

# Economic Focus

## Resilient domestic demand

25 March 2025

### Research Analysts

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- **Strong underlying fundamentals cement position of strength in the face of rising external uncertainties**
- **Diversified export structure to help weather trade protectionism**
- **We are positive of 2025 growth prospects and expect 4.7% GDP growth**

### Sustained growth in domestic economy

Malaysia's economy remains firmly on a healthy growth trajectory as domestic demand is likely to strengthen further with sustained consumer spending and stronger investment activities. Its strong fundamentals and diversified economic structure, coupled with government's concerted effort to spur higher economic growth will help ensure Malaysia's uptrend stays intact. Despite concerns of slower growth, Jan 2025 credit demand has demonstrated healthy y-o-y growth as loans for households and businesses grew by 6.0% and 5.1%, respectively. Steady overall banking system loans growth of 5.7% in Jan 2025 (vs 5.5% in Dec 2024, 5.7% in Jan 2024) signifies the positive growth trajectory of Malaysia's economic outlook in 2025. Tourism activities in 2025 will likely provide a strong fillip with Malaysia's air passenger traffic for Jan 2025 exceeding the pre-pandemic volume for the first time.

### Robust employment market underpins strong consumption

The upward revision of the minimum wage and civil servant salaries as well as higher financial assistance for the low-income group will ensure 2025 domestic expenditure remains intact. Meanwhile, private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. Meanwhile, it is noteworthy that Malaysia's labour market has been growing from strength to strength with unemployment rate coming in at a decade-low of 3.1% as at Jan 2025, compared to 3.3% in Jan 2024. Notably, we are encouraged by the persistent growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.6% in Jan 2025. This will certainly reinforce the positive economic outlook in 2025 given that domestic demand forms the bulk of our economy.

### Well-positioned to navigate trade protectionism

The US' trade protectionism has been escalating since his inauguration in Jan 2025 with more tariffs being imposed on its top trading partners despite the concerns of a tariff-induced slowdown. Admittedly, Malaysia is a small, open trading nation which will invariably be impacted by changes in the global trade landscape, but Malaysia's diversified export composition and non-aligned policy that prioritises economic cooperation and integration will stand it in good stead. As the ASEAN chair in 2025, Malaysia is poised to seize the opportunity to wield its influence to strengthen the ASEAN economic bloc with better regional integration to enhance overall economic resilience amidst rising trade protectionism and external uncertainties. In addition, Malaysia's record high approved investments of RM378.5bn (+15% y-o-y) in 2024 signals its appealing value proposition for investors which will in turn generate positive spillover effects.

### Growth momentum remains intact

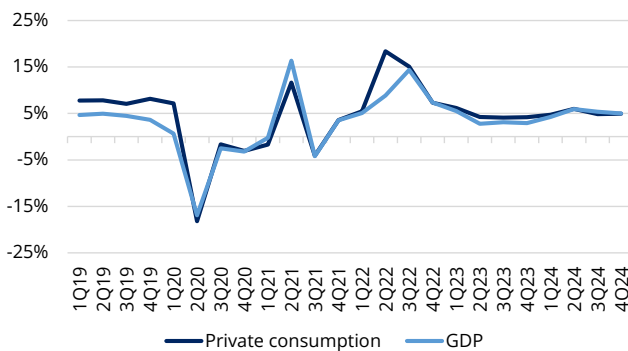
We are optimistic of Malaysia's economic outlook, and project 2025 GDP growth to come in at a stellar 4.7% which is in line with the government's forecast. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Key downside risks include slower-than-expected recovery in external demand and heightened geopolitical tensions.

### Malaysia is growing steadily

We expect Malaysia to register a firm GDP growth of 4.7% in 2025 after a healthy growth of 5.1% achieved in 2024. This is also in line with the government's 2025 GDP growth projection. Private consumption, accounting for 60% of our economy, will continue to deliver satisfactory performance for Malaysia's economy, underpinned by robust labour market and strong economic and social activities, especially tourism-related activities.

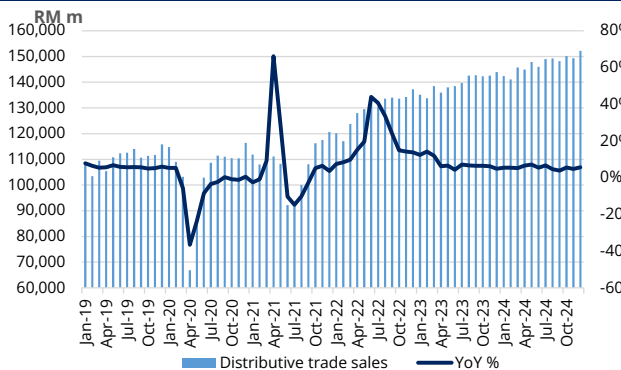
Meanwhile, private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. 4Q24 capital expenditure continued to sustain its third successive double-digit growth of 11.7%, signifying the positive impact arising from record-high approved investments in 2021-2023 and various government-led strategic developments under national blueprints. This underlines the robust prospects of investment upcycle in Malaysia which will continue to provide further tailwinds in the near term.

### Malaysia's GDP growth



Source: AllianceDBS, CEIC

### Monthly distributive trade sales



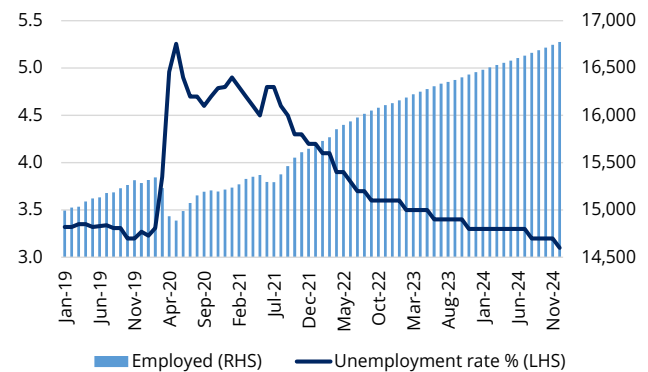
Source: AllianceDBS, CEIC

### Robust labour market condition

Malaysia's economic growth momentum will continue to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia's unemployment rate in Jan 2025 came in at 3.1%, compared to 3.3% in Jan 2024. Notably, we are encouraged by the continuous growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.6% in Jan 2025. This will certainly bode well for the economic outlook in 2024 given that domestic demand forms the bulk of our economy.

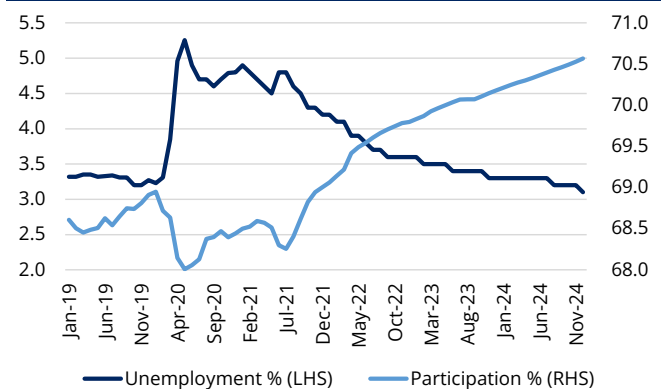
Going by the healthy growth momentum of Malaysia's economy in 2024, the robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia's unemployment rate will continue to decline further as more jobs are created with the realization of various investment activities.

### Strong labour market



Source: AllianceDBS, CEIC

### Favourable labour market dynamics

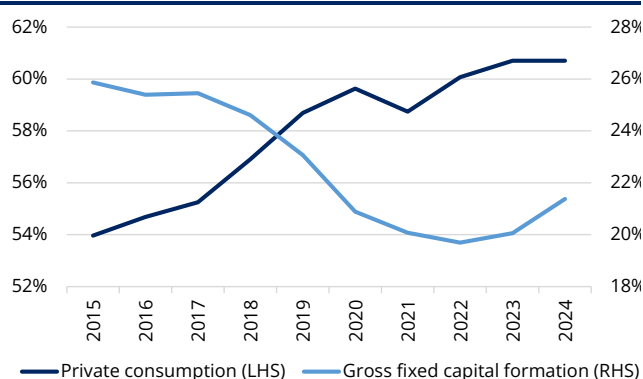


Source: AllianceDBS, CEIC

### Investment upcycle remains intact

Madani Economy Framework has started the ball rolling on kickstarting the economic transformation that is long overdue to move up the industrial value chain in Malaysia. NETR and NIMP 2030 have provided the key government framework to drive high value-adding industrialisation and green economy which will ultimately enable Malaysia to build a high-income economy if the well-curated strategic directions are successfully executed.

### GDP share of consumption vs investment



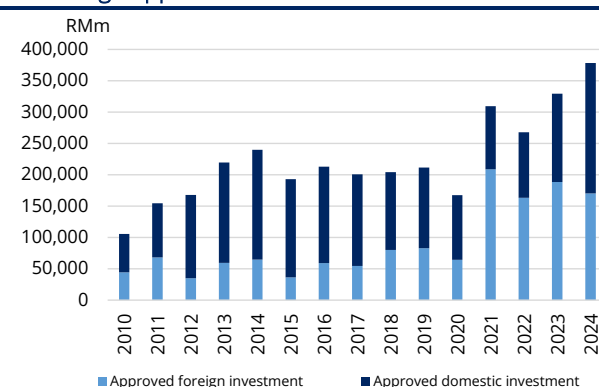
Source: AllianceDBS, BNM, CEIC

The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia's manufacturing industry. After achieving record high approved investments in 2021-2023, the winning streak has continued unabated in 2024 with the figures rising 15% y-o-y to RM379bn in 2024, outpacing the government's full-year target of 5%. This signifies the strong confidence that foreign investors have in Malaysia, a traditionally non-aligned country.

In addition, the government has launched the National Semiconductor Strategy in May 2024 with a government allocation of RM25bn which is aimed at further advancing the development of semiconductor ecosystem, moving up the value chain to capture a larger share of global investments. Therefore, it is no surprise that globally renowned technology giants such as Infineon AG, Nvidia, Microsoft and Google have all committed to step up their investments in Malaysia which will help to cement Malaysia's global position as one of the world's key semiconductor hubs.

Meanwhile, the government is also committed to revive economic growth by undertaking various large-scale infrastructure projects which will create positive spillover effects to the local businesses. Some of the major projects that will continue in 2025 include RM10bn Penang LRT, RM3bn flood mitigation projects, RM 9.7bn Pan Borneo Sabah phase 1B and RM7.4bn Sarawak-Sabah Link Road 2. We believe there will be more progress on the RM45bn MRT 3 in 2025 which will be an added impetus for Malaysia's economy. All these come on top of the existing mega projects including the likes of RM50bn ECRL and RM3.7bn Johor-Singapore RTS which have progressed well so far.

### Record-high approved investments over 2021-2024



Source: AllianceDBS, BNM, CEIC

### Some of the major government projects

Project	Investment RMbn	Timeline
MRT 3	45.0	from 2025
Penang LRT	10.0	2025-2030
Flood mitigation	3.0	2025
Pan Borneo Sabah phase 1B	9.7	2025
Sarawak-Sabah Link Road 2	7.4	2025
LRT 3 expansion	5.3	2024-2025
ECRL	50.0	2018-2027
Johor-SG RTS	3.7	2021-2026
My Digital 5G	16.5	2021-2031
Pan Borneo Sabah phase 1A	16.0	2016-2025

Source: AllianceDBS, MoF

### Well-positioned for challenges in external trade

The US' trade protectionism has been escalating since President Trump's inauguration in Jan 2025 with more tariffs being imposed on its top trading partners despite the concerns of a tariff-induced slowdown. Admittedly, Malaysia is a small, open trading nation which will invariably be impacted by changes in the global trade landscape, but Malaysia's diversified export composition and non-aligned policy that prioritises economic cooperation and integration will stand it in good stead.

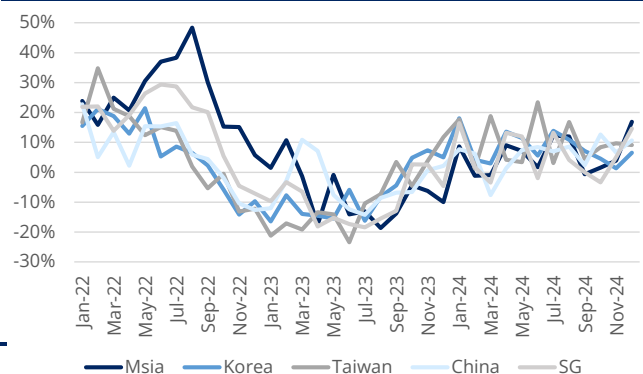
The apprehension of potential US trade protectionism under the Trump presidency may encourage traders to accelerate their shipments in the near term, though the impact of tariff hike for goods exported to the US remains unclear at this juncture. Most of the key exporting countries in Asia continue to register steady numbers over the past few months, thanks to the resilient global economy.

The positive trend of global semiconductor shipments as well as positive trade data among key Asian trading hubs will continue to spill over to Malaysia given our deep integration with the global supply chain. The de-globalisation trend, especially in the technology sector, will also result in more capital spending as countries rush to ensure supply security.

In addition, Malaysia's air passenger traffic for Jan 2025 has exceeded the pre-pandemic volume for the first time which will contribute to the sustained recovery in tourism activities. Meanwhile, Malaysia's strategic push to leverage on the global trend of industrial value chain diversification has been reflected in the record high approved investments in 2021-2024, helping to uplift Malaysia's industrial capabilities and boost its value-adding exports.

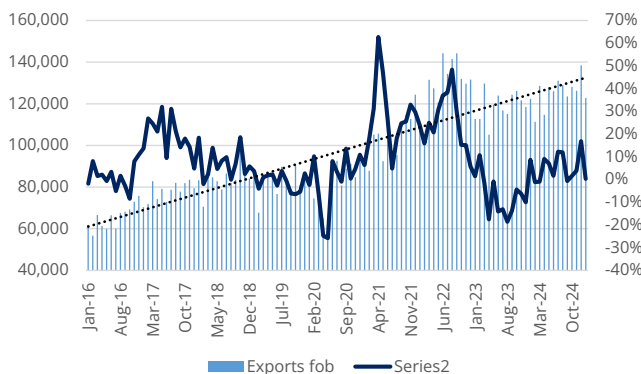
As the ASEAN chair in 2025, Malaysia is poised to seize the opportunity to wield its influence to strengthen the ASEAN economic bloc with better regional integration to enhance overall economic resilience amidst rising trade protectionism and external uncertainties.

### Positive exports growth for key Asian exporters



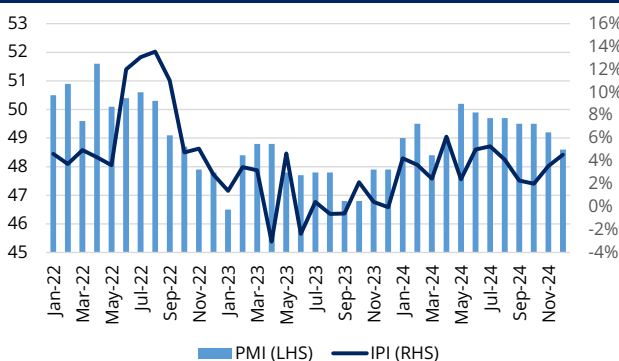
Source: AllianceDBS, CEIC

### Malaysia's monthly exports



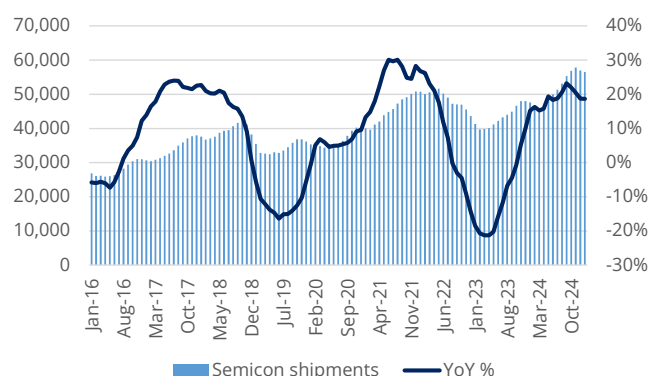
Source: AllianceDBS, CEIC

### Resilient industrial production



Source: AllianceDBS, CEIC

### Global semiconductor shipments

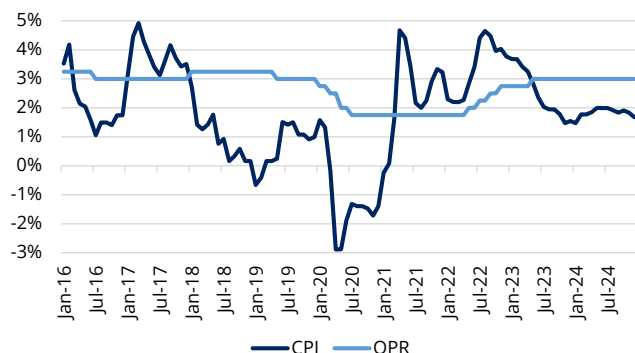


Source: AllianceDBS, SIA, CEIC

## Healthy loans growth momentum

Despite the beginning of global monetary easing in 2024, Bank Negara Malaysia has maintained its current OPR rate of 3% which is similar to its pre-pandemic level. We believe that BNM will remain with this slightly accommodative interest rate in 2025 as the current monetary policy remains conducive to sustainable economic growth amid price stability.

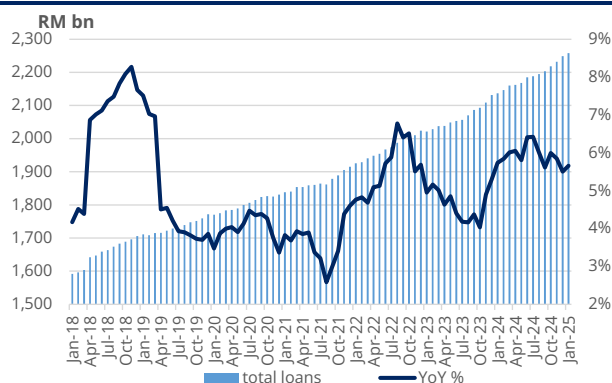
### Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

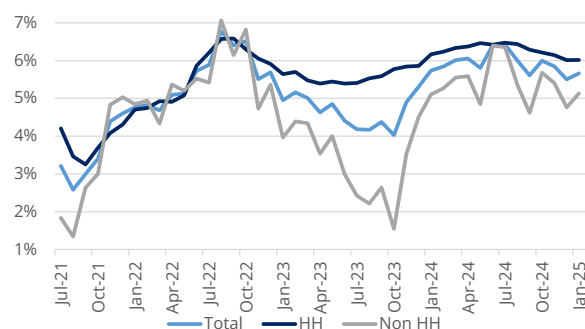
Our headline inflation has been moderating over the course of 2024, in tandem with the moderating trend of commodity prices due to demand concerns from major economies. Therefore, the positive real rates are likely to continue in the near term. Going forward, the outlook for inflation will be largely swayed by the global commodity price developments as well as the implementation of petrol subsidy rationalisation.

### Banking system loans growth



Source: AllianceDBS, BNM

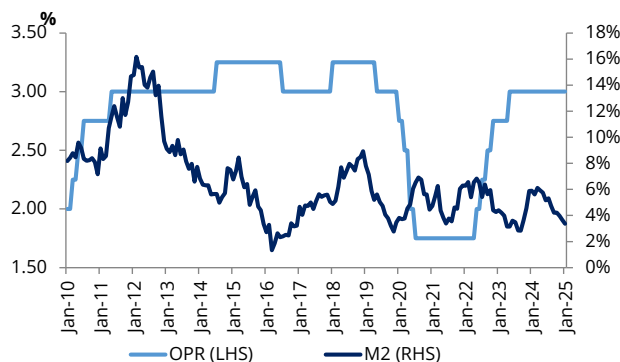
### Loans growth remain at healthy levels



Source: AllianceDBS, BNM

Malaysia's banking system has been seeing steady credit demand with Jan 2025 loans growth coming in at 5.7% (vs 5.7% in Jan 2024). Positively, business loans growth picked up in 2024, reflecting the growth momentum of Malaysia's overall economy. On the other hand, the positive landscape of the property sector continues to bolster the loans growth for the household segment.

### Normalising liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply has moderated to 3.4% in Jan 2025 (5.9% in Jan 2024) as liquidity condition normalises. Nevertheless, the healthy domestic economy will ensure that domestic liquidity remains robust, with continued orderly functioning of the financial market. Household spending will continue to be underpinned by improvements in labour market conditions and income prospects.

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