

# **J.P. Morgan Investors Engagement**

## **Views on Malaysia: Navigating Domestic and External Uncertainty**

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Executive Director  
4 June 2025



# Agenda

**1**

**The Malaysian Economy Slowed Amid Global Uncertainty**

**2**

**Navigating Tariffs Tension-induced Disruptions on Malaysia**

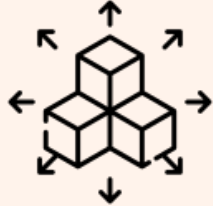
**3**

**Malaysia Explores Measures to Mitigate the Impact of Tariffs**

# Malaysia can buffer against external shocks



**Malaysia is in a position of strength to face headwinds.** Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.



**A well-diversified trade, economic sectors and sources of foreign direct investments.** This helps to reduce vulnerability and risks inflicted by a particular sector and industry as well as a country.



**Gradual fiscal consolidation path is appropriate** while continuing to strengthen domestic resilience, protect the vulnerable group.

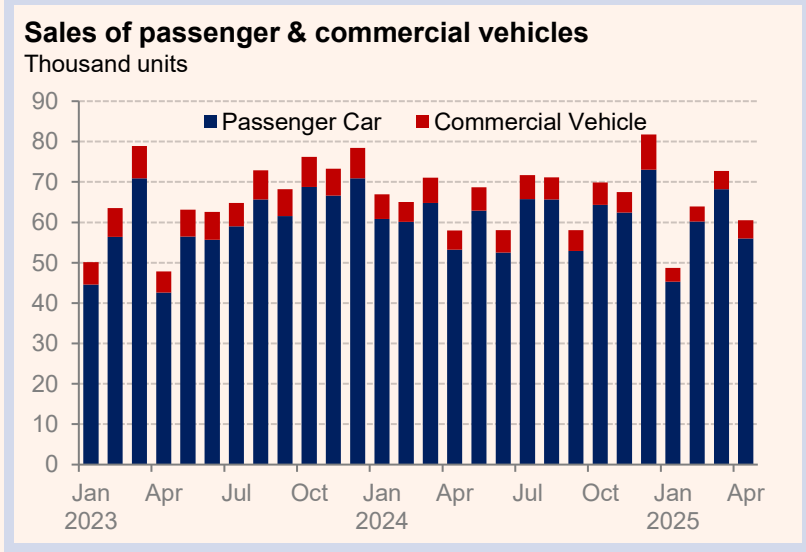
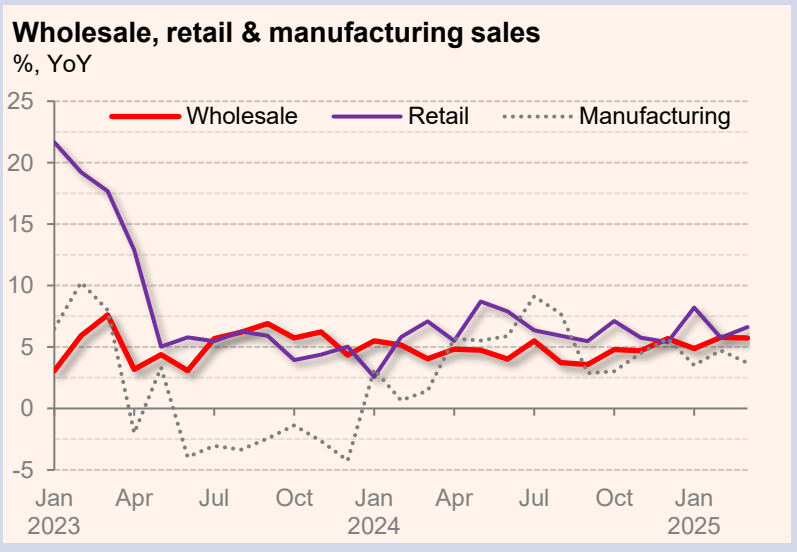
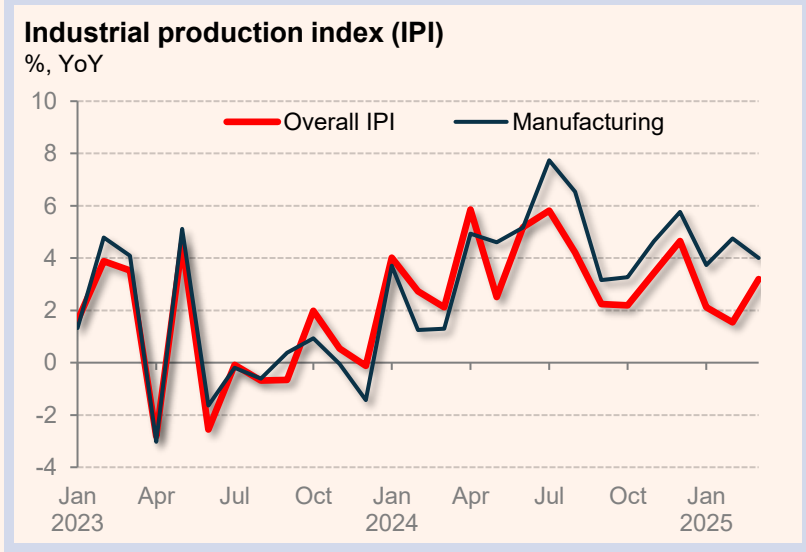
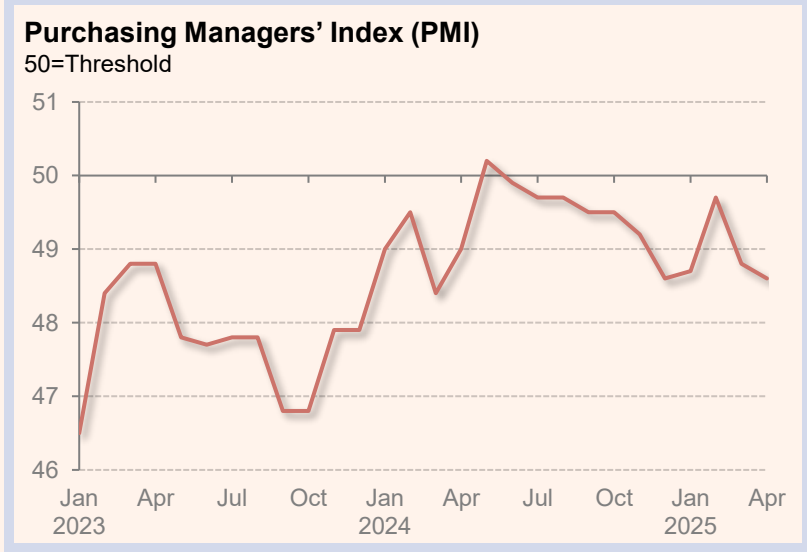
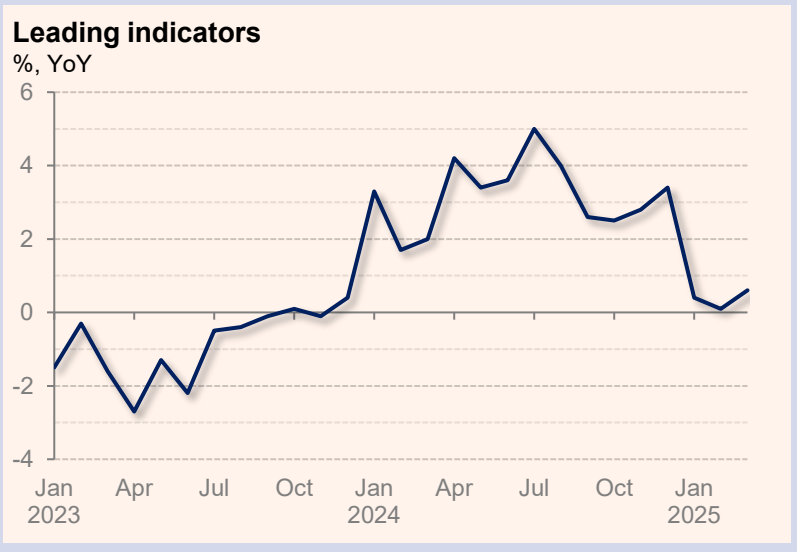


**The financial sector is well-capitalised** to cope with most shocks. As at end-2024, banks' liquidity buffers exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs) at 1.4% of gross loans) and sizeable provisions (91.4% of total impaired loans). Liquidity coverage ratio (LCR) is well-above the required level (100% starting 2019) at 160%.



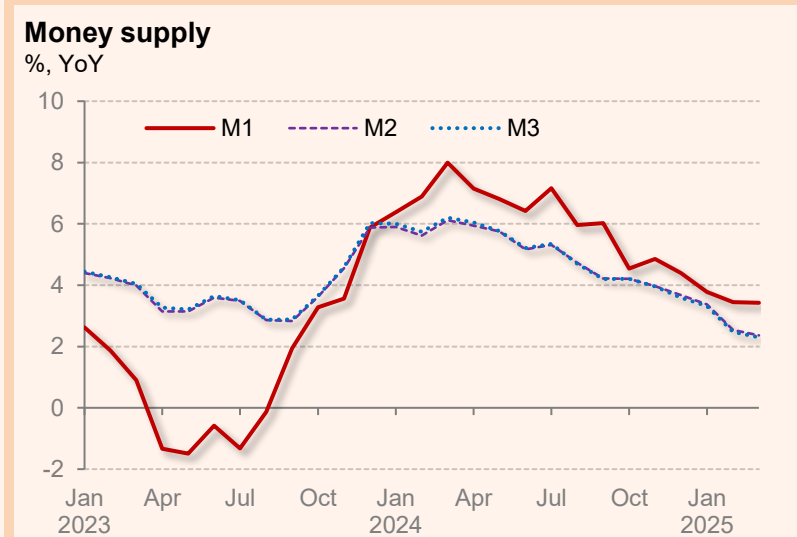
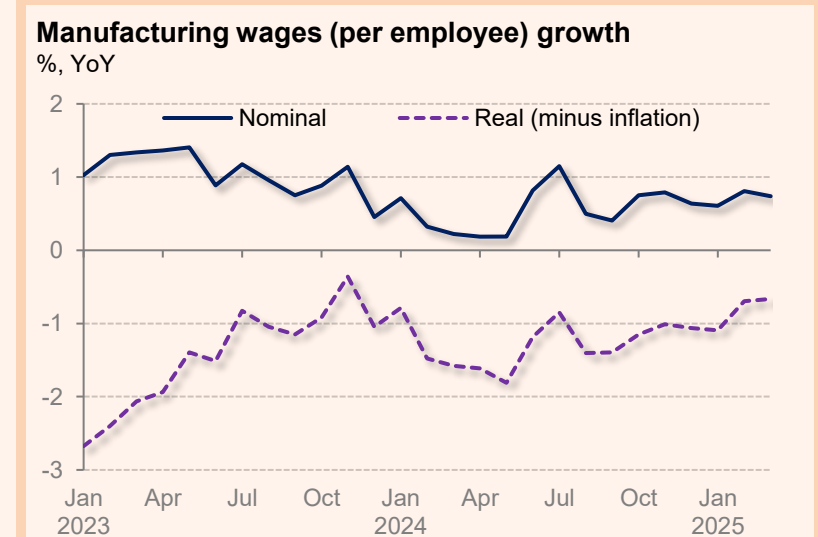
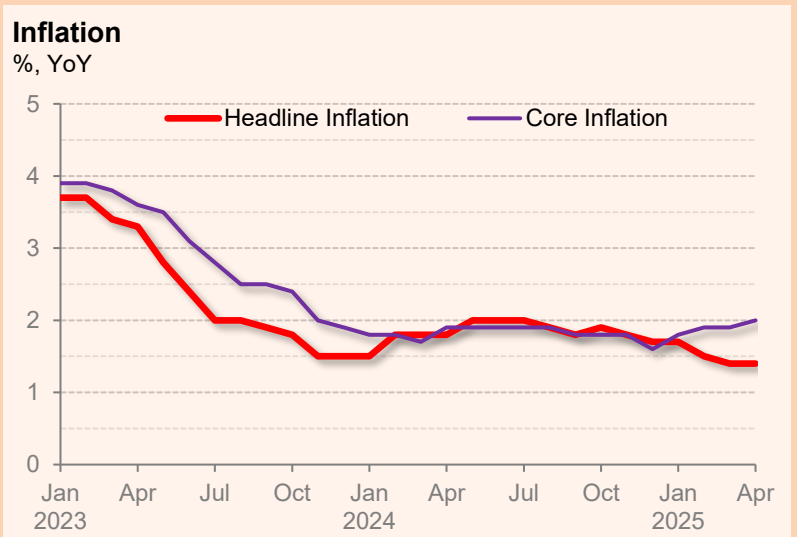
**Flexible exchange rate is essential** continue to play the role of shock absorber and remains the first line of defence against external shocks in the context of protracted uncertainty in global economic and financial conditions. This is backed by **adequate international reserves and sustained current account surplus, albeit smaller.**

# Tracking Malaysia's economic indicators



Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

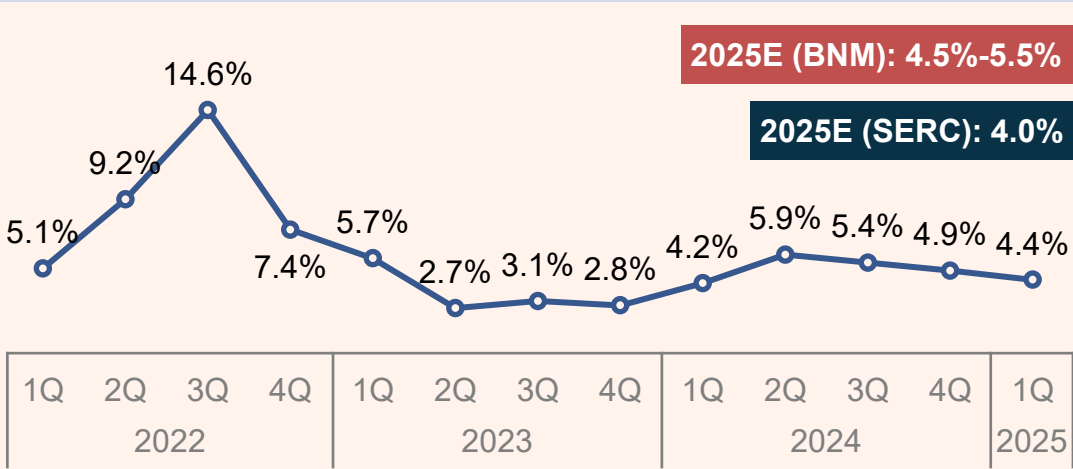
# Tracking Malaysia's economic indicators (cont.)



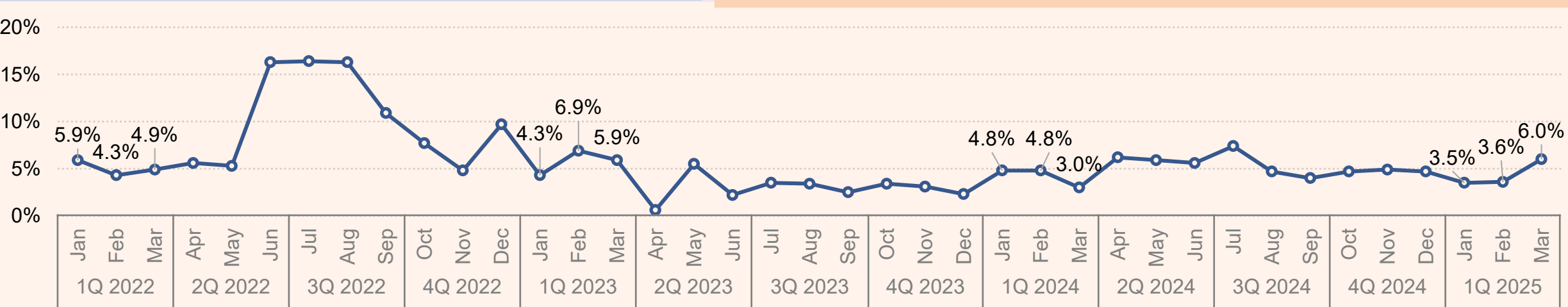
Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

# The Malaysian economy will slow to 4.0% in 2025

Quarterly Real GDP Growth (Annual change, %)



Monthly Real GDP Growth (Annual change, %)



Factors Supporting Growth in 2025

- Sustained household spending on stable employment and policy support
- Steady expansion in private investment and public spending
- Sustained tourism activities

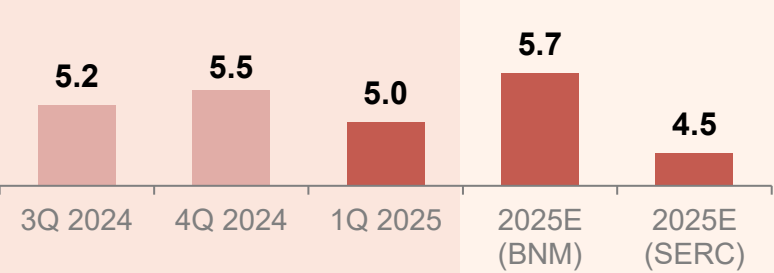
Factors Weighing on Growth in 2025

- Slowing global economy due to direct and indirect impact of tariffs
- Cautious business and consumer sentiments
- Domestic policy changes (fuel subsidy rationalisation; the expansion of SST)

Source: DOSM

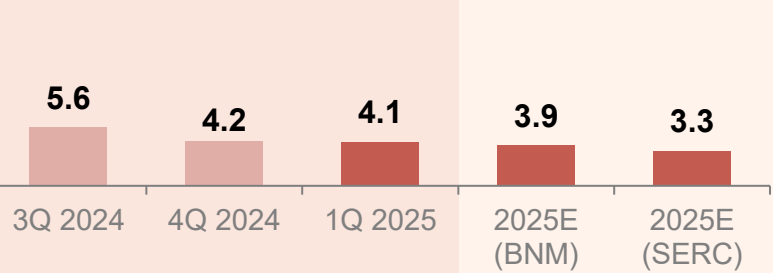
# Expansion in most economic sectors

## Services (%) [59.3% of GDP]



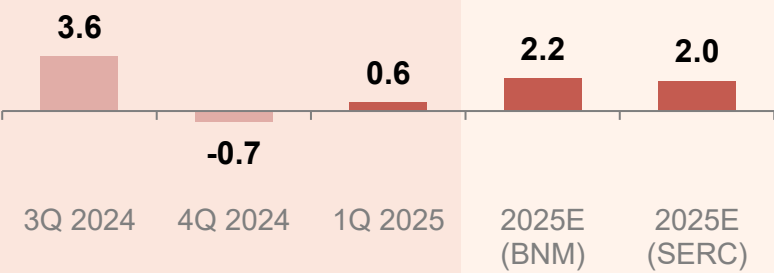
- Intensified promotions for Visit Malaysia Year 2026
- Increased government services spending due to higher civil servant emoluments

## Manufacturing (%) [23.2% of GDP]



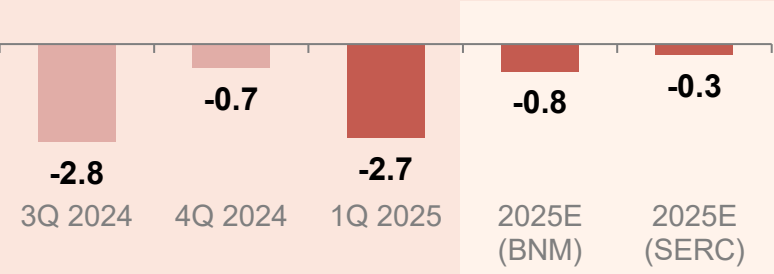
- Expansion in the electrical & electronics (E&E) industry, supported by the global tech upcycle
- Growth in consumer-related industries, driven by household spending

## Agriculture (%) [6.3% of GDP]



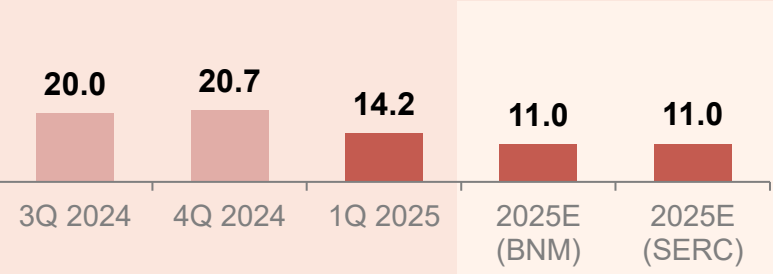
- Improved food crop production due to better weather conditions
- Continued crude palm oil expansion, supported by productivity gains and improved fertiliser

## Mining and quarrying (%) [6.0% of GDP]



- Planned maintenance at key oil and gas facilities
- Support from the commencement of new fields, ongoing expansions and enhanced recovery measures in some existing fields

## Construction (%) [4.0% of GDP]

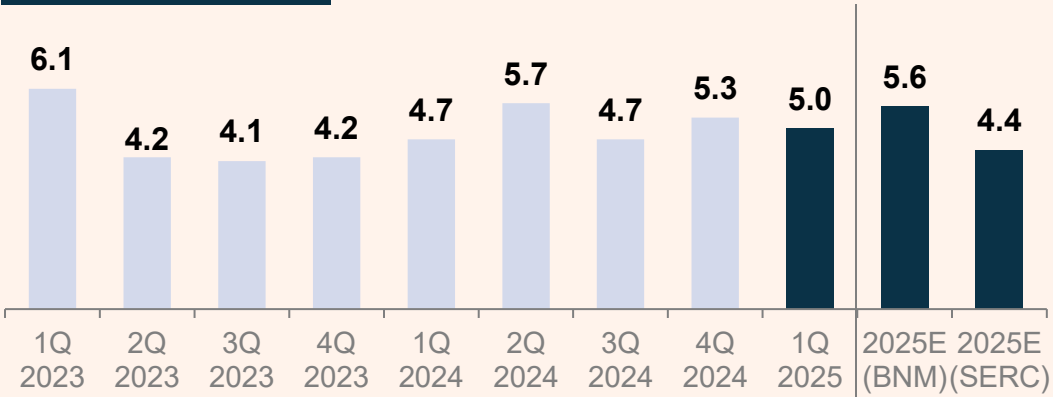


- Continued activity in non-residential, special trade, and residential subsectors
- Small-scale projects from Budget 2025 and end-stage infrastructure works

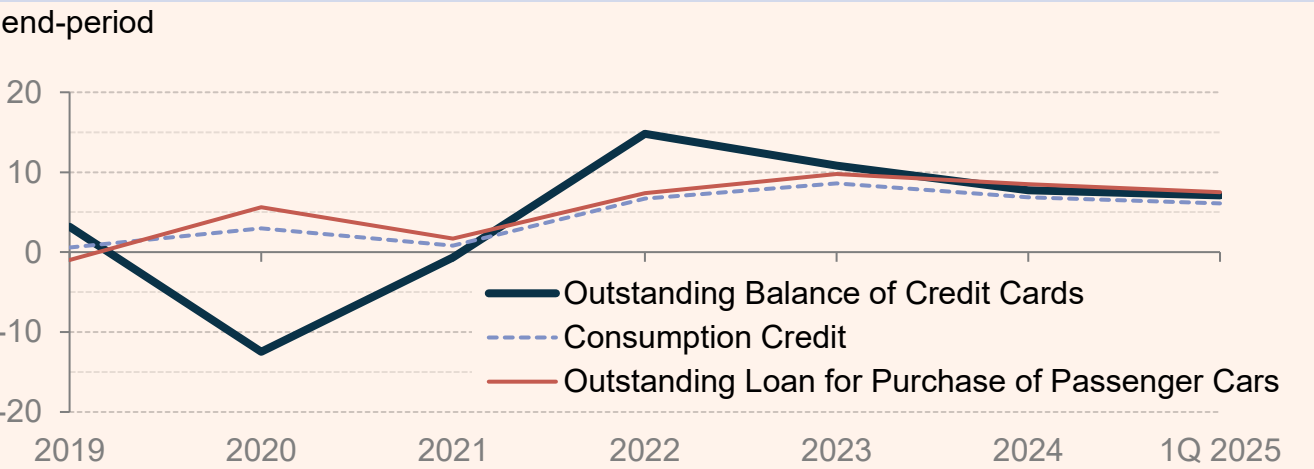
# Households could begin to bend, but not break

Private Consumption Growth (Annual change, %)

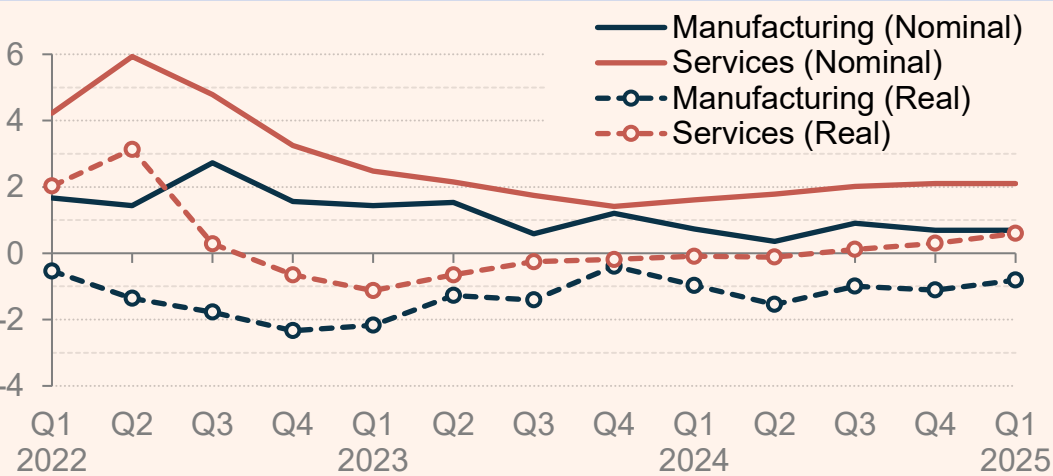
2011-2019: 7.1% p.a.



Selected Private Consumption Indicators (Annual change, %)



Real Wage Growth per Employee (Annual change, %)



Factors Supporting Growth

- Stable labour market with improved disposable income.
- Higher minimum wage, EPF Flexible Account 3 withdrawal facility, and the Public Service Remuneration System (SSPA).
- Improved targeted cash assistance programmes: RM13 billion in 2025.
- Sustained tourism activities: Target 31.4 million tourist arrivals in 2025 (25.0 million in 2024).

Factors Weighing on Growth

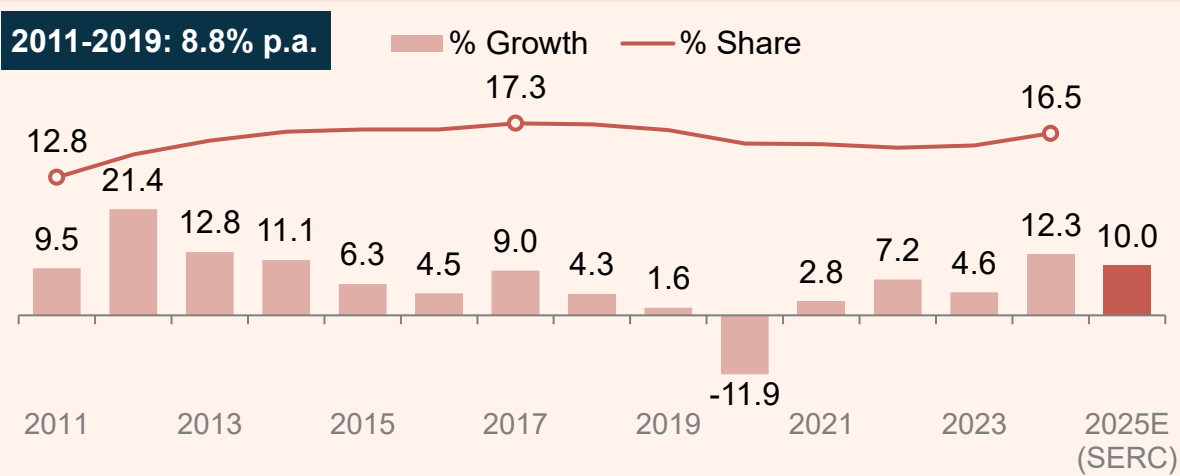
- Rising cost of living pressure.
- Consumer inflation from the fuel subsidy rationalisation, pass-through from increased business costs.

Source: DOSM; BNM; SERC's forecast

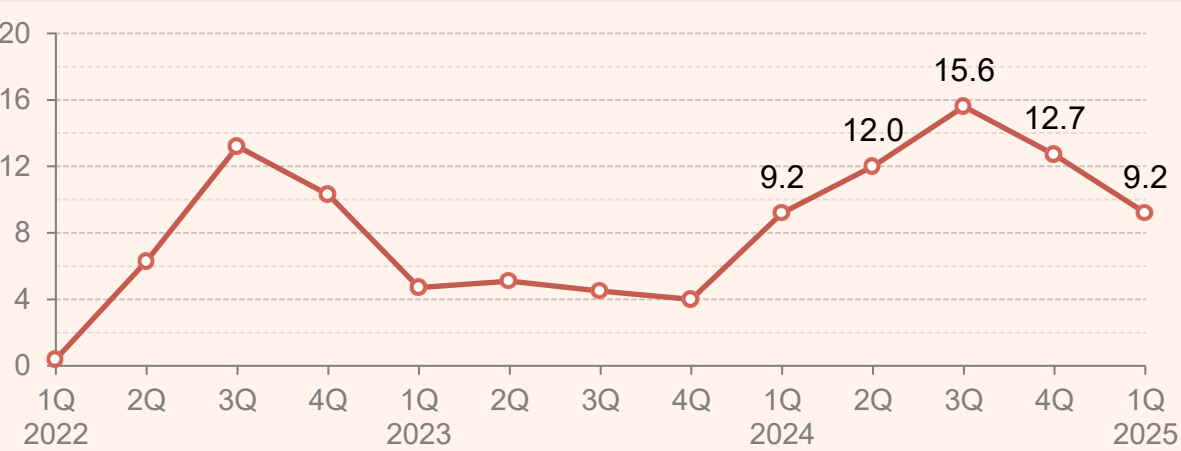


# A multi-year expansion in private investment cycle

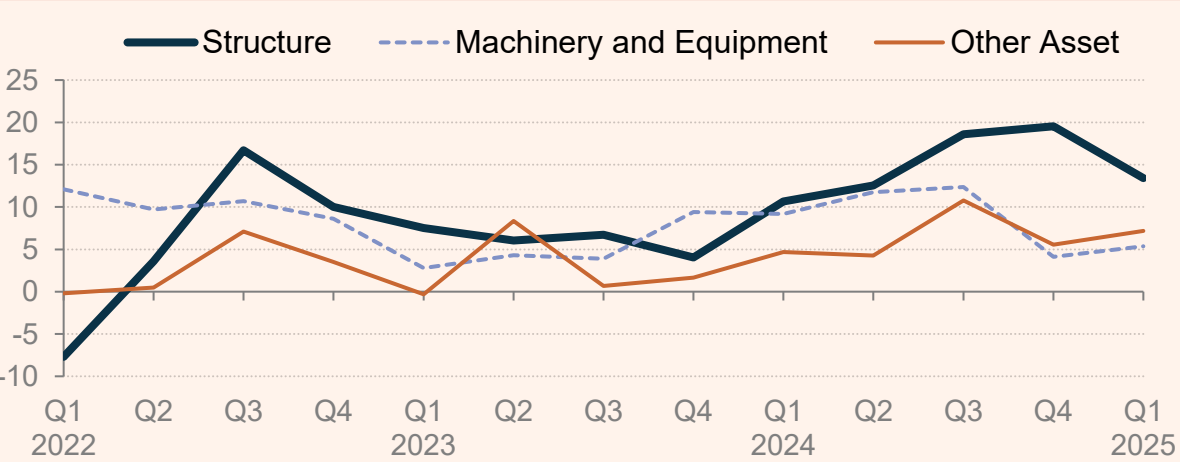
Private Investment Growth – Annually (%)



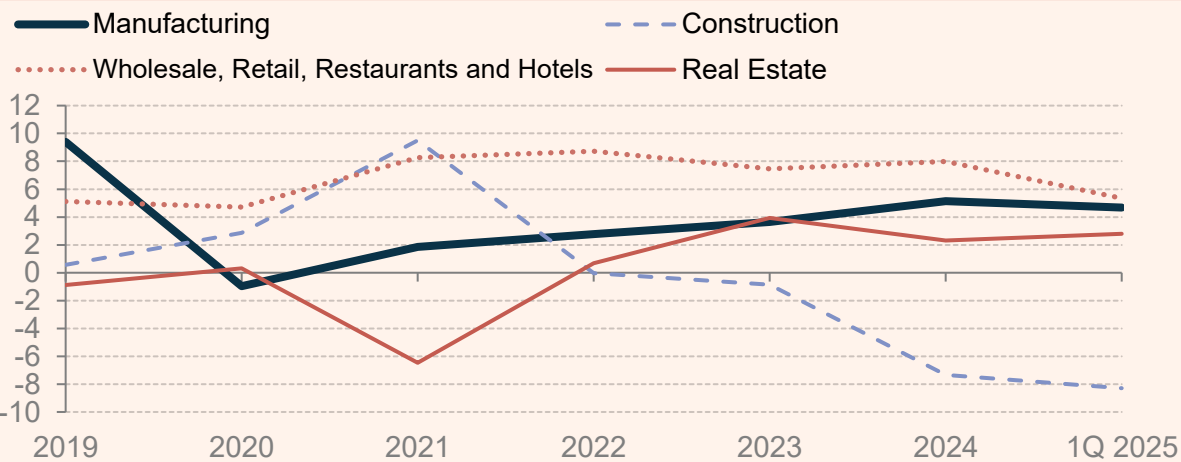
Private Investment Growth – Quarterly (Annual change, %)



Gross Fixed Capital Formation by Type of Assets (Annual change, %)



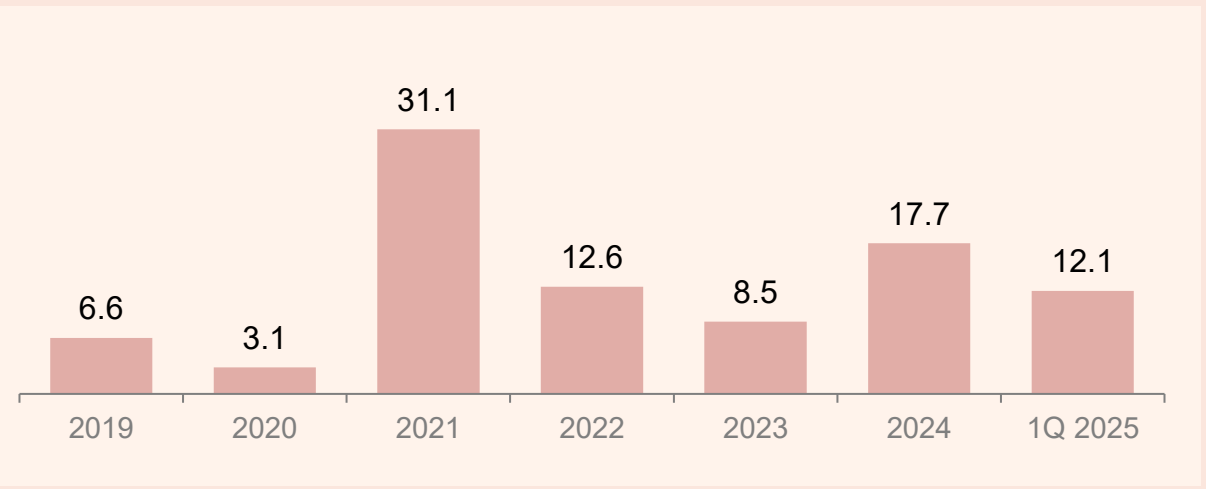
Selected Business Loans (Annual change, %)



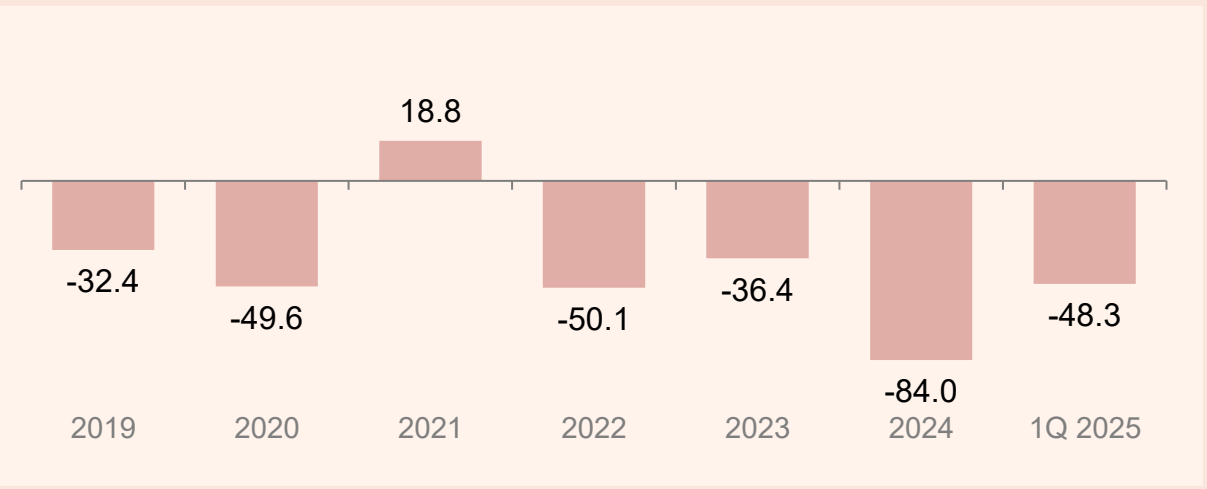
Source: DOSM; BNM; SERC's forecast      Note: Revision and expansion of the loans/financing data in 2022.

# A multi-year expansion in private investment cycle

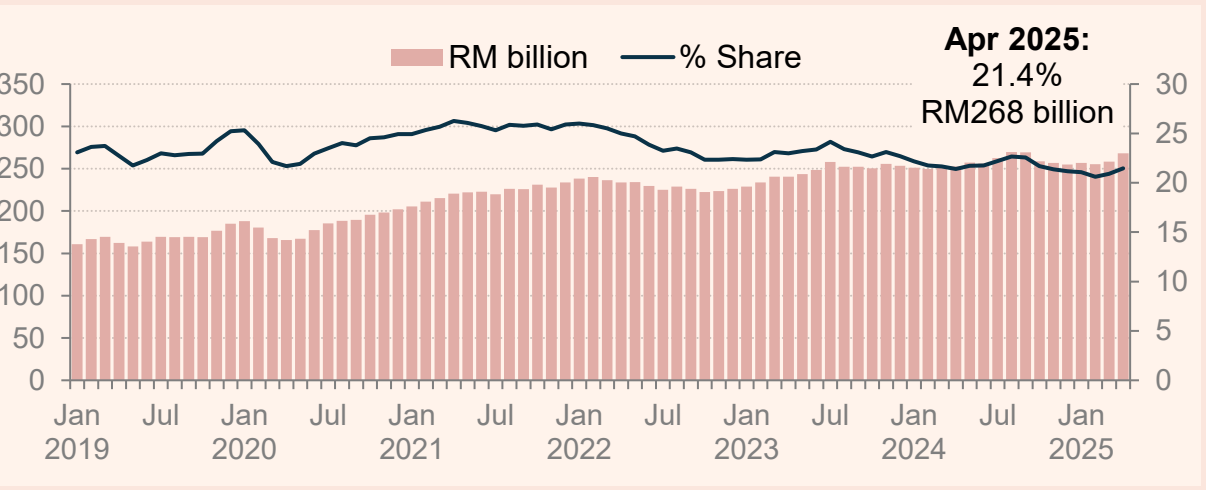
Net Foreign Direct Investment (RM billion)



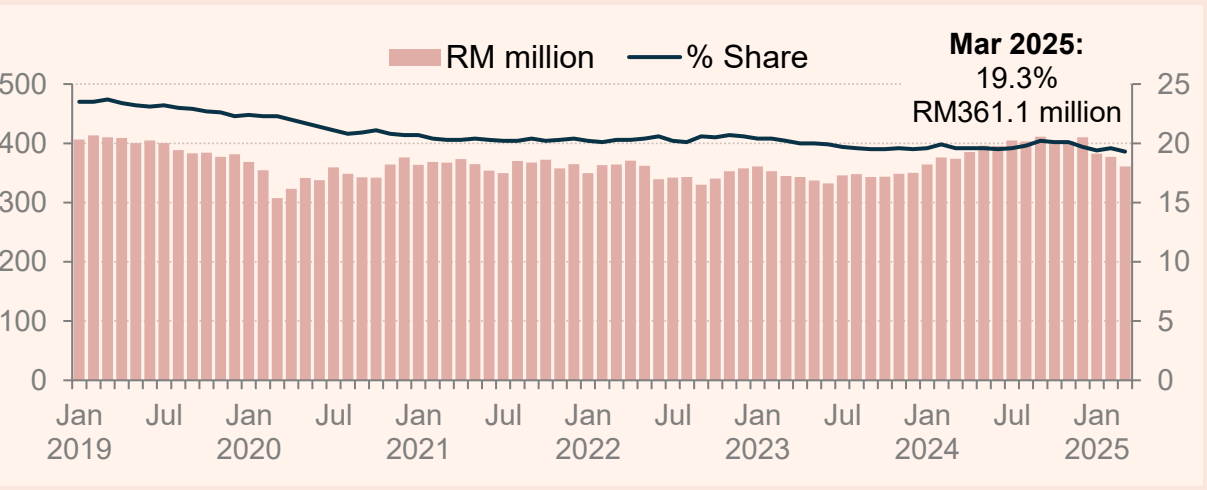
Net Portfolio Investment (RM billion)



Foreign Shareholding of Government Bonds (MGS + GII)



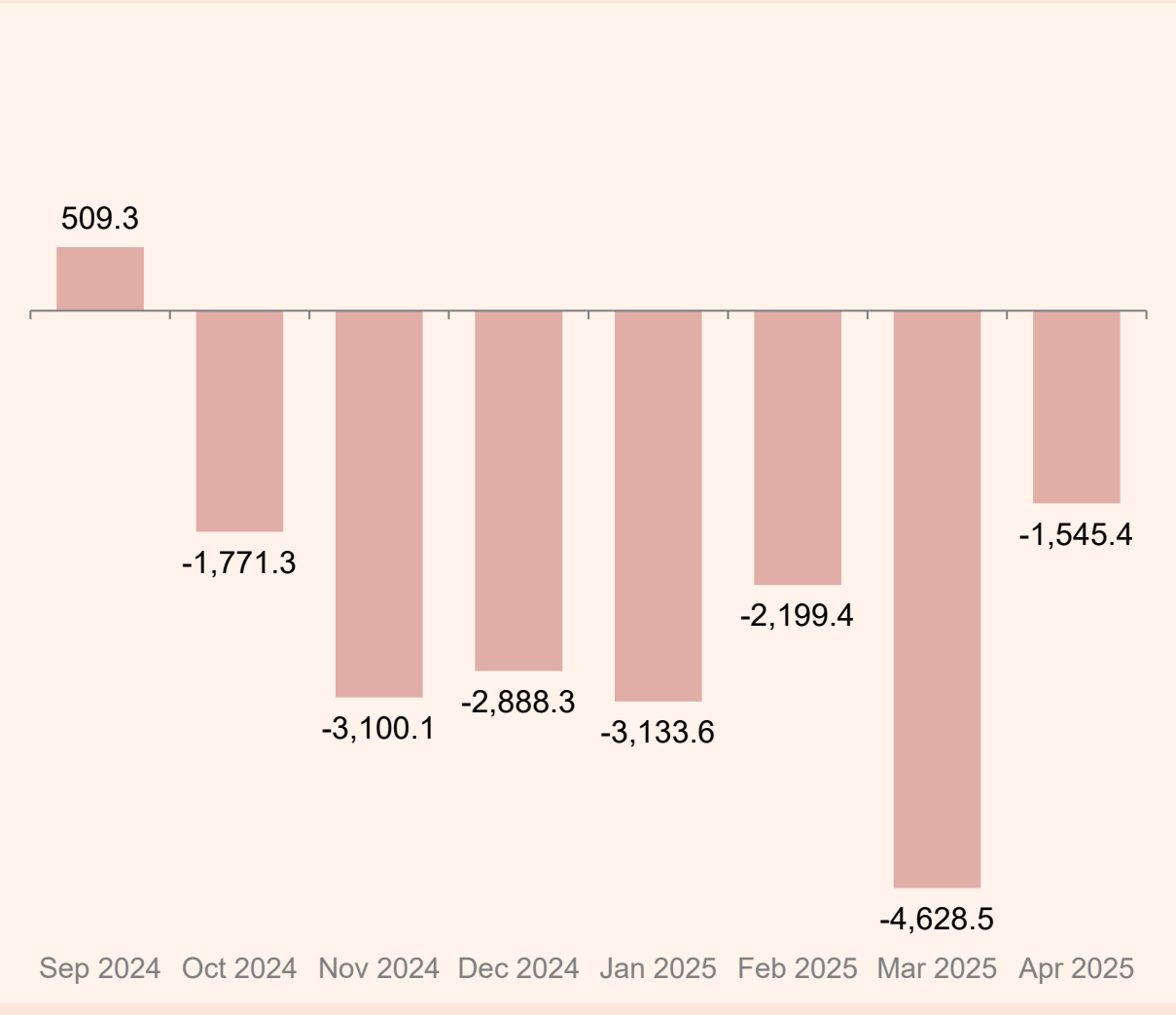
Foreign Shareholding of Malaysian Equities



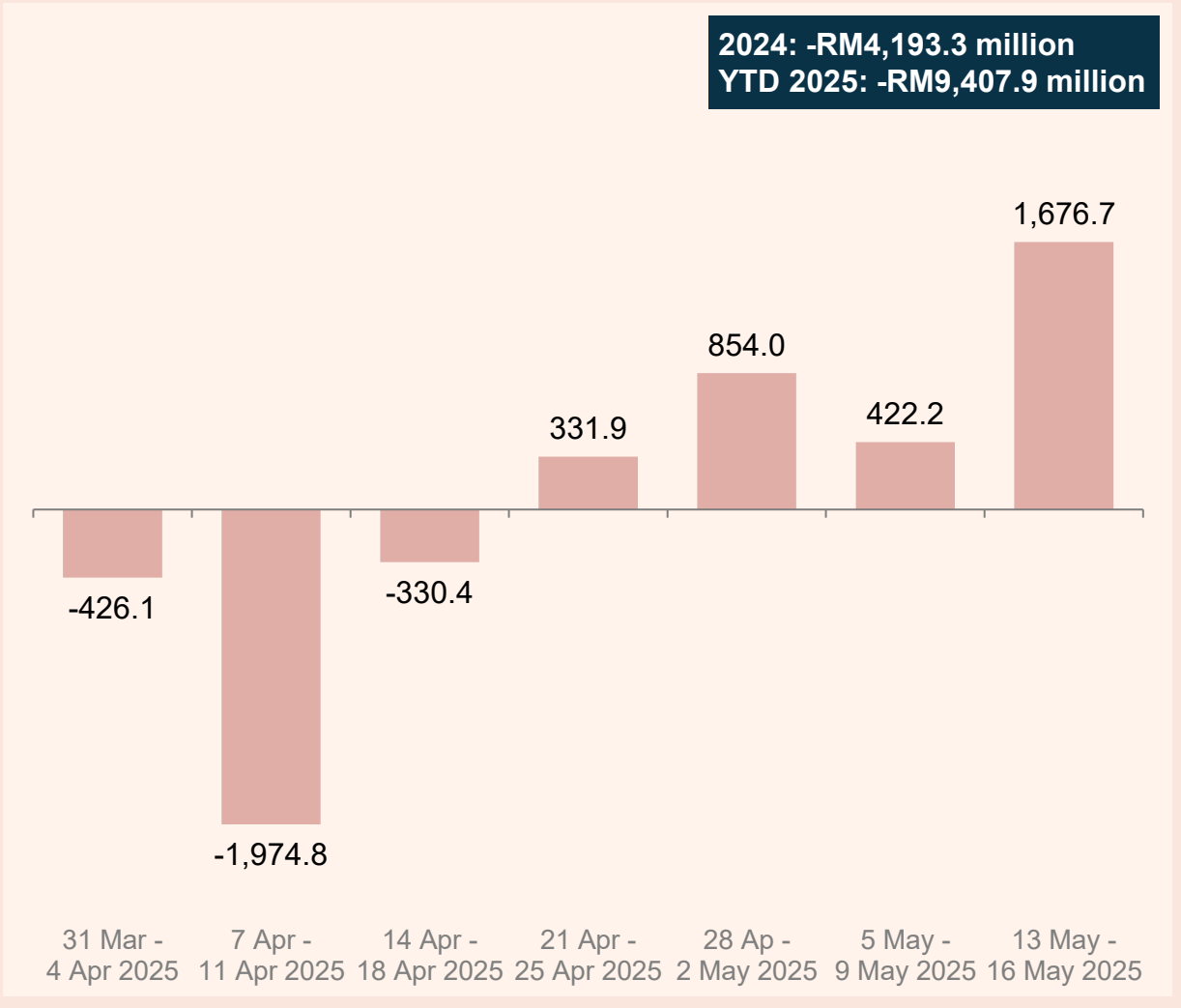
Source: DOSM; BNM; Bursa Malaysia

# Foreign investors recorded a fourth consecutive week of net buying

Monthly Net Buy/Sell Flows by Foreigner (RM million)



Weekly Net Buy/Sell Flows by Foreigner (RM million)

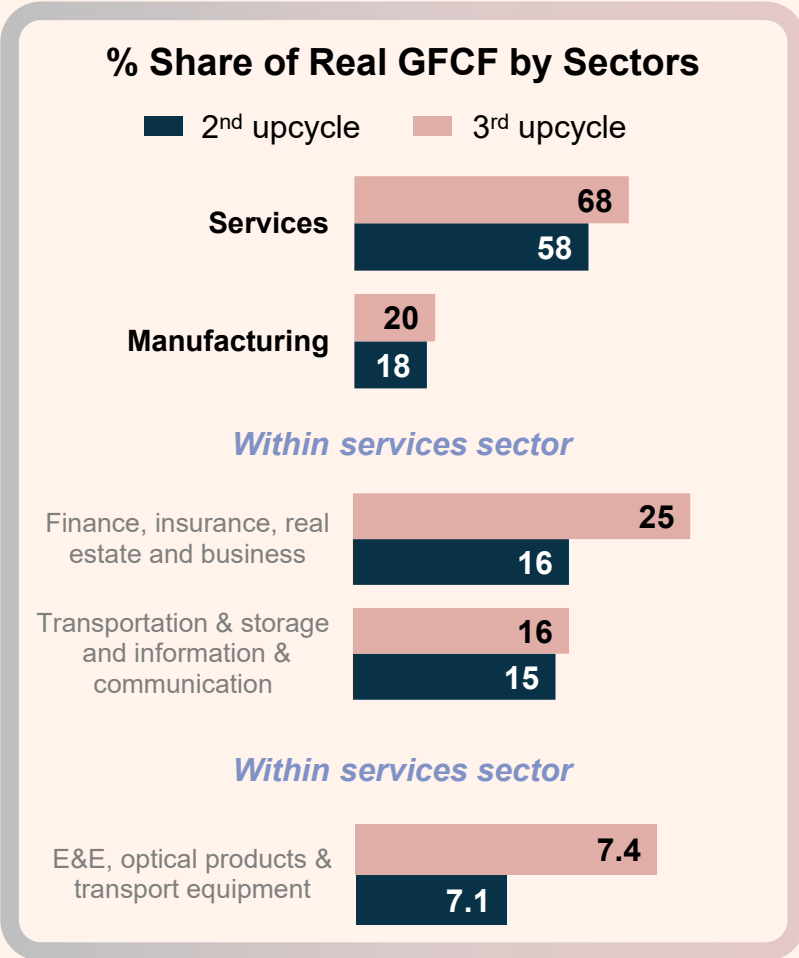


Source: CIMB Securities

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

1

Shift towards high value-added services & manufacturing activities



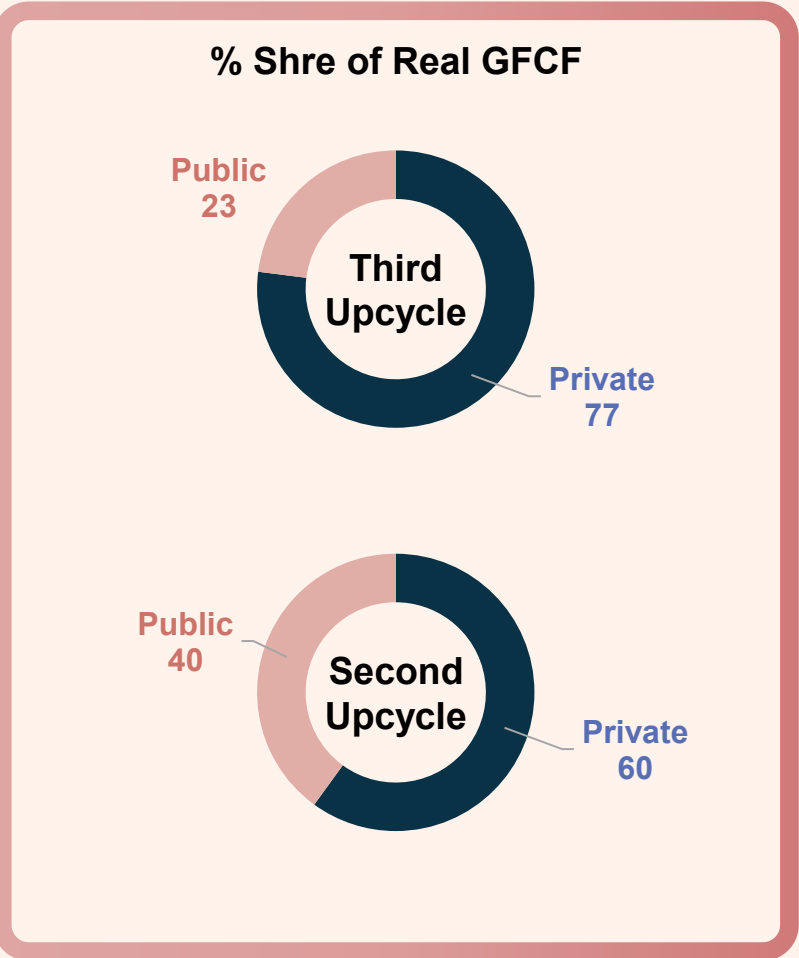
2

Increased share of machinery & equipment investments



1

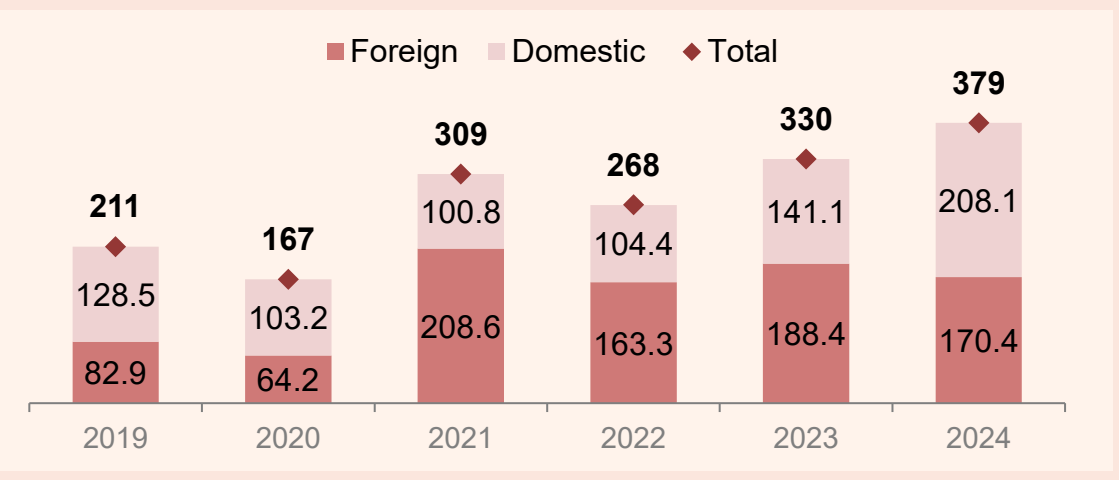
Greater role of private sector in driving investments



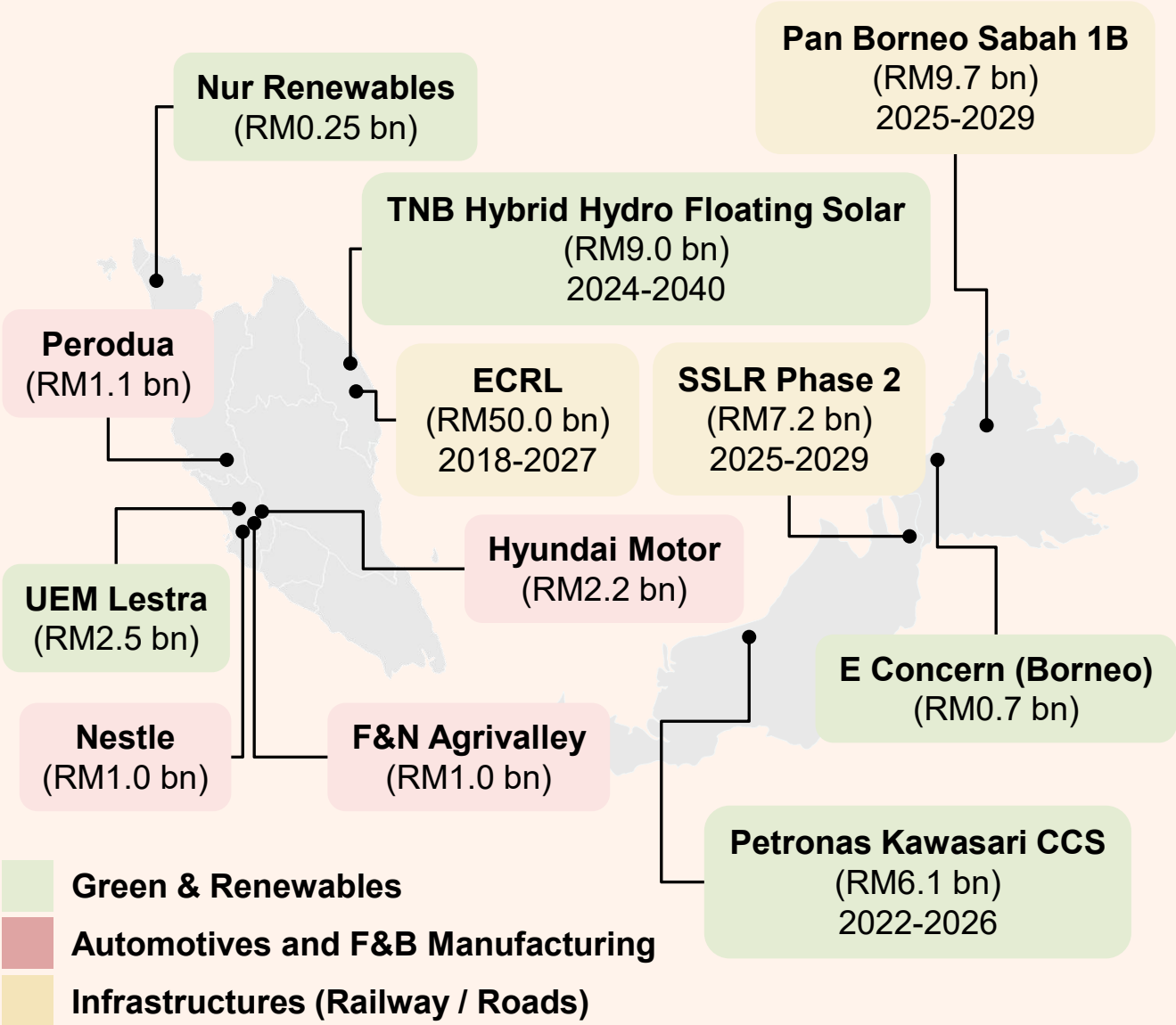
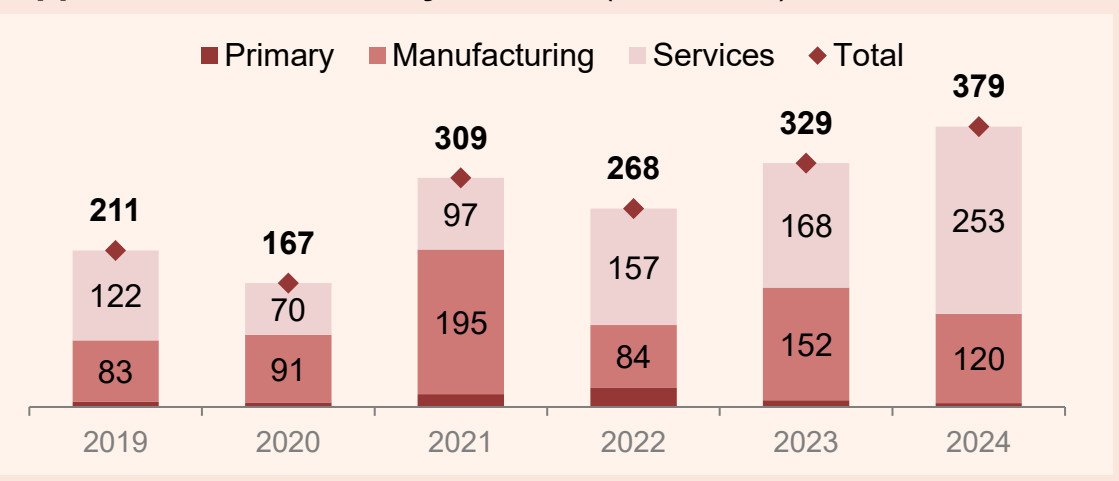
Note: Second upcycle refers to the 2011-15 period, while third upcycle refers to mid-2023 onwards. Where there are data constraints, comparisons are conducted using only 2023 data for the third cycle.  
Source: DOSM; BNM; Haver

# Investment is underpinned by the realisation of multi-years strong approvals

MIDA: Foreign vs Domestic Approved Investment (RM billion)



Approved Investment by Sectors (RM billion)



Source: MIDA; DOSM

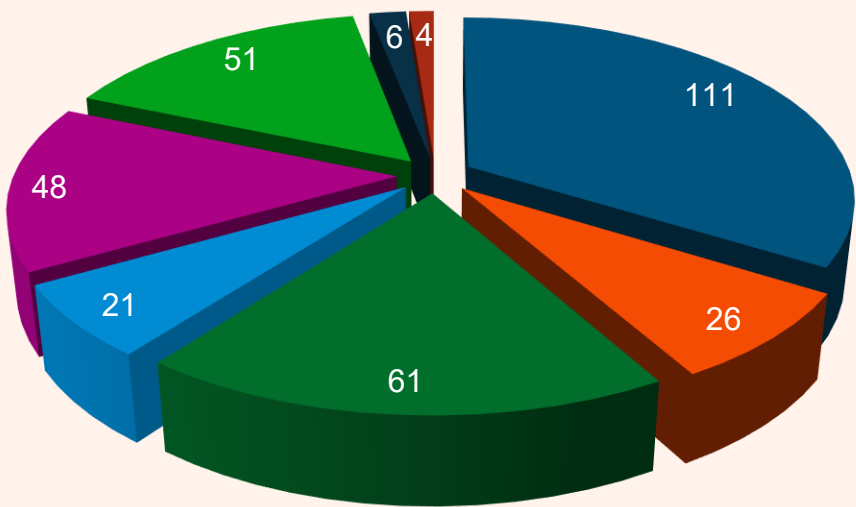
# Invest Malaysia Facilitation Centre - Johor (IMFC-J): January to 25 April 2025

328

## Accumulated Enquiries

as of 25 April 2025

- General Queries: 276
- Potential: 52



- MFCJ Enquiries
- Invest Johor
- MIDA
- IRDA Enquiries
- Call / Message
- Others
- IRDA Personal Reference
- Walk-in

47 Potential Investment

7 Domestics

40 Foreign

RM40.1 billion

### Top Country

- China (14)
- Singapore (13)
- Korea (4)

### Top Sector

- Manufacturing
- Data Centre
- Energy

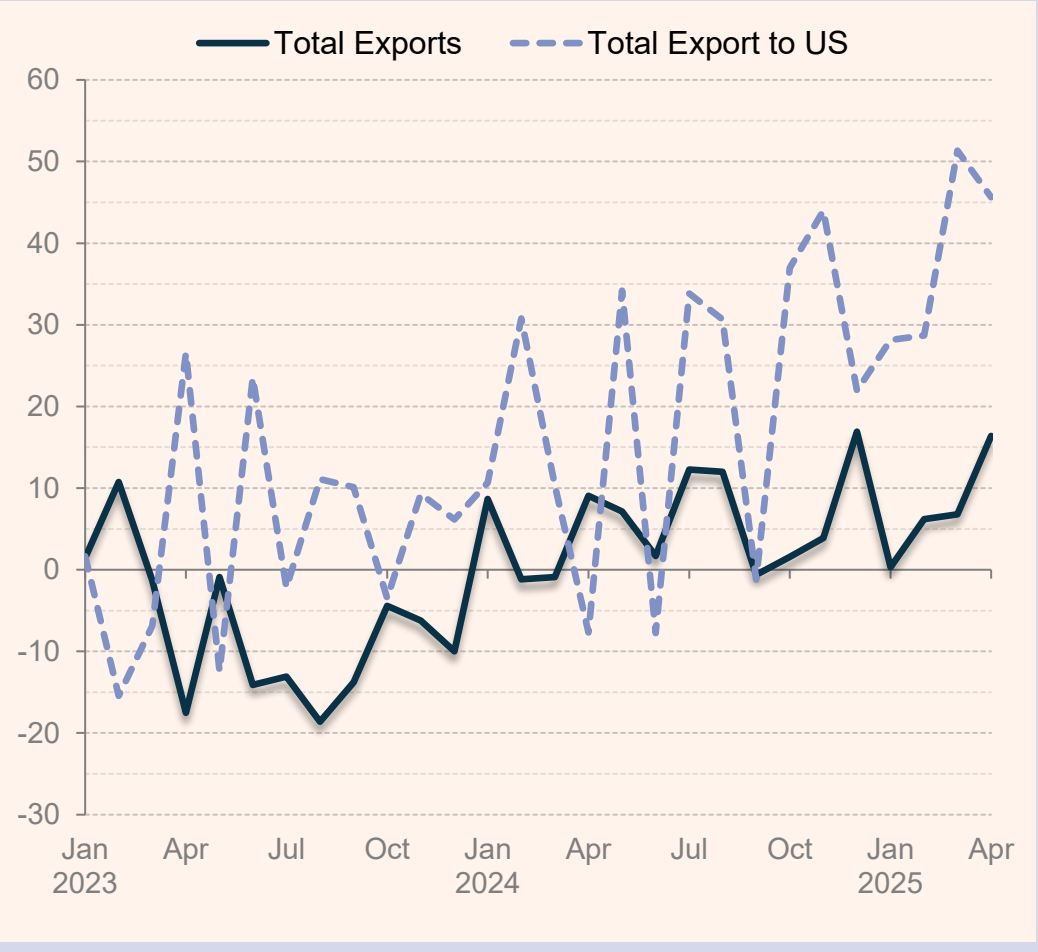
5 Committed Investment

RM16.5 billion

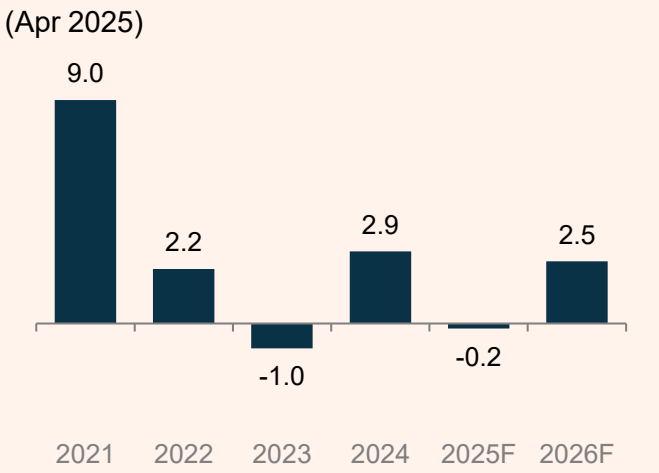
Source: IMFC-J

# Exports benefitting from “font-loading” shipments

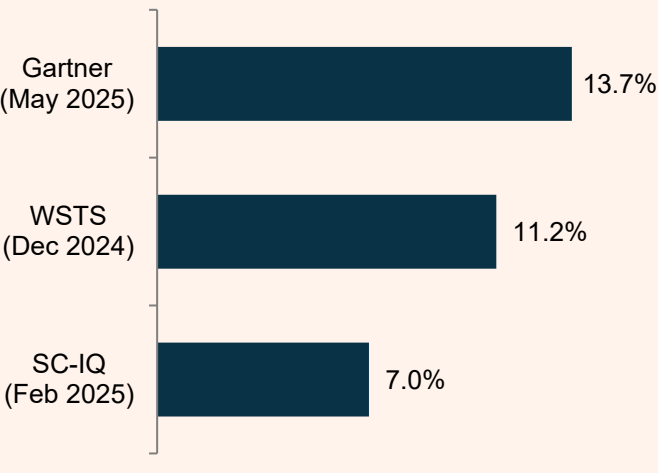
Total Exports (Annual change, %)



WTO’s Merchandise Trade Volume Growth (%)



Selected Semiconductor Market Forecast for 2025 (%)



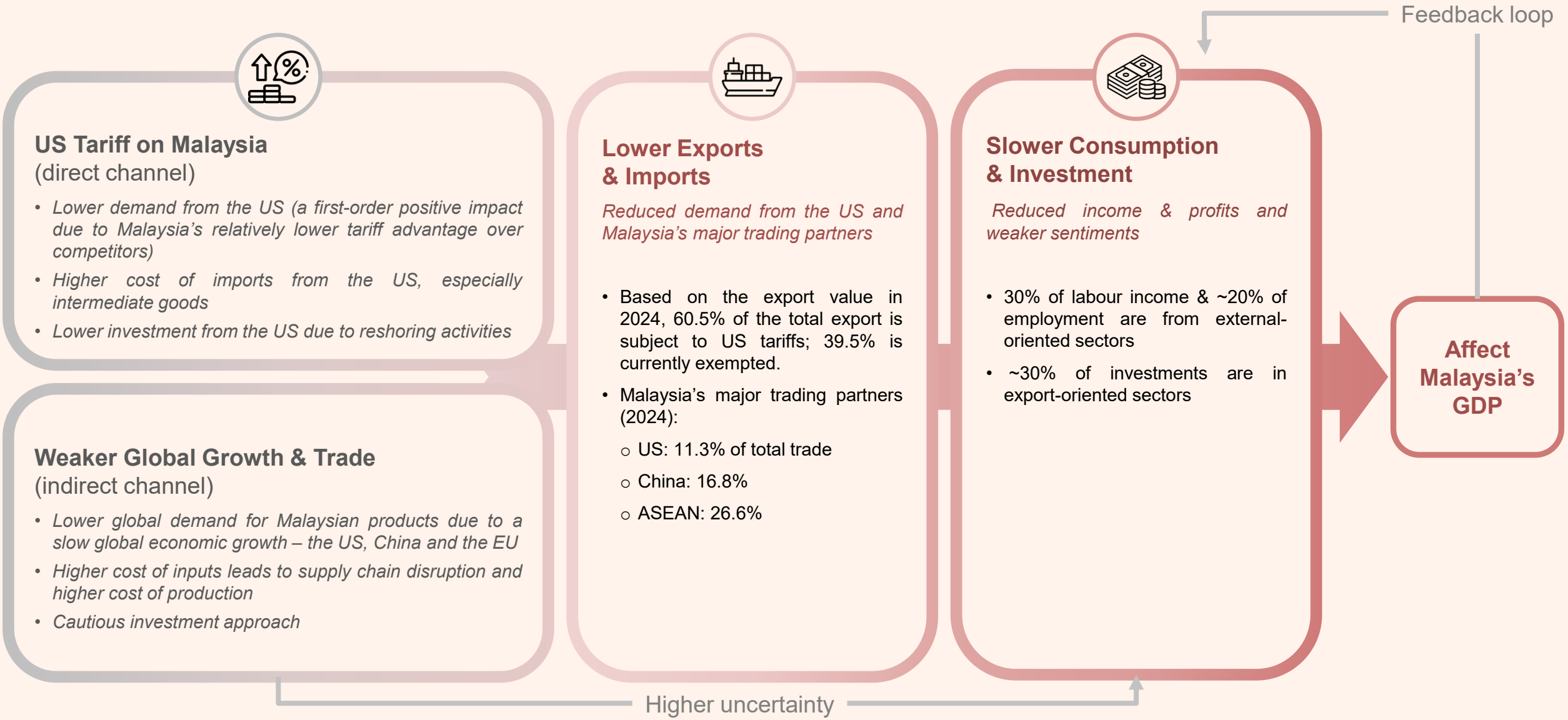
## The impact of tariffs is not immediate

- ❑ Front-loading of exports to the US during the 90-day tariff pause period
- ❑ Tariff exemptions on Malaysia’s key export products (e.g., Semiconductors)
- ❑ 83% of Malaysia’s exports to the US are price inelastic (e.g., Semiconductors, office machines, optical scientific equipment)

Note: Based on the US’s import price elasticity as estimated by UN ESCAP (2020) in “New global estimates of import demand elasticities: a technical note”, and scaled to short-term elasticity based on American Economic Review (2023) ‘The long and short (run) of trade elasticities. Price inelastic goods refer to products with elasticity below 1, while price elastic goods refer to products with elasticity equal to or above 1.

Source: DOSM

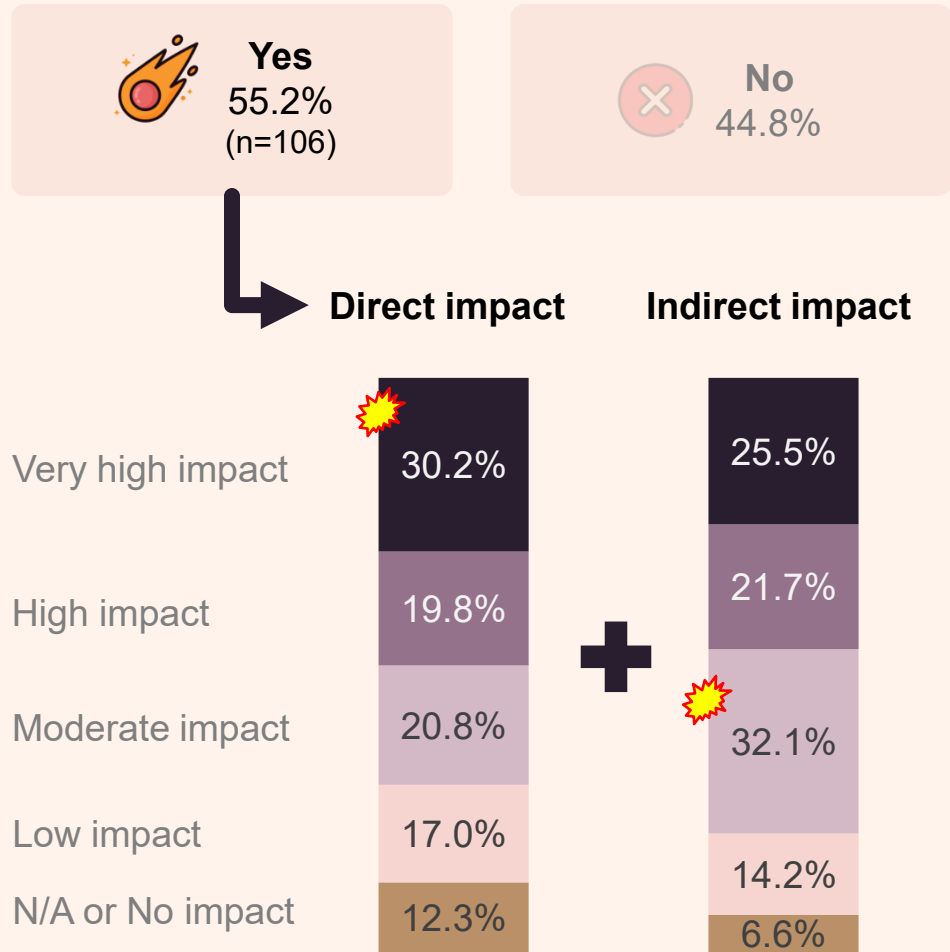
# Escalation in trade tensions and heightened uncertainties weigh on external trade and spill over to domestic demand





# ACCCIM's Quick-take survey on the tariffs impact

55.2% of total respondents are impacted by the tariffs



## 1 Affected products listed by respondents:



## 2 61.3% of businesses indicated that their sales will be impacted should the tariff increase more than 10%

Above 20%	34.9%
11% - 20%	26.4%
6% - 10%	25.5%
1% - 5%	8.5%
Not significant	4.7%

# Bank Negara Malaysia’s engagements with firms suggest that negative impact from tariff could be limited in the short-term

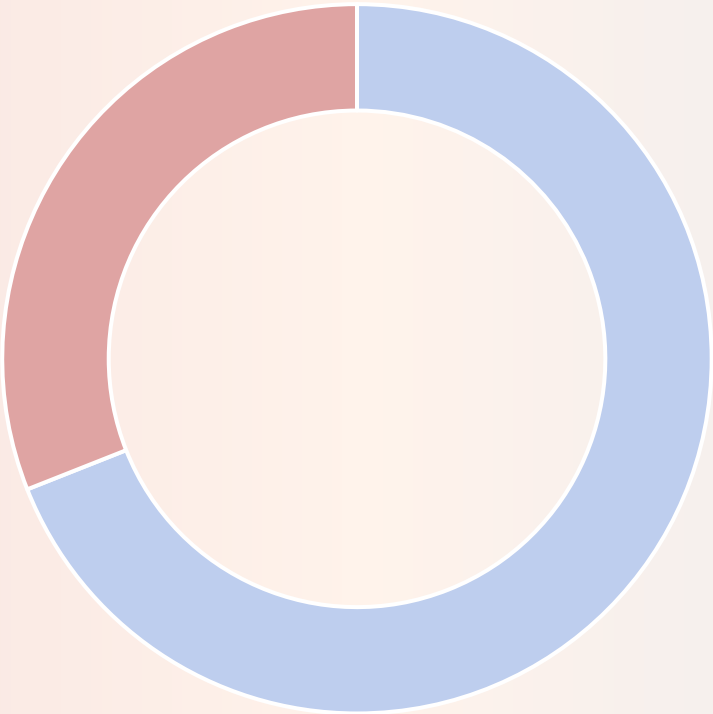
Preliminarily, most firms did not expect significant impact from tariffs in the next three months

How will you be impacted by tariffs in the next three months?

**31%** of firms surveyed are negatively impacted

due to

- Lower final demand
- General demand uncertainty
- Higher business costs and prices



**69%** of firms surveyed are not affected or positively affected

due to

- Products exempted from tariffs
- Limited exposure to the US
- Orders secured in near-term
- Front-loading to build inventory

*Note: Findings based on corporate engagements between 20th April and 13th May 2025.  
Source: BNM*

# Malaysia's action plans to cope with the tariffs impact

The Government categorically denies the claim of imposing a 47% tariff on US imports into Malaysia, and we're committed to securing a favourable resolution. **For now, Malaysia will not take any retaliatory action.**

## #1 Establish National Geo-economic Command Centre (NGCC)

Conduct an in-depth study on the impact of tariffs on several export sectors to the US. The NGCC will consider the findings of the study at its next meeting in the near future.

## #2 Establish a Task Force on Managing US Tariffs

Collect feedback from various stakeholders to minimise the effects of tariffs on Malaysia's exports and investment.

## #3 Meeting of ASEAN economic ministers

The meeting, chaired by the Minister of Investment, Trade and Industry (MITI), will be conducted on 10 April 2025 to discuss the implications of President Trump's radical tariff policy on ASEAN's trade and investment flow, macroeconomic stability and the region's response.

## #4 Strategic high-level engagement with the US

Leverage on the Malaysia-US Trade & Investment Framework Agreement (TIFA) and consider the establishment of a Technology Safeguard Agreement with the US to facilitate high-tech cooperation in semiconductors, aerospace and digital economy sectors.

### #5.1 Diversify Malaysia's export market

Diversify and broaden Malaysia's export markets, targeting regions such as the Middle East (including through MIHAS), Africa, and South America.

### #5.2 Increase usage of other Free Trade Agreements (FTA)

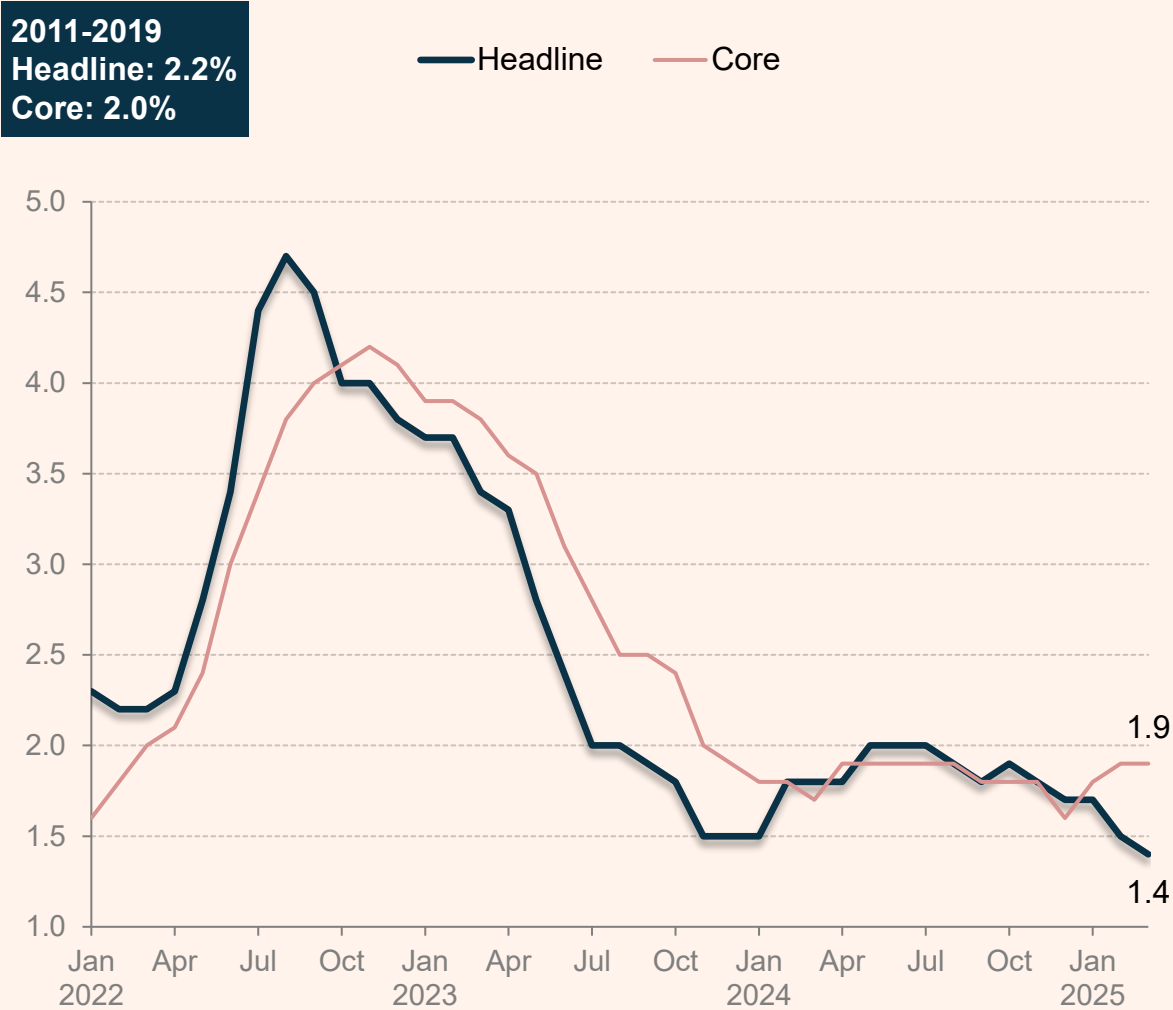
Other FTA alternatives include (1) Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE); (2) Resumption of FTA negotiations with the European Union (EU) and South Korea, respective; (3) Upgrading the ASEAN Trade in Goods Agreement (ATIGA); and (4) Malaysia-European Free Trade Association (EFTA) negotiations.



Source: MITI

# Inflation risk can tilt higher amid a resilient labour market

## Headline and Core Inflation (Annual change, %)



Source: DOSM; BNM

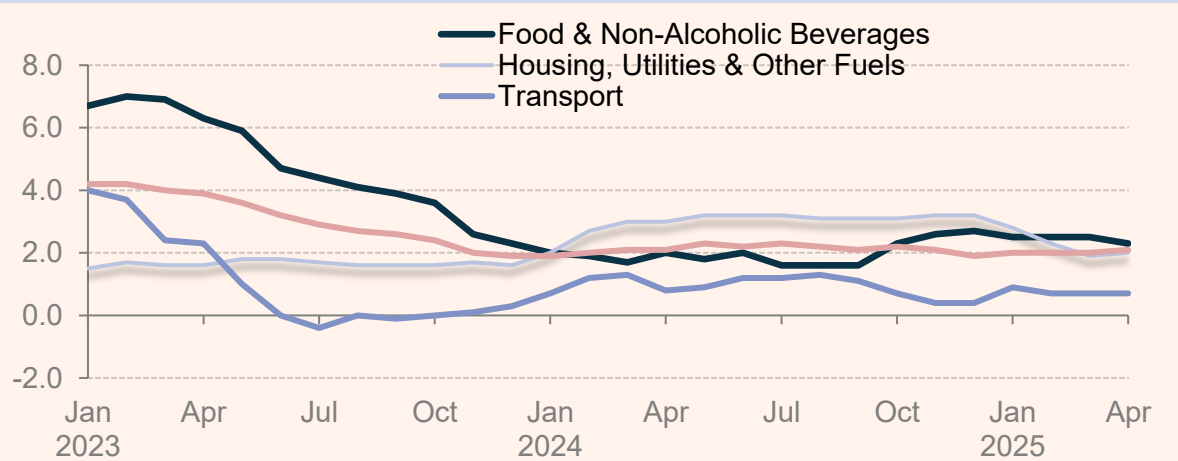
## Upside risks to inflation in 2025

- Higher global commodity prices amid supply chain disruptions
- Higher external cost conditions from financial market uncertainties
- Larger spillovers from domestic policies

## Downside risks to inflation in 2025

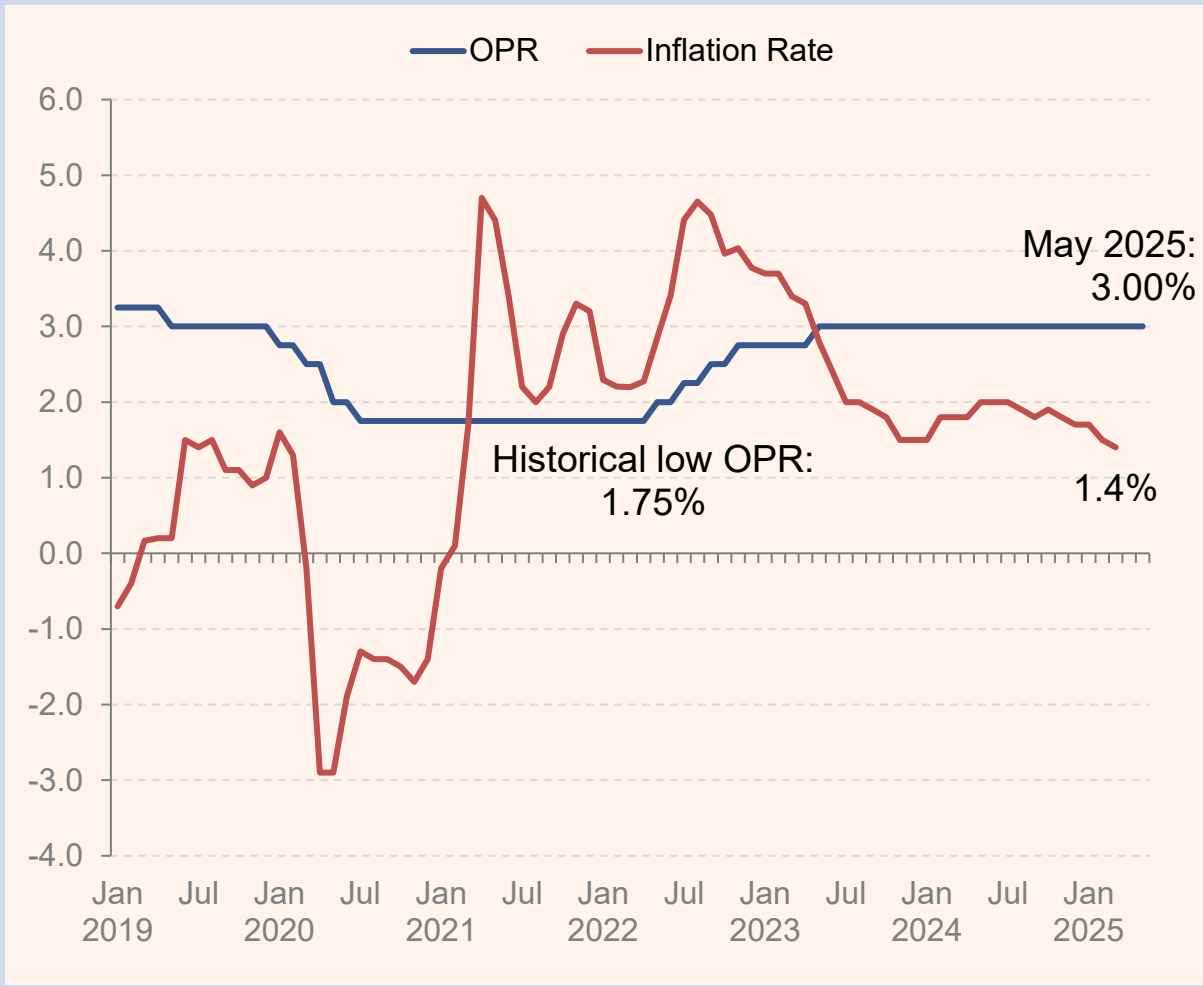
- Lower global commodity prices from weaker global demand conditions
- Smaller than expected cost pass-through from policy reforms
- Slower wage growth amid weaker export demand

## Headline and Core Inflation (Annual change, %)



# An even chance of an interest rate cut in 2H 2025

## Overnight Policy Rate (%)



**Monetary policy stance is consistent** with the current assessment of domestic inflation and growth prospects.

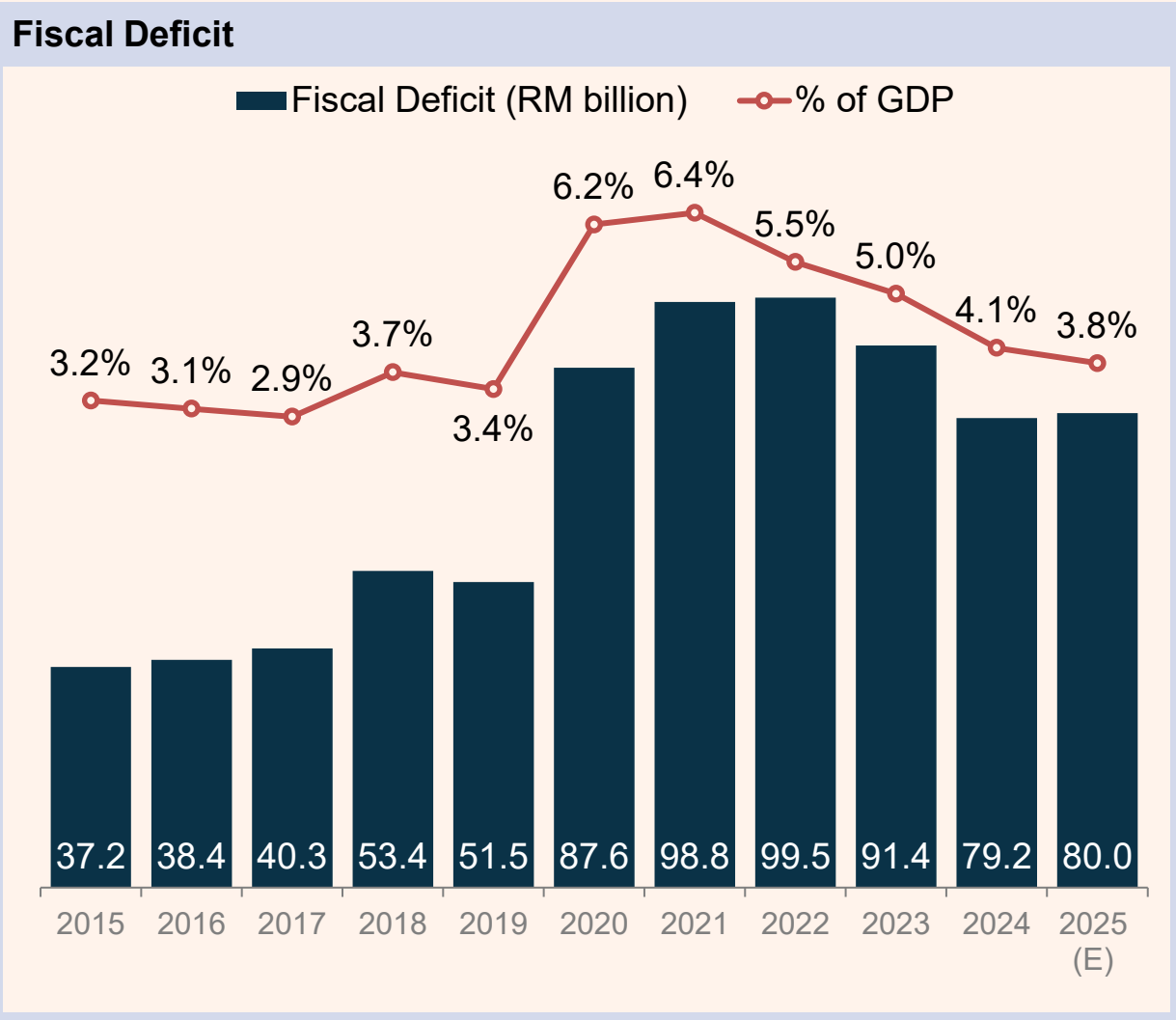
- Resilient domestic demand would continue to support growth.
- But trade tensions and heightened global policy uncertainties will weigh on the external sector
- Inflation would remain manageable

**Bank Negara Malaysia (BNM) has announced a reduction in the Statutory Reserve Requirement (SRR) Ratio** from 2% to 1%, effective 16 May 2025.

- Providing strong assurance that there is ample liquidity in domestic financial system to support credit demand.
- SRR is not a signal of monetary policy stance.

Source: BNM; DOSM

# Can the Government meet the fiscal deficit target (3.8% of GDP) for 2025?



Note: Fiscal deficit in 2025 is based on the estimate of Budget 2025.  
Source: BNM; DOSM; MOF

2024

Feb

**Water Tariff**  
Increased water tariff across all states in Peninsular Malaysia

Estimated Savings / Revenue gain

NA

Jun

**Diesel Subsidy**  
80% of diesel consumers continue to receive cash aid

RM4.0 billion

2025\*

Jun

**SST Expansion**  
Expand the scope of Sales and Service Tax to include new services such as commercial service transactions between businesses (B2B)

RM5.0 billion

Aug

**Egg Subsidy**  
Phasing out the egg subsidy, starting with a reduction to 5 sen per egg on 1 May, and ending completely on 1 Aug

RM1.2 billion

2H

**RON95 Subsidy**  
Target Top 5/15 and foreigners. Top 5/15 consumers account for 40% of consumption

RM8.0 billion

**\*Additional revenue of RM14.2 billion per year in 2025**

# THANK YOU

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