ECONOMIC REVIEW AND OUTLOOK

2024 REVIEW

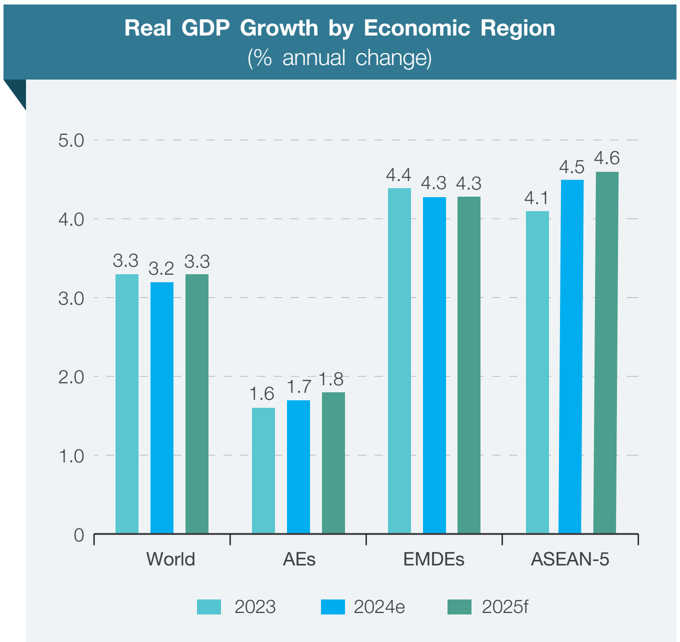
Global and Domestic Economic Environment

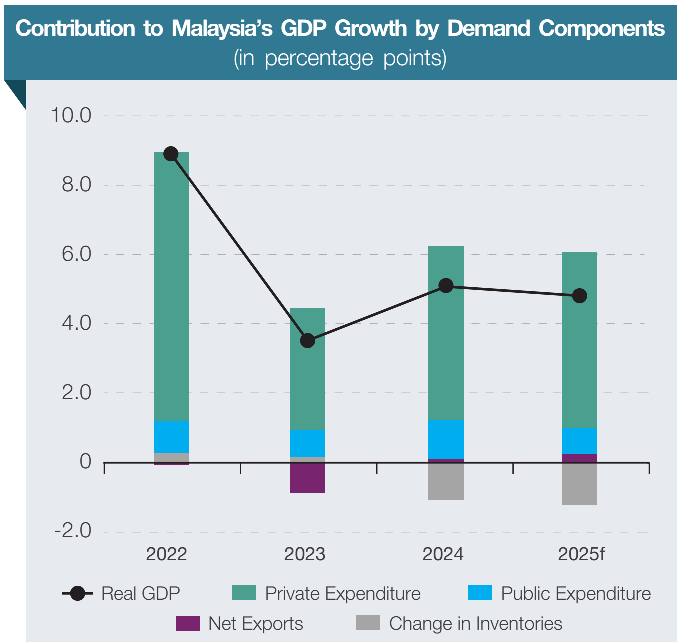
The global economy demonstrated resilience in 2024, despite significant macroeconomic challenges. While growth exceeded initial expectations, it remained uneven across regions. The surprising strength of the US economy and solid growth in Association of Southeast Asian Nations ("ASEAN") markets helped offset weaknesses in other regions. Inflation eased across most regions, enabling two-thirds of global central banks, including the US Federal Reserve ("Fed"), the European Central Bank (ECB) and the Bank of England (BoE), to relax monetary policies in the second half of the year. In contrast, the Bank of Japan (BoJ) ended 17 years of negative rates with a rate hike in March 2024 to counter inflation and a depreciating yen. However, shifting expectations about the pace of US Fed rate cuts and escalating geopolitical tensions, particularly Middle East conflicts, contributed to volatility in global financial markets. Political uncertainty, heightened by elections in half of the world's nations, further added to the challenging global environment. Despite these headwinds, global growth remained stable, with the International Monetary Fund ("IMF") estimating global gross domestic product ("GDP") growth at 3.2% in 2024, a slight moderation from 3.3% in 2023.

Domestically, Malaysia's GDP growth strengthened to 5.1% in 2024, up from 3.6% in the preceding year, primarily driven by robust private domestic demand. Household spending remained strong, supported by positive labour market conditions and continued policy support. Investment activity was buoyant, underpinned by the realisation of record-high approved investments in recent years to support Information and Communications Technology (ICT) advancements especially in data centres. On the external front, exports continued to recover, benefiting from a rebound in the global tech cycle, while faster import growth reflected rising demand for capital and intermediate goods to support investment activities. On the supply side, growth was driven by services and export-oriented manufacturing sectors, while the construction sector surged on strong investment.

Figure 1: Real GDP Growth by Economic Region, Contribution to Malaysia's GDP Growth by Demand Components

Global growth continued to be driven by ASEAN, while Malaysia's growth largely underpinned by robust private domestic demand





Note: AEs = Advanced economies; EMDEs = Emerging market and developing economies
Source: IMF World Economic Outlook Database, Department of Statistics Malaysia (DOSM), Ministry of Finance, CEIC

ECONOMIC REVIEW AND OUTLOOK *(continued)*

Interest Rate and Banking System Environment

The Overnight Policy Rate ("OPR") remained steady at 3.0% in 2024, supported by a stable inflation environment. Both headline and core inflation moderated to 1.8% in 2024 (2023: 2.5% and 3.0%, respectively), indicating limited spillover effects from the services tax and diesel price adjustments. At this level, Bank Negara Malaysia's ("BNM") Monetary Policy Committee (MPC) deemed the monetary policy stance to be supportive of economic growth and aligned with the current inflation and growth outlook. As a result, interbank rates remained broadly stable throughout the year, with overall financial conditions continuing to adequately support financial intermediation.

Malaysia's banking system remained robust, underpinned by strong capital buffers and ample liquidity. By end-2024, the aggregate total capital ratio stood at 17.9% (2023: 19.0%), while the Liquidity Coverage Ratio was a solid 147.9% (2023: 161%), both significantly exceeding regulatory minimums. These indicators underscore the resilience of domestic banks in weathering potential shocks and maintaining financial intermediation. Asset quality also improved, with gross impaired loans ratio declining to 1.5% as of December 2024 (end-2023: 1.7%).

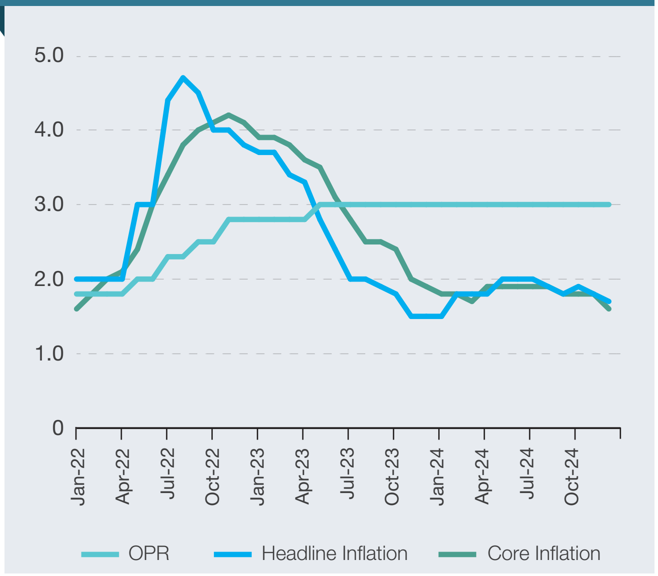
Residential Property Market

Malaysia's residential property market experienced a measured price adjustment in 2024, in tandem with moderate property sales growth. According to the National Property Information Centre ("NAPIC"), the Malaysia Home Price Index ("MHPI") grew by 3.3% in 2024 (2023: 4.1%), while residential property sales rose by 4.0% in volume (2023: 3.0%) and 5.9% in value terms (2023: 7.1%), respectively. The volume of overhang units improved, with 23,149 unsold completed units worth RM13.9 billion recorded in 2024, a decline of 10.3% in volume and 21.2% in value compared to 2023 (25,816 units worth RM17.7 billion). These trends indicate a gradual clearing of inventory, with slower home price growth and a reduction in overhang units pointing to potential improvements in housing affordability.

Figure 2: OPR versus Headline and Core-Inflation, Property Sales Value and MHPI

OPR was stable amid manageable inflation. Meanwhile, Malaysia's home prices experienced a measured price adjustment amid slower residential property sales

OPR vs Headline and Core-Inflation
(in percent, %)



Property Sales Value and MHPI
(% annual change)

Source: BNM, DOSM, NAPIC

ECONOMIC REVIEW AND OUTLOOK *(continued)*

Bond Market

The domestic bond market remained resilient in 2024, navigating a challenging global financial environment shaped by evolving expectations around the trajectory and pace of US interest rate cuts and prolonged geopolitical tensions, against the backdrop of stable domestic interest rates. Malaysian Government Securities ("MGS") yields ended the year on a mixed note, with declines at the shorter-and longer-end of the yield curve, while yields on 3-year to 10-year notes saw increases. Specifically, the benchmark MGS 3-year to 10-year yields rose between 1.1 and 7.9 bps, whereas yields on 15-year and 20-year notes declined by 2.2 bps and 3.8 bps respectively.

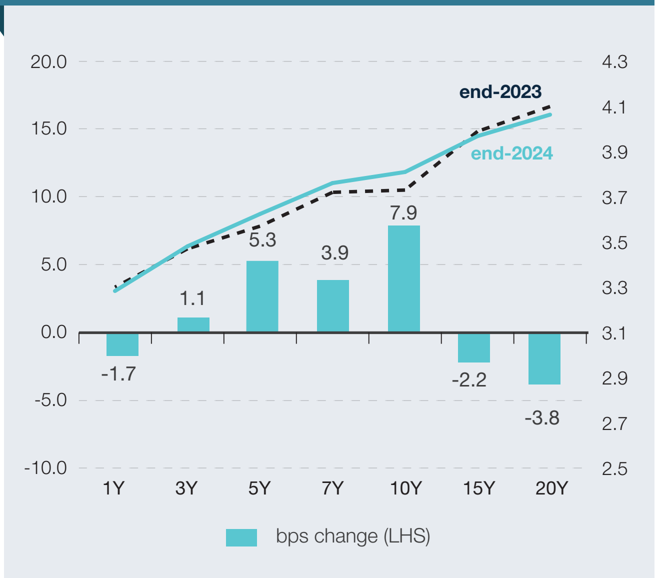
While the shorter- and medium-term duration papers continued to be influenced by dynamics in global bond markets, demand for domestic longer-dated bonds remained sturdy, underpinned by the dominance of local institutional investors. Additionally, local bonds demand was supported by favourable supply dynamics amid fiscal consolidation efforts, solid macroeconomic fundamentals and the prospect of narrower interest rate differentials with advanced economies. Consequently, foreign investors continued to accumulate domestic bonds, albeit at a lesser pace, with net inflows totalling RM4.8 billion in 2024 compared to RM23.6 billion in 2023.

Similarly, the corporate bond market mirrored the government's bond market, ending the year on a mixed note with an overall flattening of the yield curve, driven by robust demand for long-term papers. Corporate credit spread over MGS also narrowed across most major tenors, reaching the lowest level since at least 2014. This tightening reflects strong investor confidence in the credit strength of Malaysian corporates amid favourable macroeconomic conditions.

Figure 3: MGS Yield Curves, Corporate Credit Spread Against MGS

Domestic bond market remained resilient against external headwinds

MGS Yield Curves
(in percent, %)



Corporate* Credit Spread Against MGS
(in basis points, bps)

*Note: *Corporate bonds rated between AAA and BBB, including Cagamas*
Source: BNM, BPAM

ECONOMIC REVIEW AND OUTLOOK *(continued)*

2025 OUTLOOK

The IMF foresees global growth to remain stable at 3.3% in 2025, primarily driven by resilient consumer spending, increase investment in artificial intelligence and less restrictive monetary policies. However, the projected growth remains below historical average of 3.7% (2000-2019), and is expected to vary by region, with strong performance in the US and Emerging Asia, particularly within ASEAN, offsetting weaknesses elsewhere. Global inflation is anticipated to gradually decline, with major economies likely to reach their central banks' inflation targets sooner than emerging markets. Nevertheless, risks to the outlook remained titled to the downside, largely due to elevated trade and policy uncertainties.

Domestically, the Ministry of Finance anticipates Malaysia's economy to grow by 4-5% in 2025, underpinned by sustained expansion in private demand. Household consumption, which accounts for more than 60% of GDP, is expected to benefit from strong labour market and sustained income growth, underpinned by supportive policy measures. Investment activity is also projected to remain robust, driven by the ongoing realisation of record-high approved investments in recent years and the implementation of catalytic initiatives under national master plans. However, downside risks include slower economic growth in major trading partners due to heightened trade and investment restrictions and potentially lower-than-expected commodity production.

Headline inflation is anticipated to remain manageable in 2025, with consumer prices expected to rise slightly by 2-3%, reflecting cost-push factor from policy measures such as the rationalisation of RON95 subsidies, higher local government taxes as well as increased labour costs from minimum wage hike and multi-tiered foreign workers levies. However, this outlook largely subject on the timing of these policy implementation as well as developments in global commodity prices and financial markets.

Against this backdrop, the OPR is expected to remain unchanged at 3.0%, contributing to a stable domestic bond market outlook. However, volatility will likely persist, driven by uncertainties surrounding the US interest rate directions, geopolitical developments and potential shifts in US trade and economic policies. In addition, the overall domestic financial system is expected to remain robust, backed by resilient banking sector, and favourable macroeconomic fundamentals, including sturdy growth profile and an improving labour market.

Malaysia's residential property market is projected to remain stable, with demand continuing to be supported by steady income growth and ongoing government initiatives to encourage homeownership. These include personal income tax relief of up to RM7,000 for first-time homebuyers between 2025 to 2027, as announced in Budget 2025. Slower home price growth and declining property overhang are expected to further improve housing affordability. Meanwhile, increasing awareness of energy efficient homes is influencing supply and demand, as developers incorporate sustainable features such as green living and renewable energy in into their projects to gain a competitive edge.