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BNM Annual Report 2024

Reaffirming Malaysia's Macro Resilience

Malaysia's economy registered a robust rebound of 5.1% in 2024, outpacing regional peers and reversing the prior year's moderation. Growth was underpinned by resilient private consumption, strong investment realisation, and an uptick in external demand, particularly in the tech and travel sectors. Headline inflation was well contained at 1.8%, reflecting subdued cost pressures despite domestic policy adjustments.

Looking ahead, Bank Negara Malaysia (BNM) projects the economy to expand by 4.5% to 5.5% in 2025, with inflation forecast to remain manageable at 2.0%–3.5%. The growth trajectory will continue to be driven by resilient domestic demand, supported by income-enhancing policy measures, infrastructure spending, and a high realisation of approved investment projects, including key public-private collaborations in high-value manufacturing, green energy, and digital infrastructure.

BNM released its Release of BNM Annual Report 2024, Economic & Monetary Review 2024, & Financial Stability Review 2nd Half 2024 yesterday with a positive view that Financial Institutions remained resilient despite the on-going economic uncertainties. Malaysia's banking sector remains fundamentally strong, with high capital buffers (Total Capital Ratio: 18.3%), robust liquidity (LCR: 161%), and sound asset quality. Credit growth to households and SMEs has remained healthy, while impaired loans remain low. The financial system is well-positioned to support the investment upcycle and domestic economic expansion in 2025. BNM also maintained its positive albeit cautious view on the economic outlook for 2025.

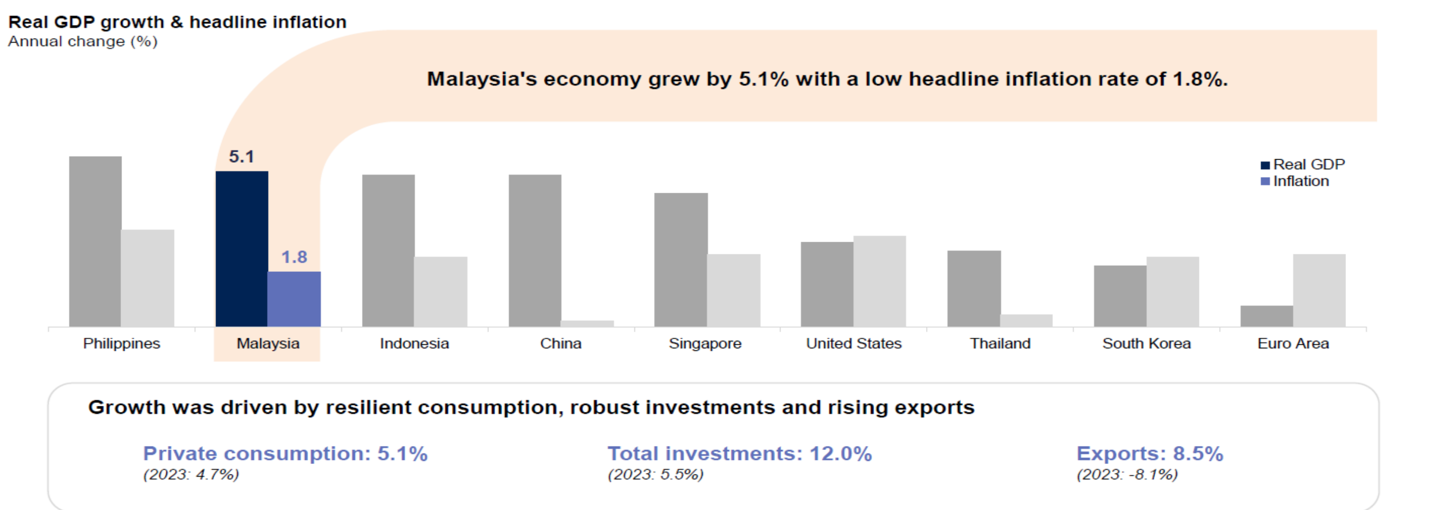
Macroeconomic Overview

Malaysia recorded a 5.1% GDP expansion in 2024, led by robust private consumption, infrastructure investment, and improved export performance. Inflation remained low at 1.8%, supported by easing global cost pressures and measured domestic policy adjustments. For 2025, BNM expects growth between 4.5% and 5.5%, with inflation forecast to average 2.0%–3.5%.

The labour market continues to recover, with employment expected to grow 2.6% and the unemployment rate easing to 3.1%. The positive output gap is projected to persist into 2025, signalling above-potential growth anchored by productivity and capital formation.

Note: *BNM's baseline forecast incorporates the current tariff structure imposed by the U.S. administration under Donald Trump as of March 2025. However, it excludes the anticipated reciprocal tariffs the U.S. is expected to announce on April 2, 2025, which could introduce downside risks to trade forecasts and global growth.*

Chart 1: Malaysia 2024 – Strong Economic Growth with Low and Stable Inflation



Source: BNM

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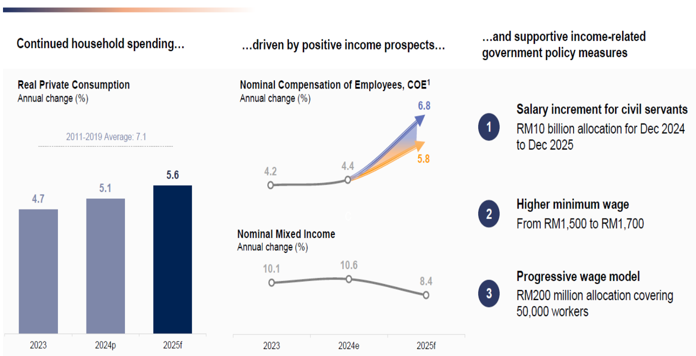
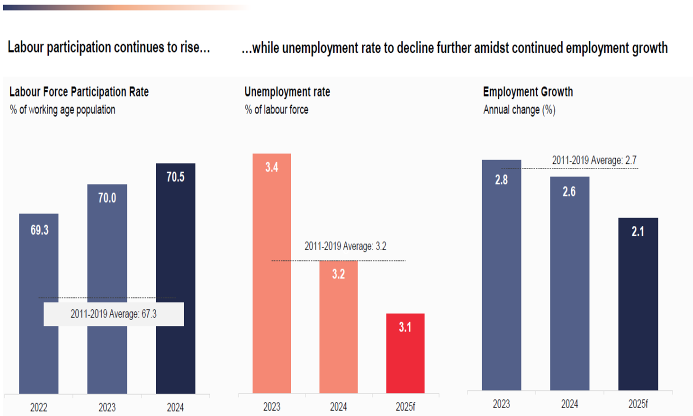
Chart 2: Higher Household Spending driven by Improving Income, policy measures….



Source: BNM

Chart 3: …and continued improvement in labor conditions



Source: BNM

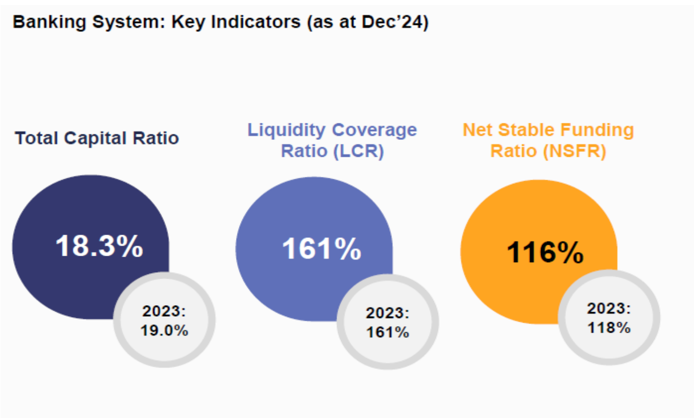
Financial System: Stress-Tested and Resilient

Malaysia's financial system continues to provide a critical buffer against global shocks. Banks remain well-capitalised and liquid, with Total Capital Ratio at 18.3%, LCR at 161%, and NSFR at 116%. Asset quality remains sound: household NPLs stand at 0.4%, SMEs at 1.1%, and corporate risky loans improved to 11.9%, down from 12.5% in 2023.

Importantly, BNM's macro stress tests reveal that the banking system remains resilient even under stress scenarios more severe than both the 2008 Global Financial Crisis and the 2020 pandemic. Under these conditions, the system-wide capital ratio remains comfortably above regulatory minimums, affirming banks' capacity to absorb significant credit and liquidity shocks without systemic implications.

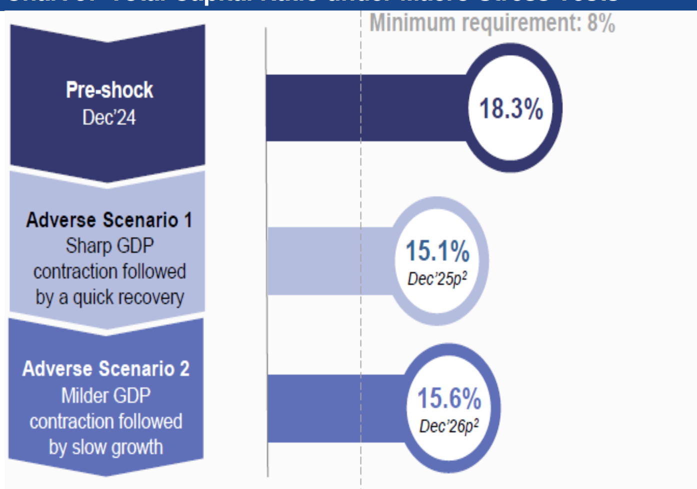
Lending activity remains healthy and broad-based. Private sector credit grew 4.8% YoY in 2024, with household loans up 7.1%, and business lending up 5.1%, particularly in investment-related segments. SME financing also expanded 8.1%, with high approval rates and stable repayments, reflecting continued confidence and demand from the real sector.

Chart 4: Key Indicators (as at Dec 24)



Source: BNM

Chart 5: Total Capital Ratio under Macro Stress Tests



Source: BNM

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External Sector and Ringgit Outlook

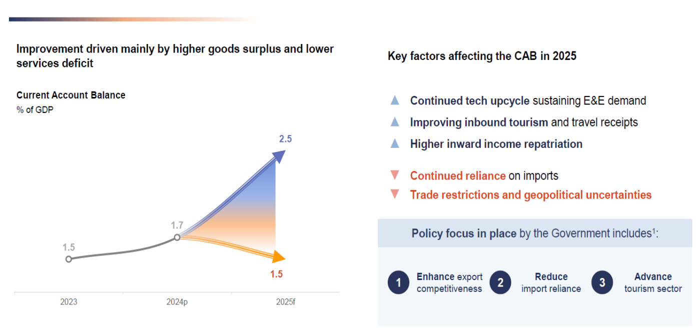
The current account surplus is projected to remain in the 1.5%–2.5% of GDP range, supported by strong E&E exports and growing tourism revenues. Malaysia's foreign exchange reserves remain adequate, covering 5.0 months of retained imports and 0.9x short-term external debt.

The ringgit appreciated against most Asian currencies in 2024, but near-term volatility remains likely due to global rate differentials, geopolitical tensions, and any further shifts in U.S. trade policy. That said, BNM anticipates medium-term MYR stability, underpinned by a narrowing interest rate gap with the U.S., resilient fundamentals, and reform-driven investor confidence.

Policy Implications

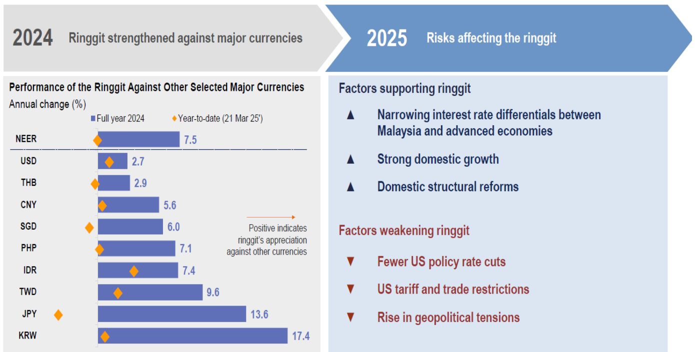
Monetary policy remains supportive, with the Overnight Policy Rate held at **3.00%**. Despite positive growth momentum, inflation risks—partly from subsidy rationalisation and wage adjustments—will be closely monitored. Structural reforms aimed at enhancing productivity, improving education and healthcare, and easing cost of living pressures will be key to sustaining growth and ringgit stability in the medium term.

Chart 4: Current Account Surplus to range between 1.5% - 2.5% of GDP



Source: BNM

Chart 5: Ringgit Strengthened in 2024, facing more Balanced Risks



Source: BNM

Investment Implications

Equities

Malaysia remains an attractive equity market within ASEAN. Consumer-focused names benefit from rising wages and household spending, while construction, industrials, and building materials stand to gain from ongoing infrastructure projects. Technology and semiconductor exporters are well-positioned to capitalise on the global tech upcycle. Financials remain stable with improving loan growth, low impairments, and attractive dividend profiles.

Equities: Domestic Demand & Investment Themes Take Center Stage

- **Consumer Staples and Discretionary**: With private consumption projected to grow by **5.6% in 2025**, underpinned by wage reforms, salary increments, and strong employment, sectors exposed to consumer spending are likely to outperform. Notably, companies in retail, automotive, and F&B with pricing power and exposure to the B40 and M40 segments stand to benefit.
- **Construction & Infrastructure**: The sector grew **17.5% in 2024** and is expected to expand another **11.0% in 2025**, supported by mega projects like the Pan Borneo Highway, Mutiara Line LRT, and renewable energy infrastructure. This positions **construction, building materials, and engineering services** for continued earnings recovery.
- **Technology & E&E Exporters**: The global tech upcycle and Malaysia's rising integration in the semiconductor value chain (E&E makes up ~40% of exports) enhance the medium-term outlook for large-cap exporters, particularly in chip packaging, assembly, and precision engineering.

Fixed Income

With the OPR at 3.00% and inflation remaining in check, Malaysian Government Securities (MGS) offer a compelling yield narrative. Corporate bonds and sukuk benefit from strong issuer fundamentals and low credit stress, particularly across utilities, infrastructure, and ESG-aligned sectors. A potential Fed pivot later in 2025 could support a bull-steepening in local yield curves.

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While near-term MYR volatility may persist, the medium-term outlook remains constructive. Continued current account surpluses, positive real yields, and the execution of key industrial and energy reforms should help anchor the ringgit. Long-MYR positions remain selectively attractive, particularly relative to lower-yielding regional currencies.

Ringgit Offers Medium-Term Re-rating Potential The ringgit appreciated against most regional currencies in 2024 but remains undervalued on a real effective exchange rate (REER) basis. The **positive current account**, **narrowing US-MY rate differentials**, and **structural reforms** (e.g., NETR, NIMP 2030) may anchor the MYR in the medium term. Near-term risks include global USD strength, US-China tensions, and geopolitical shocks, but long-only MYR positions could be attractive on dips, especially against low-yielding Asian currencies.

Credit & Banking Sector - Low Systemic Risk, Strong Underwriting Trends. Banks remain well-capitalised (Total Capital Ratio: 18.3%) and highly liquid (LCR: 161%). The NPL ratio remains low across households (0.4%) and SMEs (1.1%), and banks passed BNM's severe stress tests with comfortable buffers.SME financing growth (+8.1%) with stable approval rates above 80% reflects confidence in real sector prospects. Overall, **systemic financial risk is low**, and **no immediate tightening of credit standards** is expected.

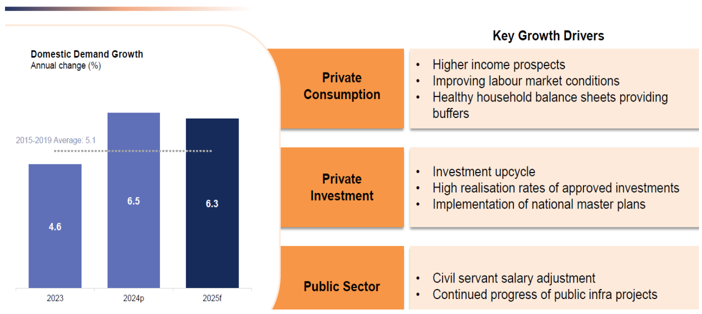
Sustainability & Thematic Opportunities

Malaysia's green financing ecosystem is expanding rapidly. With over RM240 billion in ESG-linked financing and RM194 billion in green and social sukuk issuances, opportunities are emerging across renewable energy, green transport, and low-carbon manufacturing. Strategic frameworks such as NETR and the National Semiconductor Strategy provide a roadmap for capital deployment into future-proof sectors.

Chart 6: Global gorsth projected to grow between 2.8% to 3.3%

Source: BNM

Chart 7: Despite external uncertainties, domestic demand will support growth



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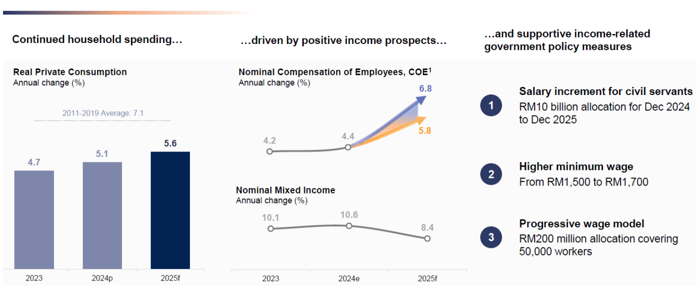
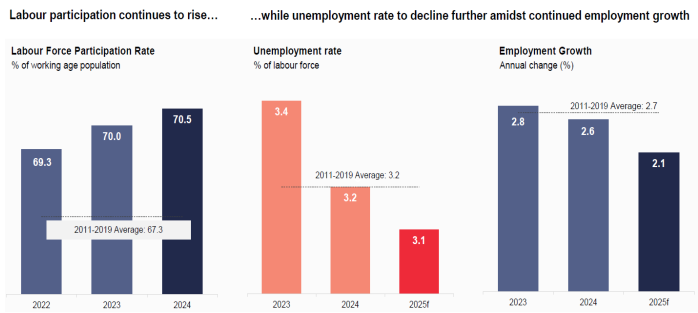


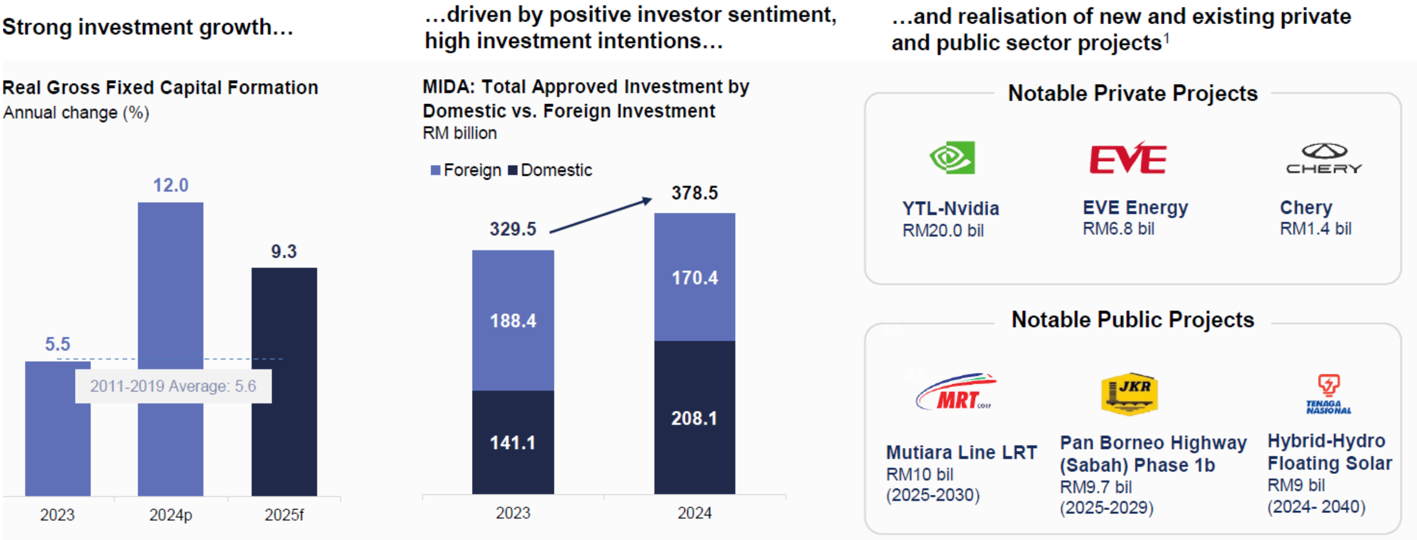
Source: BNM

Chart 9: …and continued improvement in labour market conditions



Source: BNM

Chart 10 : Malaysia's investment activity will be driven by realisation of new and existing projects



Source: BNM

Conclusion

BNM's 2024 Reports reinforces Malaysia's macro stability and financial system strength in an increasingly complex global environment. While upcoming U.S. tariff announcements and broader geopolitical risks may cloud the external outlook, Malaysia's domestic resilience, policy clarity, and reform commitment provide a robust foundation for investors.

The insights from BNM's 2024 Annual Report reaffirm not just cyclical recovery, but a deeper, reform-driven transformation that is quietly repositioning the country as a high-quality investment destination in a region defined by divergence and policy unpredictability.

Domestic demand remained resilient, underpinned by improving labour market dynamics, targeted income policies, and high-impact investment realisation. The broad-based recovery in private and public investment—particularly in infrastructure, green energy, and semiconductor-related projects — will anchor a new growth cycle built on capital deepening and productivity gains. Importantly, this is not a consumption-heavy, low-quality rebound, but a well-balanced growth trajectory with structural drivers.

From a financial stability perspective, Malaysia's banking sector remains robust post-Covid. BNM's stress tests—designed around scenarios more severe than both the Global Financial Crisis and the COVID-19 pandemic—show that capital buffers, liquidity, and underwriting standards are sufficiently strong to withstand extreme downside shocks.

However, risks remain. The looming announcement of reciprocal U.S. tariffs on April 2, absent from BNM's current baseline, represents a wildcard for global supply chains and Malaysia's external demand outlook. The policy response and resilience of external partners will be crucial in managing the fallout. Nonetheless, Malaysia's growing trade diversification and repositioning within the global tech value chain may provide some insulation.

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