Socio-Economic Research Centre
SERC 社会经济研究中心

Bank Negara Malaysia (BNM)'s Economic and Monetary Review 2024 & Financial Stability Review, Second Half 2024

Positive Growth Outlook amid Downside Risks

24 March 2025

Key Messages

01 Global growth is sustained broadly amid cautious sentiments about global trade and investment policies shift, as well as on-going geopolitical tensions.

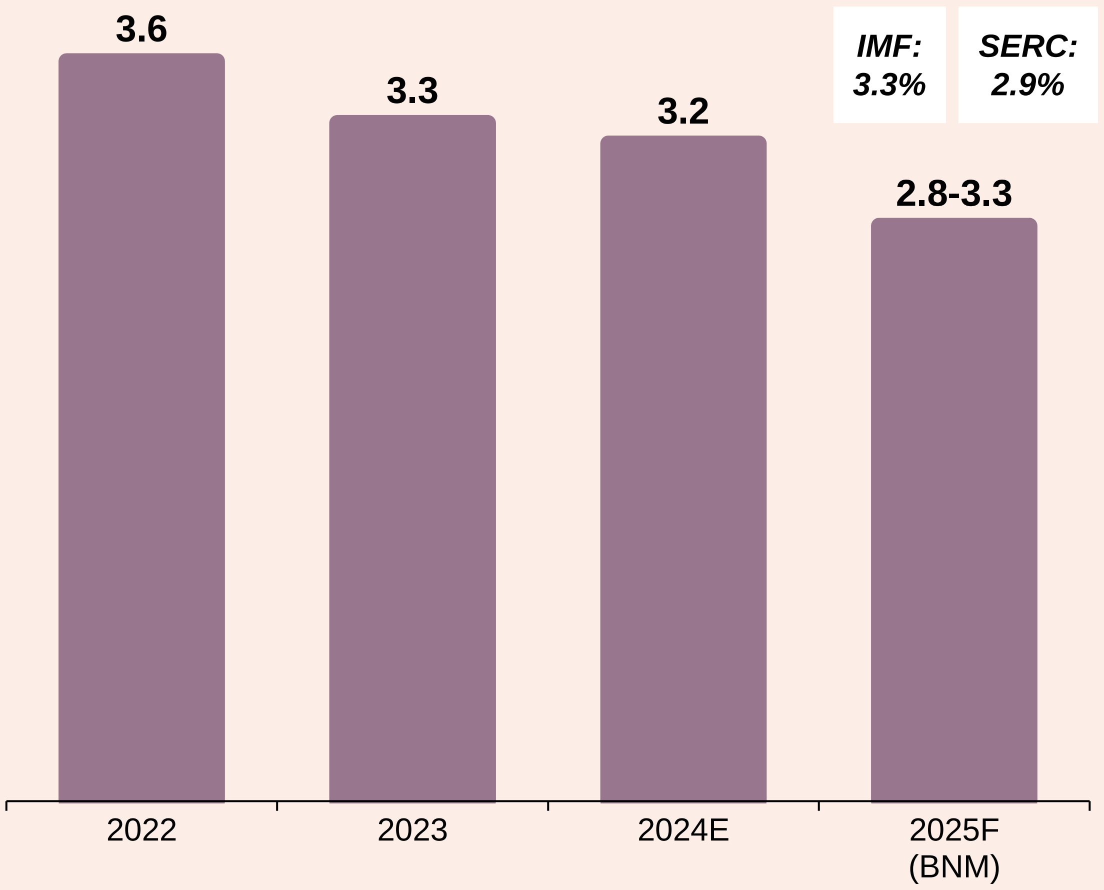
02 Malaysia's GDP will expand by 4.5%-5.5% (mid-point estimate at 4.9%) in 2025, supported by robust domestic demand, investment upcycle and exports recovery.

03 Banks' capital and liquidity positions remained sound, and continue to be supportive of economic activities.

04 Household debt-to-GDP ratio remains elevated at 84.2% of GDP at end-2024, but it is supported by robust financial assets.

The global economy is expected to see broadly sustained in 2025

Global real GDP growth (% YoY)



Global economic growth is projected to remain steady at 2.8%-3.3% in 2025, supported by favourable labour markets, moderating inflation, and continued monetary policy easing.

Global inflation is expected to decline further, driven by lower commodity prices and the fading effects of past policy tightening.

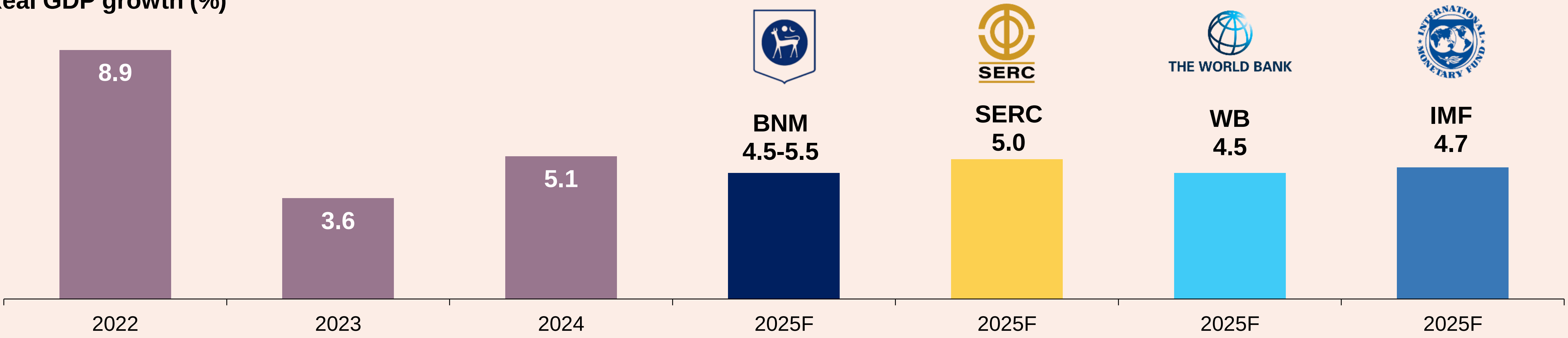
However, this outlook has assumed some level of tariff actions and retaliations among major economies. As a result, higher trade restrictions, geopolitical tensions, and retaliatory measures pose downside risks to global growth.

Positive and negative risk factors to global growth

Upside risks	VS	Downside risks
Positive labour market conditions	01	More severe trade restrictions
Moderating inflation and monetary policy easing	02	Escalation in geopolitical conflicts
Global technology upcycle	03	Tighter financial conditions

Resilient domestic demand to anchor growth in 2025 amid external uncertainties

Real GDP growth (%)



Source: DOSM; BNM; SERC; World Bank; IMF

Key drivers underpin sustained economic growth in 2025

01 Higher household spending

Driven by steady employment and faster income growth as well as consumption policy support

02 Robust expansion in investment activity

Driven by new and existing projects as well as the implementation of national master plans

03 Moderate expansion in exports

Underpinned by on-going global technology upcycle and sustained external demand

Upside and downside risks to Malaysia's economic growth in 2025

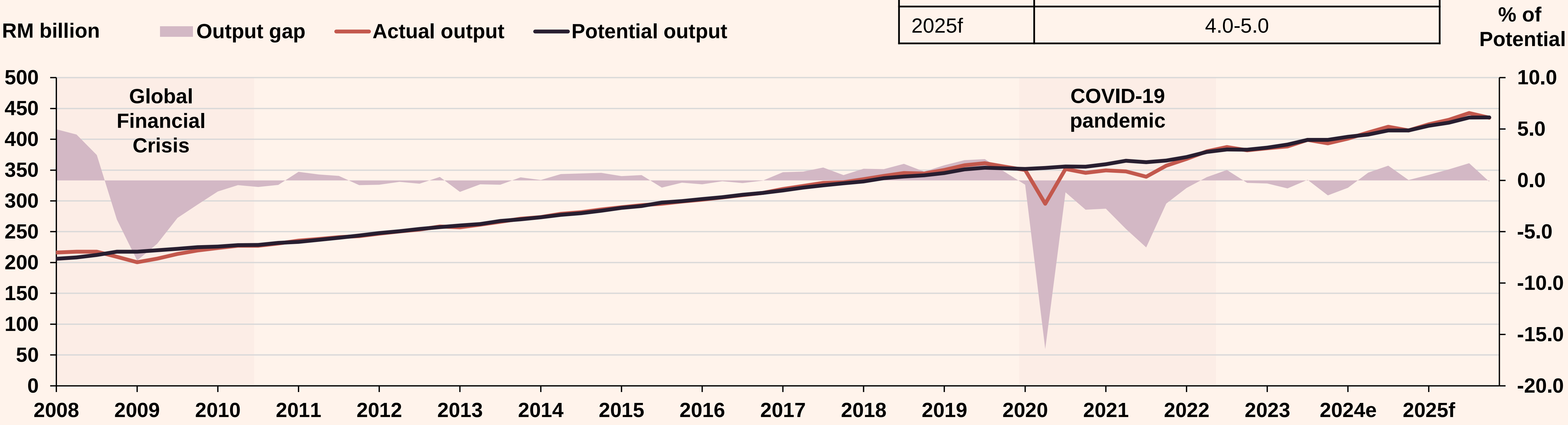
Upside risks to growth		Downside risks to growth
Higher external demand from successful trade negotiations and pro-growth policies	01	More restrictive trade policies and stronger retaliatory measures
Greater positive spillovers from global tech upcycle	02	Escalation of geopolitical conflicts
More robust tourism	03	Weaker business and consumer confidence
Faster implementation of investment projects	04	Lower-than-expected commodity production

2025F:
4.5%-5.5%

Malaysia's potential output and the output gap

- **The output gap is expected to remain positive in 2025.** While **potential output is projected to expand at its pre-pandemic rate of 4%-5%,** actual output growth could outpace this at 4.5%-5.5%, driven by sustained strength of domestic demand.
- Over the medium term, potential output will be supported by higher investments and productivity gains, underpinned by the continued implementation of multi-year investment projects and key national initiatives. These include the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS), National Energy Transition Roadmap (NETR), and the upcoming 13th Malaysia Plan (RMK-13).

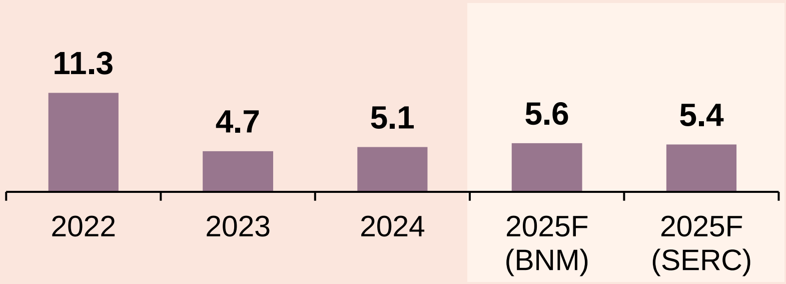
Year	Annual Growth in Potential Output (%)
2023	3.9
2024e	4.1
2025f	4.0-5.0



Source: DOSM; BNM estimates

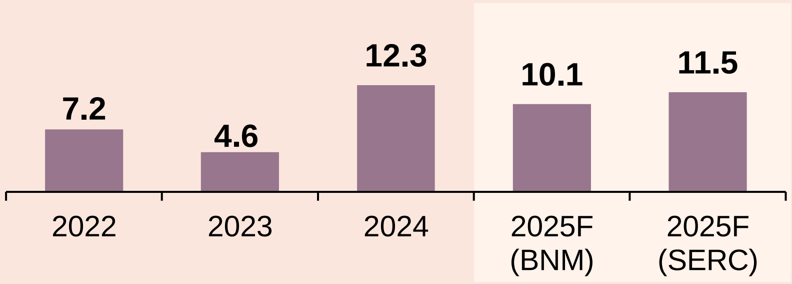
Domestic demand will remain Malaysia's anchor of growth

Private Consumption (%) [60.7% of GDP]



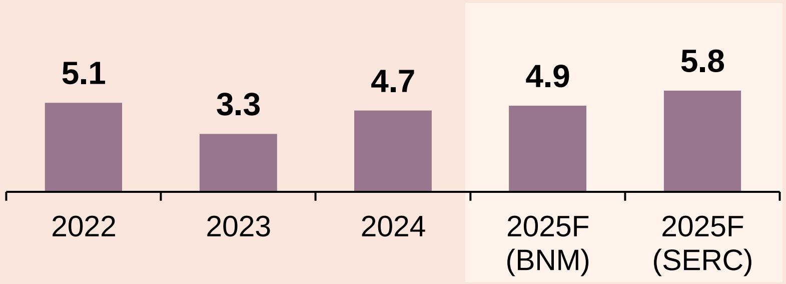
- Higher income prospects
- Improving labour market conditions (unemployment rate at 3.1% in 2025F)
- Healthy household balance sheets

Private Investment (%) [16.5% of GDP]



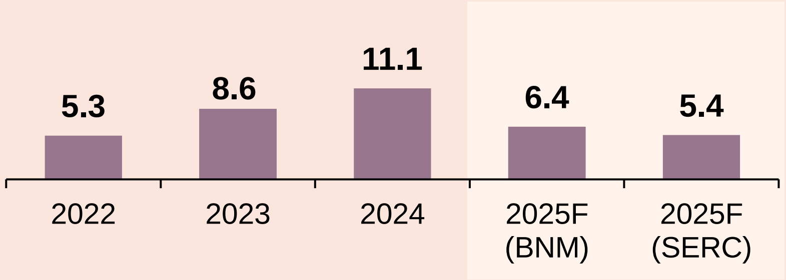
- Investment upcycle remains intact
- High realisation rates of approved investments (84.5% of manufacturing projects since 2021)
- Implementation of national master plans

Public Consumption (%) [13.1% of GDP]



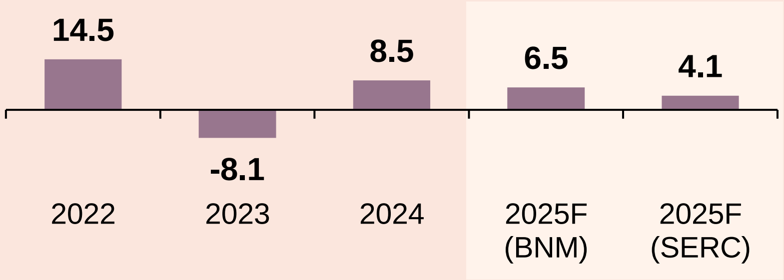
- Higher emoluments of the public sector up to 15% salary increment for 1.5 million civil servants under the SSPA

Public Investment (%) [4.8% of GDP]



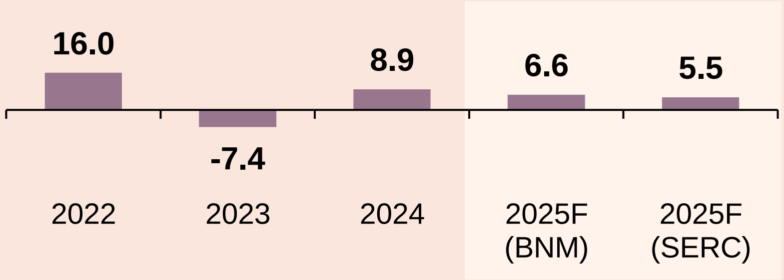
- Higher capital expenditure by public corporations
- Infrastructure expansion, energy sector development, and continued project rollouts

Real Exports (%) [68.2% of GDP]



- Expansion in electrical and electronics (E&E), driven by the global technology upcycle
- Rising demand for AI-powered devices, cloud computing, and enhanced processing capability in consumer electronics

Real Imports (%) [63.9% of GDP]

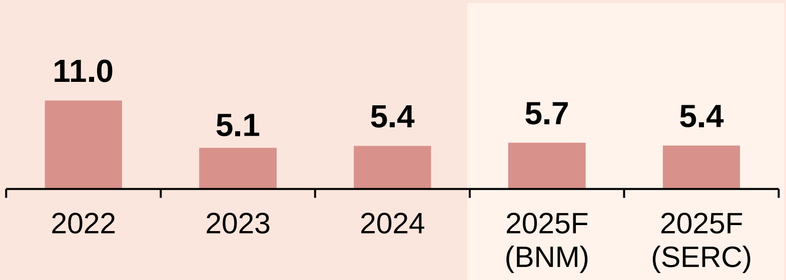


- Increase in capital imports, driven by ongoing investment projects
- Intermediate imports growing in tandem with higher manufactured exports

Note: Figure in parenthesis [ ] indicates share of GDP in 2024
Source: DOSM; BNM; SERC

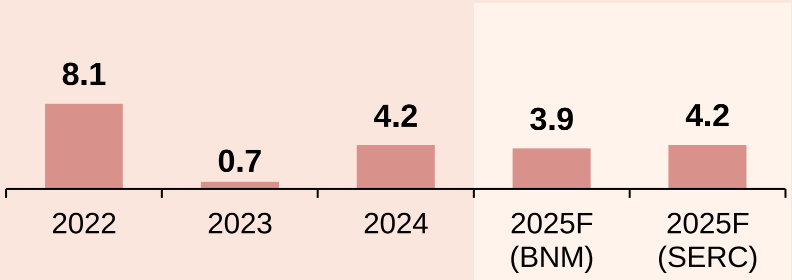
Expansion in most economic sectors

Services (%) [59.3% of GDP]



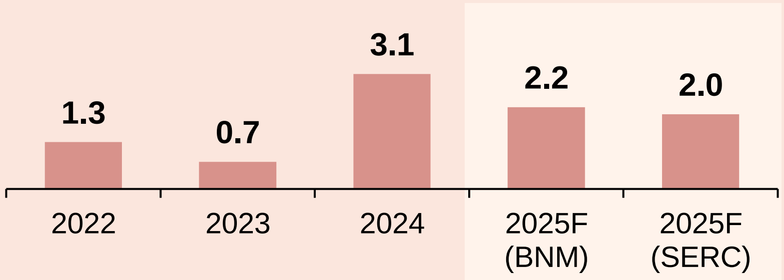
- Expansion across all services subsectors
- Intensified promotions for Visit Malaysia Year 2026
- Increased government services spending due to higher civil servant emoluments

Manufacturing (%) [23.2% of GDP]



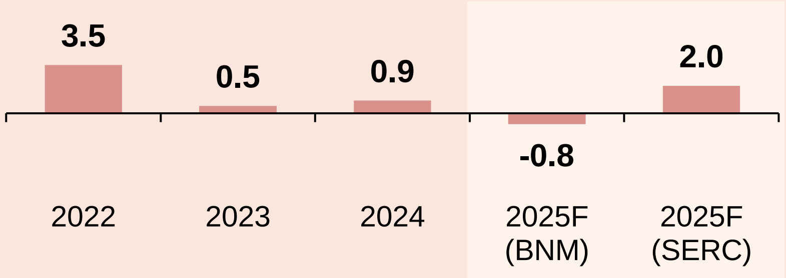
- Expansion in the electrical & electronics (E&E) industry, supported by the global tech upcycle
- Growth in consumer-related industries, driven by household spending and new domestic EV models

Agriculture (%) [6.3% of GDP]



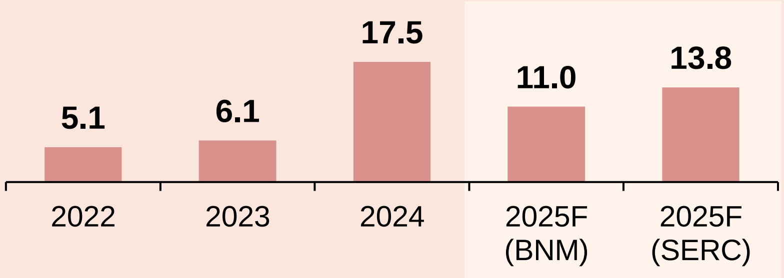
- Improved food crop production due to better weather conditions
- Continued crude palm oil expansion, supported by productivity gains and improved fertiliser

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]

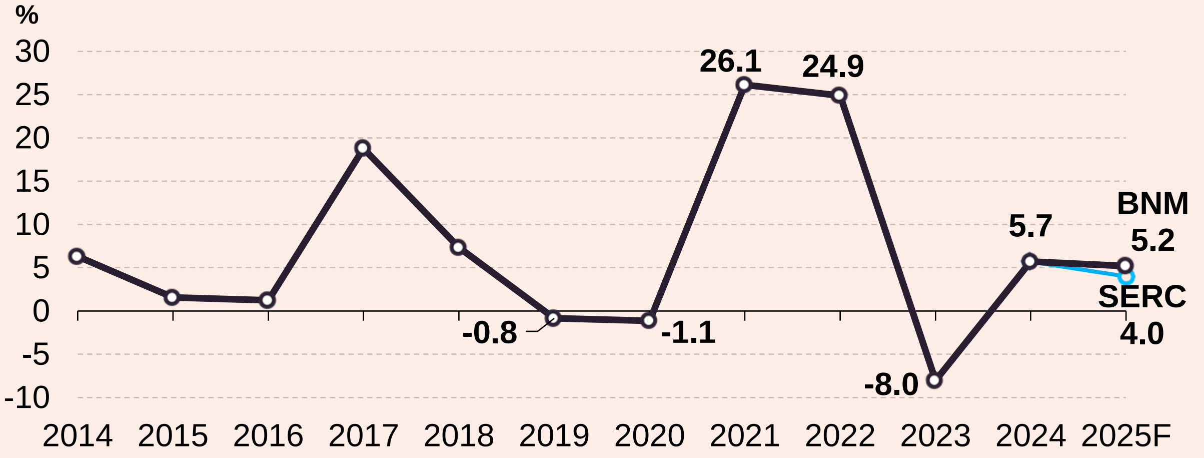


- Continued activity in non-residential, special trade, and residential subsectors
- Small-scale projects from Budget 2025 and end-stage infrastructure works

Note: Figure in parenthesis [ ] indicates share of GDP in 2024
Source: DOSM; BNM; SERC

Export growth will moderate; current account surplus improves marginally

Export growth has rebounded in 2024 and will sustain at slower rate in 2025

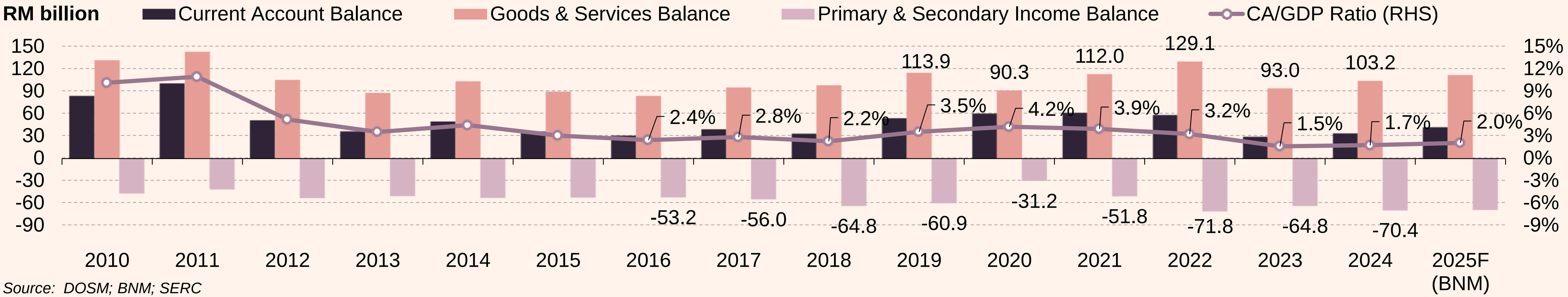


Expansion in major export products in 2024

Major export products	RM billion	% Growth
Electrical & electronic products [39.9%]	601.2	4.5
Chemical & chemical products [4.9%]	73.6	3.0
Machinery & equipment [4.6%]	69.0	20.5
Manufactures of metal [4.1%]	61.5	9.3
Optical & scientific equipment [3.9%]	59.2	8.4
Processed food [2.3%]	35.4	16.7
Palm oil-based manufactured product [2.3%]	35.1	12.5
Rubber products [1.7%]	26.2	22.6

Figure in parenthesis indicates % share of gross exports in 2024

Current account surplus will improve to between 1.5% and 2.5% of GDP in 2025

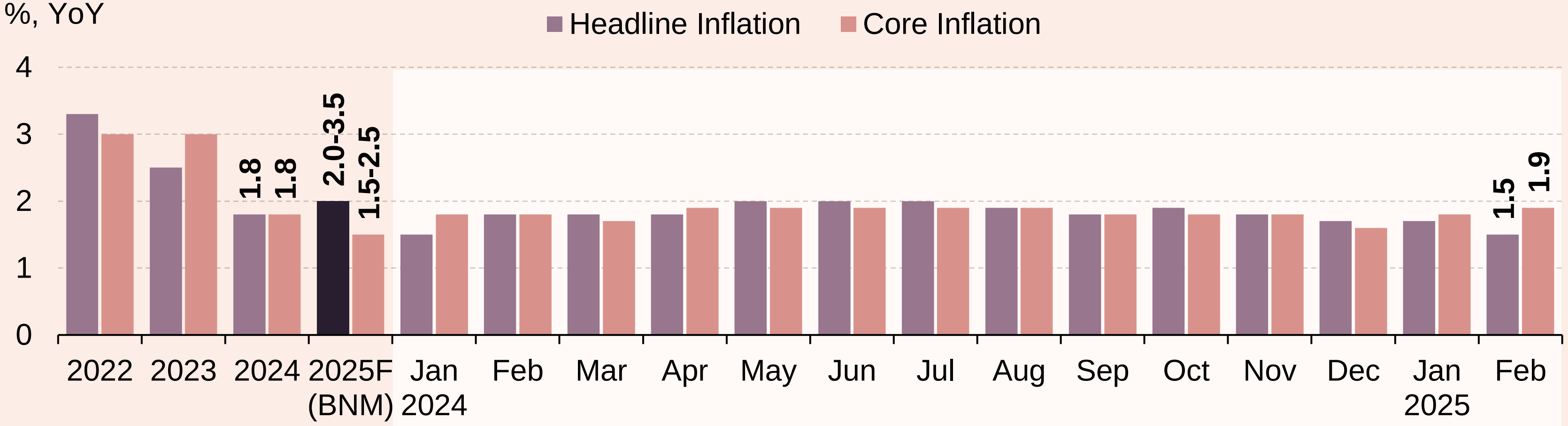


Source: DOSM; BNM; SERC

Headline inflation to average between 2.0% and 3.5% in 2025

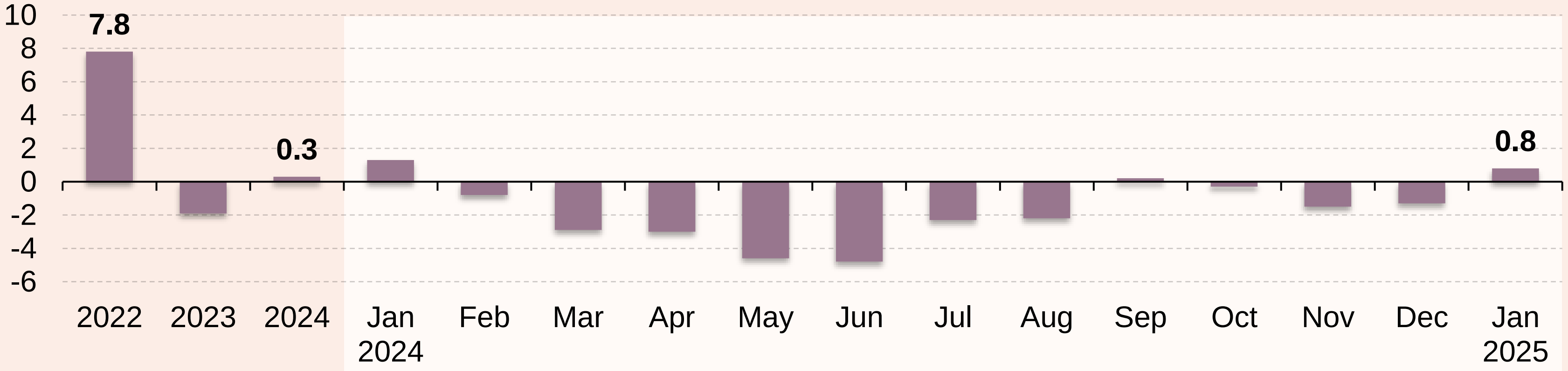
Headline and core inflation

%, YoY



Producer prices

%, YoY



Source: BNM; DOSM; SERC estimates

Upside risks to inflation outlook

Larger-than-expected spillovers from domestic subsidy policy measures, depending on the implementation and demand conditions.

Higher external costs amid geopolitical developments, such as potential trade restrictions and geopolitical tensions.

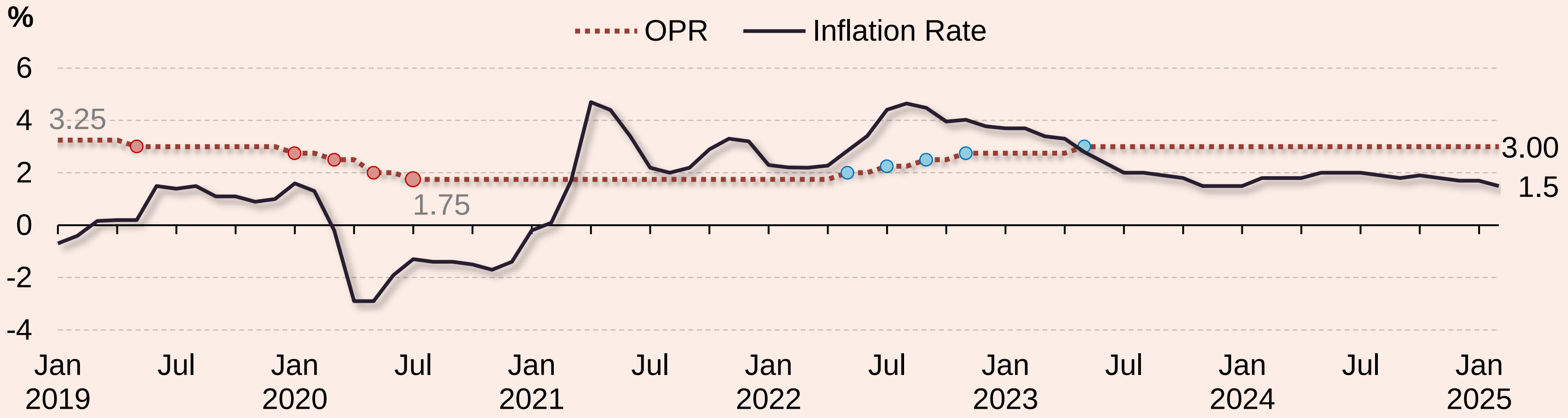
Downside risks to inflation

Weaker global growth from rising trade tensions, reducing external price pressures.

Larger moderation in commodity prices

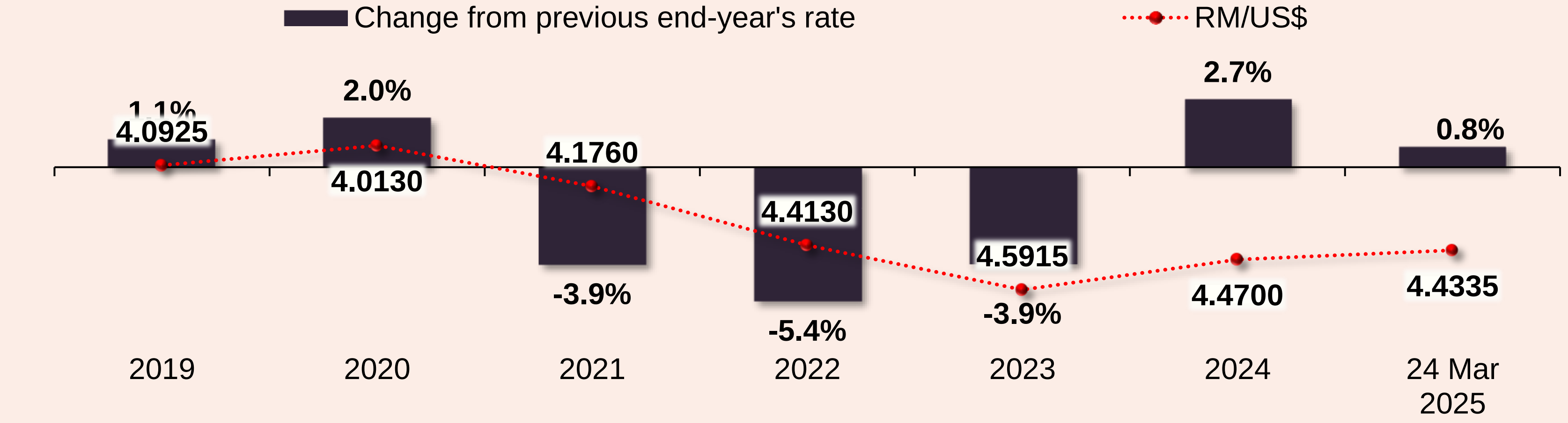
Monetary policy will balance between supporting growth and anchoring inflation expectations

Overnight Policy Rate (OPR)



- In 2024, Bank Negara Malaysia's overnight policy rate (OPR) was maintained at 3.00% on the back of positive economic prospects and modest inflation.
- In 2025, the Monetary Policy Committee (MPC) will remain vigilant to global developments, in particular the tariffs policy and its impact on domestic economy.
- Monetary policy will continue to balance the risks to economic growth outlook and domestic inflation.

Exchange rates (RM/US)



Factors supporting the Ringgit:

▲ Narrowing interest rate differentials between Malaysia and advanced economies

▲ Strong domestic growth

▲ Domestic structural reforms

Factors weakening the Ringgit:

▼ Fewer US policy rate cuts

▼ US tariffs and trade restrictions

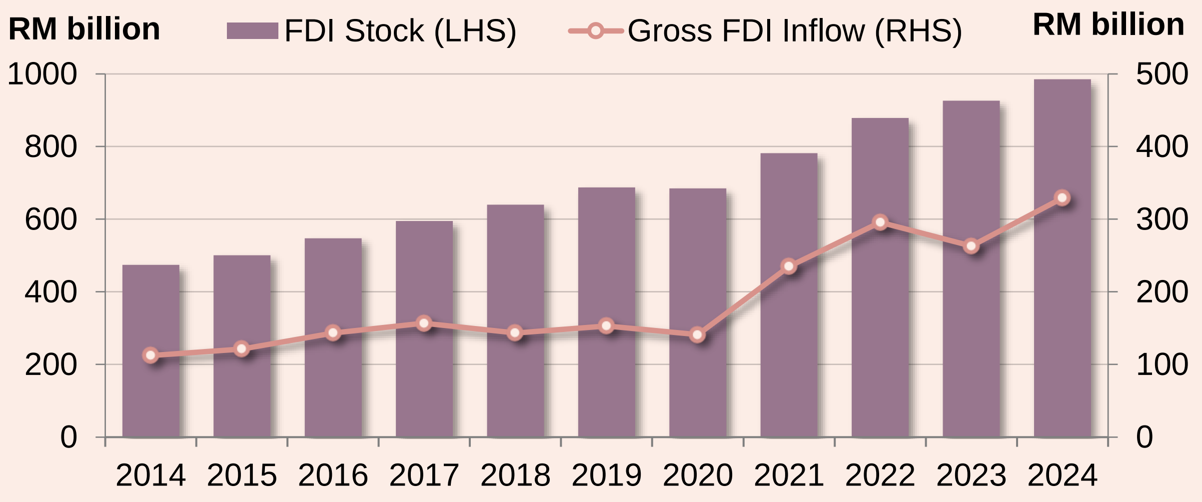
▼ Rise in geopolitical tensions

Source: BNM; DOSM

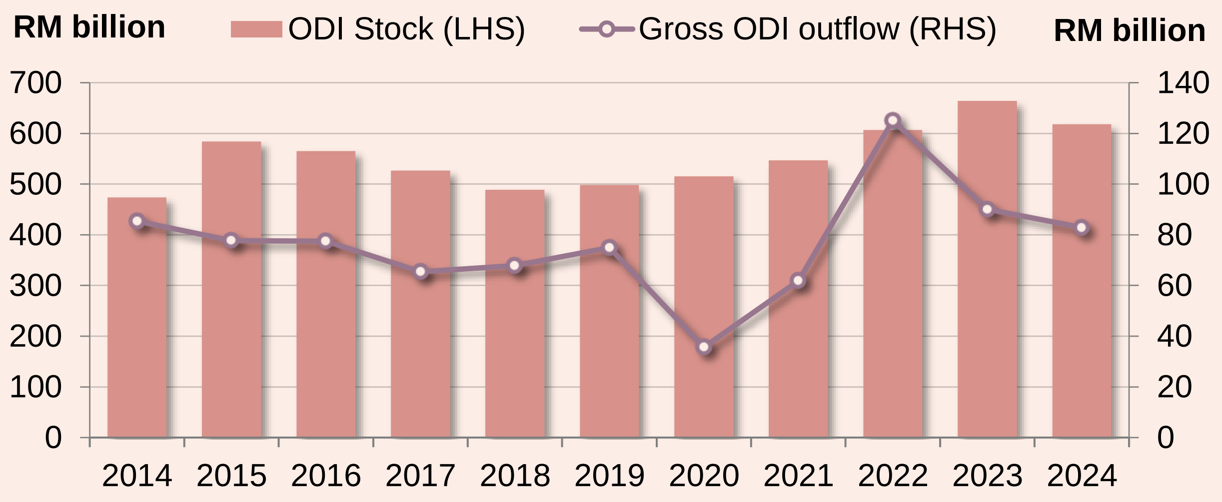
Note: Exchange rate (12:00 rate) as at end-period

Malaysia remains a key investment destination for global investors

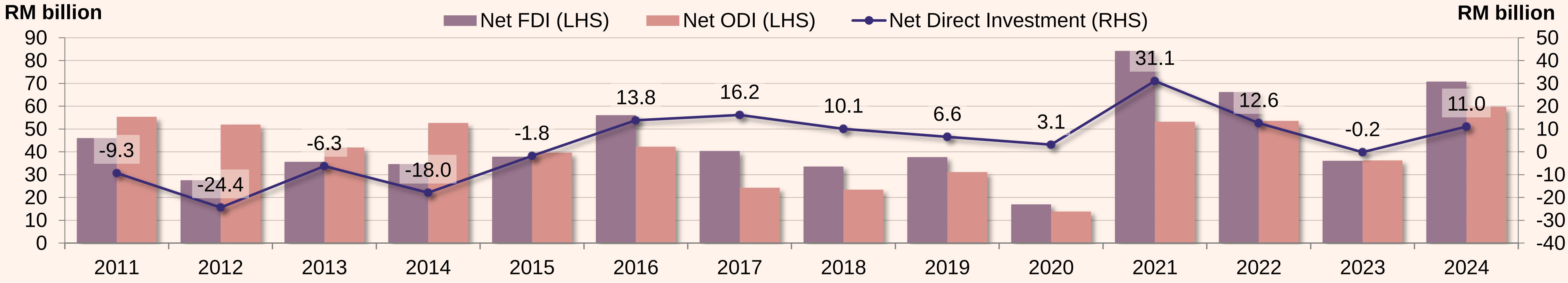
Stronger gross FDI inflows reflect sustained investor confidence and robust foreign investment activities



ODI stock has declined after five years of growth. Gross ODI flows have declined for two years in a row



Net inflows of direct investment rebounded in 2024 on higher net inflows of FDI

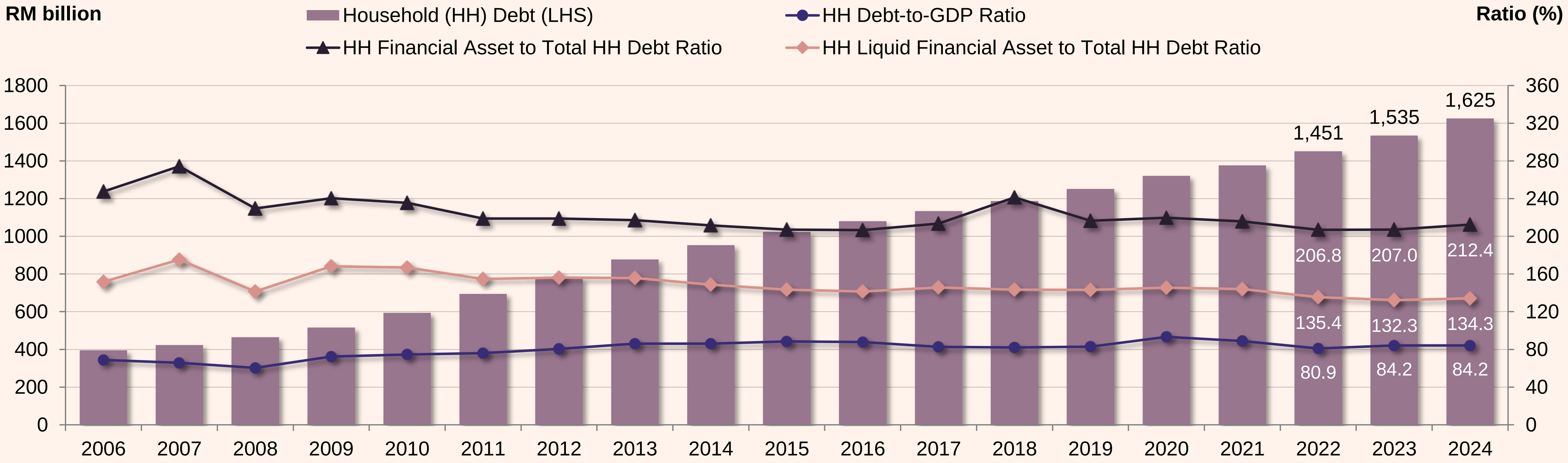


Source: BNM

FDI = Foreign direct investment; ODI = Outward direct investment

Household debt increased further

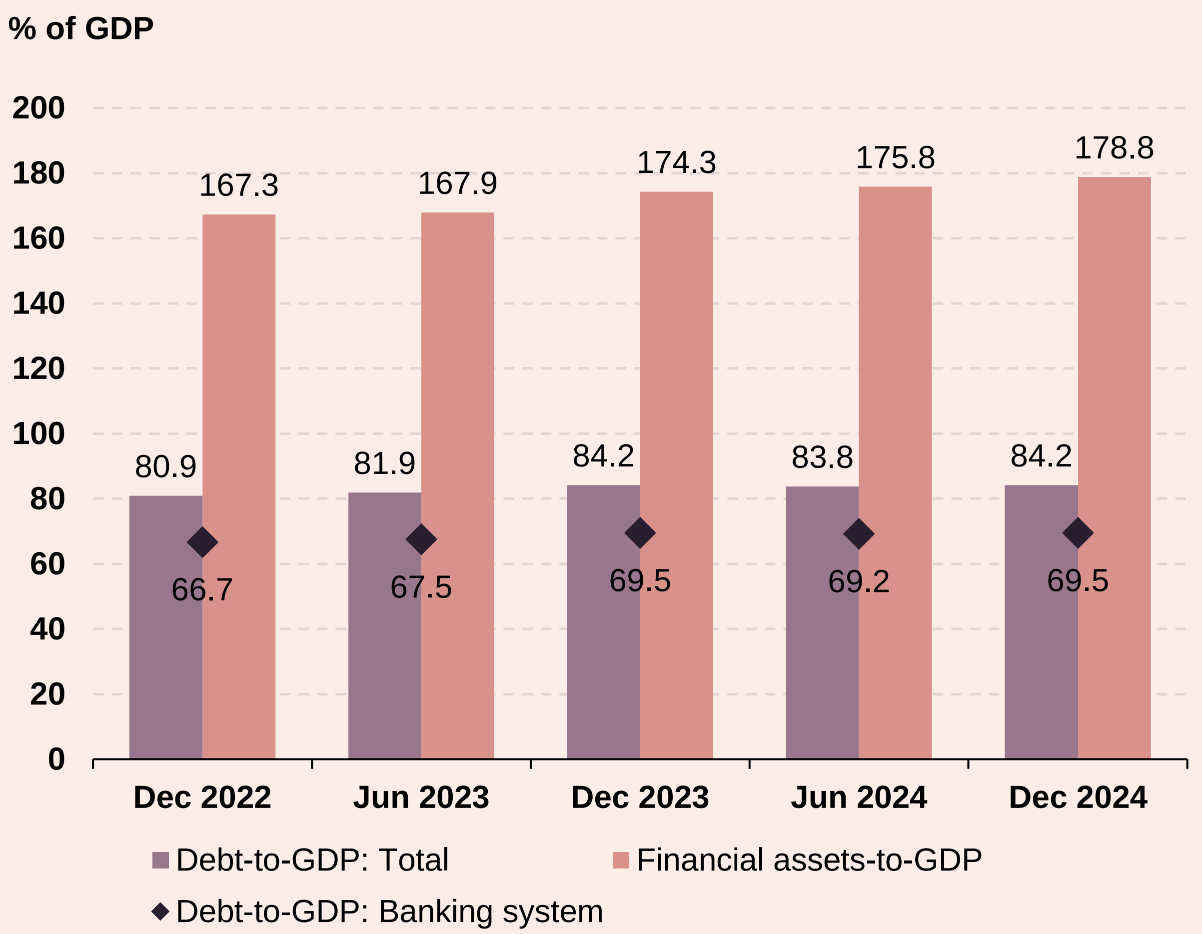
- **Household debt increased by 5.9% to RM1,625 billion in 2H 2024 from RM1,535 billion in 2H 2023 (5.7% in 2023, 5.4% in 2022 and 4.2 % in 2021)**, mainly driven by housing and car loans, which have collectively made up 74.6% of total household debt.
- The **household debt-to-GDP ratio remained unchanged at 84.2% at end-2024**. Household balance sheets remained sound, with household financial assets remained in excess of debt by 2.1 times on an aggregate basis.



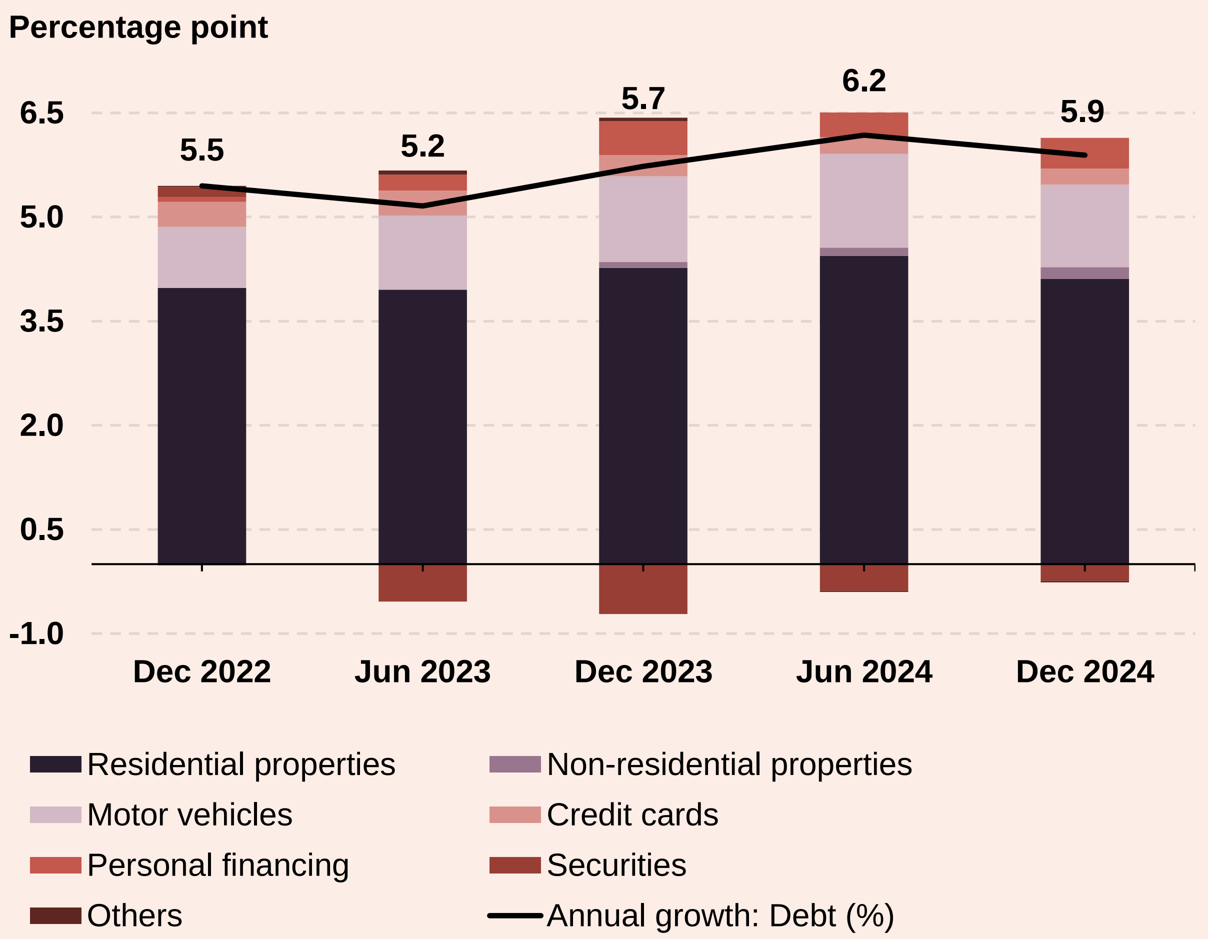
Source: BNM

Household sector debt conditions

Household Sector – Key Ratios



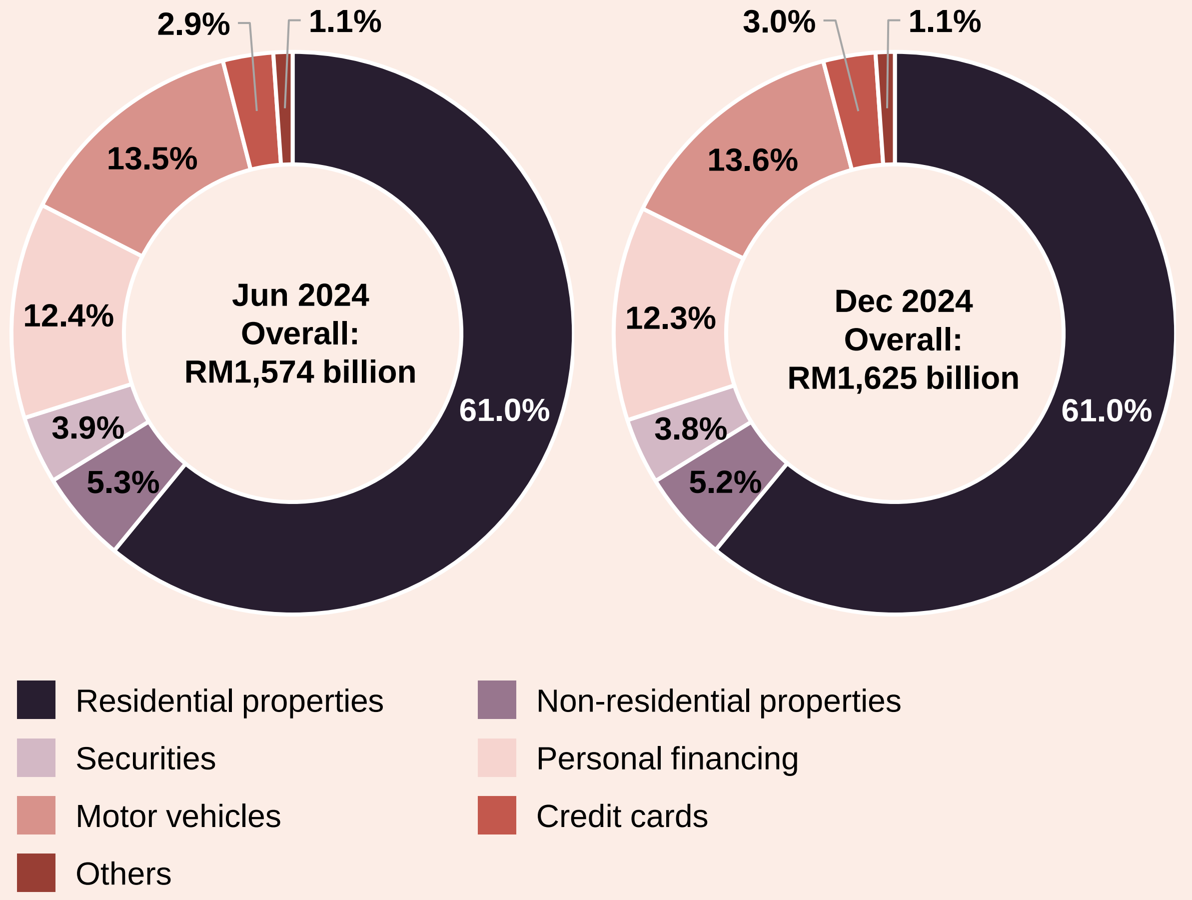
Household Sector – Annual Growth of Debt



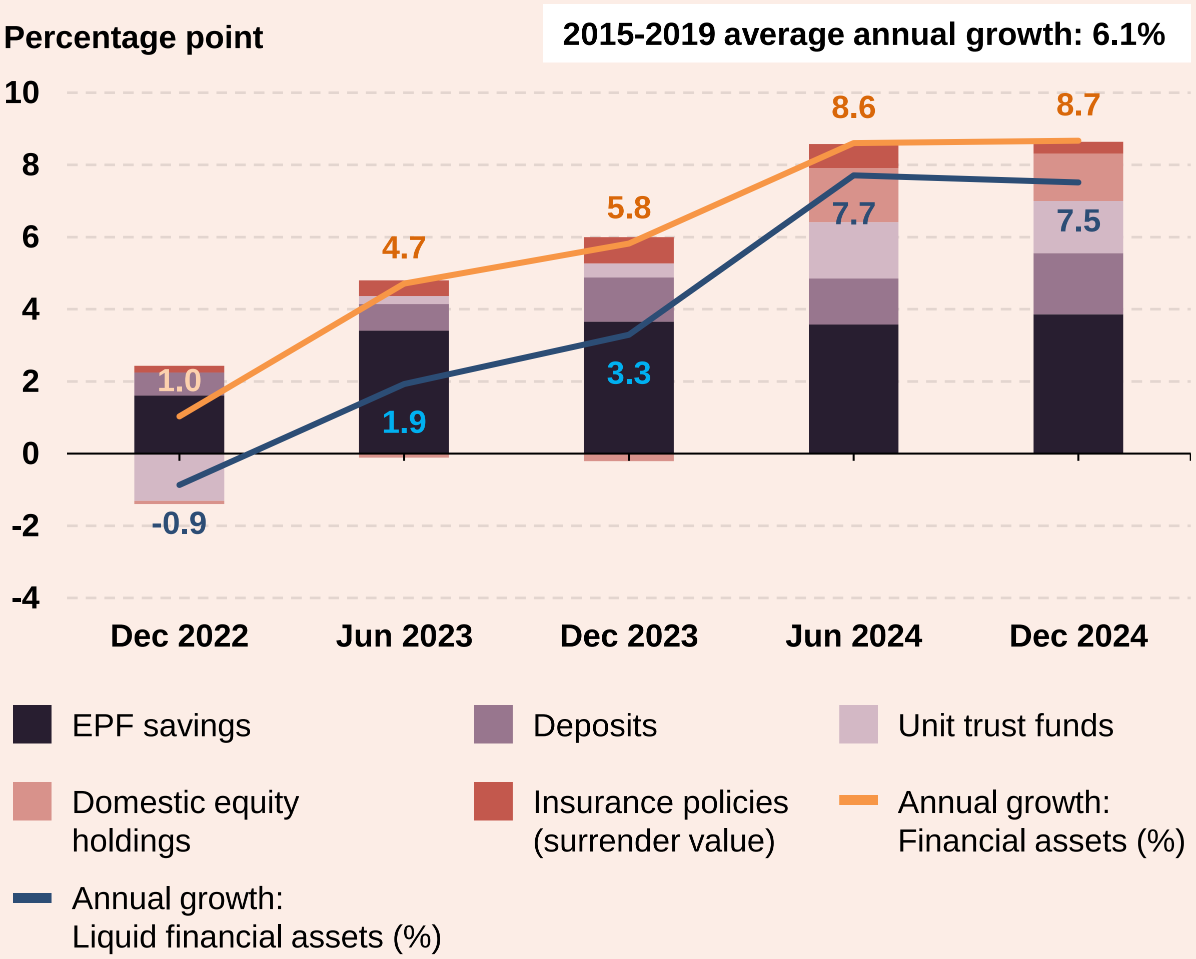
Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

Household sector debt conditions (cont.)

Household Sector – Composition of Debt by Purpose



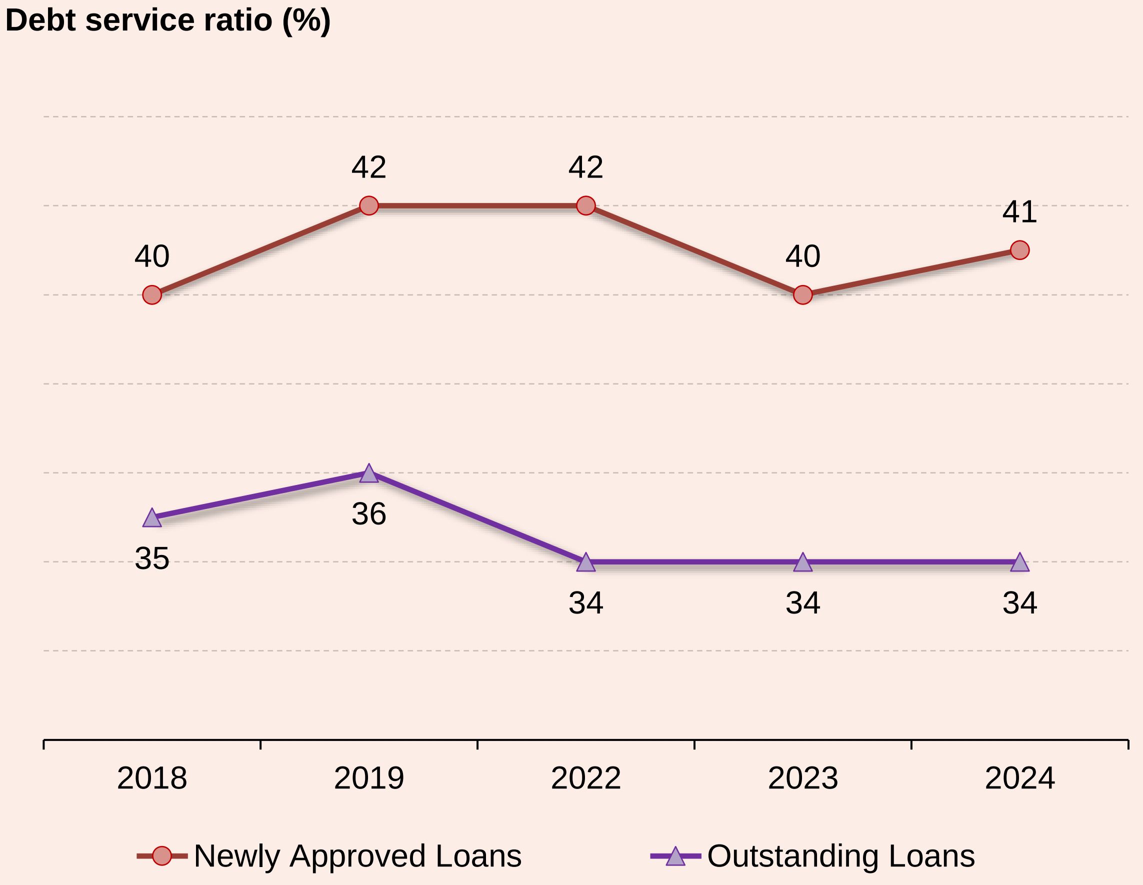
Household Sector – Annual Growth of Financial Assets



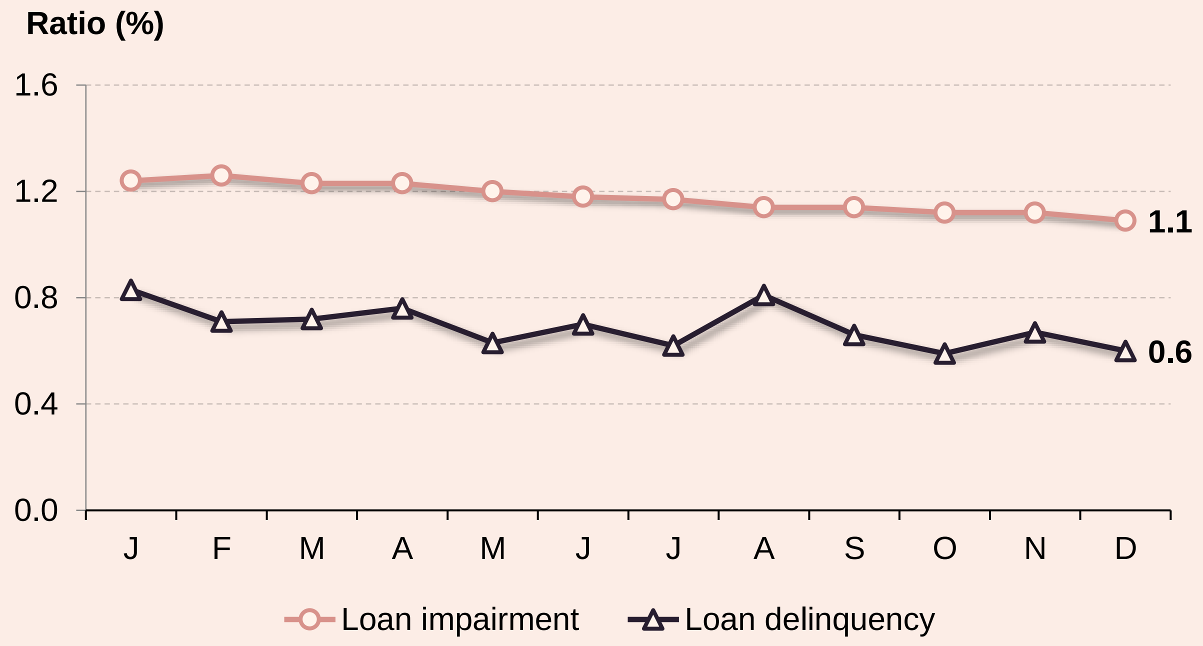
Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

Household sector debt conditions (cont.)

Household Sector – Median Debt Service Ratio of Borrowers with Newly Approved Loans and Outstanding Loans



Household Sector – Loan Impairment and Delinquency Ratios

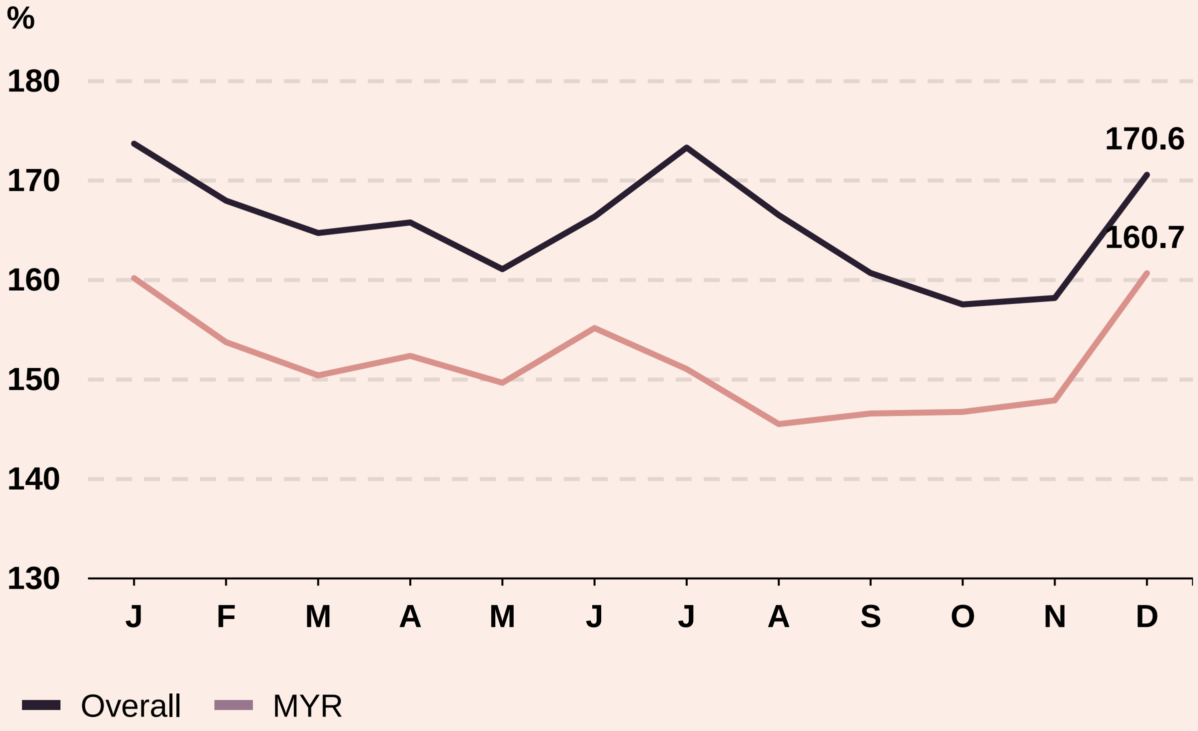


Note: Data refers to banking system and development financial institution (DFI) loans.

Source: BNM

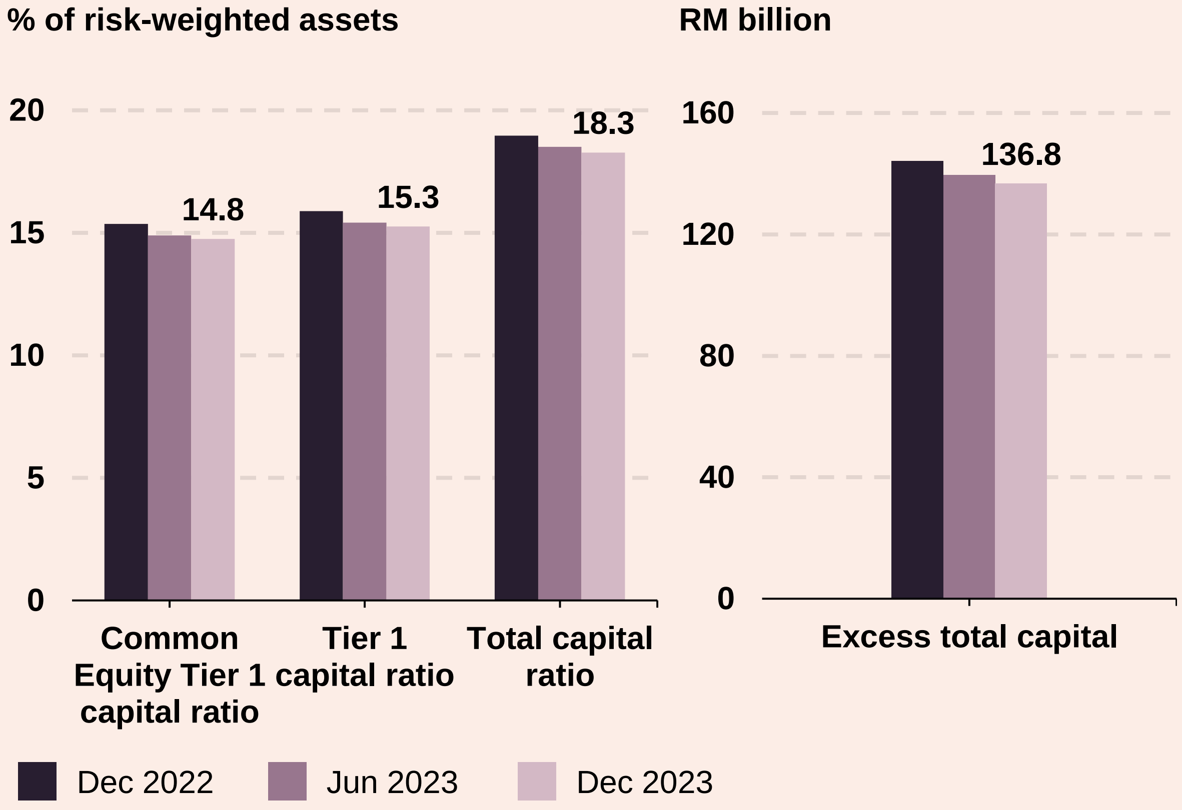
Banking system liquidity remained supportive of financial intermediation

Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflow denominated in all currencies

Banking System – Capitalisation

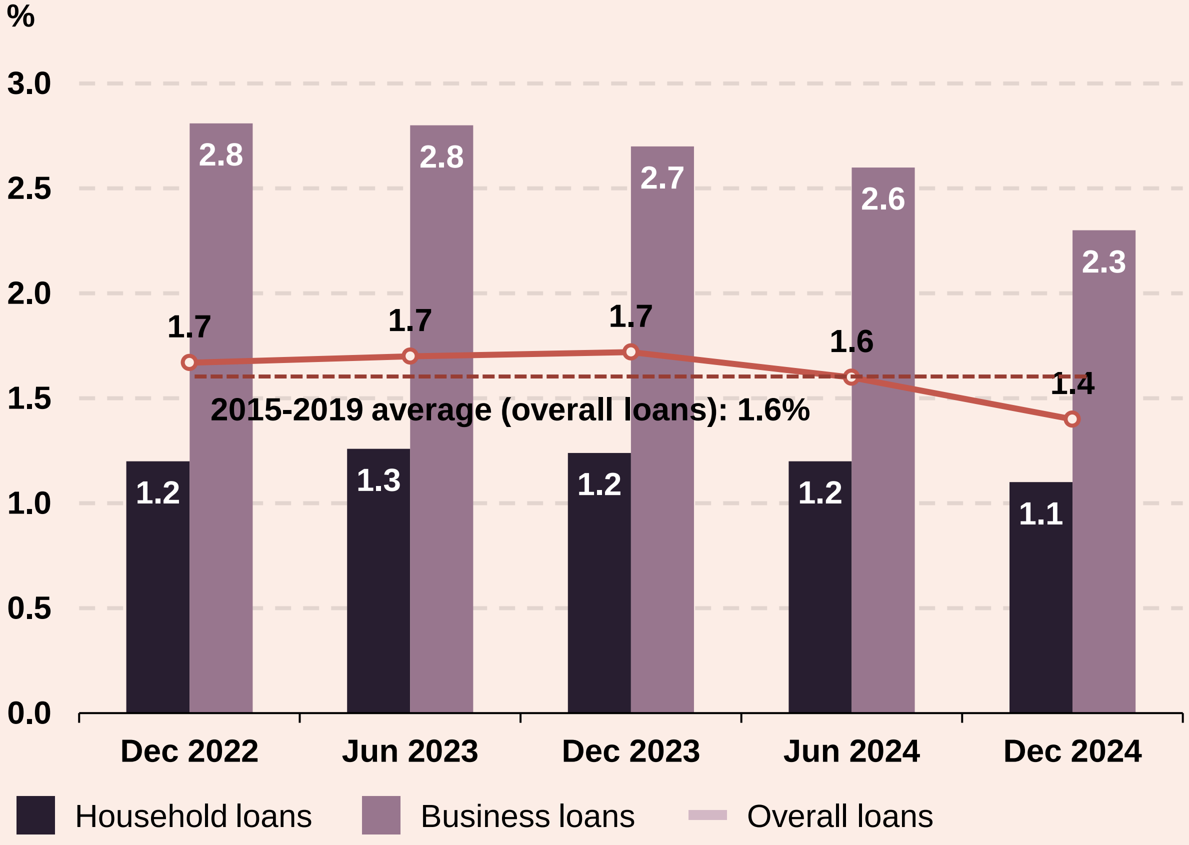


Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

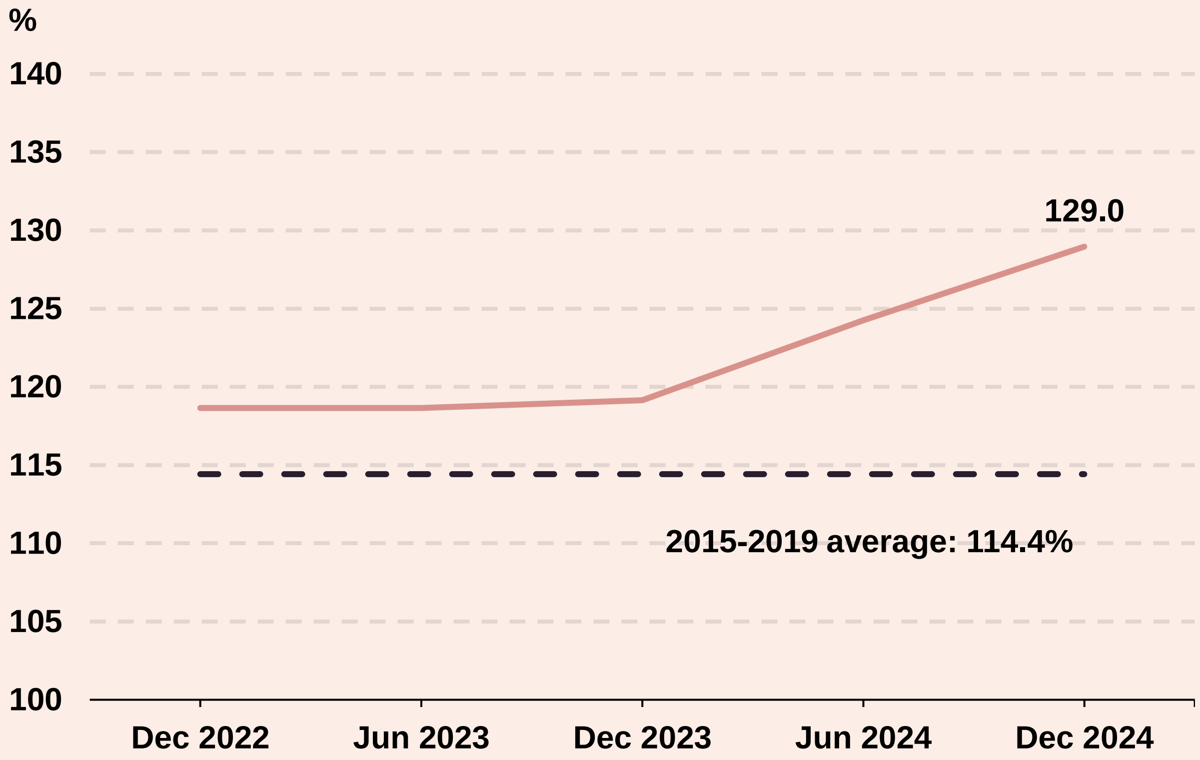
Source: BNM

Banks' asset quality has improved

Banking System – Gross Impaired Loans Ratio



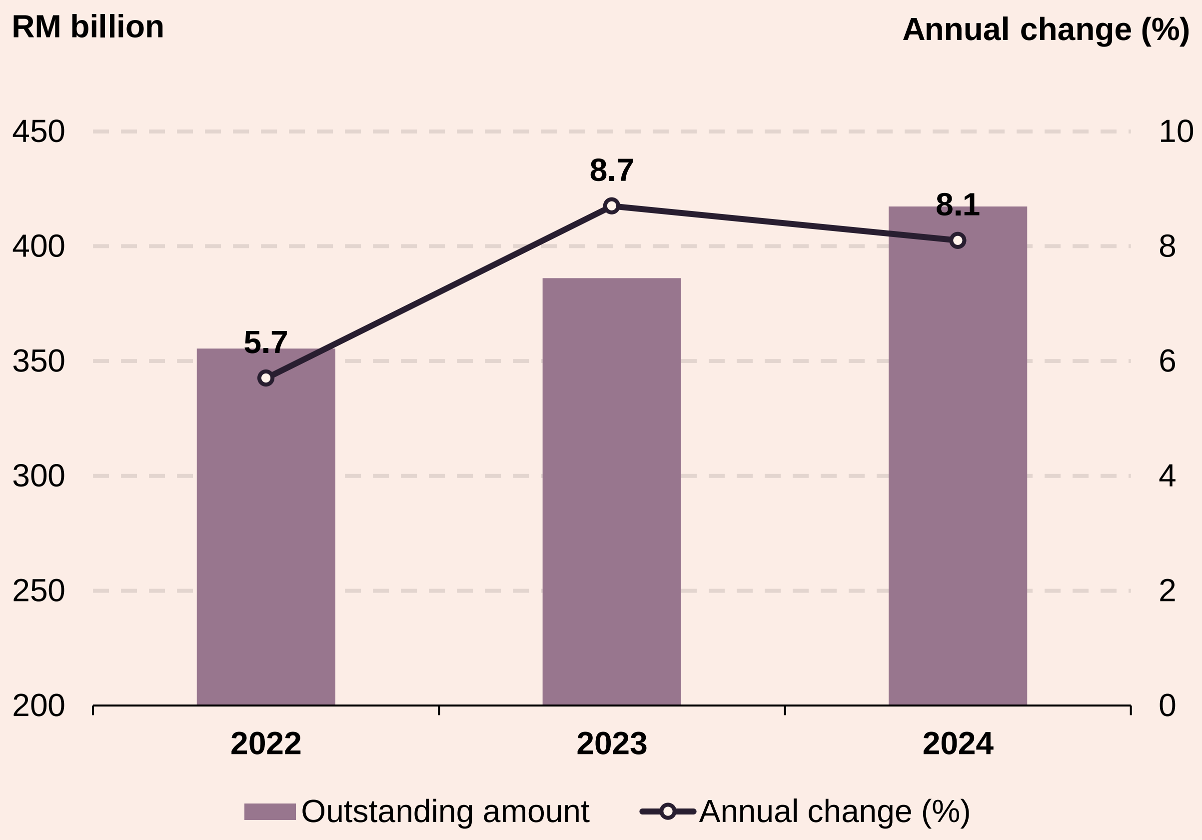
Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



Source: BNM

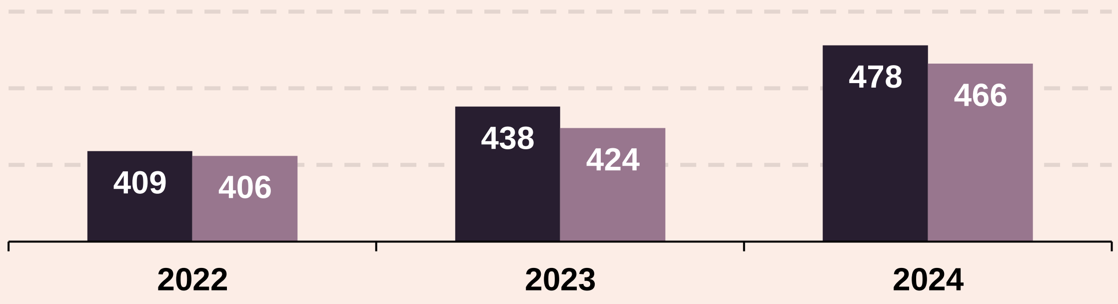
Banks remain supportive of SMEs' financing needs

SME Financing – Outstanding

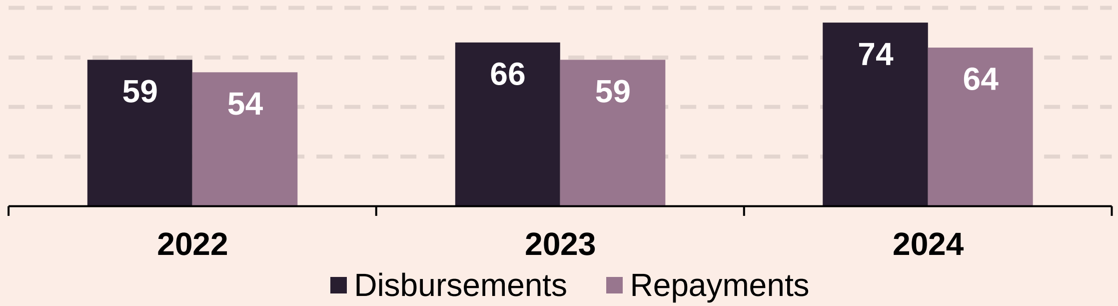


SME Financing – Disbursement & Repayments

Working Capital (RM billion)



Investment-related (RM billion)[1]



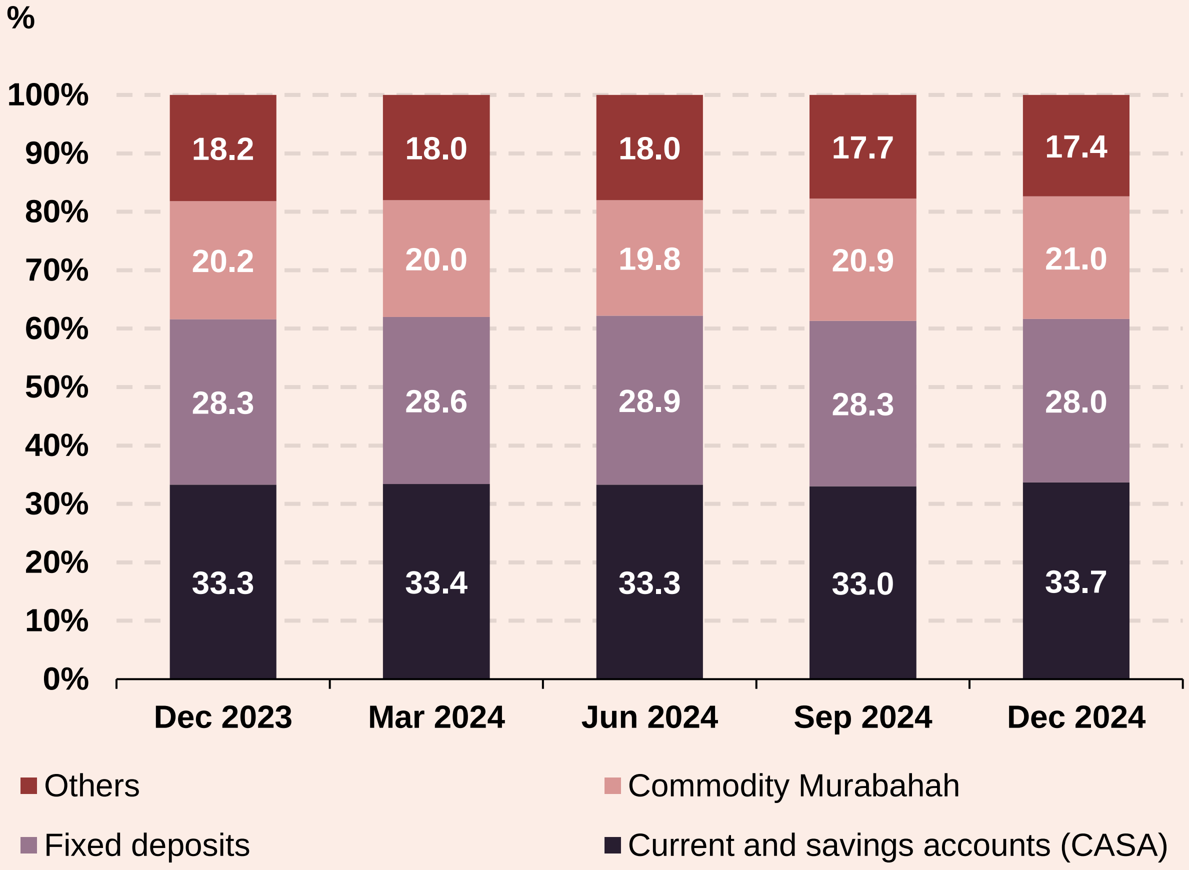
[1] Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (incl. cars), and construction activity.

Note: Reflects loan/financing from the banking system and development financial institutions (DFIs).

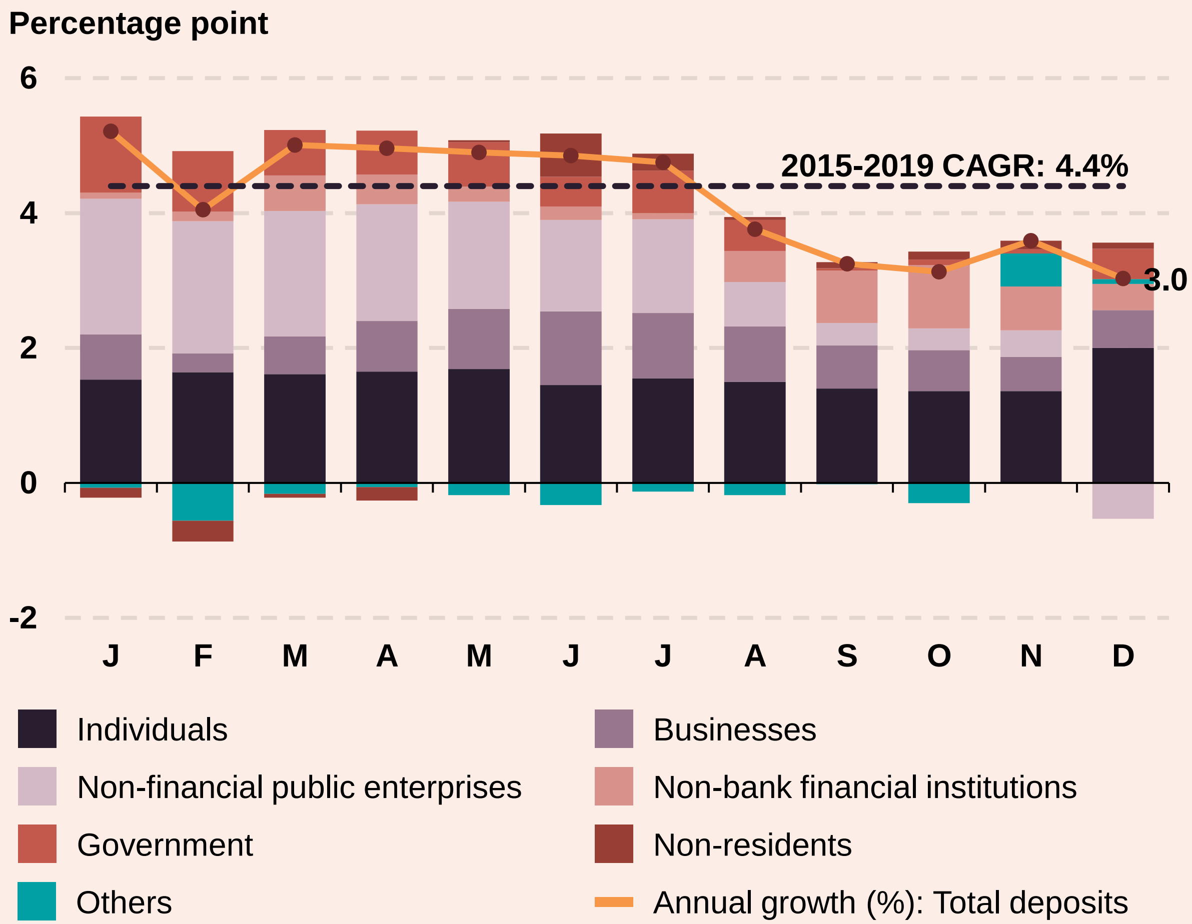
Source: BNM

Banking deposits paced slower in 2H 2024, partly due to higher costs and debt repayment by businesses

Banking System – Composition of Deposits by Type



Banking System – Contribution to Growth in Deposits Accepted



Source: BNM

SERC's commentaries

- **BNM maintains a cautiously optimistic outlook for economic growth in 2025. Its estimated real GDP growth (4.5%-5.5%; mid-point at 4.9%) in 2025 (5.1% in 2024) is somewhat in line with SERC's estimate of 5.0%.** The growth will be underpinned by steady expansion of domestic demand, sustained strong investment activity, and moderate export growth.

- We concur with BNM's assessment of downside risks to the domestic economic growth, which will emanate from the uncertainties of the US tariffs policy, escalating geopolitical tensions, and evolving global trade dynamics. We caution that tariff actions and retaliations, resulting in an escalating trade war, can severely disrupt global supply chains, increase cost of raw materials and push up consumer inflation, pushing the global economy toward stagflation (low growth and high inflation), and in the worst case, can cause a recession. The US economy, at the epicenter, will bear the full brunt of the tariffs impact, with the odds of recession has risen to 40% in 6-12 months.

- **Private consumption is projected to grow by 5.6% in 2025 (up from 5.1% in 2024), which is higher than our estimates of 5.4%.** Improvements in labour market conditions and government's supportive measures, such as higher minimum wage and salary adjustments for civil servants under the Public Service Remuneration System (SSPA), are expected to bolster income growth and support household spending. The forthcoming Visit Malaysia Year 2026 (VM2026) initiatives are expected to generate spillover effects to boost domestic consumption.

- It is crucial to be mindful of rising cost of living and inflation risks due to the anticipated implementation of the RON95 subsidies rationalisation in 2H 2025, the expanded scope of SST, and the spillover effect of the potential hikes in electricity tariffs could dampen consumer spending.

- **Private investment growth is forecast to remain strong at a double-digit rate of 10.1% in 2025 (12.3% in 2024), though** lower than SERC's 11.5%, underpinned by the global technology upcycle, steady domestic and external demand. Our cautiously estimates of private investment is premised on a multi-year expansion of projects approved during 2022-2024, amounting to an average of RM325.2 billion per year. The manufacturing sector made up 36.6% of total approved investment projects during these periods, while services and primary sectors made up 59.3% and 4.2%, respectively. Nevertheless, we caution that more restrictive trade policies and stronger retaliatory measures among major economies may temper investors' and businesses' sentiment.

- The realisation of new and ongoing investments is progressing well, with 84.5% of manufacturing projects approved since 2021 currently being implemented.

- The government's strategic initiatives – including the New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), National Semiconductor Strategy (NSS), Johor–Singapore Special Economic Zone (JS-SEZ), and the upcoming 13th Malaysia Plan are expected to catalyse a multi-year investment cycle, reinforcing the country's long-term economic prospects. Nonetheless, high business operating costs and increased cost of raw materials can lead businesses to adopt a cautious spending approach, particularly among small and medium enterprises (SMEs).

- **Gross exports are expected to grow by 5.2% in 2025 (5.7% in 2024)**, driven primarily by manufactured exports, which accounted for 86% of total exports in 2024. Growth in the electrical and electronics (E&E) sector will continue to be a key contributor, supported by the global technology upcycle, including the expansion in cloud computing, widespread adoption of AI-powered devices, and rising demand for devices with enhanced processing capabilities. Conversely, commodity exports are expected to face headwinds due to lower oil and gas production and subdued commodity prices, while agricultural exports remain on a growth trajectory. We take a cautious stance on export growth estimated at 4.0% in 2025 due to concerns over the tariffs war-induced disruptions on the trade flows, including lower trade diversion effects stemming from the reciprocal tariffs to all trade partners of the US.

- **Headline inflation is anticipated to average between 2.0% and 3.5% in 2025 (1.8% in 2024), while core inflation will increase to between 1.5% and 2.5%.** SERC's estimates are 2.5%-3.0%. Although inflation is forecast to trend higher, it is expected to remain manageable amid easing global cost conditions and the absence of excessive demand pressures. Domestic inflation will be anchored by stable private consumption growth and wage gains that are in line with productivity improvements.

- BNM expects the inflationary impact of domestic policy measures, such as RON95 subsidy rationalisation and SST expansion, to be temporary and well-contained. It is crucial that these measures are implemented gradually and communicated transparently, particularly given their impact on a broad segment. Additionally, the sustained rise in food inflation, which has been outpacing overall inflation and nominal wage growth per worker, adds complexity and vulnerability for lower-income households who spend around 52% of their income on essentials.

- **While we concur with BNM's assessment that positive domestic economic prospects and ongoing structural reforms offer enduring support for the Ringgit,** there remains negative factors that could weaken the Ringgit in the near-term, particularly the uncertainties associated with the impact of tariff actions and retaliations. Foreign portfolio investors have been net sellers of domestic equities in recent months, though they remained net buyers of the Malaysian bonds.

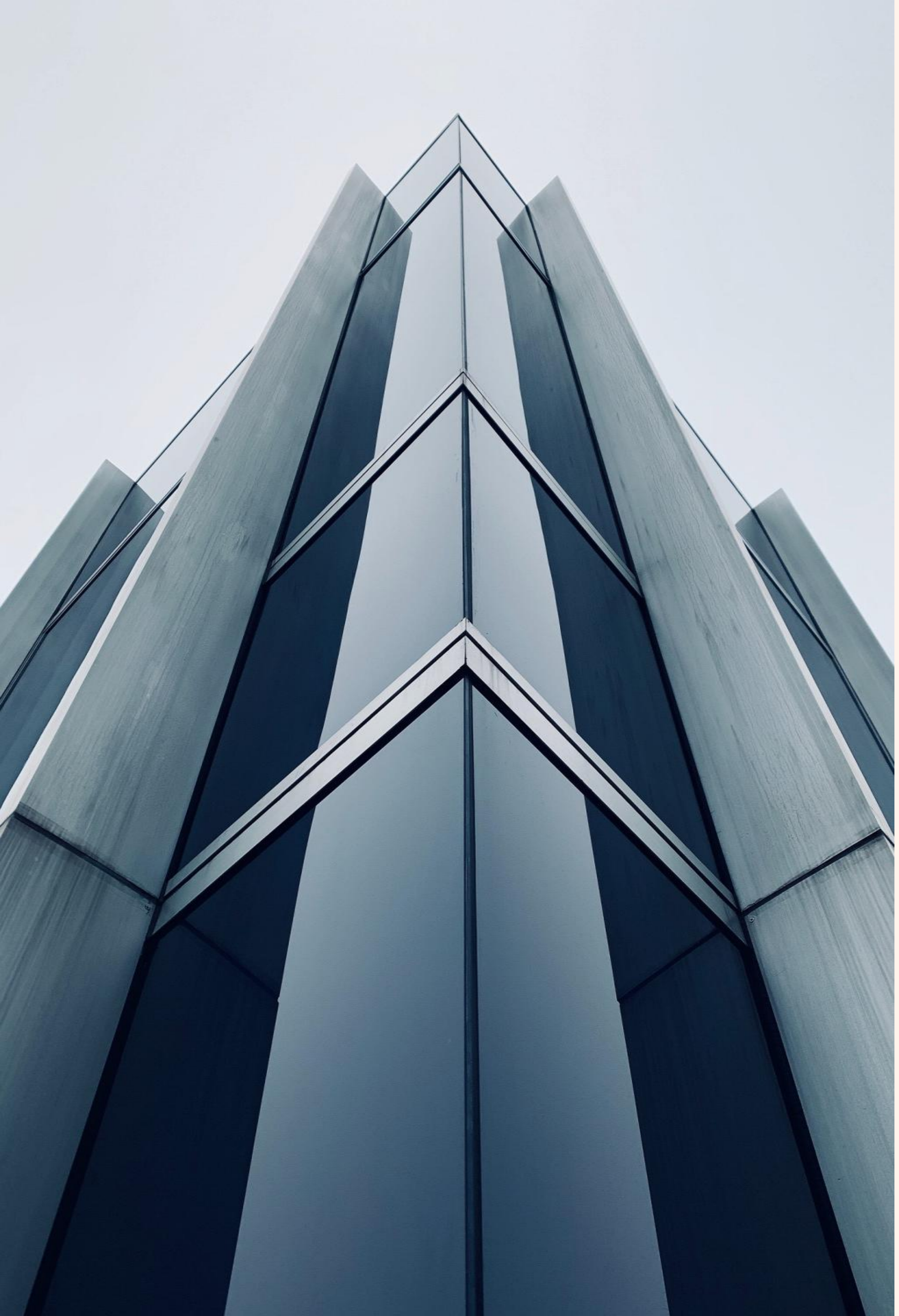
- On the interest rate policy, we expect Bank Negara Malaysia to **keep the OPR steady at 3.0% in 1H 2025** to support the economy while anchoring the inflation expectations. More importantly, the central bank will ensure ample liquidity in the banking system and accommodative lending facilities to consumers and businesses.

- **BNM has assessed that both businesses and households have demonstrated resilient repayment capacities.** Businesses have maintained a strong ability to service debt, supported by robust domestic demand and improved leverage ratios, along with higher cash buffers. Although some cost pressures persist in certain sectors, the share of firms-at-risk has declined, particularly in the manufacturing and construction sectors, even if levels have remained elevated compared with pre-pandemic figures. A small proportion of SMEs have experienced financial vulnerabilities, such as missed repayments due to cash flow challenges, yet most have sustained their debt obligations and have exited repayment assistance programmes. **Nonetheless, SMEs remain vulnerable to shocks, particularly in a high-cost operating environment, which may diminish their capacity to service debt.**

- **On the household front, the elevated household debt of RM1.63 trillion or 84.2% of GDP at end-Dec 2024 (RM1.02 trillion or 88.4% of GDP at end-Dec 2015) warrants closer monitoring.** However, improving income and employment conditions have helped preserve their debt servicing capacity. Median debt service ratios for newly approved and outstanding household loans have remained stable, with the proportion of high-risk household borrowings staying within manageable levels. It is also noteworthy that **Buy Now Pay Later (BNPL) schemes** have continued to attract consumer interest, **rising from RM3.6 billion in 2H 2023 to RM7.1 billion in 2H 2024, highlighting potential financial risks**.

- In conclusion, Malaysia must continue to strengthen its economic resilience to navigate a complex international environment, shaped by geopolitical tensions, global trade policies shift, and climate change. Internally, there are trade-offs and cost adjustments arising from the implementation of structural reforms and subsidy rationalisation.

- The Government's firm commitment to implementing economic reforms, with transparent communication and information flows, can enhance Malaysia's economic and financial fundamentals, and provide a buffer against shocks. More importantly, maintaining a consistent and transparent business policy environment is vital to enhance the investment ecosystem, to help sustain the growth of Domestic Direct Investment and inflows of high quality and tech-driven FDI. These sustaining investment momentum will increase economic growth, generate employment and improve the people's income.

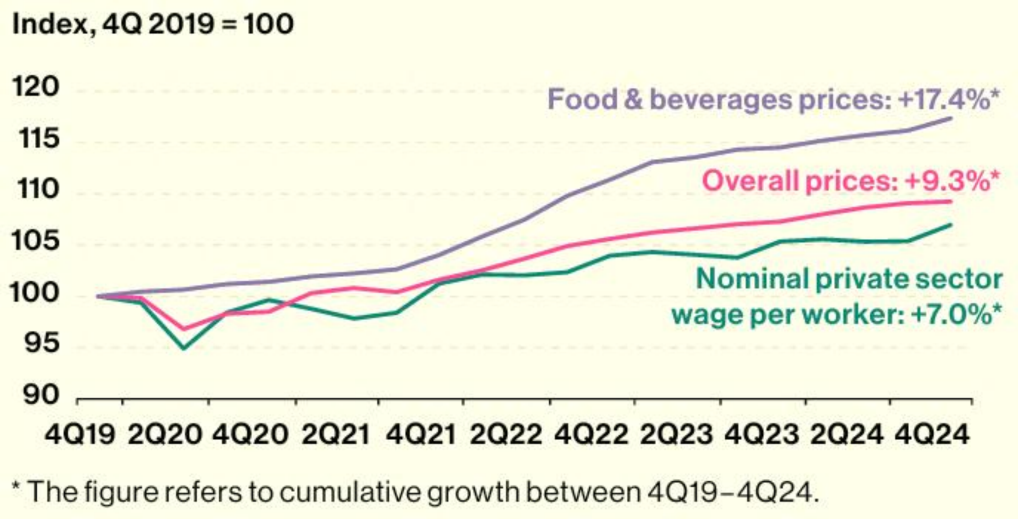


Spotlights on Selected BNM's Feature Articles

1. Curbing Inflation, Easing Costs: The Policy Perspective
2. The Drivers of the Ringgit
3. Securing Sustainable Access for Medical and Health Insurance/Takaful Protection
4. Malaysia's Position in the Global E&E Value Chain and Prospects
5. Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period
6. Deciphering Malaysia's Investment Cycles

1. Curbing Inflation, Easing Costs: The Policy Perspective

Consumer prices and wages



Since the COVID-19 pandemic, wage growth has not been keeping up with the rise in overall prices. Lower-income households are more vulnerable, given that they typically have minimal financial buffers.

B40 spend 52% of their income on **basic necessities!**

(M40: 37%; T20: 32%)

What causes inflation?

01 Demand shocks

Sudden surges in demand (e.g., post-pandemic recovery) can lead to "too much money chasing too few goods", pushing businesses to raise prices.

02 Supply shocks

Disruptions (like adverse weather or geopolitical conflicts) reduce supply, increasing production costs and driving prices up.

03 Regulatory changes

New taxes, tariffs, or stricter policies can raise production costs, which businesses often passed increased cost of production onto consumers.

1. Curbing Inflation, Easing Costs: The Policy Perspective (cont.)

Policy tools

01 **Monetary Policy:** Bank Negara Malaysia manages inflation by adjusting the Overnight Policy Rate (OPR). By increasing the OPR during high-demand periods, borrowing costs rise, reducing spending and easing inflationary pressures. However, this policy tool works with a lag (up to two years) and cannot address supply-side disruptions.

02 **Fiscal Policy:** The government can use spending and tax policies to complement monetary policy. Fiscal measures include targeted subsidies, tax breaks, and cash assistance to ease the financial burden on households. Fiscal policy can also promote long-term improvements in productive capacity through investments in infrastructure and innovation.

03 **Price Controls:** Temporary measures such as price ceilings can offer short-term relief for essential goods. However, prolonged use may distort market signals and lead to inefficiencies.

04 **Structural Reforms:** Long-term solutions include reducing regulatory burdens, encouraging competition, and promoting technology adoption and research and development (R&D). These reforms aim to boost productivity, lower production costs, and ultimately help stabilize prices while supporting wage growth.

Enhancing household income

Labour market and industrial policies:

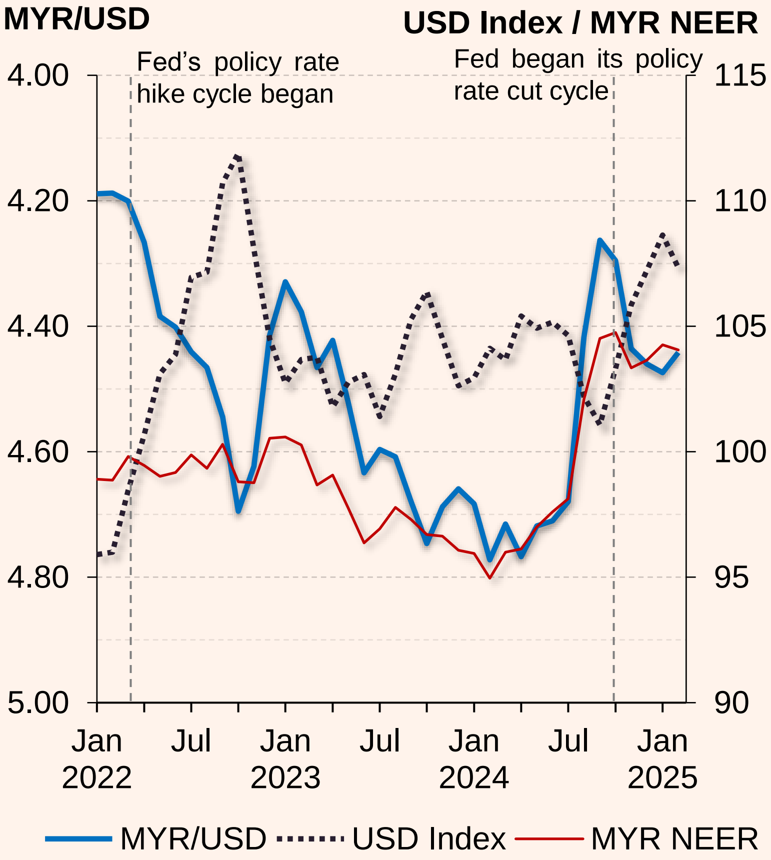
Improving productivity, expanding job opportunities, and ensuring fair wage practices are essential to bolster household incomes. Initiatives include promoting high-skilled jobs, upskilling through education and training, and reforming wage-setting mechanisms.

Social protection and financial literacy:

A robust social protection system, complemented by programs from entities like the Financial Education Network (FEN) and the Credit Counselling and Debt Management Agency (AKPK), can help households manage financial challenges and improve their overall financial well-being.

2. The Drivers of the Ringgit

The Ringgit has strengthened against the USD and a basket of currencies in 2H 2024



Source: BNM; WSJ; BIS

The Drivers of the Ringgit

Short-term: External-driven

- **Higher US interest rate**

  Large interest rates differential between the US and Malaysia made the holding US financial assets more attractive.

- **Geopolitical tensions and 'safe-haven' demand**

  Higher demand for 'safe-haven' currencies during periods of global uncertainty.

Long-term: Economic fundamentals

- **Malaysia's economic fundamentals**

  Through decisive and accelerated implementation of structural reforms for productivity growth (e.g. NIMP 2030, NETR) and fiscal discipline (e.g. MTFF).

Main challenges

1. **Competition against regional peers**
2. **Skills mismatches**
3. **Investors' concerns on the consistency of reforms**

Main positive spillovers to the Ringgit

- **Attract high-quality FDI and allocations**

  Inflows premised on longer investment horizons provide underlying support to the Ringgit.

- **Resilience in corporate earnings**

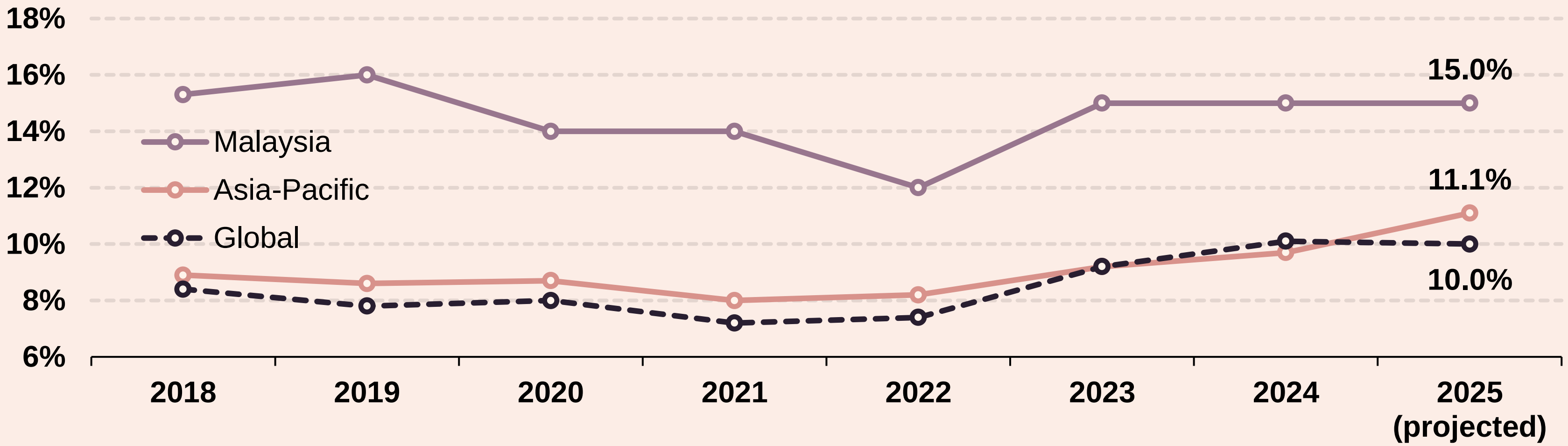
  High value-added products are not easily substitutable on global demand contractions.

- **Improved fiscal standing**

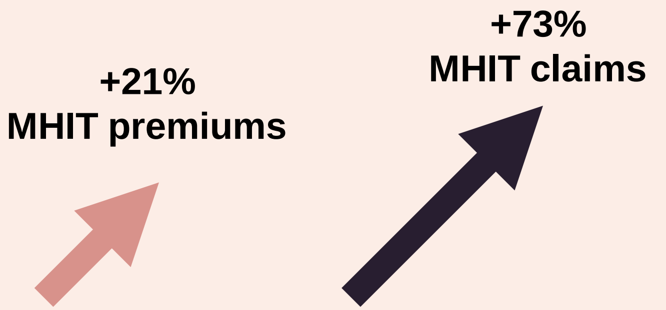
  A stable fiscal track record bolsters sovereign credit ratings and investor confidence.

3. Securing Sustainable Access for Medical and Health Insurance/Takaful Protection

Medical inflation in Malaysia vs regional and global average
Annual change (%)



Trend of MHIT Premiums and Claims, 2021-2023



MHIT Claims Frequency, 2018-2023
Number of claims per 100 policyholders

Interim measures for premium adjustments in 2024-2026

01 Spread out premium adjustments* over **a minimum of three years.**

02 **Temporary pause in premium adjustments*** for policyholders aged 60 years old and above covered under minimum plans.

03 Policy reinstatement without additional underwriting is to be facilitated for policyholders who have lapsed or surrendered their policies due to premium adjustments in 2024.

04 Provision of alternative MHIT products at the same or lower premiums

**Applicable to premium adjustments due to medical inflation only.*

3. Securing Sustainable Access for Medical and Health Insurance/Takaful Protection (cont.)

Five strategic thrusts and nine initiatives to address medical inflation

Greater price transparency

a. Display of retail drug prices by private hospitals and clinics
b. Establish a mechanism to consistently produce, monitor and publish key medical inflation measures
c. Legislative and regulatory review to strengthen oversight over private hospitals, support price transparency and DRG payments
d. Publication of price ranges for common healthcare services

Improved provider payment mechanisms

a. Phased implementation of diagnosis-related groups (DRG) to replace the existing fee-for-service provider payment mechanism

MHIT transformation

a. Develop base MHIT product to support value-based healthcare services

Cost-effective options

a. Implementation and scaling up of Rakan KKM 'Premium Economy' services
b. Incentivising expansion of not-for-profit hospitals

Digital health

a. Enhance the interoperability of Electronic Medical Records (EMR) to reduce duplication of diagnostic tests

4. Malaysia's Position in the Global E&E Value Chain and Prospects

E&E Components → **Devices**

- **E&E**
  - **Non-semiconductor**
  - **Semiconductor**
    - **Logic**
      - Microprocessors
        - CPU
        - GPU
    - **Memory**
      - Dynamic Random Access Memory (DRAM)
      - Not AND (NAND)
    - **DAO**
      - Discrete
      - Analog
      - Optoelectronics
      - Sensors

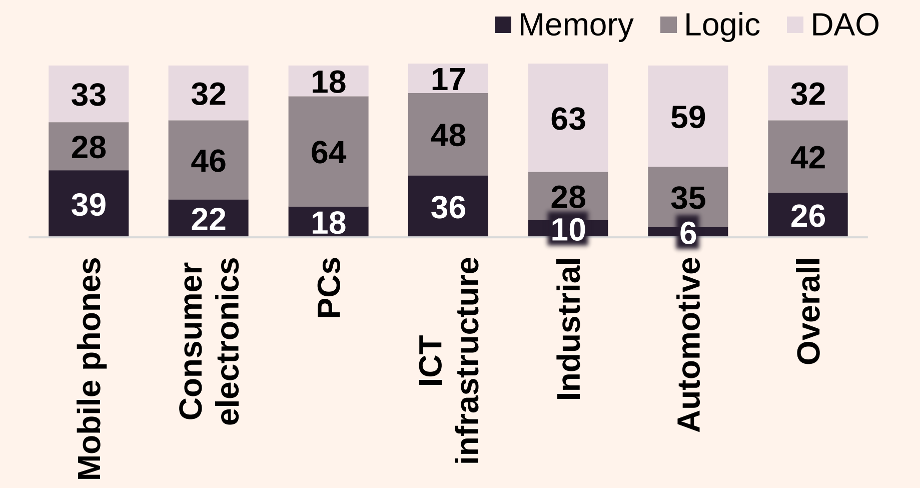
Devices

- PCs
- Mobile phones
- Consumer electronics
- ICT infrastructure
- Automotive
- Industrial

Note: Under Memory, DRAM refers to short-term memory component for active computing tasks while NAND functions as long-term memory for data retention and file storage.

Global semiconductor sales by type of chips

% share of semiconductor sales, 2019



Semiconductor Manufacturing Process

Research & Development (R&D)	Integrated Circuit (IC) Design *50% share of Global Value Add (VA)*	Fabrication & Manufacturing *24% share of Global VA*	Assembly, Testing & Packaging (ATP) *6% share of Global VA*	Marketing, Distributing and Sales
Front-end Process			Back-end Process	Business Services

Silicon wafer
Electronic circuit design are printed on a silicon wafer

Semiconductor chips
The silicon wafer is cut into semiconductor chips before being assembled into devices

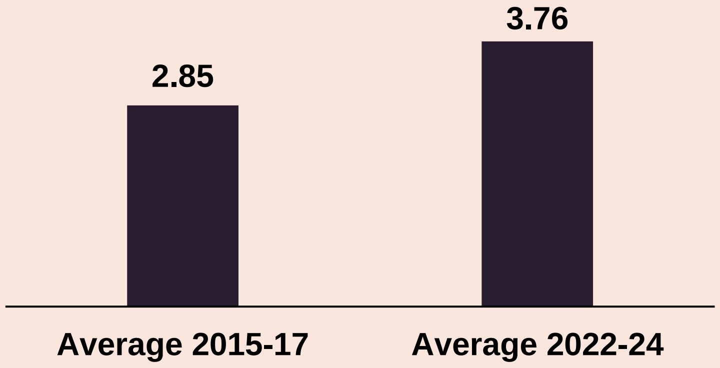
Semiconductor Support Ecosystem
20% of Global VA

Materials, equipment and tools, software designs, core intellectual property (IP)

4. Malaysia's Position in the Global E&E Value Chain and Prospects (cont.)

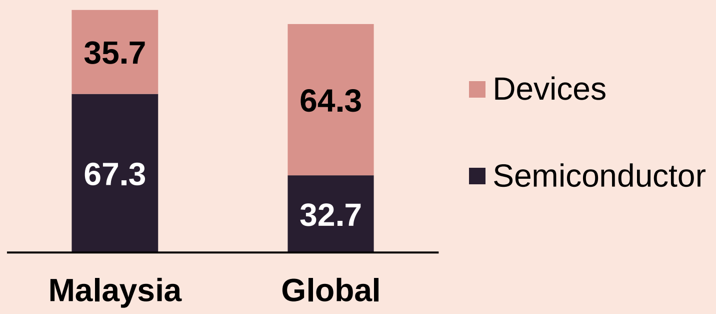
Malaysia's share of global E&E exports

% share of Global E&E exports



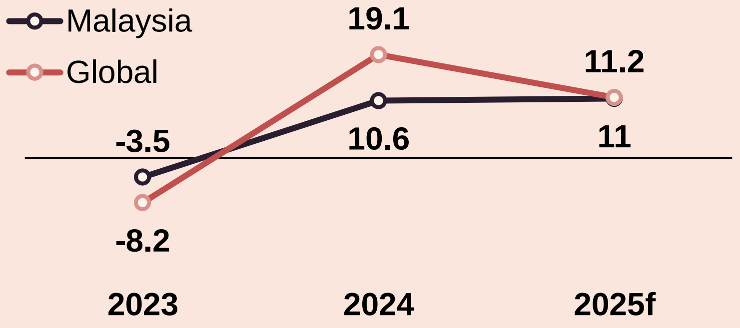
Focus on semiconductors, the brain of electronics

% share of total E&E exports, 2024



Exports will continue to benefit from the ongoing global tech upcycle

Annual change (%)



Malaysia's involvement in the Global E&E value chain

Devices		Front-End Activities			Back-End Activities
		R&D	Design	Fabrication	
Electronic Components		Low	Medium	Medium	High
Consumer Electronic		Low	Low	Medium	High
Industrial	Computer Equipment	None	Low	Medium	High
	Communication Equipment	None	None	High	Medium
Electrical		Low	Medium	High	High

4. Malaysia's Position in the Global E&E Value Chain and Prospects (cont.)

Policy imperatives to transform Malaysia's E&E industry

Ecosystem Enhancement:

- Attract both domestic and foreign investment.
- Foster continuous innovation in advanced and legacy chip production.
- Support SMEs to grow and integrate further into the global E&E value chain through digitalisation and smart manufacturing.

Supply Chain Resiliency:

- Expand bilateral trade agreements to improve competitiveness and market entry.
- Provide technical facilitation to ensure products and services meet global standards.

Integrated Research, Development, Commercialisation, and Innovation (RDCI):

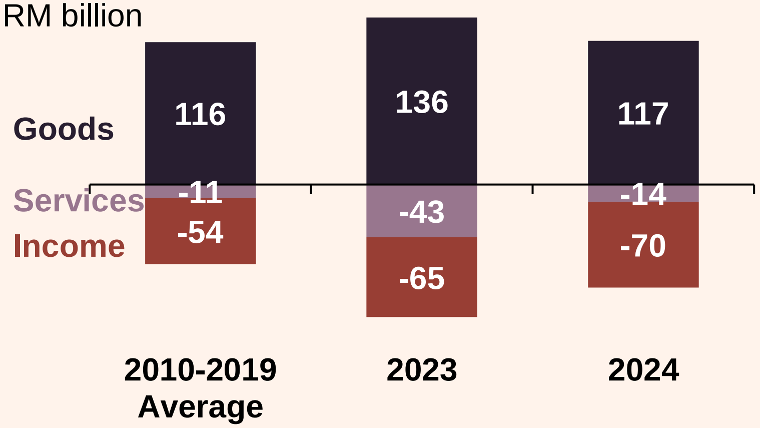
- Build stronger technology alliances and collaborative initiatives, particularly in advanced packaging.
- Optimise R&D investments by restructuring grants or creating dedicated funds.

Diversified Financing and Talent Development:

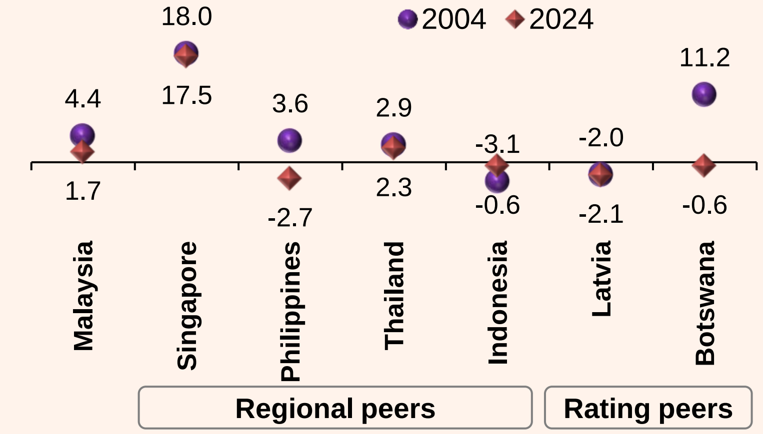
- Mobilise various financing modalities, including financial institutions, venture capital, and government-linked investment companies.
- Reform labour market and immigration policies to attract critical foreign talent, and promote STEM education to strengthen the domestic talent pipeline.

5. Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period

Current account balance
RM billion



Current account balance by countries
% of nominal GDP



Source: DOSM; CEIC; BNM

Strengths of Malaysia's current account

1. **Robust E&E trade surplus and emerging strength of selected non-E&E sectors**
2. **Continued importance of commodity trade surplus**
3. **Diversity in exports market**
4. **Growing potential in key services activities to reduce the deficit**
5. **Pick-up in income accrued to domestic investment abroad and transfers into Malaysia**

Post-COVID-19 developments

Narrower goods surplus as exports recovery was partly offset by faster imports growth

Continued services deficits amid high participation in global value chains and digitalisation

Higher profits accrued to foreign investors & transfers by foreign workers in the income account

Policy priorities

Goods: Reduce reliance on imports by increasing domestic capabilities and competitiveness

- Raise capability of domestic players to produce higher value-added exports
- Transition from imported inputs to local inputs

Services: Enhance product complexity, tourism offerings and expertise in essential services

- Cultivate Malaysia's general and niche tourism sector
- Reduce dependence on imports of foreign services

Income: Develop local talents and business ecosystem by encouraging reinvestments by foreign firms

- Encourage retention and reinvestment of profits by foreign firms
- Incentivise inward remittances

6. Deciphering Malaysia's Investment Cycles

Malaysia is undergoing its third investment upcycle

First investment upcycle
Late-1980s to 1997

Second investment upcycle
2011 to 2015

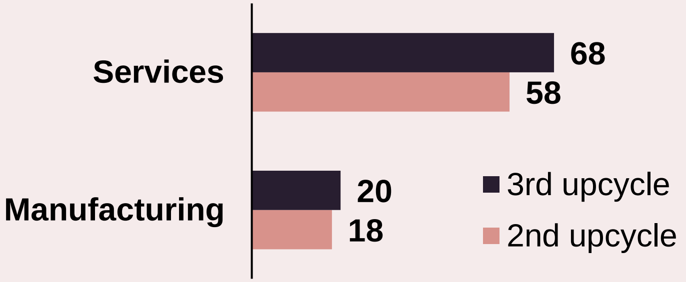
Third investment upcycle
Mid-2023 onwards

Three characteristics

1. Growing services sector and sustained manufacturing investments

Shift towards high value-added services & manufacturing activities

% share of real GFCF by sectors

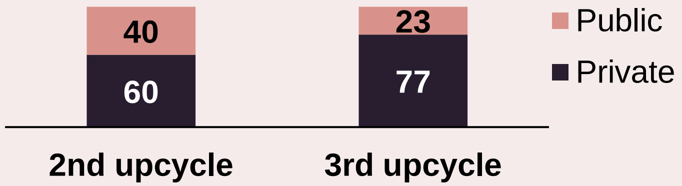


2. Growing share of machinery and equipment (M&E) investments, with a continued focus on infrastructure development

- *Increased share of machinery & equipment investments at 0.41 to real gross fixed capital formation (GFCF), above its long-term average of 0.37 in 2005-2019.*
- *Real M&E investment per thousand workers increased from RM7.3 million in 2nd upcycle to RM8.3 million in 3rd upcycle, indicating continued automation efforts.*
- *Share of civil engineering to value of construction work done increased from an average of 32.4% to 39.4% in 2011–15 and 3Q 2023–4Q 2024, respectively, particularly in the in areas such as physical connectivity and low carbon transition.*

3. Rising share of private sector investment

% share of real GFCF



Source: DOSM; Haver; BNM

Policy strategies

Policy strategy 1

Sustaining the current upcycle

- Continuously improve conducive domestic investment ecosystem
- Policy certainty, stabilise business sentiments and facilitate investment realisation

Policy strategy 2

Maximising the benefits from the upcycle

- Focus on high-quality investment
- Monitor pressures from investment upcycle
- Localisation of supply chains
- Develop intangible capital
- Facilitate structured talent development

Socio-Economic Research Centre
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