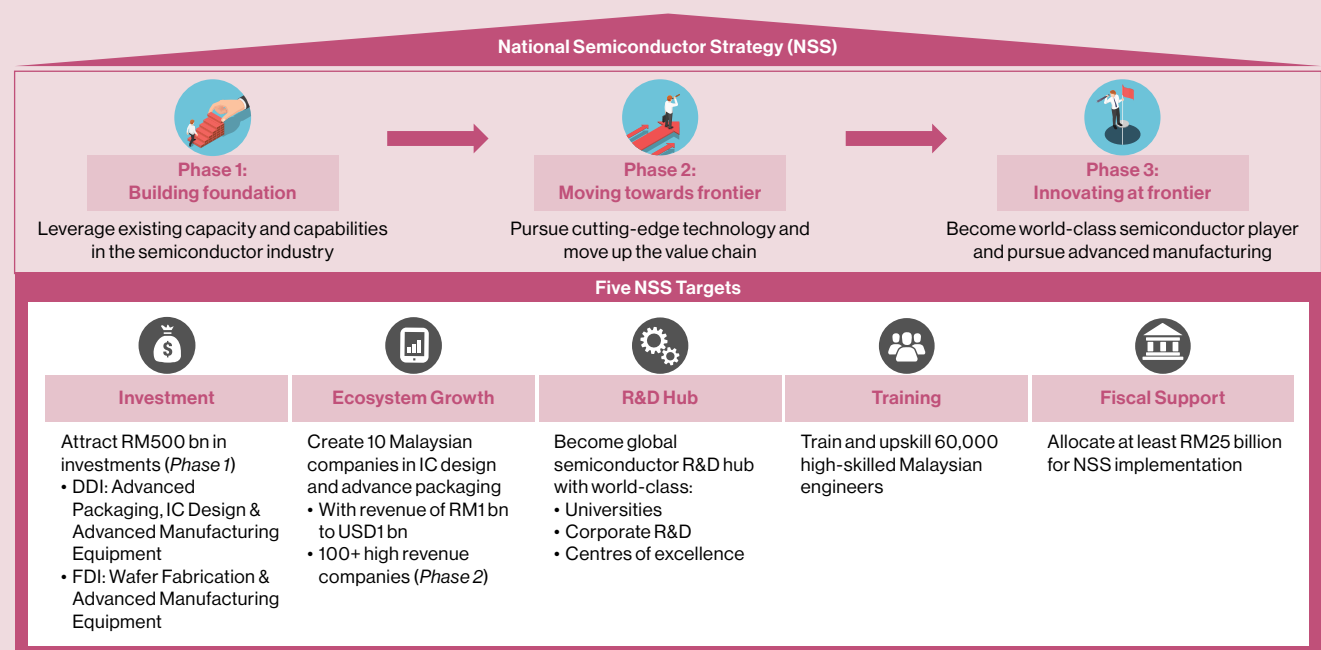


Source: OECD Trade in Value Added 2023 Edition and Bank Negara Malaysia estimates

Policy imperatives to transform Malaysia's E&E industry

Recognising the urgency to drive Malaysia's E&E industry forward amid intense regional competition, the Government has launched the National Semiconductor Strategy (NSS). The NSS complements the New Industrial Master Plan (NIMP 2030) and sets the overarching roadmap to enhance Malaysia's role in the E&E GVC by creating an ecosystem driven by dynamic Malaysian firms and world-class talent (Diagram 2). Guided by the National Investment Aspirations (NIAs), the NSS emphasises attracting domestic investments focusing on IC design, modernising OSAT and advanced packaging, as well as FDI in wafer fabrication and equipment manufacturing. It also aims to develop a local talent pipeline of 60,000 high-skilled engineers. Collaboration in chip R&D between academia, industry and Government is prioritised as well. These objectives are aimed at not only raising the nation's economic complexity but also creating high-value job opportunities and extend domestic linkages within the E&E industry. Meanwhile, the National Energy Transition Roadmap (NETR) will support the low-carbon transition of the E&E industry in becoming more sustainable and efficient.

Diagram 2: Stylised Illustration of the National Semiconductor Strategy (NSS)



Source: Ministry of Investment, Trade and Industry, Malaysia

Alongside the execution of these policies, there is scope to bolster Malaysia's E&E industry even further by boosting domestic E&E capabilities to remain competitive and seize new opportunities. First, there needs to be greater investment into ecosystem enhancement. It is paramount that Malaysia continues to attract both domestic investment and FDI, capitalising on its neutrality in an increasingly fragmented global environment. In addition to capturing opportunities in highly advanced and cutting-edge chip development, there should be a strong focus on continuous innovation in legacy chip production. This will require domestic SMEs to move up and deepen their integration into the E&E GVC. Creating a supportive business environment for small businesses to grow into medium-sized and large enterprises is crucial to foster more innovation and higher productivity. Digitalising the supply chain, including adopting smart manufacturing and industry 4.0 solutions through TechUp,¹¹ a key mission under NIMP 2030, would also enhance overall SME productivity and enable them to compete on a more even footing with global players.

Second is to strengthen supply chain resiliency against potential disruptions through the expansion of bilateral trade agreements. To date, Malaysia has signed and implemented 16 Free Trade Agreements (FTAs), including seven bilateral and nine regional agreements. These agreements¹² benefit the E&E industry by improving product competitiveness, easing entry into new markets and protecting investors' rights. Meanwhile, technical facilitation should be provided to local players so that their product and service offerings meet global procurement standards. Third, Malaysia must pursue a more sophisticated and integrated research, development, commercialisation and innovation (RDCI) strategy to advance technology as a key conduit for innovation in the E&E industry. This strategy should strive to build stronger technology alliances on research initiatives to pool resources and increase the success rate of commercialisation. Specifically, there is an opportunity for domestic players to collaborate locally and internationally to co-develop advanced packaging technology given that it is a nascent field. Further, to optimise investments in RDCI activity for semiconductor development, there is potential to restructure existing grants¹³ or create dedicated R&D funds to meet the current needs more effectively.

Fourth, it is crucial to mobilise financing of differing modalities to cater to investments with varied risk-return profiles. This ranges from the participation of financial institutions to tapping the capital market such as venture capital and private equity to support the growth of innovative tech start-ups. Complementing these modalities are the joint capital pledges by government-linked investment companies (GLICs) through the GEAR-uP programme.¹⁴ The programme will support investment in local firms in high-value industries, including semiconductors, throughout its business growth stages. Finally, there needs to be pragmatic reforms to labour market and immigration policies. Easing the entry of critical foreign talent will help plug shortages in the immediate term while expediting technology transfer and complementing local high-skilled talent development. Meanwhile, improving and promoting STEM education in schools and universities is vital for developing a sustainable talent pipeline, thereby ensuring durable growth and innovation in the industry.

Conclusion

The world is becoming increasingly reliant on semiconductor technology to spur future growth and safeguard economic security. Amid these disruptive global shifts, Malaysia is facing the prospect of repositioning itself as a neutral and leading partner in the E&E GVC. Therefore, Malaysia must be proactive in shaping the ongoing recalibration to its maximum benefit. To succeed on this path, the domestic E&E industry must shift its paradigm and raise its capabilities to compete on a global scale. Building upon its mature ecosystem and existing strengths in the ATP process, there is a window of opportunity to pivot towards greater value creation at the chip R&D, design and fabrication stage. To attract high-quality tech investments, a whole-of-nation commitment is needed to tackle immediate challenges and enhance the comparative advantage of the industry by fostering a culture of innovation. This means having the right set of incentives, business facilitation, talent development and funding support. Ultimately, creating a more dynamic and resilient domestic semiconductor ecosystem will not only be able to withstand fluctuations in global tech cycles, but also secure Malaysia's long-term economic growth prospects and prosperity for the *rakyat*.

¹¹ The NIMP2030 'Mission 2: Tech up for a digitally vibrant nation' aims to embrace technology and digitalisation to drive innovation, enhance productivity and create new opportunities for economic growth.

¹² Free Trade Agreements (FTAs) are vital for the E&E industry, especially those involving key markets in global supply chains, such as the ASEAN Trade in Goods Agreement (ATIGA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Regional Comprehensive Economic Partnership (RCEP), Malaysia-Japan Economic Partnership Agreement (MJEPA) and Malaysia-Australia Free Trade Agreement (MAFTA). Additionally, upcoming agreements like the Malaysia-Korea FTA (MKFTA) and Malaysia-EU FTA (MEUFTA) offer potential benefits for the industry.

¹³ For example, the R&D Fund and Innofund under the Ministry of Energy, Science, Technology, Environment & Climate Change (MESTECC), Technology Development Fund and Strategic Research Fund under the Ministry of Science, Technology and Innovation (MOSTI), and the Cradle Investment Program by Cradle Fund Sdn Bhd.

¹⁴ The GEAR-uP programme is a Ministry of Finance (MOF)-led initiative which aims to deploy a collective RM120 billion over the next five years. The GLICs involved are Khazanah Nasional Bhd, Employees Provident Fund (EPF), Retirement Fund (Incorporated), Permodalan Nasional Bhd, Lembaga Tabung Haji and the Armed Forces Fund Board.

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Drivers of Malaysia’s Current Account of the Balance of Payments in the Post-COVID-19 Period

Introduction

Malaysia’s current account balance has been resilient over the past two decades. It has consistently been in a surplus as goods exports exceeds imports, offsetting services and income deficits. The surplus, however, has gradually narrowed over the last decade due to cyclical and structural factors. While Malaysia is expected to continue registering a current account surplus, uncertainties in global trade prospects could pose risks to this outlook. Short- and medium-term policies to strengthen goods and services exports competitiveness are therefore crucial to sustain the current account resilience. This article examines the key drivers of Malaysia’s current account balance and explores future opportunities and challenges amid the evolving global and domestic economic landscape.

Current Account of the Balance of Payments

The current account of the balance of payments¹ captures the flows of goods, services and income between Malaysian residents and the rest of the world. Three components make up the current account (Table A).

Table A: Components of the Current Account

Current Account	
Trade balance	The value of goods and services Malaysian residents export less imports
Primary income balance	Employee compensation and investment income Malaysian residents receive from the rest of the world, less the payment they made
Secondary income balance	Transfers between Malaysian residents and the rest of the world (e.g. remittances, aid), and income Malaysian Government and residents receive from the rest of the world (e.g. taxes and refunds) less the payments they made

Source: Department of Statistics, Malaysia and International Monetary Fund

A current account surplus occurs when a country exports more goods and services than it imports and when it earns more income (and transfers) than it pays out. This net surplus can then be used to meet the country’s international financial obligations, build international reserves and invest in foreign assets to generate returns. And, as the country receives more foreign exchange inflows than outflows, this can ensure a sustained demand for the country’s currency.

The current account balance also reflects the level of savings and investments within the domestic economy.² A current account surplus occurs when a country saves more than it invests, allowing it to lend the surplus savings abroad and becomes a net lender to the world. Conversely, a current account deficit occurs when a country invests more than it saves, requiring it to borrow foreign funds and become a net borrower from the rest of the world.

¹ The balance of payments (BOP) is a record of transaction between residents of a country and the rest of the world. While the current account captures net monetary flows from international trade activities, the financial and capital accounts capture the net changes in assets and liabilities.

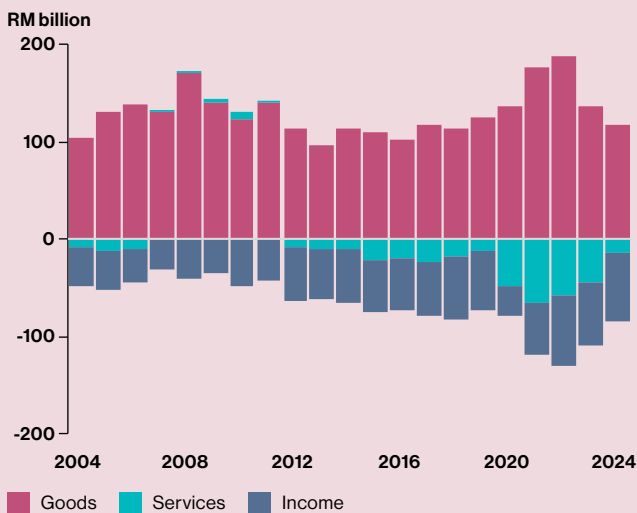
² See box on Malaysia’s Savings and Investment (S-I) Gap in this article.

The sustainability of a current account balance depends on its drivers. Surpluses help countries build buffers to withstand economic shocks. However, an excessively large surplus may signal inefficient resource allocation that could otherwise be used for investments to enhance domestic growth. Conversely, deficits may reflect periods of high spending or domestic capacity expansion. If these deficits are small, driven mainly by productive investments and financed by stable sources such as foreign direct investment, the deficit may not necessarily indicate an unsustainable macro-financial development. Furthermore, these investments would contribute to higher productivity and generate future income, thus supporting the current account balance in the longer run. However, if the deficit is large and persistent, it could reflect risks of macro-financial imbalances. Such imbalances could stem from rapid credit growth to support over-consumption, significant increase of asset prices and the excessive external borrowing of short-term debts.

Two decades of current account strength

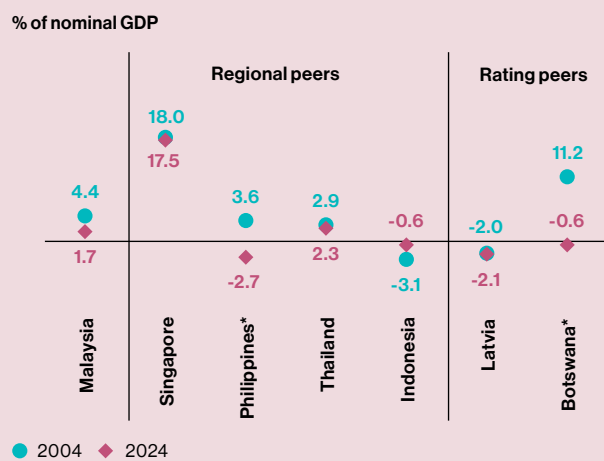
Malaysia has consistently maintained a current account surplus over the last two decades. This surplus was primarily supported by continuous net exports of goods, which has offset deficits in the services and income accounts (Chart 1). This consistent surplus distinguishes Malaysia from its regional peers and countries with similar credit ratings,³ many of which have experienced intermittent or even prolonged current account deficits during the same period (Chart 2).

Chart 1: Malaysia's Current Account Balance by Components



Source: Department of Statistics Malaysia

Chart 2: Current Account Balance by Countries



* Based on 2023 annual data.

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

The strength of Malaysia's current account is attributed to several factors:

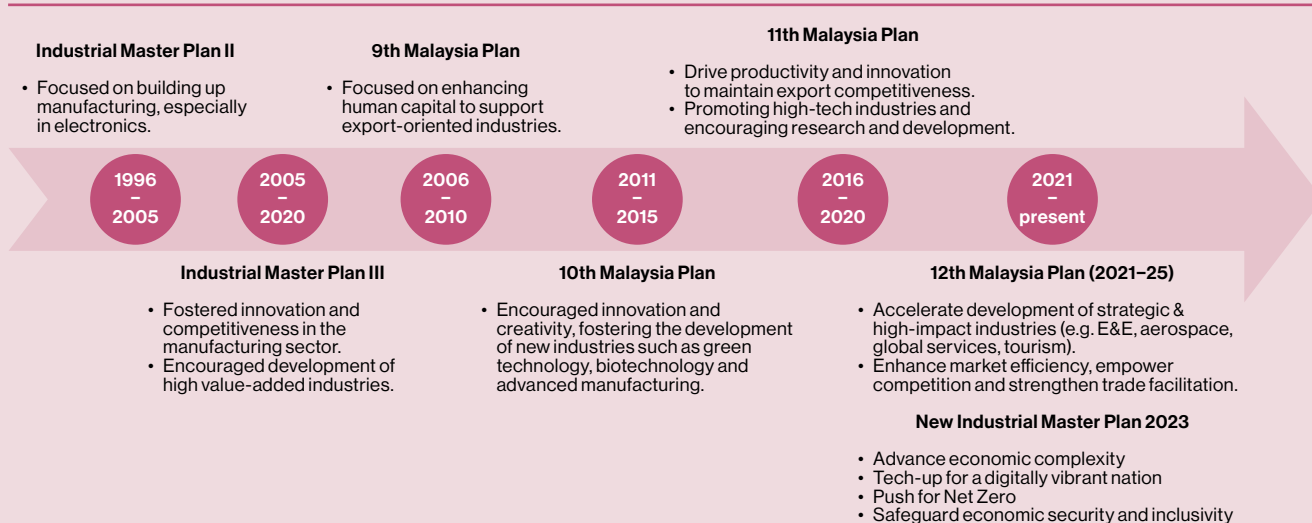
i. Robust E&E trade surplus and emerging strength of selected non-E&E sectors

Malaysia's continued trade surplus has been driven mainly by the strength of its manufacturing sector. This reflected Malaysia's transformative journey through the dynamism of its private sector and the execution of its industrial plans since the late 1990s (Diagram 1). These industrial policies have strengthened Malaysia's position in global value chains by fostering the development of high value-added activities and enhancing the competitiveness of key industries. The rising competitive edge, particularly in the electrical and electronic (E&E) sector, has contributed significantly to Malaysia's exports, and in turn, the trade and goods surplus (Chart 3).

³ Rating peers include Botswana and Latvia. These countries have similar S&P, Fitch or Moody's credit rating with Malaysia.

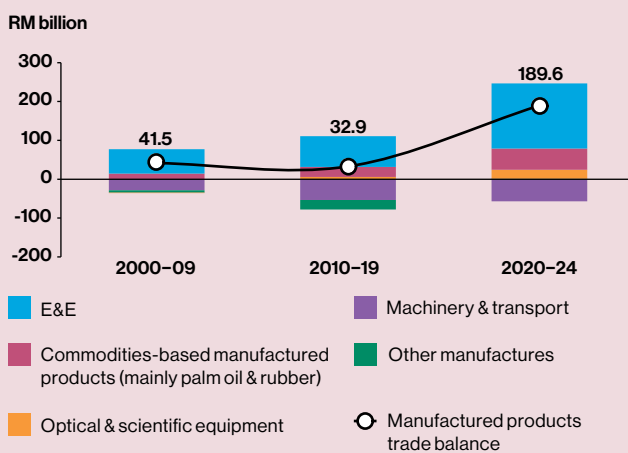
Over time, Malaysia also bolstered its capabilities to export selected non-E&E manufactured products, becoming a net exporter of commodity-based products such as palm oil and rubber products, chemical products as well as optical and scientific equipment. Malaysia also diversified its exports to produce high-value manufactured goods such as machinery, some of which benefitted from the strength of the E&E sector (e.g. machines for semiconductor production). However, machinery and transport imports were higher than exports, leading to a trade deficit for the non-E&E sector. This net import position reflects Malaysia's needs for high-tech and advanced equipment as it continues to develop its industrial capabilities amid limited domestic supplies for some of these goods.

Diagram 1: Various Malaysia Plans to Boost Export and Trade Surplus



Source: Various Malaysia Plans

Chart 3: Manufactured Products Trade Balance by Components

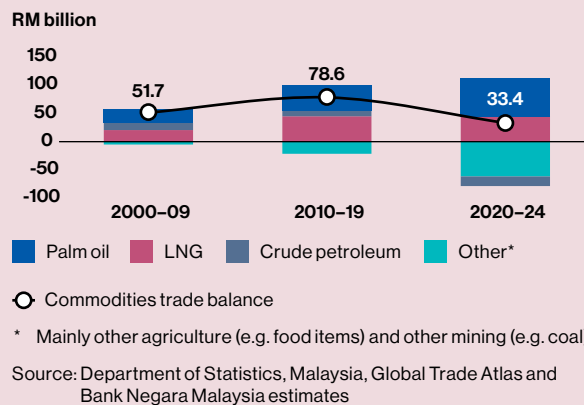


Source: Department of Statistics, Malaysia, Global Trade Atlas, CEIC, and Bank Negara Malaysia estimates

ii. Continued importance of commodity trade surplus

While Malaysia has transitioned away from relying on commodities as primary sources of exports, it remains a significant player in the commodities market. Malaysia is one of the major producers of crude palm oil in the world. Exports of this commodity has benefitted from higher global demand as palm oil is widely used in consumer food products and as a biofuel. Meanwhile, the share of liquified natural gas (LNG) in Malaysia's energy exports has increased relative to crude petroleum. This was underpinned by the growing contribution of LNG in the global energy mix, driven by higher demand to reduce carbon emissions. The exports of palm oil and LNG was higher than imports for domestic production and use, leading to a continued trade surplus of these commodities (Chart 4).

Chart 4: Commodities Trade Balance by Components



On the other hand, Malaysia's crude petroleum exports has steadily declined amid maturing oil fields and increasingly displaced by higher exports of petroleum-based manufactured products (e.g. refined petroleum).⁴ This was supported by robust downstream petroleum refining infrastructure, including the Pengerang Integrated Complex (PIC).⁵ In addition, the expansion in domestic industrial activities alongside rising fuel consumption led to higher demand for petroleum domestically.⁶ These, in turn, led to higher reliance on petroleum imports. As a result, Malaysia imported more crude petroleum to support these refining and domestic activities, contributing to the deficit position in petroleum trade.

Meanwhile, the trade deficit of other commodity-related primary goods, particularly food items has widened.⁷ This trend was partly attributable to slower growth of agriculture and food production in tandem with the lower land availability for farming. This was also driven by the increasing demand for land space for residential, manufacturing, retail and other economic developments.

iii. Diversity in exports market

Malaysia's export market has become increasingly diverse over the decades. Between 1999 and 2024, average annual growth rate of exports to East Asia, Middle East and Latin America was 8.2%, 7.9% and 9.1%⁸ respectively. In comparison, growth of exports to other countries in the same period was more modest at 6.7%. The increase in exports to these three regions reflected their growing prominence in global trade and stronger trade ties with Malaysia. The diversification helped in part to maintain the current account surplus as Malaysia was able to weather external volatility from country- or region-specific shocks. For example, the economic slowdown of advanced economies during the global financial crisis of 2008-09 weighed on Malaysia's exports to the North America and Europe regions. However, this slack was partly

⁴ Crude petroleum exports share has declined from an average of 4.7% of total exports in 2000s to 1.8% in 2020s. In the same period, exports share of petroleum-based products has increased from an average of 3.1% to 8.6% during the same period.

⁵ Malaysia operates several major refining facilities with a combined capacity close to 1 million barrels per day, positioning it as a key regional player in the refined petroleum products landscape.

⁶ Between 2014-19 and 2022-24, the annual growth of fuel sales increased from an average of 10.6% to 17.3%. This, in part, contributed to rising expenditures on fuel subsidies (average 2022-24: RM38.2 billion; average 2015-19: RM4.4 billion).

⁷ On average, Malaysia recorded food net imports of RM29.9 billion in 2020-24 (average 2010s: RM16.5 billion; average 2000s: RM7.2 billion).

⁸ Robust growth to Middle East and Latin America was partly due to low base (<RM6 billion in 1999).

offset by higher exports to the East Asian countries, particularly China. In 2024, subdued domestic demand in China led to slower exports from Malaysia to East Asia but this was then offset by stronger exports to North America and regional countries in Southeast Asia such as Singapore, Indonesia and the Philippines (Table 1).

Table 1: Malaysia’s Exports to Selected Regions, Average Annual Growth (%)

	GFC 2008–09	COVID-19 in 2020	Post-COVID-19 in 2024
Total exports	-3.5	-1.1	5.7
North America	-19.1	13	24
European Union	-11.7	-3.9	2.6
Northeast Asia	3.3	4	2.7
Southeast Asia	-3.1	-4.7	4.2

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

iv. Growing potential in key services activities to reduce the deficit

Over the past two decades, Malaysia’s services trade balance has generally ran a deficit, primarily due to the net import of trade-related services such as transportation, intellectual property charges and business services.⁹ As trade expands, payments for these services increased, reflecting the country’s reliance on foreign service providers.

Nevertheless, the overall services deficit has been narrowing, supported by the improving net surplus of travel and manufacturing-related services. Between the 2000 and 2019, net travel surplus expanded from RM11.2 billion to RM30.8 billion.¹⁰ This growth was driven by the expansion of inbound tourism amid higher travel connectivity and strategic promotions (e.g. Visit Malaysia Years). After the pandemic, visa exemptions for key emerging markets such as China and India also accelerated the tourism recovery.¹¹ In 2024, tourist arrivals reached 96% of its 2019 level, while travel receipt has exceeded 2019 level by 19%.

In addition, the net surplus of manufacturing-related services has increased from RM8.2 billion in 2010 to RM16.4 billion in 2024. This sector encompasses various activities that support and complement core manufacturing activities, including processing, assembly, labelling and packing of goods. The growth of this sector is closely related to Malaysia’s strong manufacturing sector, notably in E&E.

v. Pick-up in income accrued to domestic investment abroad and transfers into Malaysia

The income account has remained persistently in deficit, primarily due to continued outflows from investment earnings accrued to foreign investors in Malaysia (in the primary income) and remittances by foreign workers (in the secondary income). However, this was partly offset by the increasing inflows from earnings gained by Malaysia’s direct investments abroad (DIA) as well as remittances from Malaysians abroad. Between 2010 and 2024, outstanding DIA doubled from RM299 billion to RM618 billion as Malaysian firms expanded and diversified their investments and sources of income. Notable growth during this period was in finance and insurance services as Malaysian financial institutions expanded their business outreach to the region. Overall, these investments abroad then generated higher primary income accrued to Malaysia over the years, from RM18.8 billion in 2010 to RM39.7 billion in 2024. Additionally, transfers from Malaysian working abroad provided some support to the current account. Between 2010 and 2024, inflows in the secondary income account increased from RM1.9 billion to RM39.1 billion.¹²

⁹ Business services refer to research & development (R&D), professional & management and technical services.

¹⁰ Average for 1990s refers to 1990–99, while average for 2000s refers to 2000–19.

¹¹ In 2024, Chinese (Indian) tourists were 106% (154%) of its 2019 level.

¹² Specifically, remittances from Malaysians working abroad amounted to RM25.5 billion in 2024. This was lower than the remittances by foreign workers in Malaysia of RM32.6 billion in the same year.

Post-COVID-19 developments of the current account

Despite the continued surplus, the current account balance has gradually moderated, from its peak at 17.1% of GDP (RM131.4 billion) in 2008¹³ to 3.5% in 2019 (RM52.9 billion). Post-COVID-19, the current account surplus moderated further to 1.7% of GDP (RM32.8 billion) in 2024. This moderation was underpinned by several external and domestic factors:

i. Narrower goods surplus as exports recovery was partly offset by faster imports growth

In 2020, both exports and imports contracted due to the COVID-19 pandemic. However, the current account remained in surplus as exports contracted less than imports. Post-COVID-19, exports rebounded in 2021–22, in tandem with the recovery in global growth. Moreover, E&E demand grew robustly due to the higher adoption of technology devices since the pandemic. Amid rising global demand, commodity prices also improved during this recovery phase, which supported Malaysia's commodities and commodities-related manufactured exports. These provided an additional lift to the country's exports growth. However, global technology trade went through a downcycle in 2023 and affected Malaysia's exports. This trend, however, rebounded again in 2024 and supported Malaysia's export recovery (Table 2).

Table 2: Merchandise Exports and its Major Drivers, Annual Growth (%)

	Malaysia's exports	Global GDP	Global semiconductor sales	Brent prices (USD per barrel)
2020	-1.1	-2.7	6.8	-33.9 (USD42)
2021–22	25.5	5.1	14.8	60.6 (USD85)
2023	-8	3.3	-8.2	-15.7 (USD82)
2024	5.7	3.2	19	-2.8 (USD80)

Source: Department of Statistics, Malaysia, International Monetary Fund, World Semiconductor Trade Statistics and Bank Negara Malaysia estimates

Malaysia's goods surplus was also influenced by the changing global trade environment and global value chain reconfiguration prior to and after the pandemic. Increased trade protectionism led to a slowdown in overall external demand between 2017 and 2019. However, Malaysia partly benefitted from the trade and investment diversions by multinational companies who have increased their production capacity in the country.¹⁴

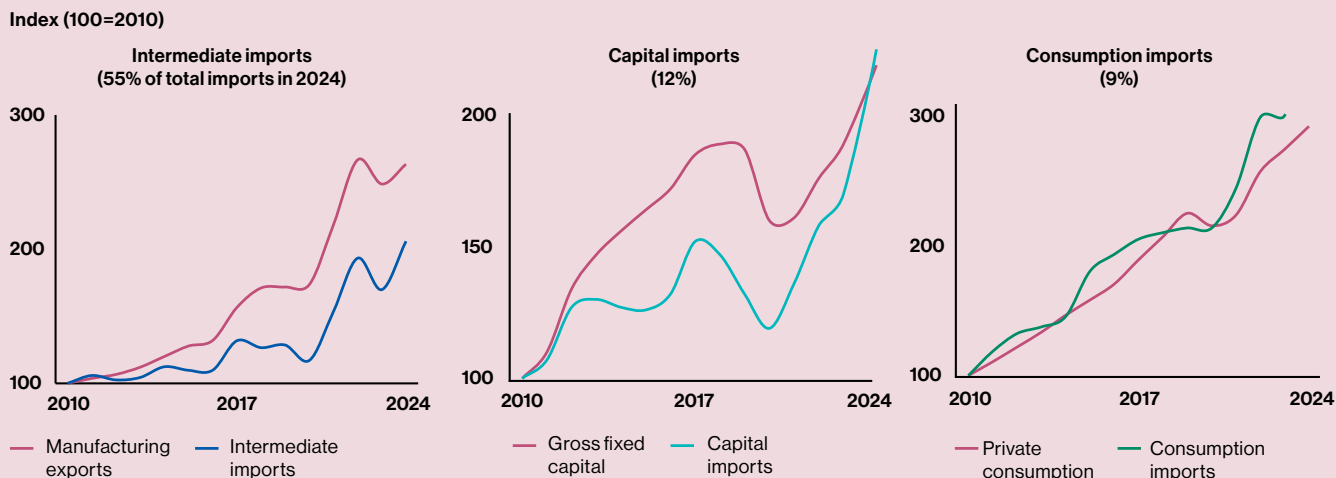
Despite the recovery registered by exports, faster growth of imports has exerted some pressure on the current account surplus. The robust growth of imports was driven by three key factors. First, as part of the global supply chain, Malaysia imports intermediate goods as inputs for production and exports of manufactured goods. The import intensity edged higher to 58% in 2024 compared to its pre-pandemic level of 56% in 2019.¹⁵ Second, the surge in global demand for E&E components, coupled with trade and investment diversions towards Malaysia, resulted in a sharp increase in capital imports. Between 2021 and 2024, as businesses scaled up their investments and operations in Malaysia, average annual growth of capital imports surged by 16.7%, significantly exceeding the historical average growth rate of 3.8% (average 2011–19). Third, rising households' income has led to higher spending and contributed to the increase in imported consumption goods (Chart 5).

¹³ In 2008, Malaysia's current account was supported by a significantly larger trade surplus following the stronger growth in both commodities and resource-based manufacturing exports amidst higher commodity production and prices, notably for oil & gas and palm oil as well as their related products.

¹⁴ Based on Nomura (2024). In 2023, exports to both the US and China were higher by 82% and 52% of their respective levels in 2017. Meanwhile, foreign direct investments from the US and China were higher by 191% and 96% in the same period, respectively.

¹⁵ Import intensity is proxied by the share of intermediate imports to manufactured exports. Despite the pick-up after the pandemic, this intensity in 2024 is lower than long-term average of 66% (2010–19 average).

Chart 5: Malaysia's Imports



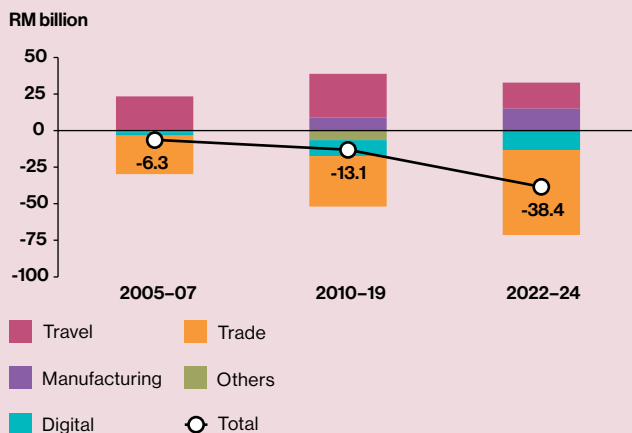
Source: Department of Statistics, Malaysia, Haver Analytics and Bank Negara Malaysia estimates

While the rising imports led to lower goods surplus, the bulk of these imports are mainly inputs for exports or for productive purposes. In particular, the higher capital imports comprise of complex, technological products such as computers, industrial motor vehicles and machinery. They are purchased for various services and E&E manufacturing investments, including semiconductor industry and data centres. Furthermore, these investments are expected to generate future export income, supporting the current account in the medium term.¹⁶

ii. Continued services deficits amid high participation in global value chains and digitalisation

The services deficit has widened further during post-COVID-19 periods. While the surplus of travel and manufacturing services increased gradually, they were insufficient to offset the larger deficits in other services components, particularly trade-related services (Chart 6). The higher trade-related services deficit was driven mainly by high imports of R&D by the E&E sector, followed by imports of freight transportation (Chart 7(a)). This reflects Malaysia's continued reliance on services imports, which are primarily sourced from countries with better capabilities and economies of scale, typically in more advanced economies. Meanwhile, domestic capacities to provide these services are still at the nascent stage of development. As the country's capacity and competitiveness grow, this would gradually reduce the economy's dependence on these imports.

Chart 6: Services Account Balance



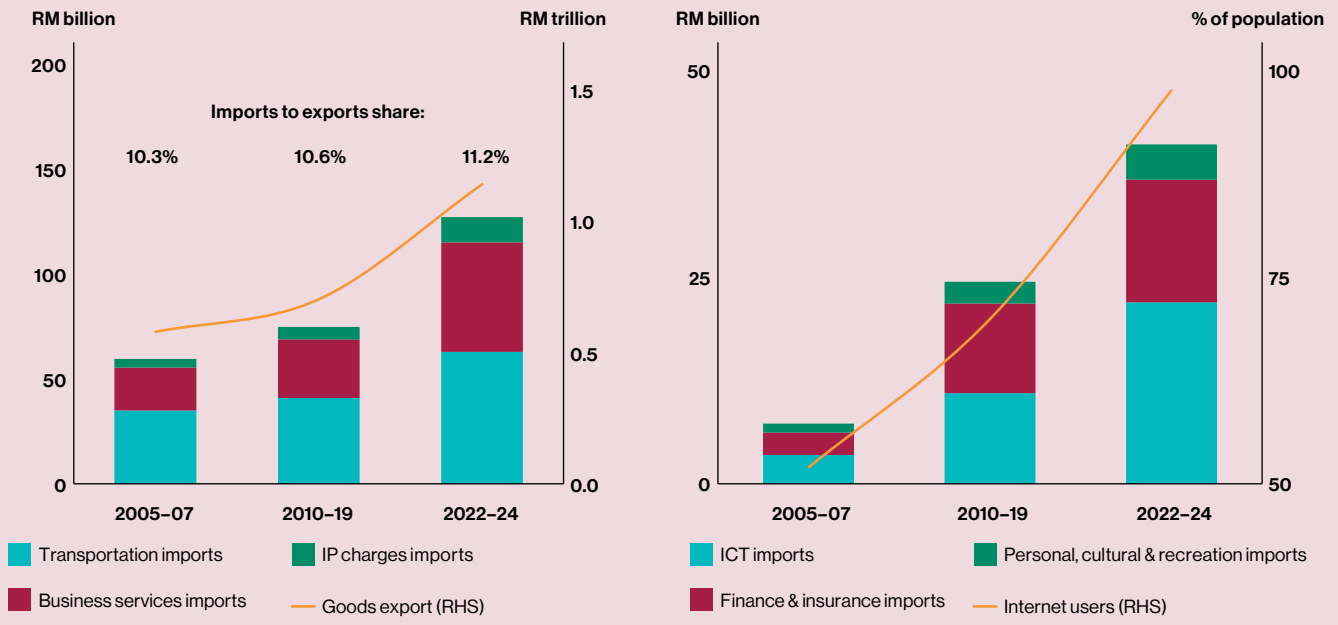
Source: Department of Statistics, Malaysia, Haver Analytics and Bank Negara Malaysia estimates

¹⁶ See box article on Deciphering Investment Cycles in Malaysia.

Another notable development during this period was the higher imports of digitally delivered services such as cloud computing and storage facility, video conference software and online games and entertainment.¹⁷ Since the pandemic, imports of these services grew by 10.7% in 2022–24 (2010–19: 7.5%) in tandem with more widespread use of internet and online interactions (Chart 7(b)). These services imports remained higher than exports and contributed to the widening of the net deficit of digital services in the current account.

Chart 7(a): Trade-related Services Imports and Goods Exports

Chart 7(b): Digitally Delivered Services Imports and Internet Users

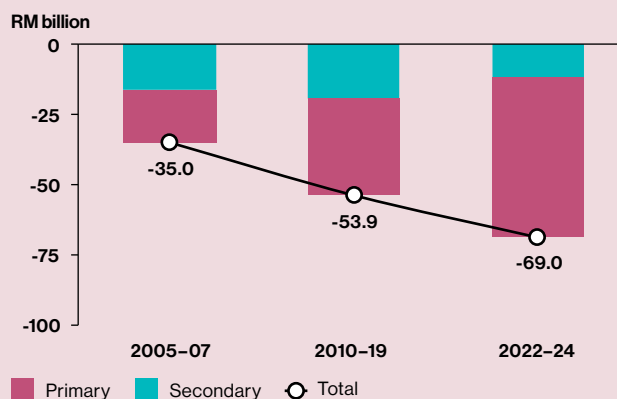


Source: Department of Statistics, Malaysia, Haver Analytics and Bank Negara Malaysia estimates

iii. Higher profits accrued to foreign investors & transfers by foreign workers in the income account

The deficit in the income account has also increased after the pandemic, driven mainly by the primary income account. While foreign direct investment (FDI) plays a critical role in Malaysia’s economic expansion and advancement, they have also yielded considerable returns to the FDI investors. Profits accrued to these foreign firms, in turn, contributed to primary income outflows in the current account.¹⁸ This offset the primary income inflows from Malaysia’s DIA, leading to a higher net deficit in the primary income balance (Chart 8).

Chart 8: Income Account Balance



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

¹⁷ Digitally delivered services refer to services which can be purchased and delivered digitally. It includes transactions related to technology, information and communications, finance, insurance as well as personal, recreational and cultural services.

¹⁸ Between 2010–24, 66% of primary income debit or payments consist of income accrued due to direct investments, 18% due to portfolio investments and 4% due to other investments. Wages paid to non-resident workers is also part of the primary income debit, accounting for 12% of the total debit.

Larger net deficit in the primary income account is driven by outflows of direct investment income due to three primary factors. First, the total cumulative FDI stock in Malaysia is larger than that of Malaysia's DIA. This has led to higher levels of profits accrued to foreign investors in Malaysia (Chart 9(a)). Second, profits generated by FDI are also higher than DIA due to different sector concentrations (Chart 9(b)). Broadly, both FDI and DIA are mainly channelled to the services sector, but FDI is also concentrated in the manufacturing sector, which generated relatively higher returns.¹⁹ Meanwhile, the relatively higher share of mining in DIA, which could be more exposed to the volatility in prices and productions, could result in a lower returns from DIA. Third, sizeable incentives for FDI, which lowered costs and improved the profit margins for these investments, could also help to boost the returns on FDI, leading to higher income outflows. Amid Malaysia's continued reliance on FDI to help support economic expansion, the large deficit in the primary income is expected to continue in the foreseeable future.

Chart 9(a): Stock and Income from Direct Investments

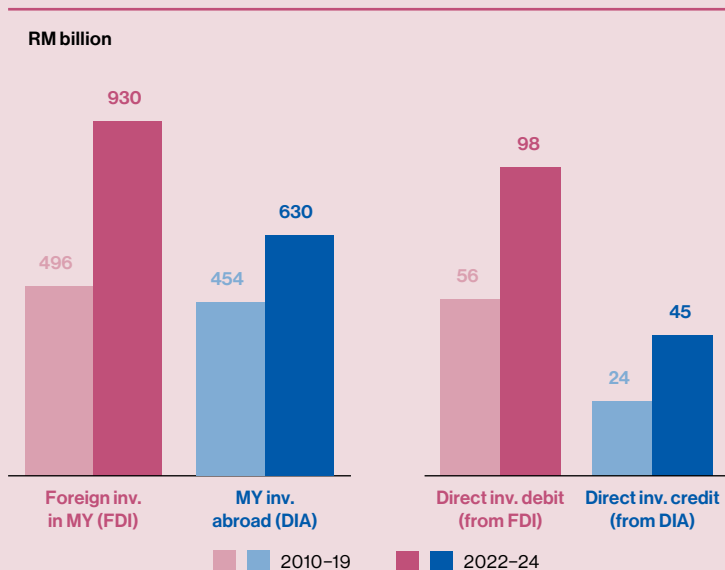
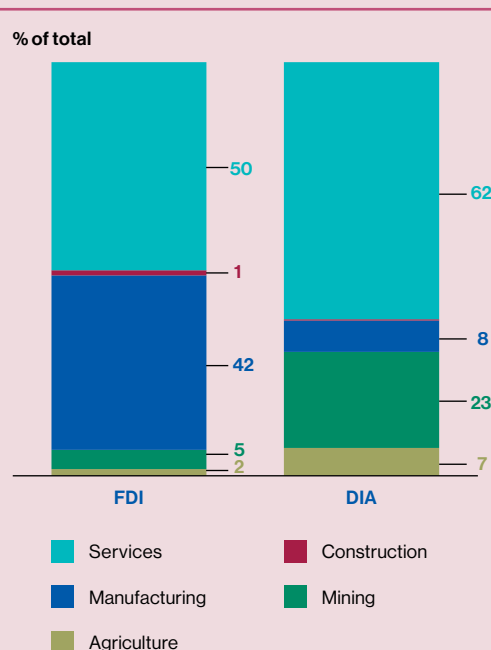


Chart 9(b): Direct Investments by Sector



Note: FDI refers to foreign direct investment in Malaysia, DIA refers to Malaysia's domestic investment abroad.

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

Meanwhile, the secondary income account has improved significantly post-COVID-19 and recorded a sizeable decline in the deficit from RM21.4 billion in 2019 to RM8.9 billion in 2024. This improvement was driven mainly by a significant increase in inward transfers from Malaysians working abroad (2024: RM25.5 billion; 2019: RM8.9 billion). Nevertheless, the deficit in the secondary income account persisted amid continued remittances outflows from foreign workers. There were approximately 2.5 million active foreign workers employed in the country²⁰ who remitted RM32.6 billion back to their home countries in 2024 (2019: RM31.4 billion).

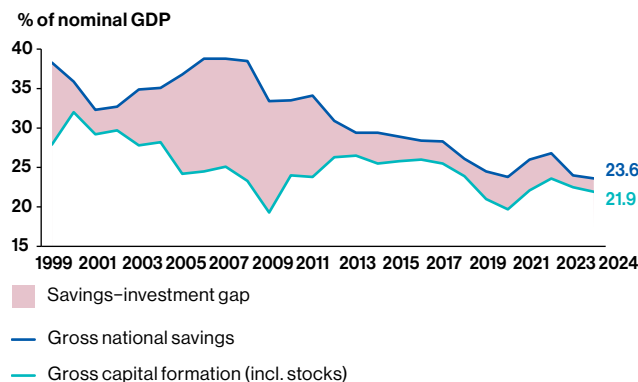
¹⁹ Between 2011-24, the average return to FDI manufacturing investments is 14.4% (non-manufacturing: 10.3%), while DIA manufacturing investment is 8.8% (non-manufacturing: 6.2%). Returns are estimated as primary income payments (receipts) in the current year divided by FDI (DIA) stock in the previous year.

²⁰ Data as at end-August 2024. These workers are employed in both formal and informal sectors in the economy. Estimated figure in 2024 is also higher than 2019 (2.0 million). Source: Immigration Department under Ministry of Home Affairs

Malaysia's Savings and Investment (S-I) Gap

The current account surplus is also a reflection of the gap between savings and investments in Malaysia. After the Asian financial crisis, higher savings (as a share of nominal GDP) relative to investment have kept the surplus high (Chart A). However, after the 2008–09 global financial crisis, savings declined due to more modest business profits and continued household spending.²¹ Investments also picked up in the early 2010s in tandem with the Economic Transformation Programme, the booming oil and gas industry, and significant growth in the property market.²²

Chart A: Gross National Savings and Investment



Source: Department of Statistics, Malaysia, Haver Analytics, CEIC and Bank Negara Malaysia estimates

Post-COVID-19, savings level picked up notably in 2021–22 due to higher profits generated during the post-pandemic recovery before moderating again as earnings dipped during the global tech downcycle in 2023. Investments also moved in tandem with savings trend during this period. Going forward, further increase in investments might reduce the current account surplus in the short term. However, these investments should boost productivity and income, which will enhance savings and the current account surplus in the medium term. Continued fiscal consolidation would also further improve the current account surplus.

²¹ See box article on Understanding the Changing Dynamics of the Current Account of the Balance of Payments in Malaysia in BNM's 2016 Annual Report. See box on Malaysia's Savings and Investment (S-I) Gap in this article.

²² See box article on Deciphering Investment Cycles in Malaysia.

Outlook and policy imperatives

Despite the narrowing trend, the current account is expected to remain resilient over the medium term. The IMF projects Malaysia's current account balance to register surpluses between 2.8% and 3.0% in 2025–29.²³ This resilience will be underpinned by Malaysia's continued strength in the manufacturing exports. Malaysia's E&E exports are poised to benefit from the expansion in the global tech cycle, supported by the underlying demand for technology devices and applications. The continued improvement in global travel demand is also expected to boost the travel surplus. This is further supported by domestic policies leading up to the upcoming Visit Malaysia 2026. Malaysia is also in a favourable position as a strategic location for new investments by companies that seek to diversify their operations amid the ongoing global trade reconfiguration. Moreover, gains from the domestic investment upcycle across a wide range of manufacturing and services activities could lift exports of goods and services in the medium term. Nonetheless, challenges remain for Malaysia's current account balance, particularly from uncertainties surrounding global trade. Hence, policy imperatives should focus on efforts to enhance Malaysia's exports and boost the tourism sector to strengthen the current account surplus.

²³ Source: Malaysia: 2024 Article IV Consultation-Staff report, 10 March 2024

In the medium term, the effective implementation of structural policies is essential to secure a sustainable current account balance. Increasing the complexity and value-added of our export products can support the surplus. Enhancing the productivity and capabilities of domestic players could also increase our competitiveness and reduce reliance on imported materials and services. In the services account, Malaysia should continue to enhance tourism offerings to cater for more diverse markets to remain attractive. Moreover, policies should further enable the growth and development of domestic capacity and expertise in digital services. For example, strategic expansions of the data centre industry in Malaysia can help to advance the country local manufacturers' capabilities in manufacturing equipment such as cooling systems and server racks. Moreover, the data centre industry can generate forward linkages, for instance, by uplifting local independent software vendors and fostering the development of local cloud computing, enabling them to serve both domestic and international markets. This development provides opportunities for Malaysia to create more services exports as our new sources of income, and at the same time reduce the country's reliance on imported digital service. In the income accounts, policies should seek to encourage reinvestment of profits by foreign firms, for example, through effective investment facilitation efforts throughout the investor journey.²⁴

These policy imperatives are embedded in existing masterplans (Diagram 2). Their successful implementation, along with ongoing fiscal consolidation efforts, are key to support a sustainable current account surplus. In addition, these policies can generate high-skilled job opportunities and higher income levels for Malaysians.

Diagram 2: Policy Priorities to Support Current Account Surplus



...embedded in key masterplans. Effective implementation and continuous refinement are key

National Investment Aspirations (NIA), New Industrial Masterplan (NIMP), National Semiconductor Strategy (NSS), Visit Malaysia Year 2026, National Tourism Policy (NTP), Malaysia Digital Economy Blueprint (MyDigital)

Source: Bank Negara Malaysia

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²⁴ For more information on investment facilitation efforts, please refer to box article on Deciphering Investment Cycles in Malaysia.

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Supply Shocks and Implications for Monetary Policy

Introduction

Malaysia's position as an open and trade-reliant economy makes it particularly vulnerable to supply shocks arising from external disruptions. In addition, domestic policy shifts can also create supply-side disturbances. These shocks generally have opposing effects on inflation and growth, making it especially challenging for the central bank to balance between price stability and sustainable economic growth, particularly in a post-COVID-19 environment marked by structural shifts and heightened geopolitical tensions.

Recent domestic policy adjustments, including the Government's subsidy rationalisation measures since 2023, have added new dimensions of complexity to the dynamics of supply shocks. Measures affecting chicken, utilities and diesel prices will improve fiscal sustainability and address market distortions, but at the same time, bring near-term inflationary pressures. Together with more structural reforms under Budget 2025,¹ these policies represent efforts to strengthen fiscal and economic resilience as well as improve the operation of market mechanisms, including by enhancing price discovery and competition in the affected markets. A key challenge of policymakers is to ensure careful and effective implementation of these measures without generating excessive price pressures.

This article examines the dynamics of supply shocks, both external and policy-induced, and their implications for monetary policy.² It aims to provide insights on how policymakers navigate the trade-offs between controlling inflation and sustaining economic growth, as Malaysia embarks on crucial reforms amid heightened global uncertainties.

Defining supply shocks and their dynamics

Supply shocks are generally defined as disruptions that increase production costs or constrain output due to factors such as geopolitical tensions, natural disasters or policy changes. These disruptions may temporarily or permanently change prices, quantities or inputs of production, sometimes leading to higher inflation and reduced economic activity. Supply shocks are usually unexpected, but those from policy measures or pre-announced adjustments can be anticipated. Nonetheless, their timing and size, as well as impact on prices and economic activities may still be uncertain.

Externally driven supply shocks, such as disruptions in global supply chains, can raise domestic production costs. As key imported inputs like raw materials become more expensive,³ firms could face higher production costs. To maintain profit margins and/or business operations, firms may pass on these higher costs to consumers, contributing to inflationary pressures.

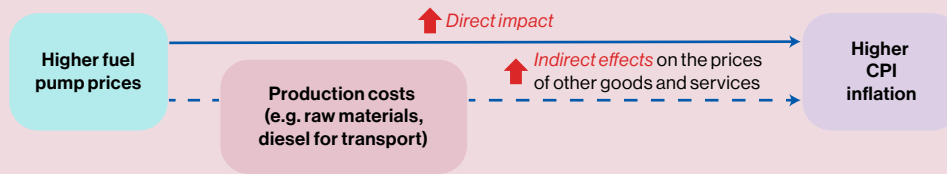
Similarly, policy measures like subsidy reforms can also induce supply shocks by directly increasing prices or affecting access to key production inputs. To illustrate how policy-induced supply shocks transmit through the economy, consider the removal of fuel subsidies. The resulting higher fuel prices **directly affect** the fuel component of the consumer price index (CPI) basket (Diagram 1). Such increases can additionally lead to broader price pressures through **indirect effects**, as it increases the production costs of domestically produced items in the CPI basket. These may include the costs of transportation, logistics and utilities.

¹ These include, among others, adjustments to RON95 fuel prices, labour market policies such as minimum wage and progressive wage model, and the expansion of the Sales and Services Tax (SST).

² The article focuses on policy shocks affecting the supply side due to their complexity and the challenging policy trade-offs they entail. In contrast, policy-driven demand shocks, which typically move inflation and output in the same direction, are relatively more straightforward for monetary policy to address.

³ This results in higher marginal costs for firms, which refers to the additional cost of producing one more unit of a good or service.

Diagram 1: Illustrative Transmission Channels from Policy-induced Shocks



Source: Bank Negara Malaysia

Spillovers to broader prices could also be amplified by the prevailing strength of demand conditions and the extent of targeted financial assistance⁴ accompanying the rationalisation of fuel subsidies. In cases where demand is strong or targeted assistances are generous, firms may find it easier to pass on costs to consumers, leading to more generalised price pressures. Additionally, wage-price dynamics can pose a risk of **second-round effects**, which could make price increases become more persistent and pervasive. Second-round effects may occur if businesses raise prices to protect margins or face pressure to increase wages due to higher prices and inflation expectations. Higher wages could, in turn, boost spending and further create more inflationary pressures.

Identification of supply shocks

Given that monetary policy is primarily a demand management tool, it is crucial to accurately identify the type of shocks affecting the economy. Demand shocks typically increase both prices and output, while supply shocks raise prices but lower output (Blinder, 2010). It is important to distinguish between the type of shocks, though it is not always discernible in real-time where many factors interact. Identifying these effects often requires robust analytical approaches, two of which are widely used:

- 1. Top-down approach:** This method uses macro-level frameworks to identify the dominant demand and supply factors influencing inflation and output. For instance, sign restrictions on consumption data within a Vector Autoregression (VAR) framework can indicate whether shocks are supply- or demand-driven (Shapiro, 2024). Eickmeier and Hofmann (2022) demonstrate the application of principal component analysis (PCA) to isolate common factors affecting inflation and GDP at the aggregate level.
- 2. Bottom-up approach:** This traces how increases in production costs propagate through sectors and supply chain, using tools like input-output analysis and industry-level data for a more granular perspective on inflation drivers (Giovanni et al., 2022; Redl, 2023).⁵

Complementing past studies, a historical decomposition of Malaysia's core inflation was conducted using a top-down approach with sign restrictions to assess whether changes in prices can be explained by supply or demand shocks.⁶ The results indicate that core inflation, which reflects the more persistent trend of inflation, is typically driven by demand factors (Chart 1).⁷ This reflects the sensitivity of underlying inflation to macroeconomic factors such as the strength of the economy, though broad-based cost shocks from large supply disruptions, for instance, did occasionally dominate.

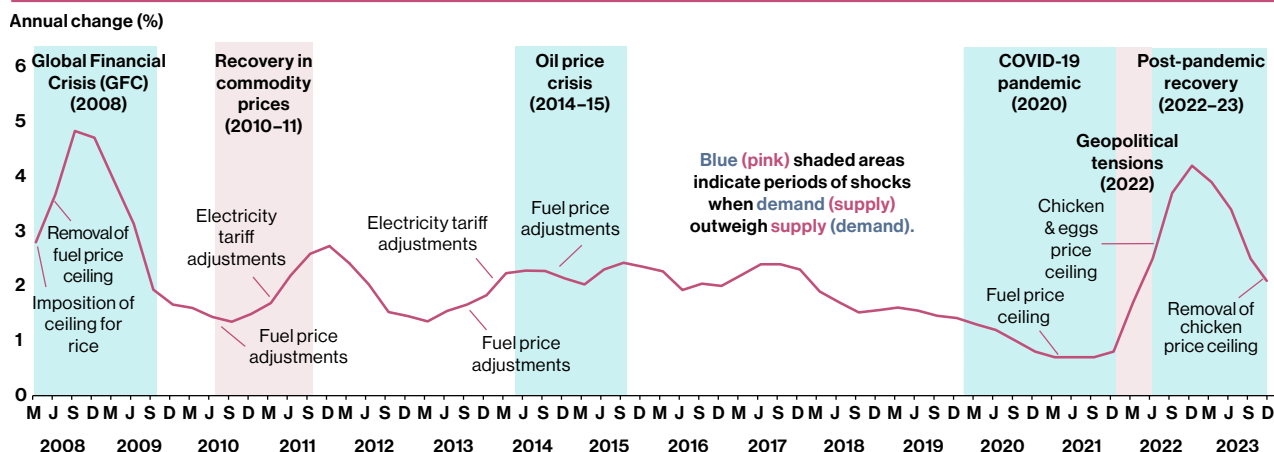
⁴ These could include cash transfers, vouchers, and wage support measures, among others.

⁵ This more granular approach can be useful in cases where an initial supply shock(s) trigger changes in aggregate demand larger than the shock(s) themselves (i.e. the so-called Keynesian supply shocks). This makes it difficult to distinguish between demand and supply shocks at the aggregate level. Sector-specific data can reveal supply constraints that might otherwise appear similar to demand-driven shocks in aggregate analyses (Redl, 2023; Guerrieri et al., 2022).

⁶ For more details on the drivers of underlying inflation and the distinctions between broad-based and idiosyncratic price shocks, please refer to the box articles entitled i) 'Underlying Inflation at its Core' in BNM's Economic and Monetary Review 2023 and ii) 'Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia' in BNM's Second Quarter of 2023 Quarterly Bulletin.

⁷ The GFC and COVID-19 both triggered economic slowdowns, affecting household spending and business activity to varying degrees. In contrast, the oil price crisis (2014–15) saw the economy showing greater resilience, with limited impact on growth and inflation. In all these cases, demand shocks consistently outweighed supply shocks.

Chart 1: Core Inflation and Decomposition of Shocks (2008–23)



Note: Core inflation was decomposed using Structural Vector Auto Regression (SVAR). Sign restrictions are used to identify shocks – namely to ascertain residuals as demand shocks if they move GDP growth and inflation in the same direction, and as supply shocks if they move GDP growth and inflation in opposite directions. Nonetheless, unlike Shapiro (2024), who refines the analysis with quantity-level data, the lack of such granular and high frequency data for Malaysia poses considerable estimation challenges, particularly in disentangling sector-specific dynamics with greater precision.

Source: Bank Negara Malaysia

Guiding monetary policy responses to supply shocks and exploring their implications

A typical monetary policy response aims to ‘look through’ transitory supply shocks, given the limited influence of monetary policy on near-term price pressures. This is because the main effects of monetary policy on the economy are transmitted through with some delay.⁸ Yet, multiple and persistent supply shocks risk de-anchoring inflation expectations, potentially requiring monetary policy intervention to maintain price stability.

This segment highlights the delicate balance monetary policy needs to achieve when responding to supply shocks. Acting too early risks slowing economic growth while delaying action could lead to more prolonged price increases, potentially necessitating stronger subsequent monetary policy actions, with a greater impact on output. Addressing these challenges effectively requires the need for a robust analytical framework to guide decisions. The framework should account for the balance of risks to both inflation and growth, macro- and micro-level analyses, along with assessments of how shocks are transmitted.

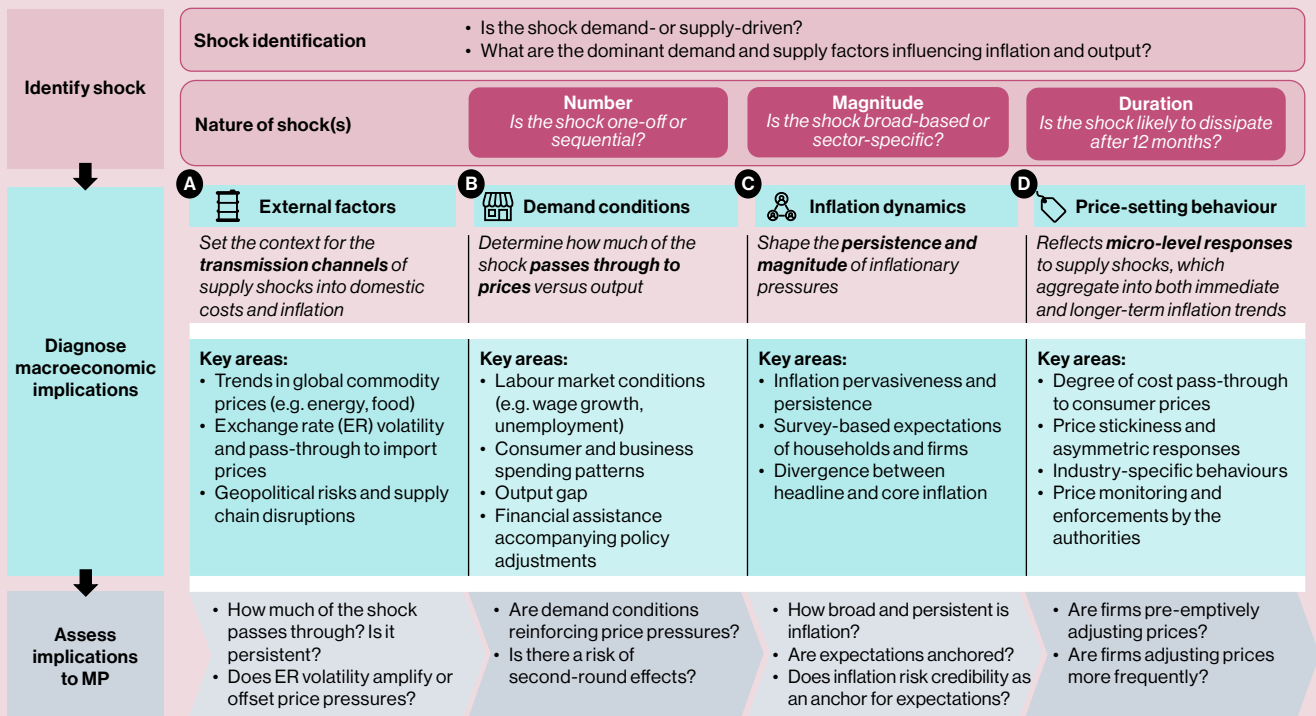
Based on the analytical framework (Diagram 2), monetary policy intervention⁹ would be required to prevent the initial inflation impulse arising from supply shocks becoming entrenched. If left unaddressed, second-round effects could emerge, especially if amplified by strong demand, leading to more persistent and pervasive inflationary pressures. Furthermore, even in the absence of second-round effects, salient price shocks can destabilise inflation expectations.¹⁰ This can be driven by shifts in price-setting behaviour among firms that amplify the initial price pressures, necessitating a policy response to anchor expectations and prevent inflation from becoming more persistent and widespread.

⁸ The speed of policy transmission can slightly vary across economies and over time. Recent findings indicate that the monetary transmission in Malaysia typically begins to show significant effects after 14–15 months (Eklou, 2023). A study of 40 emerging market economies found that monetary transmission achieves peak effects on prices at around 15 months (Brandao-Marques et al., 2020). Meanwhile, Deb et al. (2023) observed that both emerging and advanced economies tend to reach their peak impact at a similar time (around 18 months).

⁹ For example, the Bank of England in its September 2024 MPC Report outlined three scenarios on how monetary policy stance could evolve based on changes in macroeconomic conditions, offering insights into possible approaches to assessing monetary policy responses: i) disinflation driven by fading external shocks, necessitating a quicker reduction in policy rate; ii) persistent second-round effects on inflation, requiring a continued restrictive MP stance; and iii) shocks that cause deeper structural changes, needing a prolonged restrictive MP stance to prevent long-lasting adverse inflationary dynamics.

¹⁰ Salient prices are the prices of goods or services that change frequently or are regularly paid by households, such as fuel, groceries, rent and energy prices. These prices can play a significant role in shaping the formation of inflation expectations among households. For example, salient price shocks, such as sharp increases in the cost of food or fuel, can disproportionately influence inflation expectations, consistent with behavioural theories and the expectations-augmented Philips Curve. Unanchored expectations risk shifting inflation dynamics, requiring timely intervention, including via central bank communication (D’Acunto et al., 2024).

Diagram 2: Analytical Framework – Monetary Policy Considerations for Supply Shocks



Source: Bank Negara Malaysia

During past adjustments of domestic fuel prices, BNM had not found it necessary to adjust monetary policy in direct response to the shocks. Thus far, Malaysia’s first and largest fuel subsidy rationalisation exercise occurred in mid-2008,¹¹ shortly before the onset of the Global Financial Crisis (GFC), which increased headline inflation to 7.7% in June 2008 (March 2008: 2.8%). Notwithstanding a sharp increase in prices,¹² BNM, nevertheless, decided to ‘look through’ the shock as it was assessed to be temporary and self-correcting. This was based on the prognosis that the sharp increase in domestic energy prices as well as the unfolding global crisis would significantly dampen demand and thus, ease underlying inflationary pressures in the medium term. Accordingly, the upside risks to inflation and downside risks to growth were assessed to be balanced at that point. This analysis and policy call proved prescient, as inflation eased rapidly after peaking in 3Q 2008 (December 2008: 4.4%; August 2008: 8.5%), falling below trend in 2009.¹³

Unlike past episodes of supply shocks, the post-COVID-19 period between January 2022 and December 2023 introduced new challenges, as global supply disruptions coupled with shifting domestic demand drove inflationary pressures higher and more persistent. These developments have rather reshaped the inflation dynamics, revealing the increasingly far-reaching and enduring nature of supply shocks, which can be further exacerbated by demand factors and shifts in inflation expectations. This underscores the need for a clearer understanding of these dynamics and how best to manage these shocks effectively. The post-COVID-19 period offers valuable insights into the role of four key factors – external factors, demand conditions, inflation dynamics, and price-setting behaviour – in shaping monetary policy decisions (see charts on the next page):

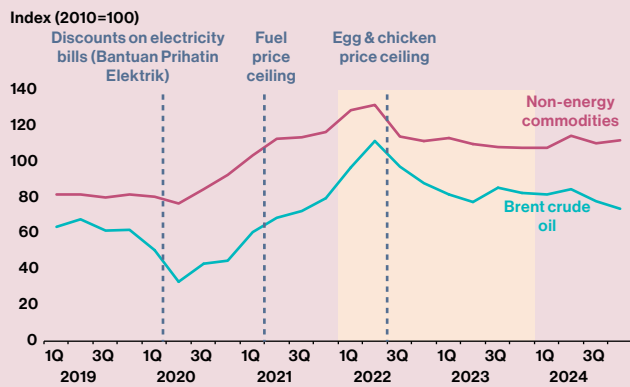
¹¹ RON95 and diesel prices were increased by 74 sen and 100 sen, representing a 39% and 63% rise in prices respectively.

¹² 28.6% of items with month-on-month growth in June 2008 (May 2008: 16%) exceeding two standard deviations of their long-term average (1990–2005).

¹³ During the period, Brent crude prices also sharply declined by over 60%. The OPR was reduced by 125bps over three consecutive MPC meetings in late 2008 and early 2009 amid prevailing downside risks to the global economic outlook.

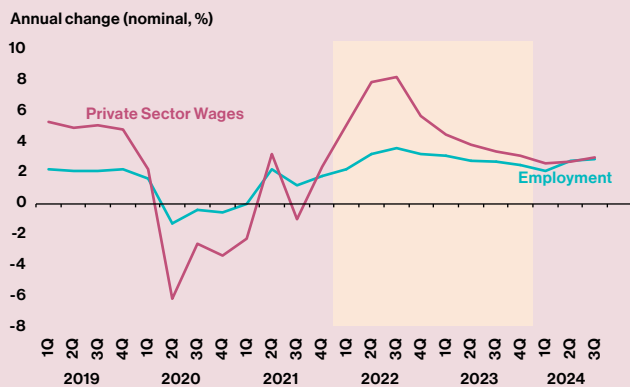
The impact of higher global commodity prices was partly mitigated by price controls...

Chart 2: Commodities and Price Controls



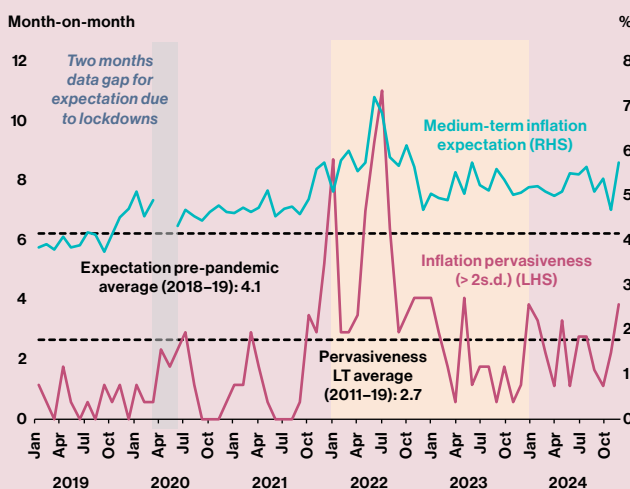
The strong and sustained expansion in wages and employment supported consumption...

Chart 4: Labour Market Conditions



Pervasiveness of price increases grew, peaking alongside expectations before both began to ease.

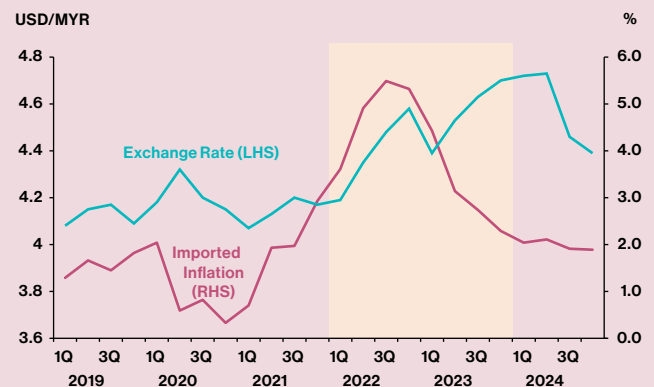
Chart 6: Pervasiveness and Inflation Expectation



Source: Bank Negara Malaysia estimates based on World Bank Commodity Price Data (The Pink Sheet), Bloomberg Imported inflation and Exchange Rate Data, Department of Statistics, Malaysia, BNM Consumer Sentiment Survey, BNM Regional Economic Surveillance

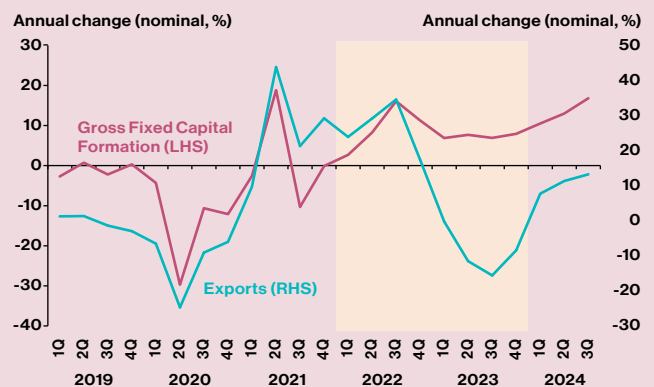
...though cost pass-through seeped through higher imported inflation as the ringgit depreciated.

Chart 3: Exchange Rate and Imported Inflation



...and capital investments raised growth, while weaker global demand dragged on exports.

Chart 5: Gross Fixed Capital Formation and Exports



Post-COVID-19, firms have generally adjusted prices gradually even as they face higher input costs.

Diagram 3: Findings from Engagements with Firms

- Retain profit margin as a priority for business**
 - Most respondents cited retaining profit margin was the priority for firms when deciding to pass on costs to customers.
 - Majority of respondents cited that after several attempts of absorbing cost, they would adjust prices to retain profit margin.
- Gradual price adjustment due to higher costs of raw materials**
 - Firms have adjusted prices in a gradual manner to manage sentiments among customers.
 - Considerable share of respondents have adjusted prices due to higher cost, primarily reflecting higher prices of raw materials.
- Harder to raise prices for micro and small firms**
 - While higher inflation made it easier for some firms to raise prices, this was not necessarily the case for micro and small firms.
 - Minority of respondents in small and micro businesses indicated that they tolerated lower profitability and gave price promotions.

These insights highlight the challenges of formulating policy decisions during the post-pandemic recovery. During this period, BNM adopted a measured policy stance that carefully balanced inflation control while supporting growth as the economy recovered from the COVID-19 crisis. Underlying inflation was firmly on an upward trend, with price increases becoming increasingly widespread amid strengthening demand conditions following the reopening of the economy. This allowed firms to gradually pass through costs amid persistent pressures from external factors. Reflecting these conditions, policy normalisation was deemed appropriate, with BNM gradually raising the overnight policy rate (OPR) by 25 basis points (bps) in four consecutive Monetary Policy Committee (MPC) meetings in 2022. This stood in contrast to the more aggressive tightening seen in advanced economies and several emerging and regional economies, which faced more pressing inflation pressure.¹⁴

In Malaysia, inflation expectations initially edged higher but later eased, suggesting they remain anchored. In addition, the higher OPR helped pre-emptively contain the risk of second-round effects, enabling wages and the economy to recover without posing risks of overheating. Inflation has since stabilised around its long-term average, supported by disinflationary forces and the effects of OPR adjustments. Similarly, facilitated by a conducive domestic environment, growth has remained resilient, driven by positive labour market conditions and robust investment activity. This experience highlights the need to calibrate monetary policy to the specific nature of each shock, with the ultimate goal of achieving price stability and sustainable growth in an evolving landscape.

Additional policy imperatives for managing recurring supply shocks

Going forward, supply shocks are likely to increase in scale, frequency, and persistence, driven by factors such as geopolitical tensions, deglobalisation trends, demographic shifts and climate change challenges, among others.¹⁵ These emerging dynamics emphasise the need for policymakers to be equipped with tools and strategies to navigate increasingly complex disruptions. This section highlights three additional factors that are critical in shaping effective policy responses to supply shocks, facilitating readiness for future uncertainties.

First, timely and informed responses require **strong institutional capabilities**. Strong cooperation across policymakers is important to assess supply shocks more comprehensively, capturing both immediate effects and longer-term structural implications. Regular and focused engagements with industry players in sectors such as logistics and manufacturing, can offer critical insights into the direct and spillover effects of policy reforms. Additionally, enhancing capabilities to anticipate supply chain bottlenecks – particularly those affecting price-setting behaviour – will facilitate more effective and timely policy measures.¹⁶

Second, monetary policy cannot work in isolation from other policies, particularly in responding to policy-induced supply shocks. **Close coordination between fiscal and monetary policies** is crucial for a more coherent and effective response.¹⁷ Fiscal measures such as cash transfers can help ease the financial burden on the most affected households. Nonetheless, it is important to ensure that assistance is not overly generous and is carefully targeted to limit undue pressures on demand, and in turn, their impact on overall prices. This complements monetary policy in keeping inflation expectations stable.

In addition to designing effective policies, public communication is key to building trust and ensuring smooth implementation. Clear messages about the roles of various policy tools and the implementation of key structural reforms to secure fiscal sustainability and reduce market distortions, help anchor expectations and prevent overreactions from households and businesses.

¹⁴ For Malaysia, the extent of upward pressures to inflation was partly contained by the price controls and fuel subsidies that were introduced during the pandemic.

¹⁵ These interconnected global trends suggest a more volatile economic landscape where traditional demand-management tools are insufficient, requiring more collaborative monetary and fiscal policies to respond to supply-side challenges (Carstens, 2023; Bénassy-Quéré, 2024).

¹⁶ For example, the European Central Bank coordinates closely with European Union agencies to monitor supply chain risks, particularly in energy and semiconductors.

¹⁷ For more details on the interactions between monetary and fiscal policy, please refer to the box article entitled 'Navigating Economic Cycles: Interactions between Monetary and Fiscal Policy' in BNM's Economic and Monetary Review 2023.

Finally, **clear, timely and transparent communication of monetary policy objectives** is essential for shaping public and market expectations, especially during periods of economic reform. Consistent and credible messaging reduces uncertainty, limits overreaction by households and businesses, and lowers the risk of inflation expectations from becoming easily unhinged (Blinder et al., 2008). For example, highlighting the temporary nature of inflationary pressures linked to reforms can ease concerns on elevated inflation generating uncertainties to economic activity.

In addition, it is also important to systematically communicate uncertainty, particularly during periods of frequent and large supply shocks.¹⁸ Internally, BNM uses scenario analysis to develop narratives about how the economy might evolve under various conditions. These scenarios range from likely outcomes to extreme events to capture the potential impact of domestic reforms and supply shocks on growth and inflation. The use of scenario analyses has enhanced BNM's ability to communicate its outlook effectively. By illustrating potential trade-offs and uncertainties under various scenarios, these analyses help explain the rationale behind policy decisions, fostering understanding among households, businesses, and markets. This approach strengthens transparency and credibility, supporting BNM's objectives of price stability and sustainable growth.

Conclusion

Effectively managing supply shocks requires a balance of analytical rigour, strategic coordination, and credible communication. The framework outlined here provides a structured approach to understanding and responding to supply shocks, ensuring that monetary policy decisions are informed and context-specific. The COVID-19 experience, coupled with the threat of increasing frequency and severity of supply shocks going forward, underscores the importance of a balanced and thoughtful approach to the conduct of monetary policy. This includes tailoring responses to domestic conditions and the specific nature of each shock, as well as ensuring that monetary policy is calibrated in an appropriate and timely manner. Such an approach helps achieve price stability over the medium term without placing undue pressure on economic activity. By applying these insights, BNM can better navigate complex challenges, foster public trust, and support its objectives of price stability and sustainable growth.

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¹⁸ The recent review of the Bank of England's forecasting framework emphasises the importance of communicating uncertainty through scenarios, helping policymakers and the public understand a range of potential outcomes (Clare, 2024). It also highlights the need for greater transparency in forecasting methods and advocates for clearer, more accessible presentation of economic projections to improve decision-making in uncertain times.

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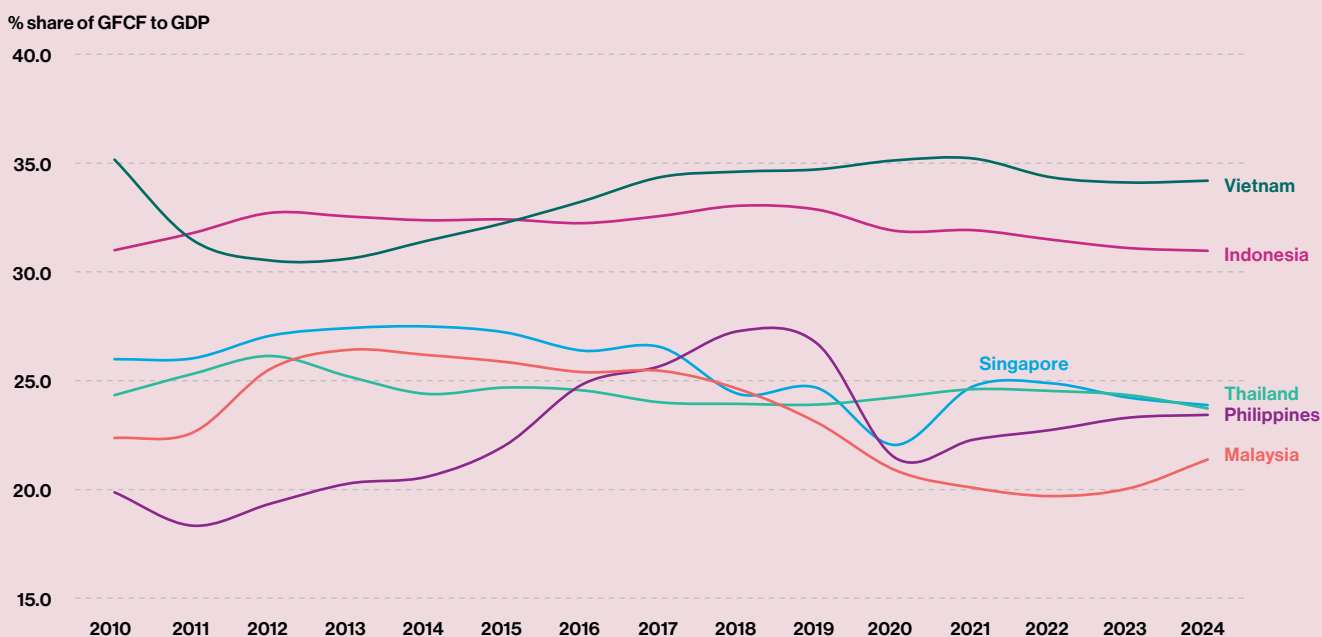
Deciphering Investment Cycles in Malaysia

Introduction

Robust investments in the past have been fundamental in supporting the distinct phases of Malaysia's economic transformations, which involved transitioning from a resource-based to a more diversified economy. These investments facilitated capital deepening,¹ significantly expanded industrial capacity, and fostered the development of new industrial clusters. They also led to enhancements in productivity, technological advancements and the country's international competitiveness.

However, over the past decade, Malaysia's investment growth has been more modest. Before the COVID-19 pandemic, Malaysia's investment share of GDP moderated from 25% of GDP in the early 2010s to 23% in 2019, lagging regional peers (Chart 1). In 2020, the pandemic dampened investment activity, as ongoing and planned investment projects were temporarily halted during the enforcement of the Movement Control Order (MCO).² Weak global demand and supply chain disruptions further exacerbated this. Consequently, investment fell to around 20% of GDP in the 2021–23 period and continued to lag regional countries (Chart 1).

Chart 1: Investment Share of GDP for Malaysia vs Regional Peers



Note: The data is computed using real GFCF and GDP for each country.

Source: Department of Statistics, Malaysia, Haver and respective national authorities

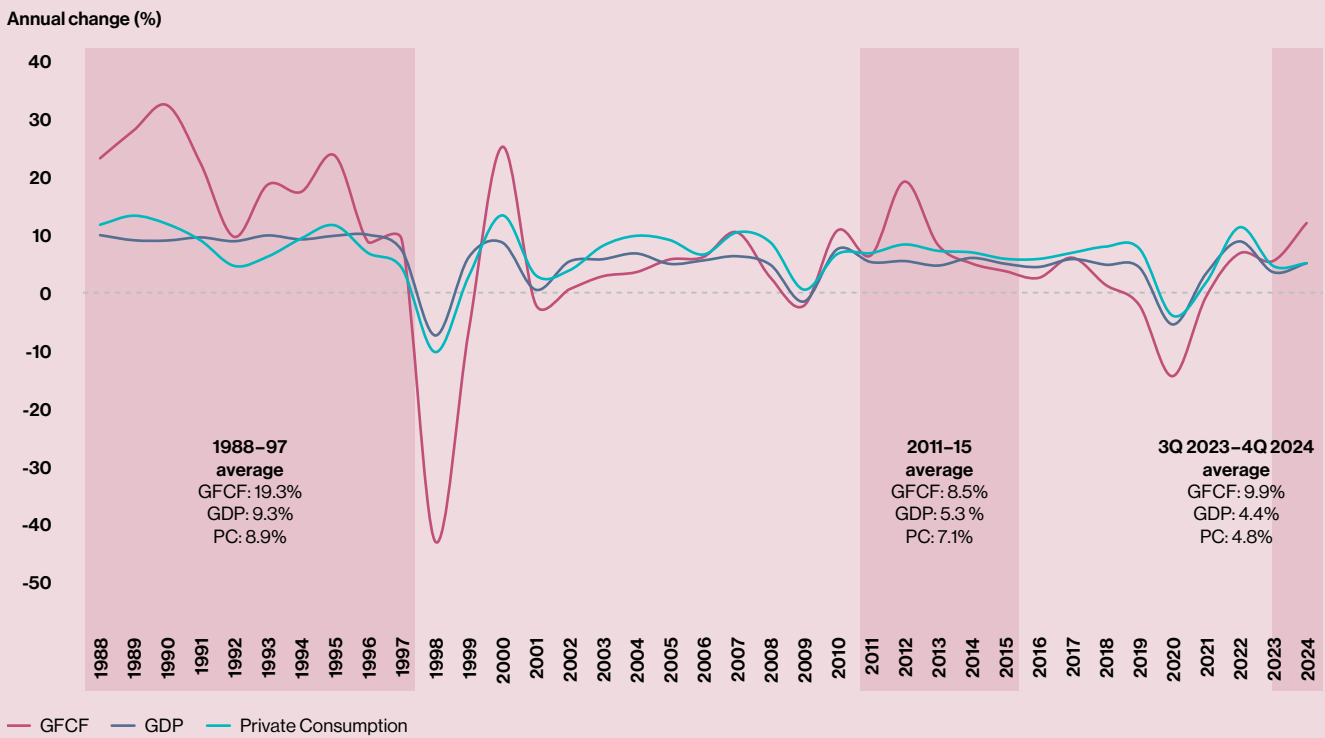
Nevertheless, beginning in the middle of 2023, Malaysia's investment performance showed clear signs of resurgence. Real gross fixed capital formation (GFCF)³ or overall investment surpassed pre-pandemic levels in the first quarter of 2024 and expanded robustly in the subsequent quarters. In fact, GFCF growth exceeded its long-term averages (2015–19 average: 2.3%; 2011–19 average: 5.6%) and outpaced private consumption (PC) (Chart 2). The contribution of investment to GDP growth rose from 0.6 percentage points between 2015 and 2019 to an average of 2 percentage points since the third quarter of 2023. All these clearly marked an investment upcycle in Malaysia.

¹ Refers to an increase in the proportion of the capital stock to the number of labour or labour hours worked.

² Bank Negara Malaysia (2020). Developments in the Malaysian economy. First Quarter of 2020 Quarterly Bulletin.

³ Gross fixed capital formation (GFCF), also known as 'investment', is the net acquisition of fixed assets which are used for production of goods and services

Chart 2: Annual GFCF Growth vs GDP and Private Consumption (PC) Growth



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

This article discusses the identification of Malaysia’s investment upcycles and its drivers. It also examines their broader economic implications and discusses policy strategies aimed at sustaining the current upcycle and maximising its benefits.

The surge: Three characteristics of an investment upcycle

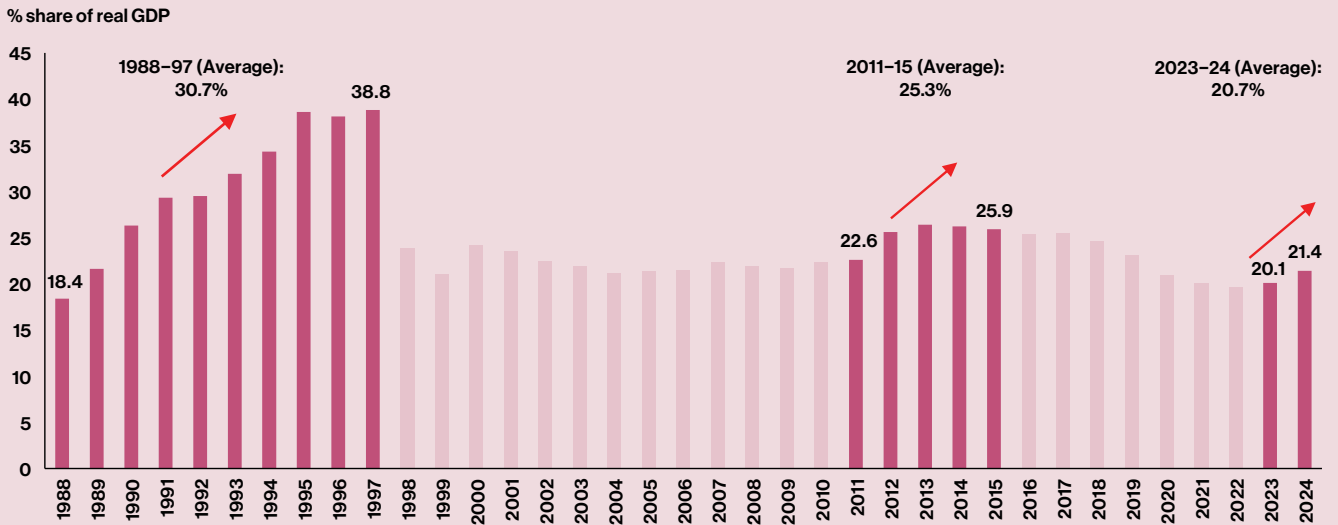
The first characteristic of an investment upcycle is the strong growth in GFCF compared to overall GDP and private consumption. This is essential as Malaysia has predominantly been a consumption-driven economy since the early 2000s, with private consumption accounting for an average of 52.2% of GDP between 2002 and 2024. Historically, there have been two notable periods where GFCF growth consistently outpaced both GDP and private consumption growth, namely, the late 1980s to 1990s, and the early 2010s (Chart 2).

The second characteristic is a rising investment share to GDP. Chart 3 illustrates the three periods of the investment upcycles as depicted by the rising share of investment.⁴ Thirdly, an investment upcycle is also characterised by a consistent expansion of investment level above its long-term trend. By using econometric techniques to decompose data into trend and cyclical components,⁵ it was observed that investment levels in 2023 and 2024 have constantly exceeded their long-term trends (Chart 4).

⁴ Historically, there have been periods of rising investment share to GDP even though investment growth was weaker compared to GDP and private consumption. For example, in 2006–07, even though GFCF growth was lower compared to private consumption (GFCF 2006–07 average: 8.3%, private consumption: 8.5%), the decrease in net exports due to the rise in imports outpacing exports led to an increased share for GFCF, albeit to a smaller degree compared to private consumption.

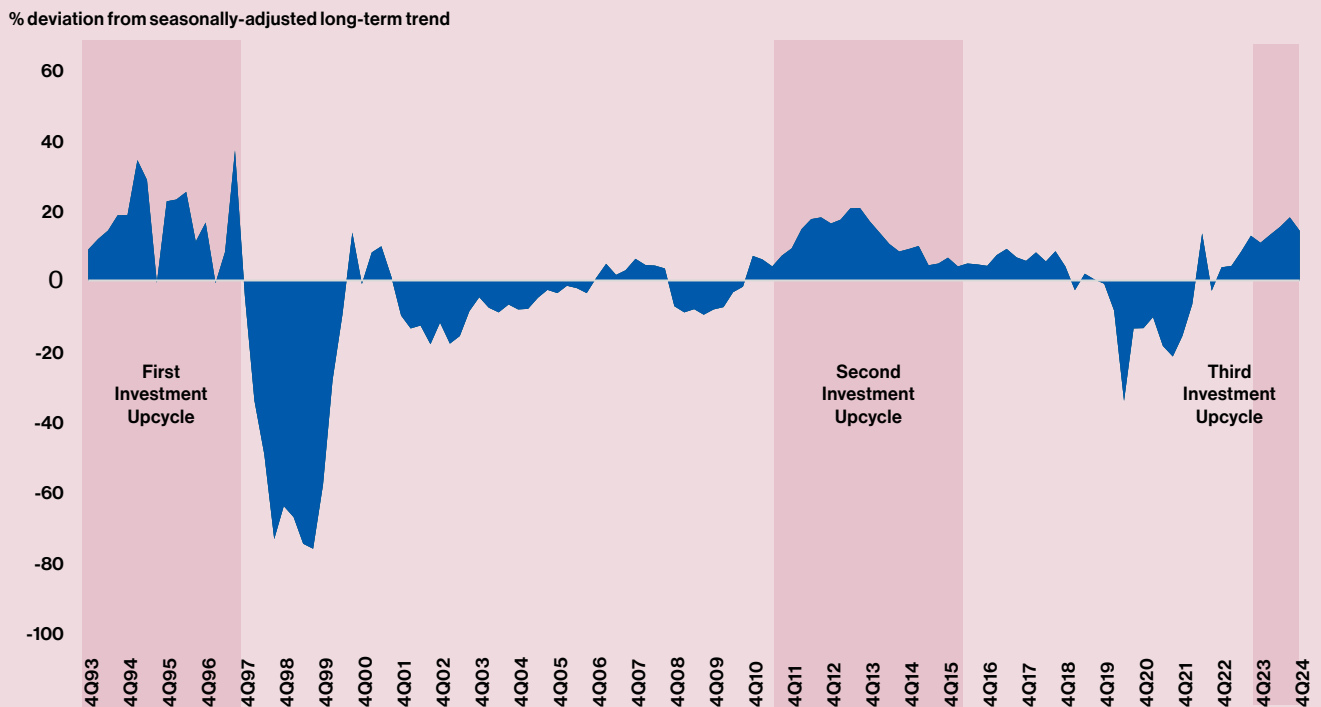
⁵ Hamilton filter and Hodrick-Prescott filter are used to conduct this decomposition. Nonetheless, Hamilton filter was primarily adopted to reduce the risk of spurious dynamic relationships, to minimise end-point bias and to avoid making arbitrary assumptions regarding the smoothing parameter (Drehmann, M. & Yetman J, 2018; Hamilton, J.D., 2017).

Chart 3: Share of GFCF to Real GDP



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

Chart 4: Cyclical Component of Investment



Note: This is derived using the Hamilton filter that separates GFCF into its trend and cyclical components. Cyclical component represents deviations from the long-term trend and may be caused by factors such as business cycles, monetary policy shock and other economic shocks. The use of the Hodrick-Prescott filter shows broadly similar result.

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

These characteristics indicate that Malaysia's third investment upcycle started in mid-2023. Beyond the strong investment growth seen in each upcycle, what is more crucial is the quality of investments and its impact on the domestic economy.

Characteristics of Malaysia's past investment upcycles

Each of Malaysia's investment upcycles represents a distinct phase of economic development, reflecting the global and domestic economic landscapes as well as the nation's strategic visions during the respective periods. Table 1 provides a summary of Malaysia's first and second investment upcycles.

Table 1: Summary of Malaysia's First and Second Investment Upcycles

	First Investment upcycle	Second investment upcycle
Period	Late-1980s to 1997	2011 to 2015
Main Drivers	<ul style="list-style-type: none"> Transition from commodity-dependent economy into manufacturing-driven economy Enactment of the Promotion of Investments Act 1986 facilitating conducive investment environment Influx of foreign direct investment (FDI) following the 1985 Plaza Accord which affected Japan's competitiveness 	<ul style="list-style-type: none"> Rollout of Economic Transformation Programme (ETP) aimed at elevating Malaysia to high-income status Relatively high oil prices due to strong global demand Property market boom driven by rapid urbanisation, government's home ownership programmes (e.g. introduction of Skim Rumah Pertamaku), and connectivity-improving infrastructure projects (e.g. Klang Valley Mass Rapid Transit (MRT) Line 1, and Pan Borneo Highway Sarawak (Phase 1))
Key Sectors and Industries	Manufacturing	Oil and gas (O&G)
	<ul style="list-style-type: none"> Diversification from resource-based industries into electrical and electronics (E&E), textiles, automobiles, petrochemicals and food processing, among others Establishment of economic zones such as Penang Free Trade Zone and Kulim Hi-Tech Park 	<ul style="list-style-type: none"> Significant increase in mining and quarrying share of GFCF from 15.8% in 2010 to 19.7% in 2014 Large-scale O&G projects such as PETRONAS Refinery and Petrochemical Integrated Development (RAPID) strengthened Malaysia's position as a hub for the downstream oil and gas sectors
	Infrastructure	Real estate
	<ul style="list-style-type: none"> Notable projects, such as the North-South Expressway significantly improved physical connectivity across Peninsular Malaysia, while the construction of the Kuala Lumpur International Airport (KLIA) and expansion of ports enhanced international connectivity and trade 	<ul style="list-style-type: none"> Total value of construction work done grew at an average rate of 13.8% in the 2011-15 period
Average Investment Growth	19.3% (1988–97)	8.5% (2011–15)
Average GDP Growth	9.3% (1988–97)	5.3% (2011–15)

Source: Department of Statistics, Malaysia, Haver, news flows and Bank Negara Malaysia estimates

The third investment upcycle: Pivoting towards quality investments

Malaysia's third and current investment upcycle is driven by a confluence of cyclical and structural factors. Post-COVID-19 pandemic, investment rebounded positively as firms expanded their productive capacity to meet rising demand. Structurally, prevailing megatrends such as digitalisation, recalibration of global supply chain amid geopolitical fragmentation, and low carbon transition play significant roles in fueling the current investment upcycle. At the domestic level, catalytic projects and focus areas under the Government's major national master plans such as the New Industrial Master Plan 2030 (NIMP 2030), National Energy Transition Roadmap (NETR) and various positive efforts towards improving the investment ecosystem have helped create further impetus for investment growth. Policy stability was also an important factor underpinning investor confidence in embarking on more capital expenditure.

By taking a deeper dive into the nature and composition of investment in the current upcycle vis-à-vis previous upcycle,⁶ three notable observations can be made.

⁶ Due to data constraints for the first investment upcycle period, the comparisons are mainly conducted between the second and third upcycles.

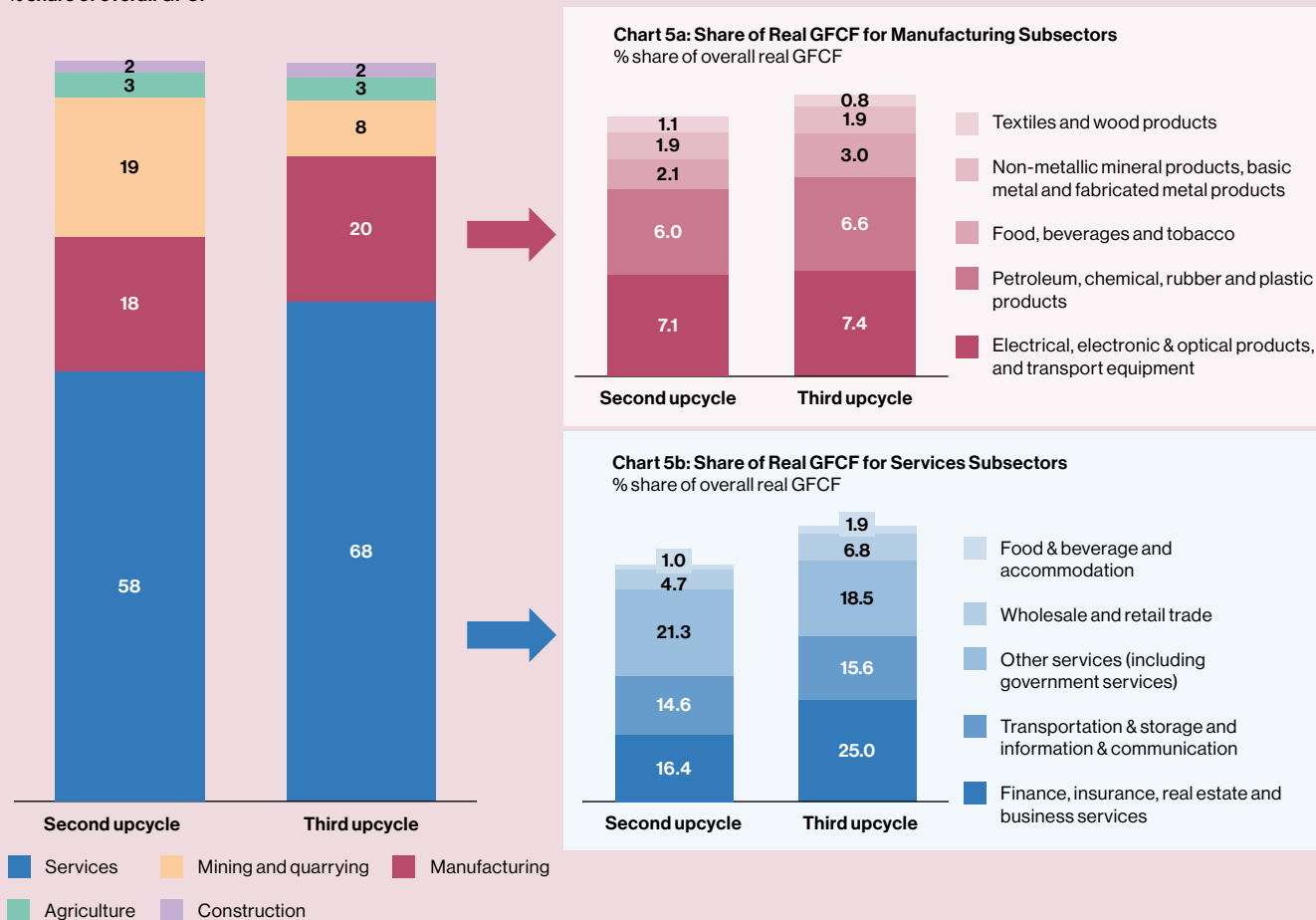
Observation 1: Growing services sector and sustained manufacturing investments

The current upcycle has seen a notable increase in the services sector’s share of total investment. This is driven mainly by the modern services cluster, encompassing finance, insurance, real estate, and business services (FIRB), as well as transportation and storage, and information and communication subsectors (Chart 5). While the share of manufacturing investment was broadly sustained, a positive development was the increase in the share of electrical and electronics (E&E), optical products, and transport equipment subsector. On the other hand, the share of investment in the mining sector declined quite substantially.

This change in the investment profile reflects two fundamental shifts. First, there is further diversification away from upstream commodities (i.e. mining) towards the expansion of the services and manufacturing sectors. The lower investment in upstream oil and gas (O&G) industries was the result of the sharp decline in crude oil prices in 2014–16. A large contributing factor here was the surge in global oil production, particularly from the U.S. shale oil industry. In addition, the gradual transition towards renewable energy has contributed to reduced dependency on fossil fuel, leading to more cautious investments in the upstream O&G industries. Second, there is a shift to higher value-added activities in the services and manufacturing sectors. For instance, the rise in services investment is partly due to the information and communication sectors, driven by automation, digitalisation and data centre investments. This aligns with global megatrends and the expansion of Malaysia’s digital economy.

Chart 5: Share of Real GFCF by Sectors

% share of overall GFCF



Note: The share of real GFCF by sectors and sub-sectors for the second upcycle is calculated using the average of yearly data from 2011 to 2015. For the third upcycle, it is calculated using the latest available data as at 2023.

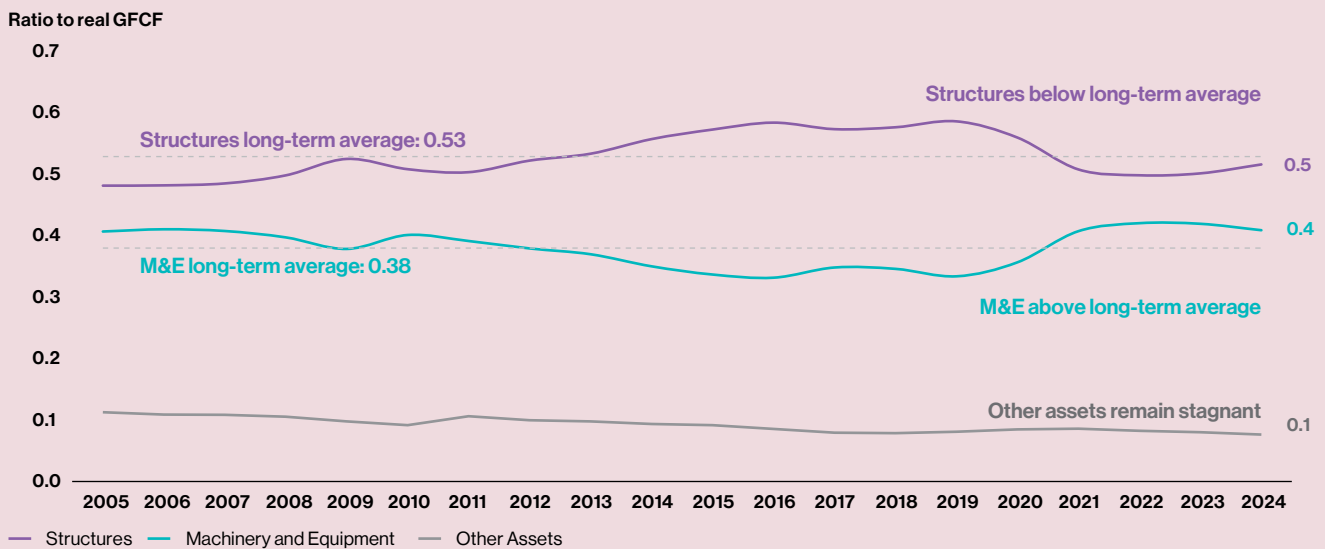
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

For the manufacturing sector, while the overall investment share remains broadly unchanged, there is a compositional shift in investments towards E&E, optical products and transport equipment. Notably, the strong E&E investment is supported by the global tech upcycle, more mature and deep domestic E&E ecosystem with a strong presence in back-end activities (e.g. outsourced semiconductor assembly and testing), and recalibration in the global semiconductor supply chain amid global economic fragmentation.⁷ As trade and investment are being repositioned through ‘connector countries’ like Malaysia,⁸ the local E&E industry is well-positioned to benefit from the growing demand for high-performance chips and related investment flows. This enables Malaysia to further deepen its integration into the global semiconductor supply chains.

Observation 2: Growing share of machinery and equipment (M&E) investments, with a continued focus on infrastructure development

Compared to the previous upcycles, the share of investments in machinery and equipment (M&E) is higher and rising above its long-term average (Chart 6). This trend reflects firms’ automation and digitalisation efforts, which were accelerated by the COVID-19 pandemic. M&E is relatively more productivity-enhancing⁹ than structures investment. First, M&E is easier to replace and upgrade, which in turn raises investment flexibility to meet changing business needs. Second, M&E has greater intensity of technology which helps in fostering specialisation, faster technological change, skills upgrade and innovation. Third and more relevant to the Malaysian economy, M&E capital deepening indicates continued automation efforts (Chart 7) that could lead to a reduction in dependence on low-skilled foreign workers.¹⁰

Chart 6: Share of GFCF by Asset Type



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

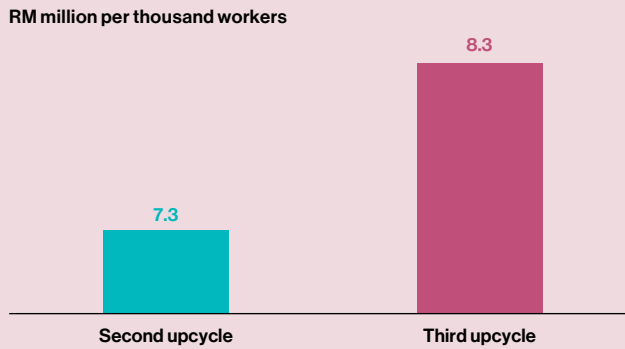
⁷ Going forward, there are many global opportunities arising from emerging tech trends for Malaysia to capitalise on, including cloud computing, advanced semiconductor chips, and artificial intelligence. Please refer to detailed analysis in another EMR2024 box article, titled ‘Malaysia’s Position in the Global E&E Value Chain and Prospects’.

⁸ Gita Gopinath, Pierre-Olivier Gourinchas, Andrea F Presbitero, and Petia Topalova (2024). ‘Changing Global Linkages: A New Cold War?’, IMF Working Paper No. 2024/076.

⁹ Herrerias, M. J., & Orts, V. (2012). Equipment investment, output, and productivity in China. *Empirical Economics* Vol. 42(2), pp. 181–207.

¹⁰ Even though there has been a reduction in non-citizen share of employment relative to the pre-pandemic period (1Q 2018–1Q 2019 average: 15%), there has been a recent rebound in the share (4Q 2024: 14.4%; 3Q 2024: 14.4%; 2Q 2024: 14.2%; 1Q 2024: 13.6%) after being relatively stagnant throughout 2022 and 2023 (2022-23 average: 13.6%).

Chart 7: Ratio of Real M&E Investment per Worker



Note: The ratio of real M&E investment per worker for the second upcycle is calculated using the average of yearly data from 2011 to 2015. For the third upcycle, it is calculated using the latest available data as at 2023.

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

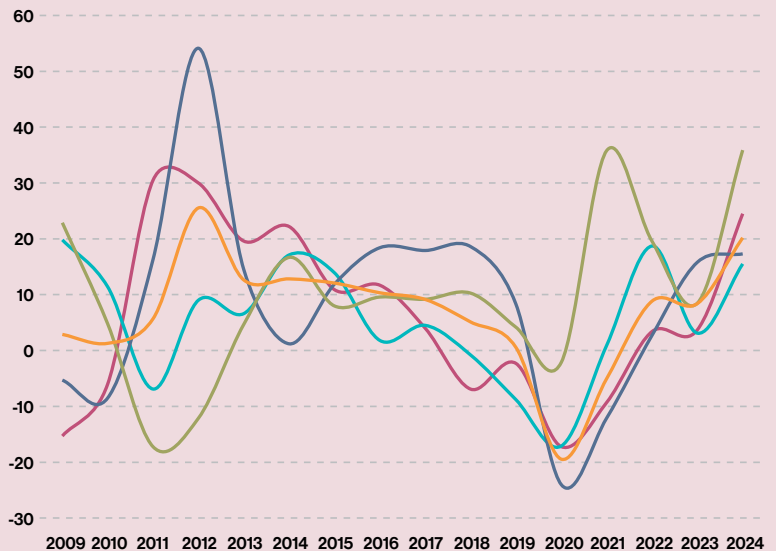
Another feature of the third investment upcycle is the infrastructure development across various key sectors. The share of civil engineering to value of construction work done increased from an average of 32.4% to 39.4% in 2011–15 and 3Q 2023–4Q 2024, respectively (Chart 8a and 8b). This is supported by a strong pipeline of projects in areas such as physical connectivity and low carbon transition (Chart 9). Investments in green clusters including renewable energy (i.e. hydroelectric and solar parks), electric vehicle (EV) charging stations and carbon capture and storage (CCS) have been on the rise.

Chart 8: Value of Construction Work Done by Sub-Sectors

Chart 8a
% share of overall total value construction work done



Chart 8b
Annual change (%)



Residential Civil engineering
Non-residential Special trade

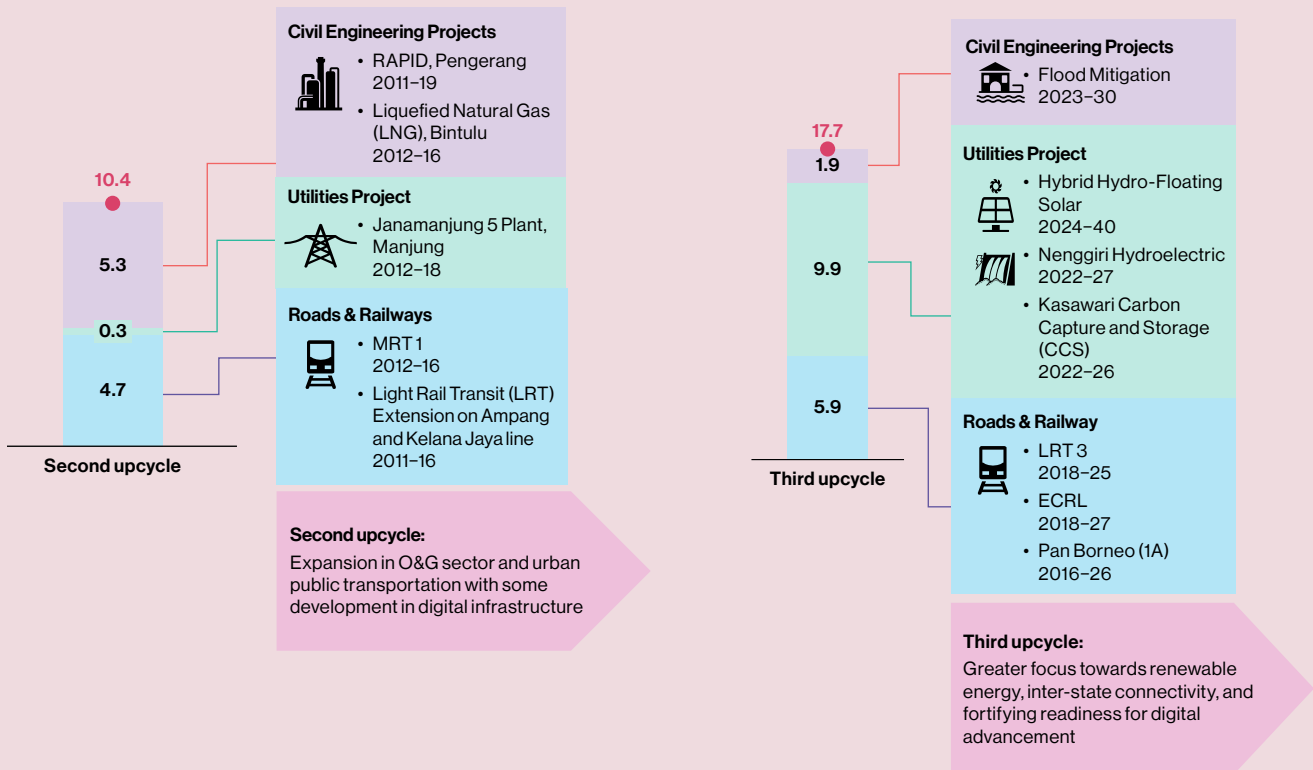
Residential Non-Residential Civil engineering
Special trade Total

Note: For Chart 8a, the percentage share of overall total value of construction work done for the second upcycle is calculated using the average of data from 2011 to 2015. For the third upcycle, it is calculated using the average of data from 3Q 2023 to 4Q 2024.

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

Chart 9: Examples of Infrastructure Projects in the Second and Current Investment Upcycle

Civil Engineering Value of Work Done by Activity
Percentage point contribution



Note: Earliest available data for the civil engineering value work done by activity is 2012. The percentage point contribution of civil engineering value of work done by activity for the second upcycle is calculated using the average of the earliest available data from 2013 to 2015. For the third upcycle, it is calculated using the average of data from 3Q 2023 to 4Q 2024.

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

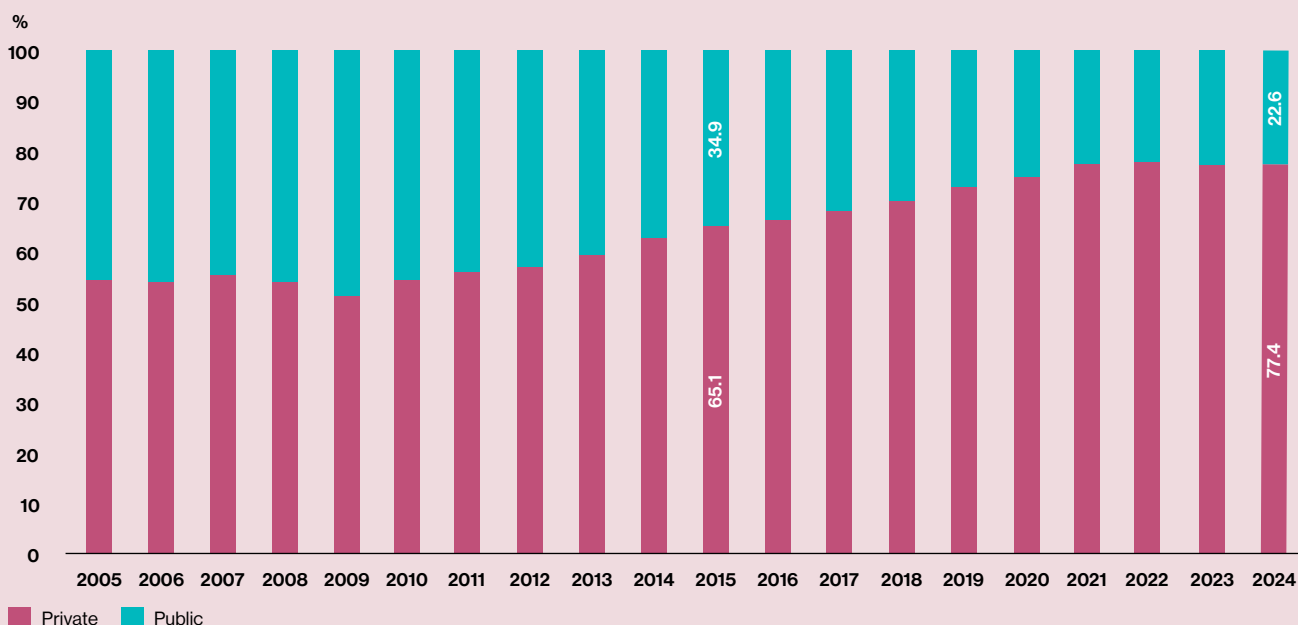
Observation 3: Rising share of private sector investment

A significant development is the larger role of the private sector in driving investments in the third upcycle (Chart 10). Approximately 77% of investments in the current upcycle are undertaken by the private sector (2015: 65%). Foreign investments have also seen a notable rise, making up 45% of the total approved investments in 2024, compared to just 18.7% in 2015. This reflects foreign investors' confidence on Malaysia's investment landscape, alongside continued investment by domestic firms (2024: 55%; 2015: 81.3%) (Chart 11).

During the current upcycle, public investments focus mainly on projects related to connectivity (e.g. highways and 5G network), and utilities such as development of renewable energy. Public corporations are heavily involved in driving these investments. For example, given the increasing demand for renewable energy, Tenaga Nasional Berhad (TNB) has been active in the development of large-scale solar parks, in partnership with SMEs, cooperatives, and state economic development corporations. Meanwhile, PETRONAS' subsidiary, Gentari Sdn Bhd, has rapidly widened its EV charging infrastructure across Malaysia. On digital infrastructure, Telekom Malaysia focuses on enhancing communication networks, including the expansion of its fibre connections. This effort together with the rollout of 5G network by the Digital Nasional Berhad supports the country's digital transformation. These investments play a crucial role in growing other private investments,¹¹ by providing the necessary infrastructure for businesses to thrive.

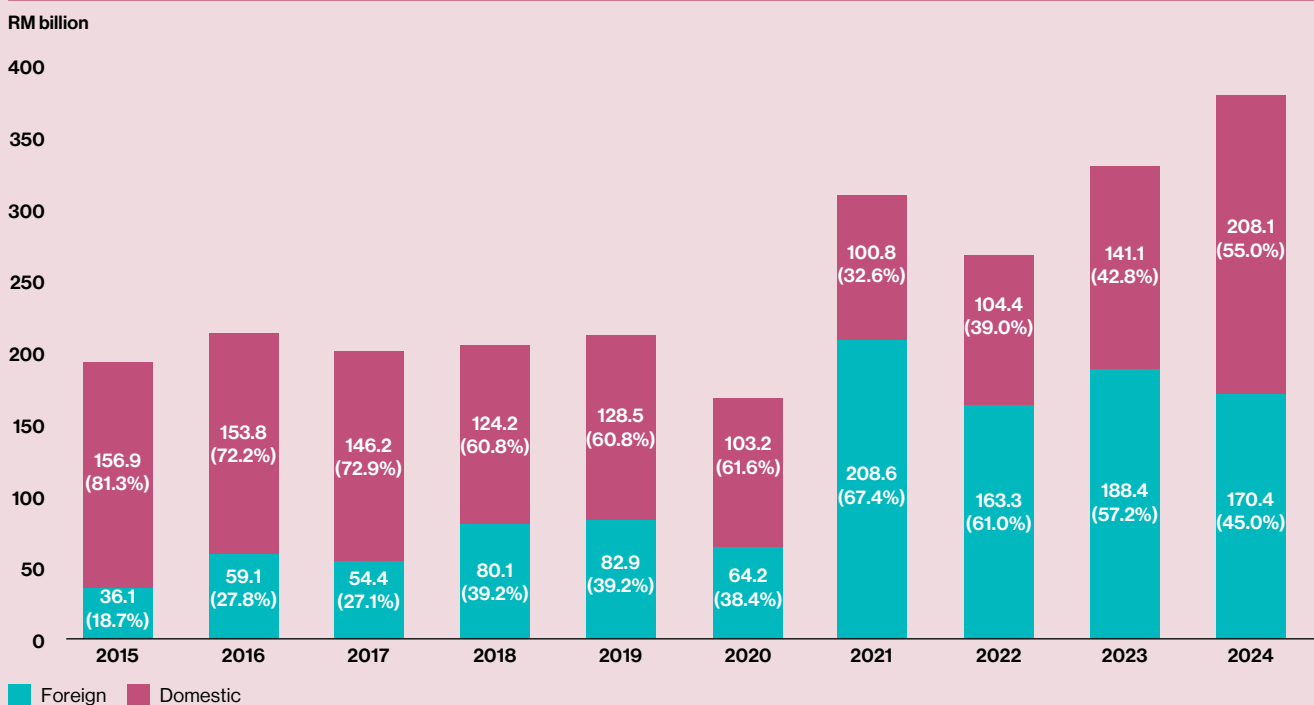
¹¹ Boushey, H. (2023). The Economics of Public Investment Crowding in Private Investment.

Chart 10: Share of Real GFCF by Sector



Source: Department of Statistics, Malaysia

Chart 11: MIDA Investment Approvals



Note: Numbers in parentheses indicate foreign or domestic share of investments to total investment approvals.

Source: Malaysia Investment Development Authority

Reaping the returns of investment cycles: Ensuring every investment counts

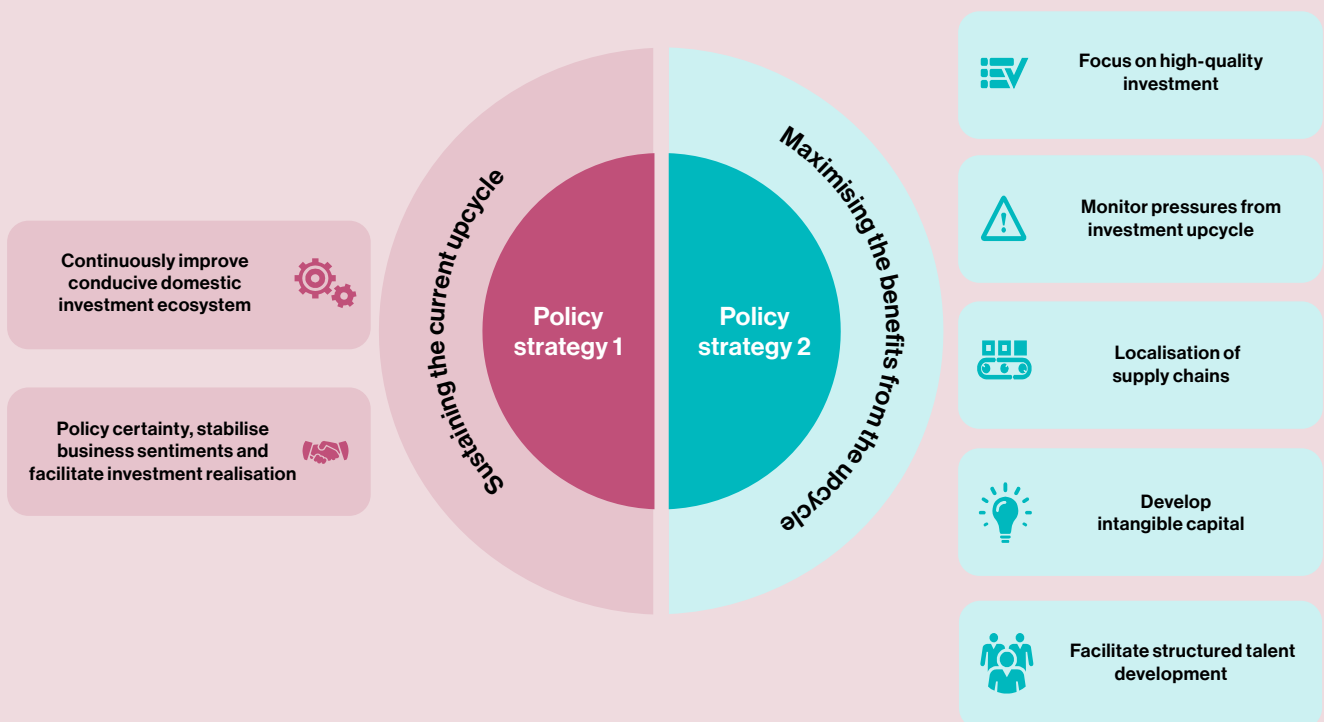
Investment as a catalyst to transform Malaysia’s economy

Generally, and historically in Malaysia, investment upcycle is a critical driver of economic transformation. Empirically, investment upcycles are associated with faster output growth over time. First, stronger investment growth directly accelerates capital accumulation. Using a growth accounting framework, Malaysia’s potential output is decomposed into factor inputs.¹² Among these, capital accumulation has been a key growth driver, contributing nearly 50% on average annually since 2001 (Chart 12). Second, capital deepening is highly correlated with productivity growth (Chart 13). Third, during investment upcycles, resources tend to shift from less productive to more productive uses over a given period.¹³ Recognising the importance of leveraging the current investment upcycle to advance Malaysia’s development objectives, key policy strategies should concentrate on sustaining the current upcycle and maximising the positive spillovers (Diagram 1).

Policy Strategy 1: Sustaining the current upcycle

Based on the duration of past investment upcycles (Table 1), the current growth phase has the potential to last for several years. This trend is supported by the robust investment approvals in both 2023 and 2024 (Chart 14). The E&E industry and the information and communication technology (ICT) subsectors remain at the forefront, with approved investments worth RM55.8 billion (14.7% share of total approved investments) and RM136 billion (35.9%) in 2024 respectively. The implementation and facilitation of long-gestation private and public projects will further lend support to investment growth ahead (Table 2).

Diagram 1: Key Policy Strategies

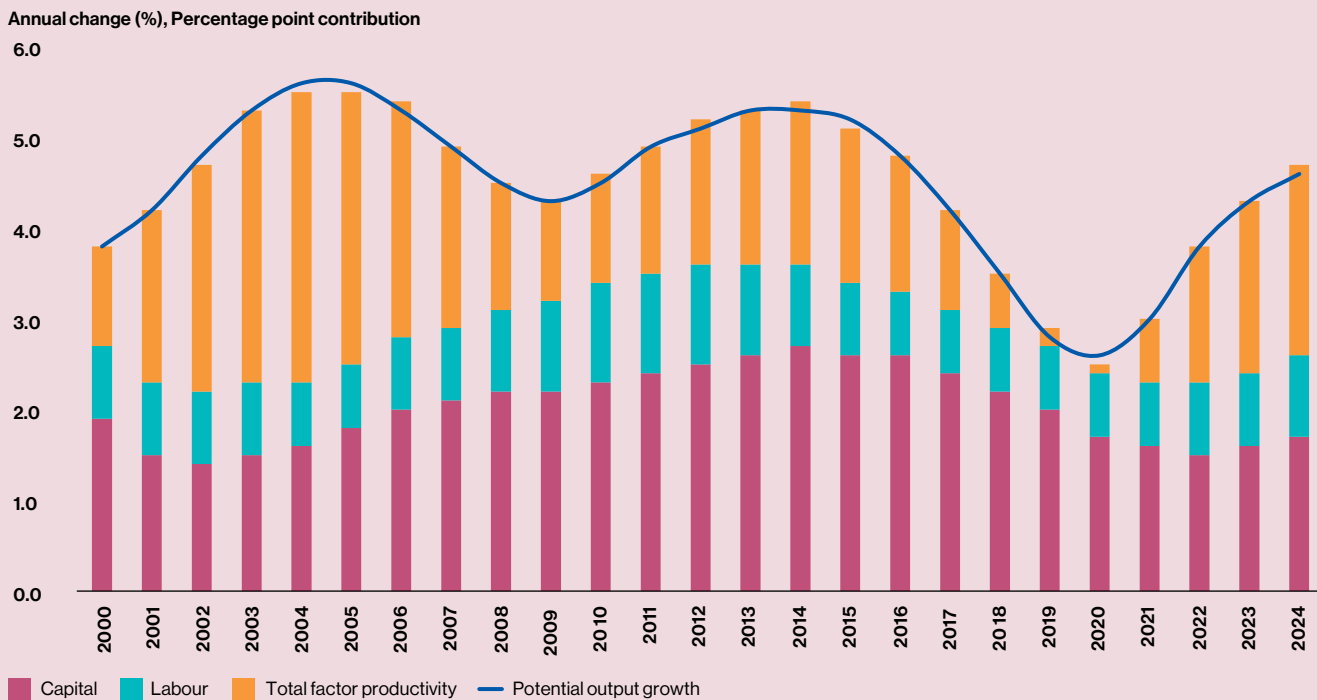


Source: Bank Negara Malaysia

¹² Bank Negara Malaysia (2012). Potential Output and the Output Gap in Malaysia. Second Quarter of 2012 Quarterly Bulletin.

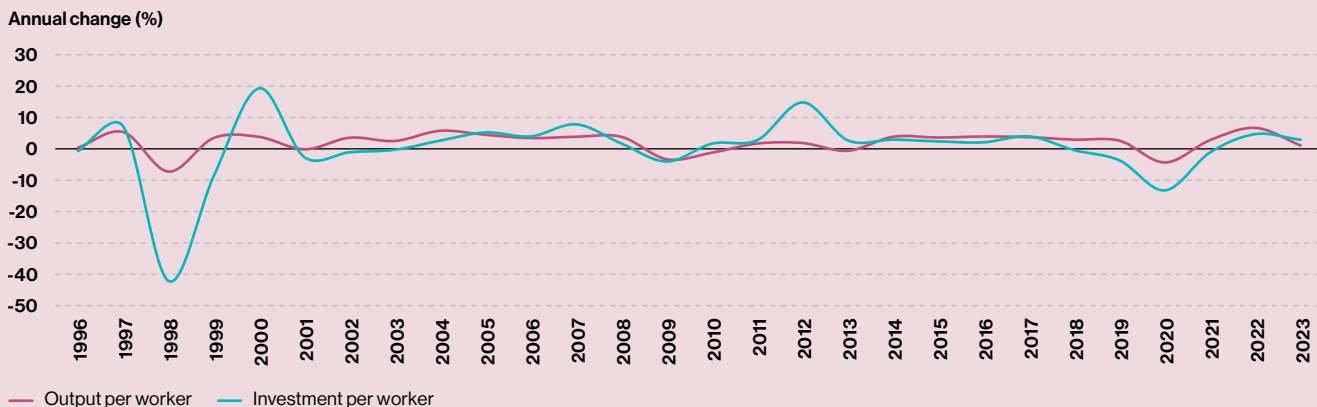
¹³ Such mechanism is likely to be more impactful when there is an effective replacement capital that fully harness 'creative destruction' with improved management practices or new business models during the deployment period (Fleming, 2021).

Chart 12: Factors Contributing to Malaysia's Potential Output Growth



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

Chart 13: Capital Deepening and Productivity Growth



Note: The latest available data is up to 2023.

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

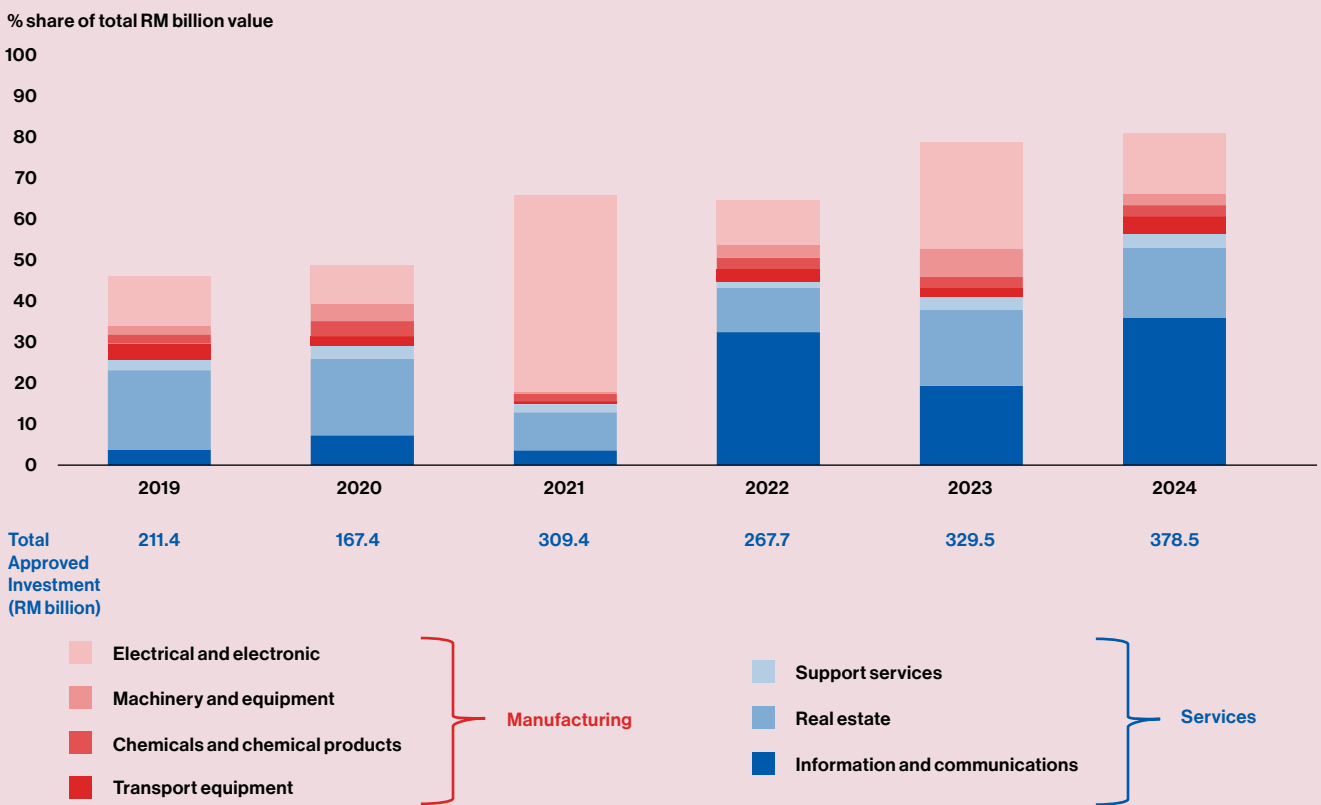
Sustaining the current upcycle would therefore require a timely and smooth realisation of approved projects. A significant development is the positive implementation progress of investment approvals. Between 2021 and December 2024, 84.5% of manufacturing projects approved by the National Committee on Investment (NCI) have been implemented. More recently, 67.8% of those approved in 2024 are progressing well and currently in various implementation stages, such as construction of facilities and installation of machinery and equipment.¹⁴ This positive development has been enabled by government initiatives to expedite the approval process and facilitate implementation of projects, amid active engagements between authorities with investors.

¹⁴ Source: MIDA 2024 Investment Performance Report.

These initiatives should be continued including various facilitation efforts throughout the investor journey not only at the national level but also at the state and local authorities. At the investment promotion and attraction stage, the establishment of a single point of contact for investors would provide better clarity among businesses. On this, efforts to streamline the national investment promotion role under the Malaysian Investment Development Authority (MIDA) would serve this purpose. At the investment implementation and investor aftercare stages, MIDA's Project Implementation and Facilitation Office (TRACK) provides end-to-end investment services to facilitate investment approvals, expedite the implementation of approved projects by addressing investor issues, and also increase the retention of these investments in Malaysia.

Of critical importance, at a broader level, ensuring policy certainty is crucial to promote business confidence and reduce uncertainties. Continuous implementation of catalytic projects under the national masterplans (i.e. NETR) would attract additional investment and stimulate further economic activity in new growth areas. For example, the installation of EV charging stations would not only encourage EV adoption but also stimulate new economic activities that revolve around the EV industry. These activities include production of electric vehicles and batteries, as well as the development of service and maintenance capabilities in Malaysia. Policy certainty, combined with a conducive investment ecosystem and Malaysia's robust economic fundamentals, are also key in attracting new investors and promoting investment retention in the country.

Chart 14: Investment Approvals by Sector



Source: Malaysia Investment Development Authority

Table 2: Selected Large Investment Projects

Type	Project	Description	Timeline
Private	Nvidia	Partnership with YTL to build advanced Artificial Intelligence (AI) infrastructure	2024–32
	Infineon Technologies	New silicon carbide power fabrication plant	2023–28
	Texas Instruments	Expansion of semiconductor manufacturing facility	2023–30
	Amazon Web Services	Cloud computing infrastructures and data centre	2023–37
	Google	Establishment of data centre and cloud region	2024–30
Public	Kasawari Carbon Capture and Storage (CCS)	Construction of a fixed offshore platform	2022–26
	East Coast Rail Link (ECRL)	Railway connecting east-west coasts of Peninsular Malaysia	2018–27
	Mutiara LRT Line	New transit system in Penang	2025–30
	Hybrid-Hydro Floating Solar (HHFS) Photovoltaic (PV)	Solar capacity installation at Tenaga Nasional Berhad's hydropower dams	2024–40

Source: News flows and company announcements

Policy Strategy 2: Maximising benefits from the upcycle

Importantly, beyond boosting aggregate investment growth, translating the investment upcycle into long-lasting productivity gains should be prioritised. To achieve this, focus should be given to several mutually reinforcing policy directions:

- Focus on high-quality investment:** Continuous emphasis via well-targeted incentives¹⁵ should be placed on high-quality investments that yield positive spillovers to the economy. In recent years, there has been a notable increase in approved investments in E&E, transport equipment, support services and ICT (Chart 14). These industries tend to create high-value jobs (Chart 15a) and expand domestic linkages – two measurable pillars under the National Investment Aspirations (NIAs). For instance, based on the 2021 input-output tables, E&E and transport equipment industries have backward and forward linkage index values of more than one. This implies that these industries significantly source intermediate inputs from other domestic upstream industries and supply substantial intermediate inputs to other downstream industries (Chart 15b).
- Manage pressure points from investment upcycle:** While strong investment can offer substantial benefits when effectively capitalised, it is equally important to remain cognisant of potential risks associated with investment upcycles. Drawing lessons from previous investment upcycles, these risks include increased household and business indebtedness, as well as pressure to the current account of the balance of payment:
 - *Rise in household and business indebtedness:* During the second investment upcycle, there was an oversupply of high-end residential and commercial properties. This resulted in large inventories of unsold properties,¹⁶ which placed financial strain on households and businesses, exposed financial institutions to vulnerability, and contributed to price volatility in the property market leading to financial imbalances.¹⁷ While the sectoral drivers of the current upcycle are more diverse with strong contributions from E&E and ICT, it is important to remain vigilant about the potential risks in the property market.
 - *Pressure to the current account of the balance of payments:* Strong investment activity could place temporary pressure to the current account surplus mainly due to increased capital imports particularly for M&E. Nonetheless, a deficit may not necessarily indicate an unsustainable development, particularly if these investments are funded

¹⁵ Based on Budget 2025, the Government is currently developing the New Investment Incentives Framework. The key focus includes developing a well-targeted incentives for high-value investments via a scorecard approach in line with the NIAs.

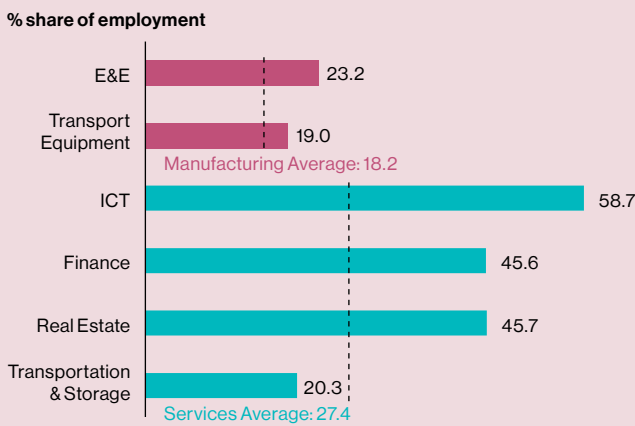
¹⁶ Bank Negara Malaysia (2015). Assessing Demand-Supply Conditions in the Malaysian Property Market. Annual Report 2015.

¹⁷ For more details on financial imbalances, please refer to the box article titled 'Financial Imbalances and Policy Responses in Malaysia' in the Annual Report 2014.

by stable sources, such as foreign direct investment. Moreover, such investments have the potential to enhance productivity and generate future income, thereby supporting the current account balance over the long term.¹⁸

- Localisation of supply chains:** To maximise the positive spillovers from the current investment upcycle, it is essential to further integrate more domestic firms into the supply chains connected to these investments. For example, investments from multinational companies (MNCs) that demonstrate substantial efforts to expand and develop domestic supply chain network such as sourcing materials from local suppliers and building local capabilities¹⁹ should be encouraged. The recent influx of data centre investments in Malaysia can also help advance the local manufacturing ecosystem by supplying equipment such as server racks and cooling systems. Additionally, the data centre industry can generate forward linkages in the economy, for example, by fostering the development of local cloud computing and uplifting local independent software vendors. These can be achieved through strengthening partnerships with local vendors and service providers, and enhancing their capabilities to serve data centres within and outside of Malaysia.

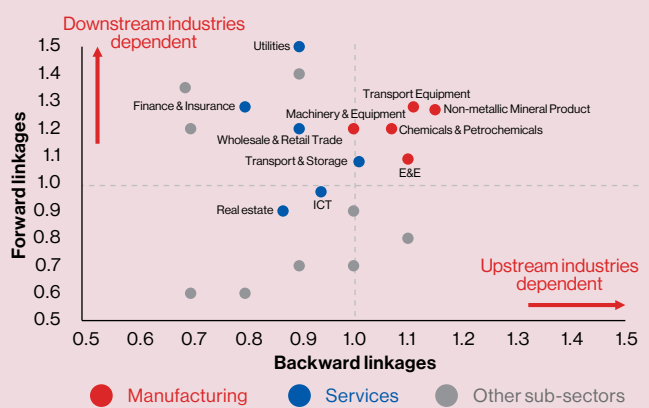
Chart 15a: High-skilled Labour Distribution by Sector (2022)



Note: The latest available data is up to 2022 for Chart 15a and up to 2021 for Chart 15b.

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

Chart 15b: Forward and Backward Linkages Index



- Foster growth of intangible capital:** In the era of the knowledge economy powered by rapid digitalisation, advanced economies have been increasingly focusing on developing and acquiring intangible capital (e.g. intellectual properties (IPs), computer software, and databases) to benefit from new growth areas such as artificial intelligence and digital services. Between 2008 and 2023, intangible investment has consistently grown at a faster rate than tangible investment in many advanced economies.²⁰ Intangible capital is one of the main sources of market value and competitiveness for firms to generate higher product premium especially in knowledge-intensive industries such as high-tech manufacturing, pharmaceutical and cloud computing. In the semiconductor industry, for instance, transitioning from back-end assembly to advanced packaging and front-end activities²¹ is ideally driven by homegrown IPs and product designs. Moving up the global value chain requires greater policy focus directed towards stimulating research and development (R&D) spending, patenting activity and fostering partnerships between private sector, leading MNCs and research institutions.

¹⁸ For more details on pressure to the current account balance, please refer to 'Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 period' box article in BNM's Economic and Monetary Review 2024.

¹⁹ For instance, in March 2024, Google announced two initiatives aimed at equipping Malaysian youth with future ready skills and enhancing public service delivery. The first initiative involves Google and the Ministry of Higher Education (MoHE) working together to upskill Malaysian youth from diverse backgrounds by providing 161 institutes of higher learning with 500 Google Career Certificate scholarships each. The second initiative involves collaborating with Jabatan Digital Negara (JDN) to equip 445 thousand public officers with Google Workspace tools to boost productivity.

²⁰ World Intellectual Property Organization and Luiss Business School (2024).

²¹ For instance, integrated circuit design and wafer fabrication, which can create more high skilled jobs.

- **Structured talent upskilling and development:** Nurturing a high-skilled and future-ready workforce will not only attract quality investments by ensuring a sufficient talent supply but also enhance knowledge transfer and innovation capacity. For instance, the shortage of engineers and the explicit target under National Semiconductor Strategy (NSS) to train and upskill 60,000 engineers underscore the importance of developing a well-equipped talent pipeline to remain competitive in attracting high-value investments and driving innovation. Moreover, a cohesive talent development plan should involve greater collaboration between the Government, industry and academia in enhancing the quality of higher education syllabus as well as Technical and Vocational Education and Training (TVET) programmes. Specifically, the industry should be encouraged to take on more active roles, given its familiarity with the current trends, technologies, and the critical skills workers need to meet industry demands.²² More crucially, building a competitive talent pool right from the start would require a comprehensive plan to increase students' enrolment into the science, technology, engineering and mathematics (STEM) education at the secondary and higher education. These efforts would help in maintaining a balanced talent supply-demand dynamics and minimising skill mismatches.²³ In turn, the positive spillovers from the investment can be maximised, ensuring the benefits are widely shared and contribute to sustainable economic growth.

Over the longer term, it is imperative to continuously evaluate and review strategic investment policies to ensure they remain relevant and effective. This is especially important given the increasing competition and ongoing uncertainties in the global economy. Major developments, such as the recalibration of global supply chains, heightened geopolitical tensions and evolving economic fragmentation, present challenges as well as opportunities for all countries, including Malaysia. Considering these headwinds, it is increasingly vital for Malaysia's investment policies to not only attract quality foreign investment but also focus on enhancing the capabilities of domestic firms.

Conclusion

This article established the presence and nature of Malaysia's third investment upcycle. While an investment upcycle can serve as a catalyst for structural transformation in the economy, it should be complemented by policies aimed at sustaining the upcycle and maximising benefits from it to achieve long-term economic resilience and prosperity. It is also vital to remain cognisant of the potential risks associated with the investment upcycle to ensure sustainable economic growth and financial stability.

²² Bank Negara Malaysia (2023). The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities. Economic and Monetary Review 2023.

²³ For example, the CREST programme in the E&E industry is designed to bridge the talent demand and supply through structured talent development ecosystem underpinned by government-industry-academia collaboration.

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Annex



Annex

CONTENTS

Key Economic and Financial Statistics

National Accounts

A.1	Gross Domestic Product by Kind of Economic Activity at Constant 2015 Prices	P 1
A.2	Growth in Manufacturing Production (2015=100)	P 2
A.3	Services Sector Performance at Constant 2015 Prices	P 3
A.4	GNI by Demand Aggregates	P 4
A.5	Savings–Investment Gap	P 4

External Sector

A.6	Balance of Payments	P 5
A.7	Gross Exports	P 6
A.8	Gross Imports	P 7
A.9	Malaysia's Trading Partners	P 8
A.10	Outstanding External Debt and Debt Servicing	P 9

Consumer and Producer Prices Index

A.11	Consumer Price Index	P 10
A.12	Producer Price Index	P 10

Financial Indicators

A.13	Movements of the Ringgit	P 11
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Public Finance

A.14	Consolidated Public Sector Finance	P 12
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Table A.1

Gross Domestic Product by Kind of Economic Activity at Constant 2015 Prices

	2021	2022	2023	2024 ^p	2025 ^f
	RM million				
Agriculture	98,843	100,082	100,812	103,917	106,196
Mining and quarrying	93,717	97,001	97,513	98,411	97,639
Manufacturing	336,724	364,124	366,694	381,939	396,668
Construction	50,839	53,426	56,659	66,582	73,888
Services	795,116	882,723	927,904	977,650	1,033,856
Plus: Import duties	15,642	16,784	18,392	19,664	21,055
GDP at purchasers' prices*	1,390,882	1,514,139	1,567,974	1,648,163	1,729,302
	Annual change (%)				
Agriculture	-0.3	1.3	0.7	3.1	2.2
Mining and quarrying	0.9	3.5	0.5	0.9	-0.8
Manufacturing	9.5	8.1	0.7	4.2	3.9
Construction	-5.2	5.1	6.1	17.5	11.0
Services	2.2	11.0	5.1	5.4	5.7
Plus: Import duties	1.9	7.3	9.6	6.9	7.1
GDP at purchasers' prices	3.3	8.9	3.6	5.1	4.5-5.5

* Numbers may not necessarily add up due to rounding.

^p Preliminary

^f Forecast

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

Table A.2

Growth in Manufacturing Production (2015=100)

	2021	2022	2023	2024	2022	2023	2024
	Index				Annual change (%)		
Electrical and electronics products cluster	147.7	168.8	165.9	173.1	14.3	-1.7	4.3
Computer, electronics and optical products	151.3	175.4	171.9	180.3	16.0	-2.0	4.9
Electrical equipment	135.3	148.4	147.2	147.8	9.7	-0.8	0.4
Machinery & equipment	137.1	146.7	146.1	151.8	7.0	-0.4	3.9
Primary-related cluster	128.8	131.0	130.0	134.8	2.0	-0.7	3.7
Coke and refined petroleum products	112.9	120.0	118.1	120.3	6.3	-1.6	1.9
Chemical and chemical products	119.5	124.4	129.7	132.5	4.1	4.2	2.2
Pharmaceutical products	159.9	169.7	168.4	178.1	6.1	-0.7	5.7
Rubber and plastic products	178.4	161.2	152.6	163.4	-9.6	-5.3	7.0
Wood products	113.6	121.2	115.8	120.1	6.7	-4.5	3.7
Paper and paper products	133.8	143.9	149.7	154.1	7.5	4.1	3.0
Furniture	118.3	129.5	123.5	131.7	9.5	-4.6	6.6
Printing and reproduction of recorded media	116.6	124.6	132.2	143.2	6.8	6.1	8.3
Construction-related cluster	108.2	116.5	122.5	131.4	7.6	5.2	7.3
Other non-metallic mineral products	104.2	113.7	118.8	127.2	9.1	4.5	7.1
Basic metals	114.2	121.9	125.5	131.3	6.8	3.0	4.6
Fabricated metal products, except machinery and equipment	107.7	115.3	123.5	134.7	7.1	7.1	9.1
Consumer-related cluster	116.4	128.3	134.1	139.2	10.2	4.6	3.8
Food products	123.2	128.7	135.5	142.3	4.5	5.3	5.0
Transport equipment and other manufactures	110.1	130.0	135.3	137.6	18.1	4.1	1.7
Beverages	119.4	135.3	137.7	147.3	13.3	1.8	7.0
Tobacco products	83.6	102.2	116.4	127.9	22.1	13.9	10.0
Textiles, wearing apparel, leather products and footwear	118.4	125.0	126.4	129.6	5.6	1.1	2.5
Total	128.1	138.5	139.5	145.6	8.2	0.7	4.3

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.3

Services Sector Performance at Constant 2015 Prices

	2021	2022	2023	2024 ^p	2021	2022	2023	2024 ^p
	Annual change (%)				Share to GDP (%)			
Services	2.2	11.0	5.1	5.4	57.2	58.3	59.2	59.3
<i>Wholesale and retail trade</i>	2.2	13.7	5.9	4.3	16.8	17.6	17.9	17.8
<i>Government services</i>	5.4	4.5	4.7	4.9	9.5	9.1	9.2	9.2
<i>Finance and insurance</i>	10.1	0.8	-2.3	4.8	7.6	7.0	6.6	6.6
<i>Information and communication</i>	6.1	5.0	3.6	3.4	6.8	6.6	6.6	6.5
<i>Real estate and business services</i>	-9.1	22.7	8.7	9.5	3.8	4.3	4.5	4.7
<i>Other services</i>	-3.0	10.8	6.3	5.7	4.5	4.5	4.6	4.7
<i>Transport and storage</i>	1.2	29.4	13.8	10.7	3.1	3.6	4.0	4.2
<i>Food & beverage and accommodation</i>	-10.7	34.7	7.7	6.2	2.3	2.9	3.0	3.0
<i>Utilities</i>	2.8	3.4	2.6	3.6	2.8	2.7	2.6	2.6

^p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.4

GNI by Demand Aggregates

	2021	2022	2023	2024 ^p	2025 ^f
	at Current Prices (RM million)				
Consumption	1,094,067	1,241,290	1,320,334	1,405,946	1,509,231
<i>Private consumption</i>	898,359	1,033,418	1,102,511	1,173,892	1,255,653
<i>Public consumption</i>	195,707	207,872	217,824	232,054	253,578
Investment	298,703	326,675	350,733	396,968	438,059
<i>Private investment</i>	231,517	254,237	270,711	307,011	341,335
<i>Public investment</i>	67,186	72,437	80,022	89,957	96,724
Change in stocks*	43,958	96,868	58,878	25,033	-16,126
Exports of goods and services	1,093,895	1,378,618	1,250,183	1,377,947	1,457,754
Imports of goods and services	981,922	1,249,547	1,157,224	1,274,769	1,346,918
GDP at purchasers' value	1,548,701	1,793,903	1,822,904	1,931,125	2,042,001
Balance of primary income	-42,153	-56,943	-52,921	-61,489	-59,345
GNI (Gross national income)	1,506,548	1,736,960	1,769,983	1,869,636	1,982,656
	at Constant 2015 Prices (RM million)				
Consumption	1,007,312	1,109,484	1,158,448	1,216,654	1,282,865
<i>Private consumption</i>	817,103	909,562	951,892	1,000,493	1,056,041
<i>Public consumption</i>	190,210	199,922	206,556	216,161	226,824
Investment	279,242	298,205	314,508	352,359	385,069
<i>Private investment</i>	216,502	232,110	242,734	272,620	300,205
<i>Public investment</i>	62,740	66,096	71,773	79,739	84,864
Change in stocks*	20,749	24,106	25,990	8,630	-12,300
Exports of goods and services	984,094	1,126,873	1,035,882	1,123,883	1,196,623
Imports of goods and services	900,516	1,044,529	966,854	1,053,362	1,122,955
GDP at purchasers' value	1,390,882	1,514,139	1,567,974	1,648,163	1,729,302
Balance of primary income	-20,867	-30,105	-24,899	-31,829	-30,060
GNI (Gross national income)	1,370,015	1,484,034	1,543,076	1,616,334	1,699,241

* Includes statistical discrepancy

^p Preliminary^f Forecast

Note: Numbers may not necessarily add up due to rounding.

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

Table A.5

Savings–Investment Gap

	2020	2021	2022	2023	2024 ^p
	RM million				
Gross national savings	337,938	402,839	480,765	437,814	454,799
(as % of GNI)	24.3	26.7	27.7	24.7	24.3
Gross domestic capital formation	278,847	342,661	423,543	409,611	422,001
(as % of GNI)	20.1	22.7	24.4	23.1	22.6
Balance on current account	59,091	60,178	57,223	28,203	32,799
(as % of GNI)	4.3	4.0	3.3	1.6	1.8

^p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.6

Balance of Payments¹

Item (Net)	2020	2021	2022	2023	2024 ^p	2025 ^f
	RM million					
Goods²	137,486	177,634	187,275	136,157	117,101	118,924
Services	-47,161	-65,661	-58,204	-43,199	-13,923	-8,089
Transportation	-27,427	-31,863	-34,194	-31,430	-30,638	-31,503
Travel	-7,569	-14,857	-1,188	17,134	37,065	42,263
Other services	-11,551	-18,037	-22,147	-28,229	-19,682	-18,072
Government goods and services n.i.e.	-614	-904	-675	-674	-668	-777
Balance on goods and services	90,325	111,973	129,071	92,959	103,178	110,836
Primary income	-28,520	-42,153	-56,943	-52,921	-61,489	-59,345
Compensation of employees	-8,061	-6,659	-7,339	-8,136	-9,634	-10,353
Investment income	-20,459	-35,494	-49,603	-44,785	-51,854	-48,992
Secondary income	-2,714	-9,642	-14,905	-11,835	-8,891	-10,516
Balance on current account	59,091	60,178	57,223	28,203	32,799	40,975
% of GDP	4.2	3.9	3.2	1.5	1.7	1.5 ~ 2.5
Capital account	-419	-469	-454	-262	-8	-
Financial account	-77,396	16,242	8,533	-15,460	-14,846	-
Direct investment	3,111	31,065	12,593	-180	11,028	-
Assets	-13,808	-53,200	-53,603	-36,287	-59,747	-
Liabilities	16,919	84,265	66,196	36,108	70,775	-
Portfolio investment	-49,584	18,802	-50,114	-36,355	-84,040	-
Assets	-60,695	-35,788	-30,454	-46,610	-107,956	-
Liabilities	11,110	54,590	-19,660	10,255	23,916	-
Financial derivatives	407	-2,250	-2,212	-3,879	2,911	-
Other investment	-31,330	-31,375	48,267	24,953	55,254	-
Assets	-5,436	-51,600	-9,479	4,094	6,773	-
Liabilities	-25,894	20,225	57,746	20,859	48,480	-
Balance on capital and financial accounts	-77,815	15,774	8,079	-15,722	-14,855	-
Net errors and omissions³ (E&O)	-572	-30,266	-11,943	-32,981	-2,176	-
Overall balance	-19,296	45,686	53,359	-20,500	15,768	-
Bank Negara Malaysia international reserves, net⁴						
USD million	107,621	116,876	114,641	113,465	116,204	-
RM million	432,313	486,790	503,272	520,802	520,072	-
Foreign exchange revaluation gain (+) / loss (-)	-1,079	11,007	7,890	24,089	-20,820	-
Reserves as months of imports of goods and services ⁵	6.6	5.9	4.8	5.4	4.9	-
Reserves as months of retained imports	8.4	7.7	6.3	7.0	5.8	-

¹ In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

² Adjusted for valuation and coverage of goods for processing, storage and distribution.

³ As at 1Q 2018, the net E&O excludes reserves revaluation changes. This practice is backdated to 1Q 2010.

⁴ All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain /loss has been reflected accordingly in Bank Negara Malaysia's audited accounts.

⁵ For further details, please refer to "Expansion of the Measure on Reserves Coverage of Imports - from Retained Imports to Imports of Goods and Services" article in BNM's Fourth Quarter of 2021 Quarterly Bulletin.

p Preliminary

f Forecast

n.i.e. Not included elsewhere.

Note: Numbers may not add up due to rounding.

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.

Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.

Source: Department of Statistics Malaysia and Bank Negara Malaysia

Table A.7

Gross Exports

	2022	2023	2024 ^p	2022	2023	2024 ^p	2022	2023	2024 ^p
	RM million			Annual change (%)			% share		
Manufactures	1,304,668	1,216,283	1,288,783	22.1	-6.8	6.0	84.2	85.3	85.5
<i>of which:</i>									
Electrical and electronic products	592,956	575,455	601,211	30.0	-3.0	4.5	38.3	40.3	39.9
Semiconductors	387,338	387,403	387,980	37.7	0.0	0.1	25.0	27.2	25.7
Office machines and automatic data processing equipment	59,136	52,546	77,754	8.9	-11.1	48.0	3.8	3.7	5.2
Electrical machinery, apparatus and appliances, and parts	84,092	78,938	81,144	24.0	-6.1	2.8	5.4	5.5	5.4
Telecommunications and sound-recording and reproducing equipment	62,390	56,568	54,332	19.0	-9.3	-4.0	4.0	4.0	3.6
Petroleum products	161,205	143,494	127,331	67.6	-11.0	-11.3	10.4	10.1	8.4
Chemicals and chemical products	80,579	71,454	73,574	14.0	-11.3	3.0	5.2	5.0	4.9
Manufactures of metal	63,551	56,323	61,547	3.2	-11.4	9.3	4.1	3.9	4.1
Machinery, equipment and parts	60,409	57,250	69,007	21.0	-5.2	20.5	3.9	4.0	4.6
Optical and scientific equipment	56,632	54,575	59,169	20.7	-3.6	8.4	3.7	3.8	3.9
Rubber products	28,790	21,337	26,159	-55.4	-25.9	22.6	1.9	1.5	1.7
Palm oil-based manufactured products	41,385	31,212	35,108	26.5	-24.6	12.5	2.7	2.2	2.3
Processed food	28,414	30,304	35,370	15.5	6.7	16.7	1.8	2.1	2.3
Transport equipment	18,988	17,500	18,608	19.3	-7.8	6.3	1.2	1.2	1.2
Agriculture	120,903	94,818	105,664	23.3	-21.6	11.4	7.8	6.6	7.0
<i>of which:</i>									
Palm oil and palm oil-based agricultural products	96,600	70,891	79,216	27.4	-26.6	11.7	6.2	5.0	5.3
Sawn timber and moulding	3,592	3,141	2,983	9.8	-12.5	-5.1	0.2	0.2	0.2
Natural rubber	4,592	3,714	4,503	0.5	-19.1	21.2	0.3	0.3	0.3
Minerals	117,346	106,078	102,832	68.2	-9.6	-3.1	7.6	7.4	6.8
<i>of which:</i>									
Liquefied natural gas (LNG)	68,002	60,231	60,844	78.1	-11.4	1.0	4.4	4.2	4.0
Crude petroleum	31,847	28,733	26,114	73.4	-9.8	-9.1	2.1	2.0	1.7
Others	7,092	9,020	10,405	49.6	27.2	15.4	0.5	0.6	0.7
Total	1,550,009	1,426,199	1,507,683	24.9	-8.0	5.7	100.0	100.0	100.0

p Preliminary

Source: Department of Statistics, Malaysia

Table A.8

Gross Imports

	2022	2023	2024p	2023	2024p	2024p
	RM million			Annual change (%)		% share
Capital goods	120,231	128,743	166,833	7.1	29.6	12.2
Capital goods (except transport equipment)	108,072	116,429	156,900	7.7	34.8	11.4
Transport equipment industrial	12,160	12,314	9,933	1.3	-19.3	0.7
Intermediate goods	706,551	620,607	748,895	-12.2	20.7	54.6
Food and beverages, mainly for industry	33,305	28,409	33,228	-14.7	17.0	2.4
Industrial supplies	311,815	281,919	305,391	-9.6	8.3	22.3
Fuel and lubricants	114,631	109,566	118,612	-4.4	8.3	8.7
Parts and accessories of capital goods (except transport equipment)	206,050	154,507	241,335	-25.0	56.2	17.6
Parts and accessories of transport equipment	40,750	46,205	50,330	13.4	8.9	3.7
Consumption goods	104,017	104,118	117,410	0.1	12.8	8.6
Food and beverages, mainly for household consumption	46,394	48,476	54,557	4.5	12.5	4.0
Transport equipment non-industrial	1,807	1,547	1,736	-14.4	12.2	0.1
Consumer goods, n.e.s	55,817	54,095	61,118	-3.1	13.0	4.5
Others	363,011	357,576	337,703	-1.5	-5.6	24.6
<i>of which:</i>						
Dual use goods	29,859	40,047	40,262	34.1	0.5	2.9
Re-exports	327,975	315,134	293,456	-3.9	-6.9	21.4
Total	1,293,811	1,211,044	1,370,842	-6.4	13.2	100.0

p Preliminary

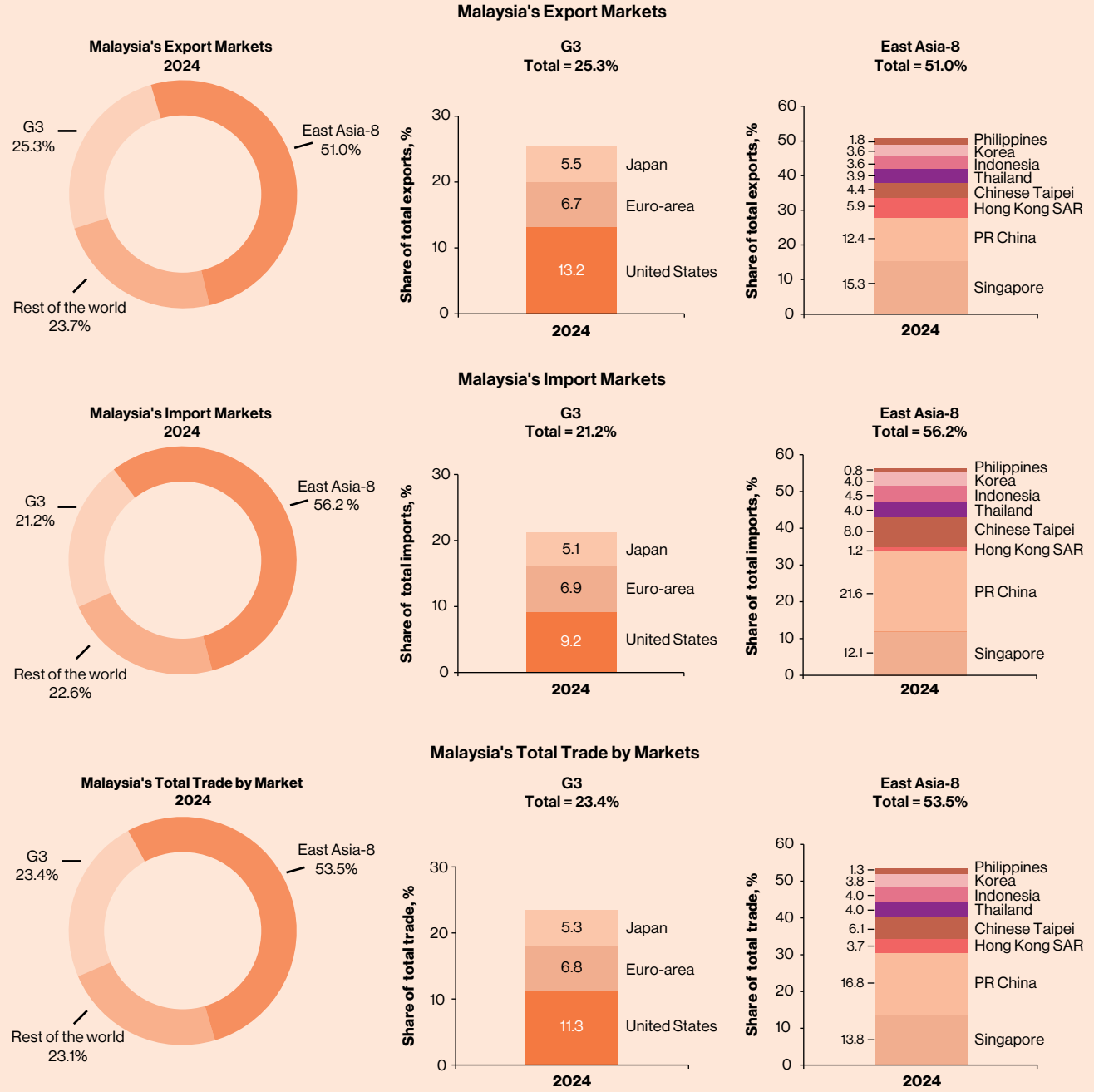
n.e.s. Not elsewhere specified

Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia

Chart A.9

Malaysia's Trading Partners



Source: Department of Statistics, Malaysia

Table A.10

Outstanding External Debt and Debt Servicing

	2020	2021	2022	2023	2024 ^p
	RM million (unless stated otherwise)				
Total external debt	958,479	1,080,355	1,145,691	1,242,555	1,345,381
<i>USD million equivalent</i>	235,569	259,389	260,977	270,709	300,610
<i>% of GDP</i>	67.6	69.8	63.9	68.2	69.7
<i>Annual change (%)</i>	1.2	12.7	6.0	8.5	8.3
By instrument					
Bonds and notes	172,682	197,154	175,984	169,828	162,151
Interbank borrowings	182,078	176,691	218,582	220,739	237,920
Intragroup loans	128,891	144,600	155,262	189,023	223,833
Loans	76,467	73,730	75,996	86,941	89,284
NR holdings of domestic debt securities	220,103	255,056	246,565	269,500	273,957
NR deposits	94,497	99,902	111,572	137,505	149,958
IMF allocation of Special Drawing Rights (SDRs)	7,810	28,150	28,213	29,738	28,185
Others ¹	75,950	105,072	133,517	139,281	180,094
Maturity profile					
Medium- and long-term	591,229	676,155	663,133	723,067	770,003
Short-term	367,250	404,200	482,558	519,489	575,378
Currency composition (% share)	100.0	100.0	100.0	100.0	100.0
<i>Ringgit</i>	33.9	33.1	33.1	33.0	31.3
<i>US dollar</i>	51.0	51.6	51.0	49.7	51.0
<i>Japanese yen</i>	3.2	2.6	2.3	2.4	2.1
<i>Others</i>	11.8	12.6	13.6	14.8	15.7
Total servicing (including short-term interest payment)	120,657	118,159	157,642	166,494	193,261
of which:					
Medium- and long-term debt	117,660	116,351	152,962	154,125	180,241
Repayment²	101,796	99,046	134,653	132,775	156,252
of which:					
Redemption of matured domestic debt securities held by NR	14,489	19,656	17,524	16,636	16,330
Interest payment	15,865	17,305	18,309	21,350	23,989
of which interest payment on:					
NR holdings of domestic debt securities	7,502	8,873	9,209	9,549	10,488
Debt service ratio (% of exports of goods and services)					
Total debt	13.8	10.8	11.4	13.3	14.0
Medium- and long-term debt of which:					
NR holdings of domestic debt securities	2.5	2.6	1.9	2.1	1.9

¹ Comprises trade credits and other debt liabilities

² Excludes prepayment

^p Preliminary

Note: Numbers may not necessarily add up due to rounding
NR refers to non-residents

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table A.11

Consumer Price Index

	Weights (%) (2010=100) 2018	Weights (%) (2010=100) 2024	2021	2022	2023	2024
	Annual change (%)					
Total	100.0	100.0	2.5	3.3	2.5	1.8
Food and beverages	29.5	29.8	1.7	5.8	4.8	2.0
Alcoholic beverages and tobacco	2.4	1.9	0.5	0.5	0.6	0.7
Clothing and footwear	3.2	2.7	-0.4	0.1	0.3	-0.3
Housing, water, electricity, gas and other fuels	23.8	23.2	1.5	1.8	1.7	3.0
Furnishings, household equipment and routine household maintenance	4.1	4.3	1.6	3.5	2.3	0.7
Health	1.9	2.7	0.4	0.7	2.2	1.8
Transport	14.6	11.3	11.0	4.7	1.1	1.0
Information and communication	4.8	6.6	0.0	0.0	-3.0	-1.5
Recreation, sport and culture	4.8	3.0	0.4	2.3	1.5	1.8
Education	1.3	1.3	0.2	1.1	1.9	1.5
Restaurants and accommodation services	2.9	3.4	0.4	5.0	5.6	3.1
Insurance and financial services	-	4.0	0.0	0.2	0.1	0.3
Personal care, social protection and miscellaneous goods & services	6.7	5.8	0.5	2.0	2.4	3.0

Source: Department of Statistics, Malaysia

Table A.12

Producer Price Index

	Weights (%) (2010=100)	2021	2022	2023	2024
		Annual change (%)			
Total	100.0	9.5	7.8	-1.9	0.3
Crude materials for further processing	16.4	30.3	6.2	-9.6	0.7
<i>Foodstuffs and feedstuffs</i>	3.2	2.9	3.4	4.4	0.3
<i>Non-food materials</i>	13.2	37.0	6.8	-12.1	0.6
Intermediate materials, supplies and components	56.1	7.7	10.9	-1.2	-0.5
<i>Materials and components for manufacturing</i>	29.6	10.4	10.1	-3.8	1.3
<i>Materials and components for construction</i>	2.9	0.7	4.3	5.4	1.5
<i>Processed fuel and lubricants</i>	11.9	9.7	18.0	-3.7	-9.2
<i>Containers</i>	0.6	2.8	1.8	-2.8	-4.8
<i>Supplies</i>	11.2	0.7	7.8	8.3	3.8
Finished goods	27.5	-0.2	1.8	3.1	1.9
<i>Finished consumer goods</i>	11.5	2.7	2.7	1.8	-0.8
<i>Capital equipment</i>	16.0	-2.4	1.1	4.1	3.9

Source: Department of Statistics, Malaysia

Table A.13

Movements of the Ringgit

	RM to one unit of foreign currency ¹			Annual change (%)		Change (%)
	2005	2023	2024	2023	2024	21 Jul. 05–Dec. 24
	21 Jul. ³	End-Dec.				
SDR ²	5.5049	6.1752	5.8391	-5.0	5.8	-5.7
US dollar	3.8000	4.5915	4.4700	-3.9	2.7	-15.0
Singapore dollar	2.2570	3.4822	3.2860	-5.8	6.0	-31.3
100 Japanese yen	3.3745	3.2452	2.8572	2.5	13.6	18.1
Pound sterling	6.6270	5.8484	5.6105	-9.1	4.2	18.1
Australian dollar	2.8823	3.1399	2.7772	-4.8	13.1	3.8
Euro	4.6212	5.0810	4.6528	-7.4	9.2	-0.7
100 Thai baht	9.0681	13.4353	13.0511	-4.9	2.9	-30.5
100 Indonesian rupiah	0.0386	0.0297	0.0277	-4.7	7.4	39.6
100 Korean won	0.3665	0.3559	0.3032	-1.8	17.4	20.9
100 Philippine peso	6.8131	8.2782	7.7296	-4.3	7.1	-11.9
100 New Taiwan dollar	11.8901	14.9419	13.6372	-4.1	9.6	-12.8
Chinese renminbi	0.4591	0.6469	0.6125	-2.0	5.6	-25.0

¹ US dollar rates are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market. Rates for foreign currencies other than US dollar are cross rates derived from rates of these currencies against the US dollar and the USD/MYR rate.

² The daily SDR rates published on the BNM website are based on latest available US dollar SDR rates and prevailing USD/MYR mid-rates. The US dollar SDR rate in this table for the years 2023 and 2024 is at a 1-day lag due to different time zones.

³ Ringgit was unpegged against the US dollar.

Source: Bank Negara Malaysia

Table A.14

Consolidated Public Sector Finance

	2021	2022	2023	2024 ^p
	RM billion			
Revenue ¹	237.3	271.9	325.7	331.5
% growth	-1.7	14.6	19.8	1.8
Operating expenditure	272.4	335.7	356.9	371.3
% growth	4.3	23.2	6.3	4.0
Current balance of NFPCs ²	69.9	139.7	101.6	103.7
Total public sector current balance	34.7	75.8	70.4	63.9
% of GDP	2.2	4.2	3.9	3.3
Development expenditure ³	125.7	151.8	178.0	181.8
% growth	5.0	20.8	17.3	2.2
General Government ⁴	66.4	74.7	95.7	89.6
NFPCs	59.2	77.1	82.3	92.2
COVID-19 Fund	37.8	31.0	-	-
Overall balance	-128.7	-106.9	-107.6	-117.9
% of GDP	-8.3	-6.0	-5.9	-6.1

¹ Excludes transfers within General Government.

² Refers to 31 Non-Financial Public Corporations (NFPCs) from 2023 onwards.

³ Adjusted for transfers and net lending within public sector.

⁴ Comprises Federal Government, state and local governments, and statutory bodies.

^p Preliminary

Note: Numbers may not add up due to rounding.

Source: Ministry of Finance, Malaysia and Non-Financial Public Corporations (NFPCs)