

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.