

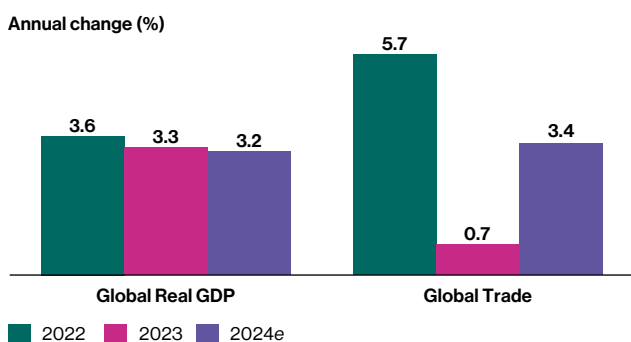
Economic, Monetary and Financial Developments in 2024

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

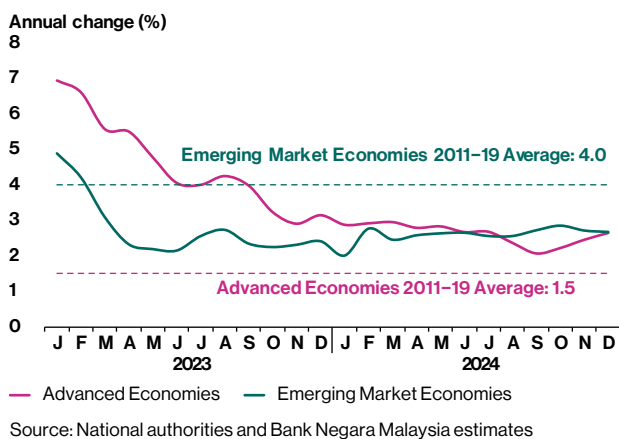
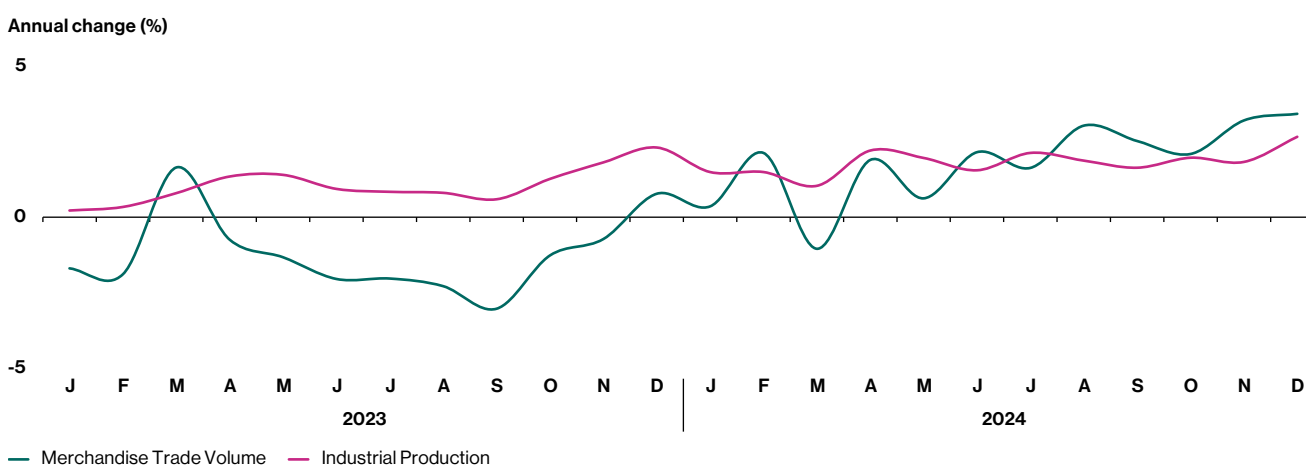


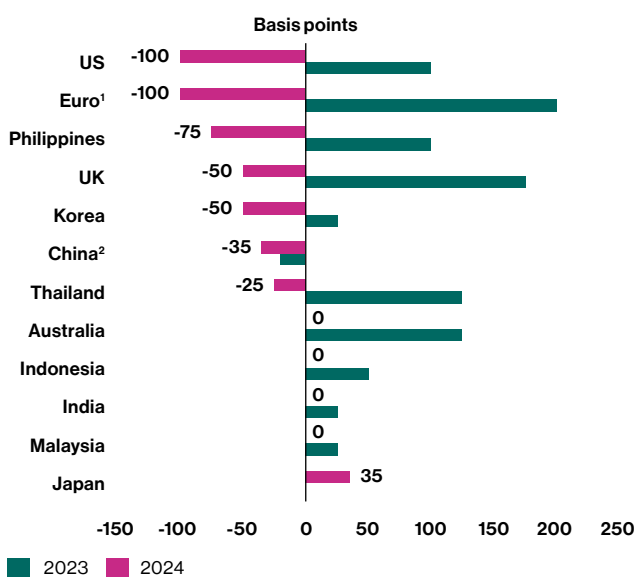
Chart 1.2: Global Merchandise Trade Volume and Industrial Production Growth



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.

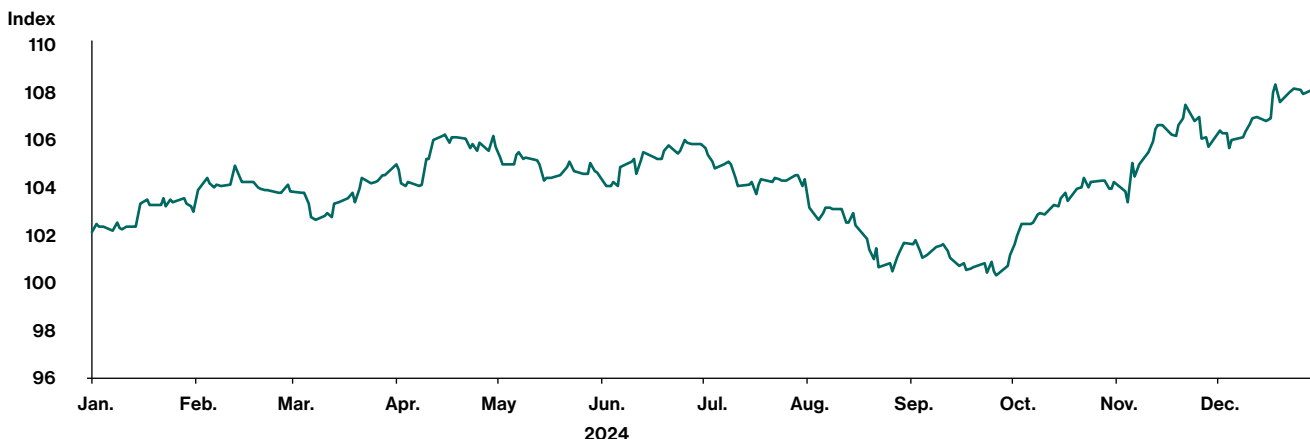
From July 2024, global financial conditions began to ease as financial market participants increasingly anticipated an imminent rate cut by the Fed's September Federal Open Market Committee (FOMC) meeting. The shift in financial market expectations was driven by softer US labour market and inflation 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

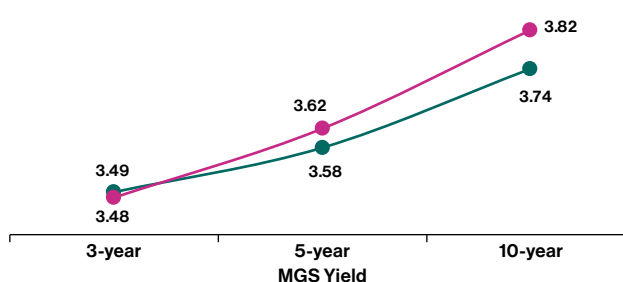
structural reforms, helped cushion adverse impacts from global financial market spillovers and maintain positive investor confidence.

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.

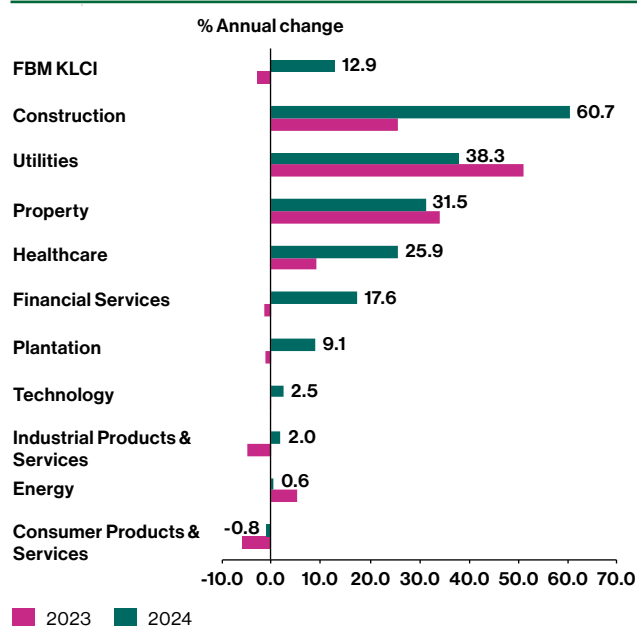
Chart 1.6: Malaysian Government Securities (MGS) Yield Curve (%)



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.

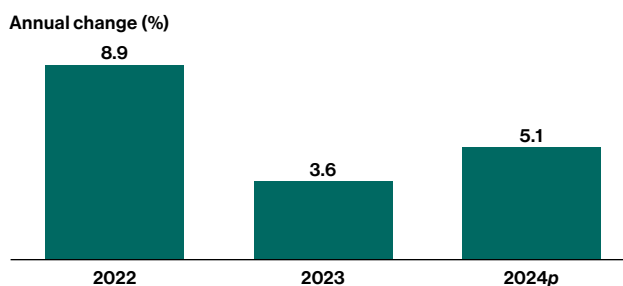
Source: Bank Negara Malaysia

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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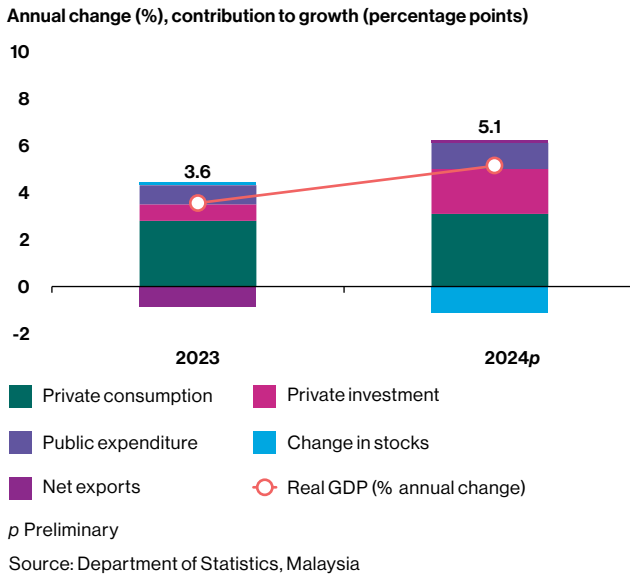
Source: Department of Statistics, Malaysia

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

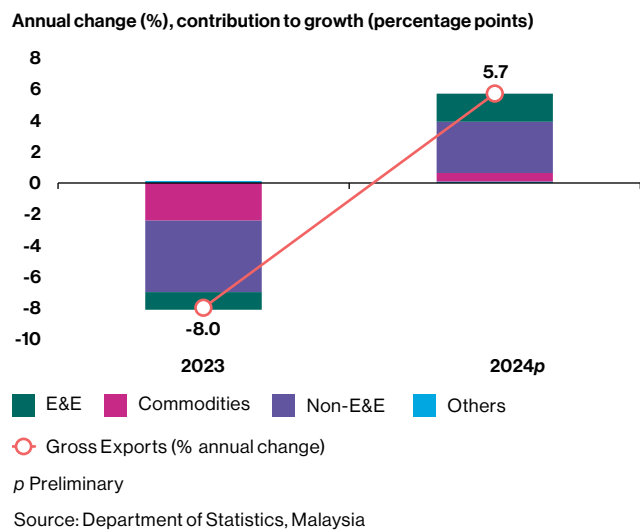
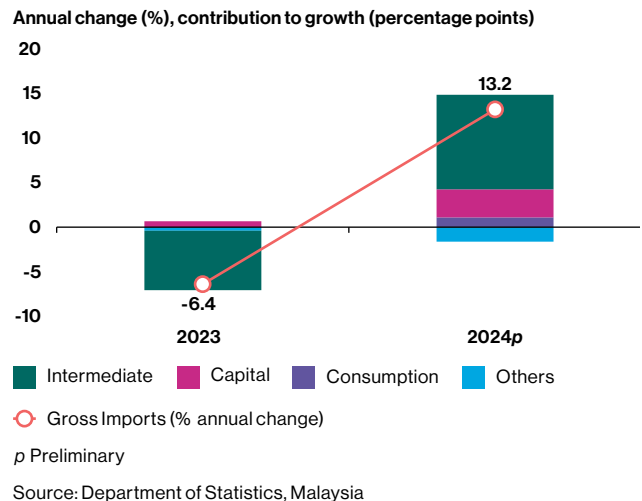


Chart 1.12: Gross Imports by End Use



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)						
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)						
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.

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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

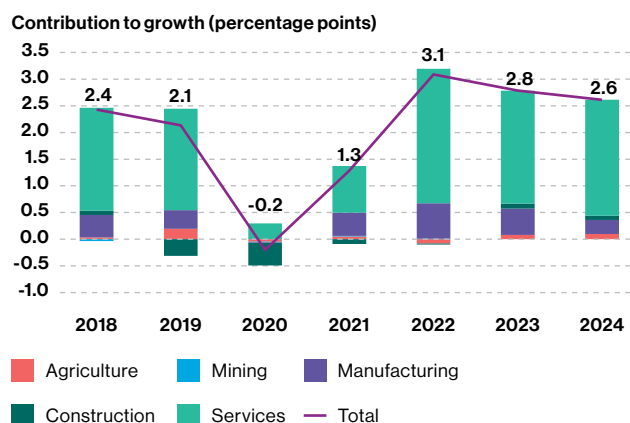
	2018	2019	2020	2021	2022	2023	2024
Employment ('000 persons)	14,810	15,126	15,096	15,290	15,762	16,201	16,625
Annual change (%)	2.4	2.1	-0.2	1.3	3.1	2.8	2.6
Unemployment rate (% of labour force)	3.4	3.3	4.5	4.6	3.9	3.4	3.2
Labour force participation rate (% of working age population)	68.4	68.9	68.4	68.5	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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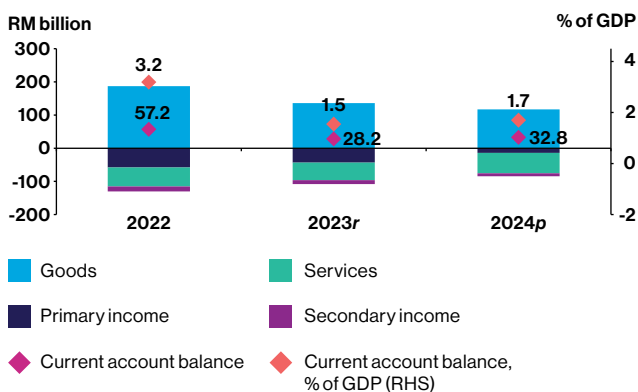
r Revised

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

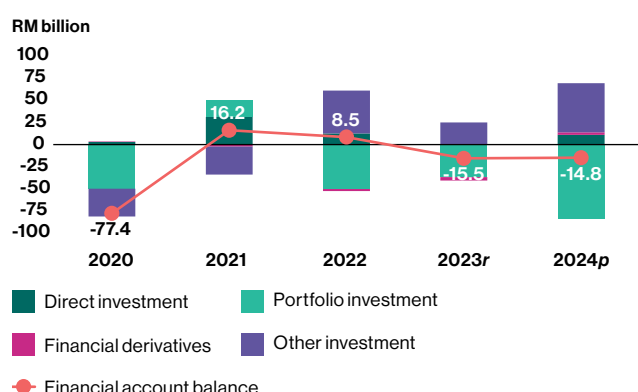
Chart 2: Current Account Balance



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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 3: Financial Account Flows by Key Components



p Preliminary
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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.

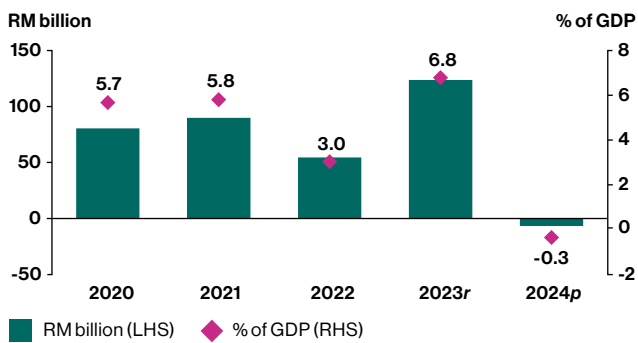
Malaysia's external debt amounted to RM1,345.4 billion as at end-2024 or 69.7% of GDP (2023: RM1,242.6 billion or 68.2% of GDP). The higher external debt was due mainly to higher trade credits and intragroup loans by corporates. These were partly offset by exchange rate valuation effects following the 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.

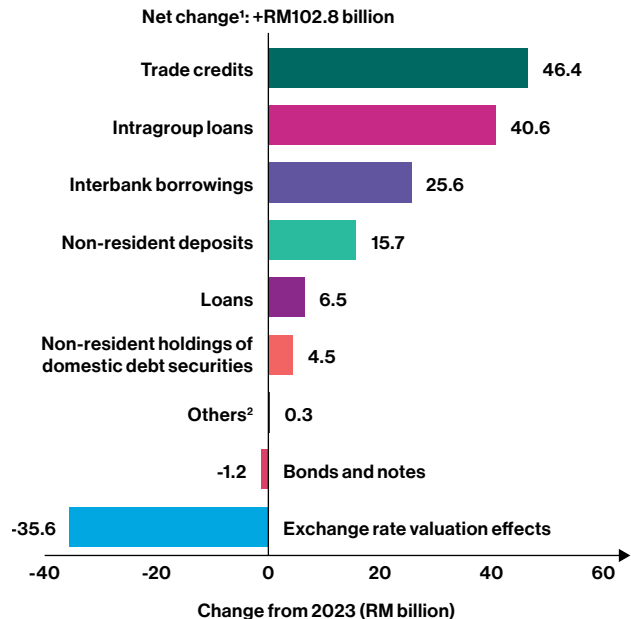
Chart 4: Net International Investment Position (IIP)



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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

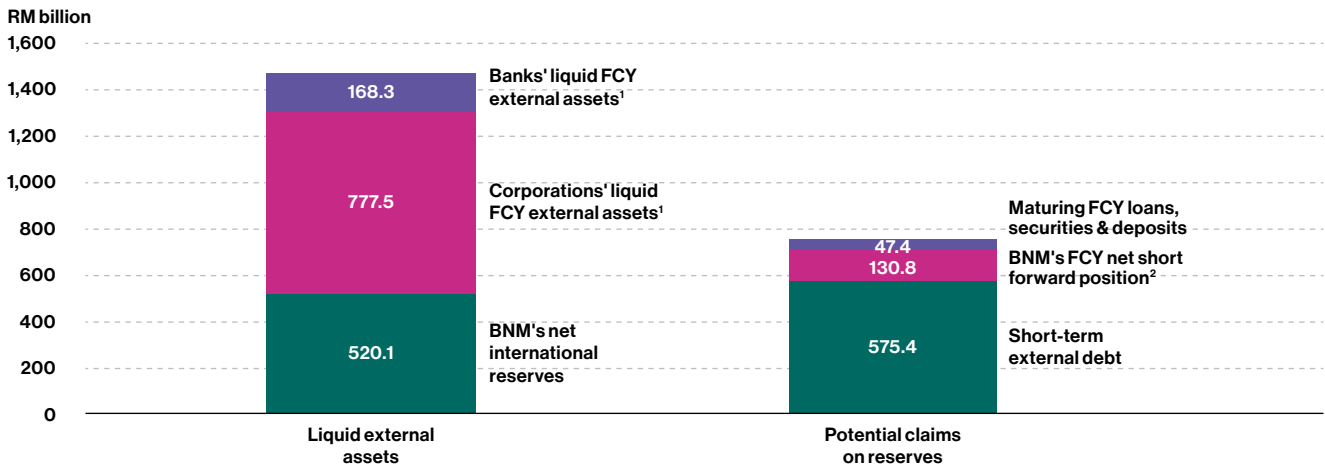


* Comprises trade credits and other debt liabilities, such as insurance claims yet to be disbursed and interest payables on bonds and notes.

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

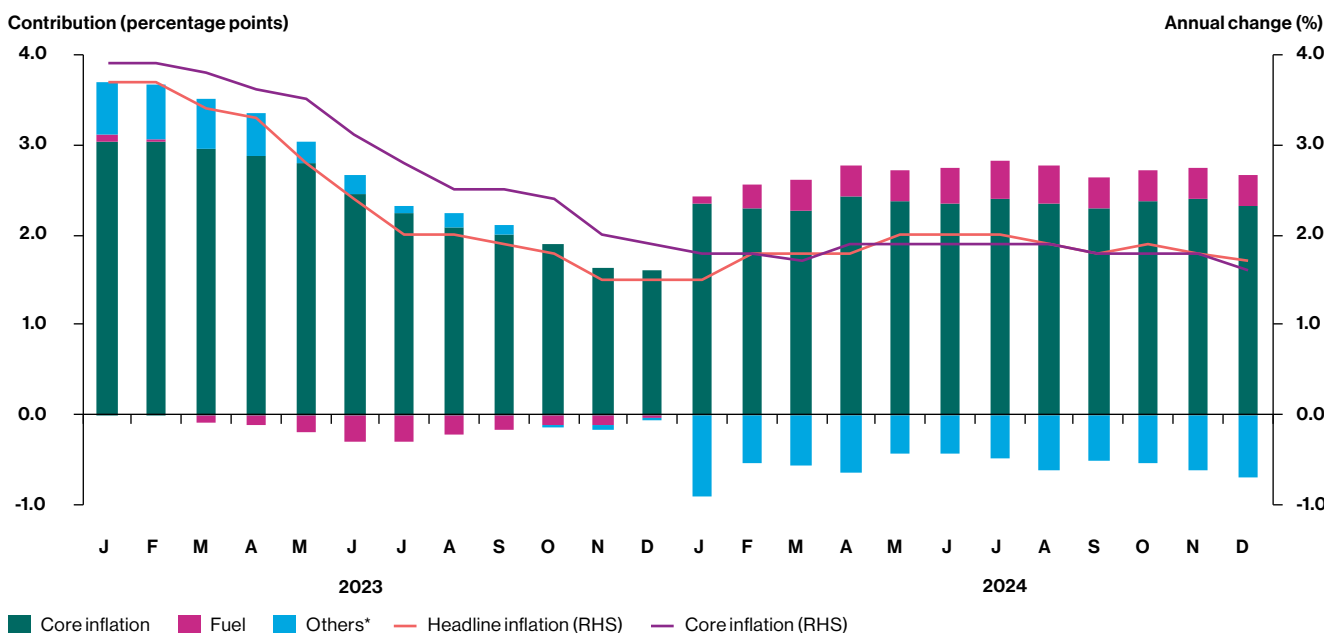
Headline inflation moderated in 2024, averaging at 1.8%, below its historical average (2011–19 average: 2.2%). In the environment of contained cost conditions and stable demand, inflation was moderate across most Consumer Price Index (CPI) segments. Of note, the moderation could be seen most prominently 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

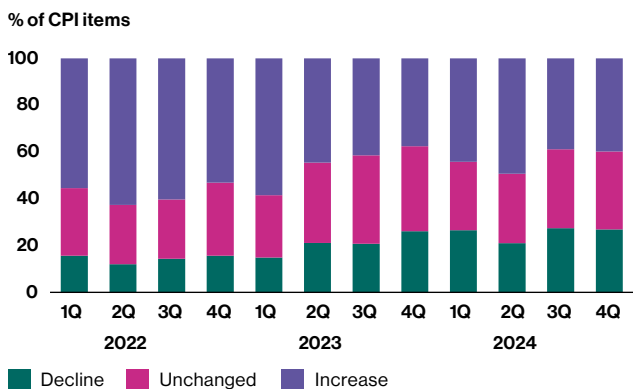
Chart 1.13: Contribution to Headline Inflation by Components



* 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

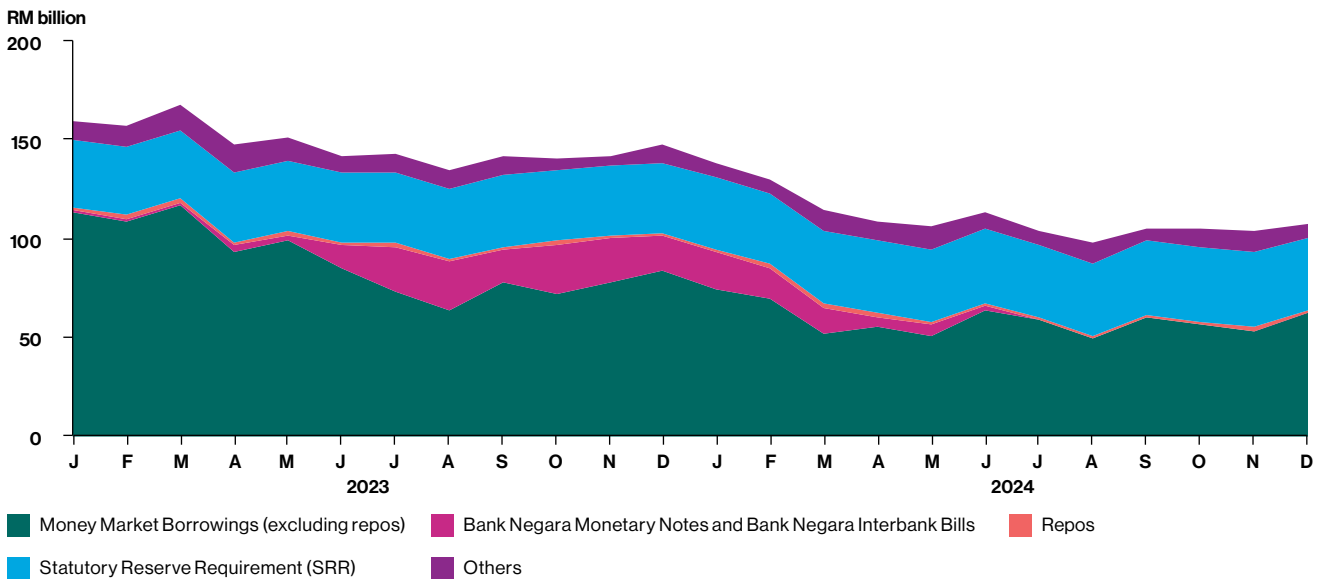
During the year, the Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.00%, with the focus of ensuring price stability conducive to the sustainable growth of the economy. In 2024, the Malaysian economy continued to be strong, underpinned mainly by robust domestic 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)

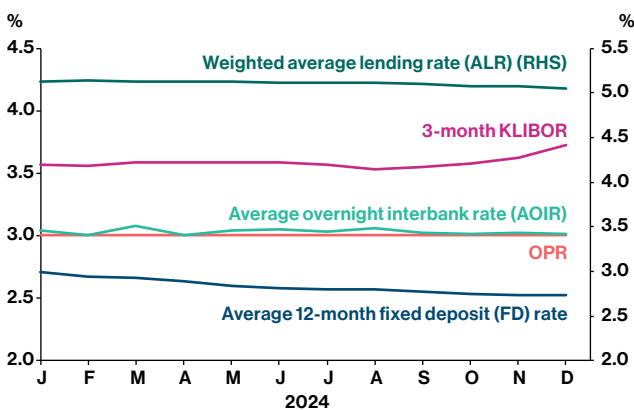


Source: Bank Negara Malaysia

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)



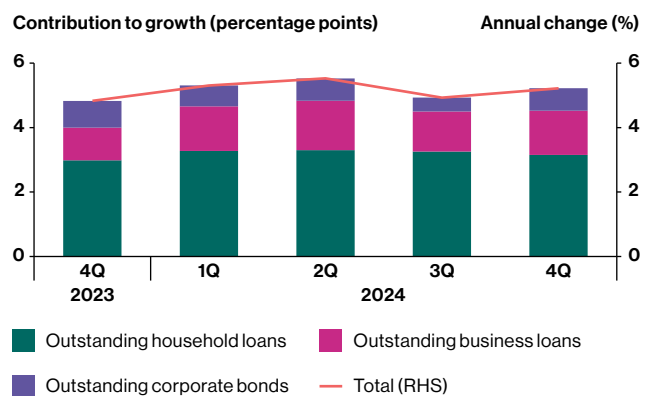
Source: Bank Negara Malaysia and Bloomberg

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%).

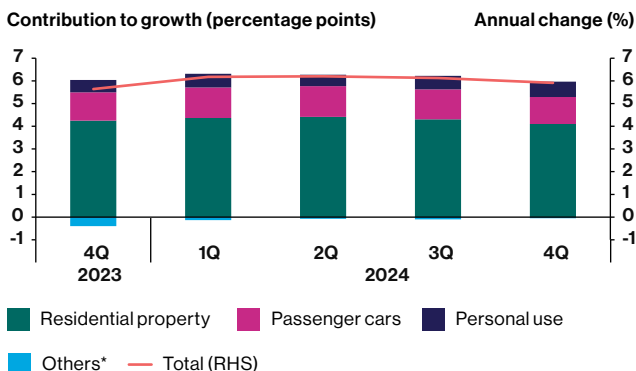
Households remained the major borrower segment contributing to loan growth in 2024, with a sustained growth in outstanding household loans of 5.9% (2023: 5.6%), particularly for the purchases of houses and cars (Chart 1.18). Continued labour market improvements, as reflected by

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.

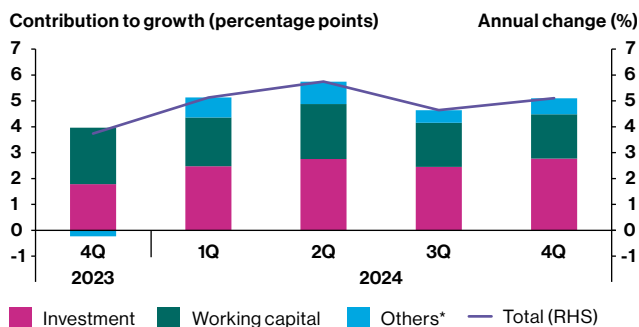
Source: Bank Negara Malaysia

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.