Imran Nurginias Ibrahim | Chief Economist | imran@bimbsec.com.my
Farah Zazreen Zainudin | Economist | fzazreen@bankislam.com.my
Nor Lyana Zainal Abidin | Economist | nlyanaz@bankislam.com.my
Khayrin Farzana Fazli | Economist | kfarzana@bankislam.com.my
Amiratul Husna Mohammad | Economist | amira.husna@bimbsec.com.my

2025 ECONOMIC OUTLOOK: GLOBAL UNCERTAINTY SPARKS GUARDED OPTIMISM FOR SUSTAINABLE GROWTH

Table 1: An overview of 2024 GDP performance at selected ASEAN countries, y-o-y%

Region/Country	Forecasts		
	2023	2024	2025
Global	2.6	3.2	3.3
U.S.	2.4	2.8	2.7
Eurozone	0.7	0.8	1.0
U.K.	0.5	0.9	1.6
Japan	1.2	-0.2	1.1
China	5.4	4.8	4.6
Malaysia	3.7	5.0	4.7
Indonesia	5.0	5.0	5.1
Philippines	5.8	5.8	6.1
Thailand	2.3	2.8	3.0
Singapore	1.0	2.6	2.5
Vietnam	4.8	6.1	6.1

Sources: Bloomberg, Bank Islam

- The global economic landscape in 2025 presents a benign yet nuanced outlook. While overall growth is expected to soften, opportunities and challenges are emerging across regions.
  - The global economy has demonstrated remarkable resilience and it was projected that this resilience will continue, with global GDP increasing by 3.3% in 2025. However, this sustain overall performance masks significant differences across regions and countries, and is surrounded by important downside risks and uncertainties. More specifically, there are increasing risks related to rising trade tensions and protectionism, a possible escalation of geopolitical conflicts, and challenging fiscal policies in some countries.
  - Advanced economies are expected to maintain solid growth at 1.9% in 2025. In particular, the U.S. economy is projected to expand by 2.7%, supported by resilient underlying demand driven by robust wealth effects, a less restrictive monetary policy stance, and favorable financial conditions. This sustained growth in the U.S. will be complemented by strong performances in other advanced economies, including the Eurozone, the UK, and Japan, contributing to a balanced global outlook. In contrast, developing economies are projected to achieve relatively robust growth of 4.2%, though this pace is largely unchanged from the current year. While the outlook for many developing economies appears more promising, growth in China is anticipated to moderate to 4.6%. Emerging markets are set to outpace developed economies, continuing their growth premium. Emerging Asia's robust

performance, complemented by strengthening regional integration, stand out as key contributor to global economic stability and dynamism.
- As inflation aligns closer to long-term averages, central banks are expected to further ease their restrictive policies, moving towards neutrality. This shift, coupled with a low probability of a global recession, provides a supportive environment for growth.

- **2024 State of Play.** The global economy in 2024 has faced a challenging trajectory, with economic growth moderating across both developed and developing nations. The International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) estimates that 2024 global GDP growth will hold steady at around 3.2%. Meanwhile, World Bank estimates the global economy to grow by 2.7%.

- U.S. economic growth has remained resilient, rising at an annualized rate of 2.8% in 3Q24, on the heels of stronger than expected personal consumption. The Eurozone's GDP grew by 0.4% QoQ and on an annual basis, the Eurozone economy expanded by 0.9% in 3Q24. Meanwhile the UK economy showed modest growth, with GDP increasing by 0.5%, reflecting a gradual recovery after periods of stagnation and mild recession in 2023. The Japanese economy expanded by 0.9% on an annualized basis in 3Q24, a notable slowdown from a downwardly revised 2.2% increase in 2Q24. On a quarter-on-quarter basis, GDP grew by 0.2% QoQ, moderating from a downwardly revised 0.5% increase in 2Q24. The latest result marked the second consecutive quarterly expansion yet highlighted a fragile economic recovery amid growing external headwinds. China's GDP for 3Q24 grew by 4.6% YoY, slightly lower than the growth rate in the second quarter (4.7%) but still indicates a positive trend in the country's economic recovery.

- Overall, the U.S. has shown resilience, driven by stronger-than-expected growth, while much of Europe and parts of Asia are seeing slower progress due to high interest rates and sluggish consumer demand. Many developing economies are also under pressure from tighter financial conditions and external challenges, including high borrowing costs and adverse weather events, which are particularly impacting regions reliant on commodity exports.

- **Softening in inflation continues to reflect a moderation in demand.** Global inflation has been easing, with CPI rates generally trending down across various regions, though challenges remain. This trend of declining inflation is largely a consequence of moderated demand due to economic uncertainties, tight monetary policy, and adjustments in supply chains, all of which have collectively eased the price pressures seen in earlier periods. In Asian countries, inflation has been trended lower and moved closer to central banks targets, with continued moderation. For many Asian economies, inflation moderation has been a mix of stable supply chains and weaker-than-expected demand, particularly in sectors like electronics and retail. The softening in global inflation throughout 2024 does largely reflect a moderation in demand, particularly in sectors like goods and discretionary spending. High-interest rates in major economies, including the U.S., Eurozone, and UK, have constrained borrowing, which, in turn, curtails consumer spending and reduces demand-driven inflation.

PART ONE: THE WORLD RIGHT NOW

- **U.S. robust growth in 3Q24.** The U.S. economy maintained a solid growth pace in the third quarter, expanding at a 2.8% annualized rate. This figure was in line with the advance estimate and primarily driven by persistent consumer spending which grew by 3.7%, which defied expectations of a slowdown albeit lower than 3.0% in the previous quarter. This resilience is notable, considering the backdrop of rising interest rates and concerns about the sustainability of the post-pandemic economic recovery. However, the economy's reliance on consumer spending and government stimulus raises questions about its long-term trajectory. As interest rates continue to climb, consumer spending power may diminish, potentially dampening economic growth. Additionally, the widening budget deficit could lead to increased inflationary pressures and economic instability. Nonetheless, strong consumer spending, which constitutes about two-thirds of economic activity, has been a key factor in keeping the economy on track. Additionally, continued government spending has contributed to this momentum, resulting in a budget deficit exceeding USD1.8 trillion in fiscal 2024, which ended on September 30. The GDPNow forecast from the Federal Reserve Bank of Atlanta projects a 3.0% annual growth rate for the fourth quarter. The Federal Reserve (Fed) embarked on its easing cycle with a 50bp jumbo rate cut in September 2024 and slashed another 25bp in November and December, bringing federal funds rate (FFR) to a new range of 4.25%-4.50%.

- **Eurozone growth picked up steam in 3Q24.** The Eurozone economy grew at the fastest pace in two years, expanding by 0.4% quarter-on-quarter in 3Q24 (2Q24: 0.2%). Following the doom and gloom hanging over the region throughout last year, such growth was a breath of fresh air, pointing to a clearer path ahead. On a yearly basis, the Eurozone GDP increased by 0.9% in 3Q24 from 0.5% in 2Q24. The growth is attributable to the acceleration of private consumption of 0.7% q-o-q in 3Q24 after stagnating in 2Q24 as well as investment momentum staging a strong rebound of 2.0% q-o-q from a contraction of 2.4% in 2Q24. Meanwhile, government consumption remains solid (3Q24: +0.5%, 2Q24: +1.2%) albeit moderating slightly. Expenditure growth was supported by moderating inflation, the European Central Bank (ECB) initiating its monetary policy easing cycle, and more accommodative fiscal policies. Similar growth trends were observed across individual economies in the region, although some countries experienced slower expansion. Germany, the bloc's manufacturing hub, emerged from its slump (3Q24: +0.1%, 2Q24: -0.3%), though political risks persist with a snap election expected in February. Among other major Eurozone economies, France (3Q24: +0.4%, 2Q24: +0.2%) and Spain (3Q24: +0.8%, 2Q24: +0.8%) recorded growth, while Italy's economy stagnated (3Q24: 0%, 2Q24: +0.2%). Ireland posted the highest growth in the region, rebounding strongly with a 3.5% increase (2Q24: -0.3%), whereas Hungary experienced the steepest contraction, declining by 0.7% (2Q24: -0.2%).

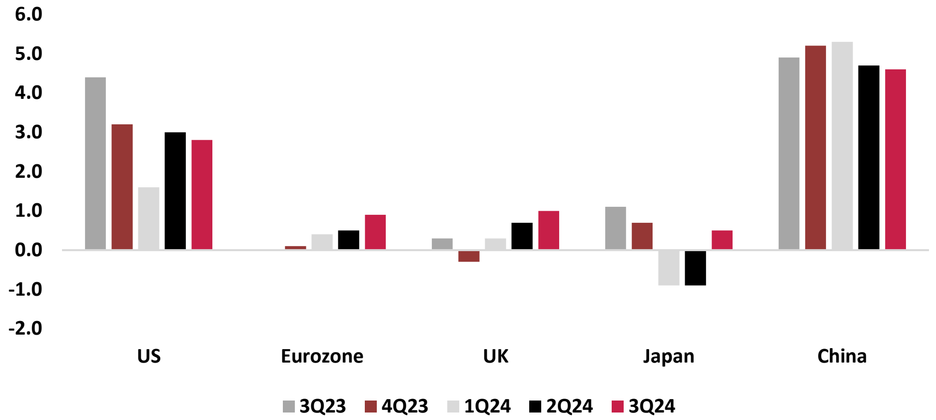
- **The UK economy cools in 3Q23, weaker than expected.** The UK economy showed no growth in 3Q2024, a downward revision from the initial estimate of a 0.1% increase. Similarly, 2Q24 GDP growth was revised to 0.4%, compared to the preliminary estimate of 0.5%. On a yearly basis, the British economy increased by 0.9% in 3Q24 from 0.7% in 2Q24. On the production side, the services sector stagnated, revised down from 0.1%, with financial and insurance activities (-0.6%) as the main drag. Production fell 0.4%, led by a 2% drop in energy supply, while construction grew 0.7%. On the expenditure side, exports (-0.5% vs -0.2%) and imports (-2.5% vs -1.5%) were revised lower, but net trade improved. Household spending held at 0.5%, business investment rose more (1.9% vs 1.2%), and government consumption increased less (0.1% vs 0.6%). Gross capital formation fell 0.6%, driven by reduced net acquisitions of valuables. Meanwhile, consumer confidence rose 1 point to -17 in

December 2024 but remains low amid economic concerns. CPI inflation unexpectedly eased to 2.5% in the same month, down from 2.6% in November and below the market forecast of 2.6%. However, it was in line with the Bank of England's early November projection. Price growth decelerated for hotels, recreation, and services, while food inflation held steady at 2%. At the same time, the labor market weakened notably in December, as employers faced challenges stemming from tax increases introduced in the government's budget.

- **Japan recovering gradually in 3Q24 despite some areas of stagnation**. The Japanese economy expanded by 1.2% on an annualized basis in 3Q24, surpassing the preliminary estimate and market consensus of 0.9%. However, this growth was much slower than the 2.2% expansion in 2Q24, despite marking the second consecutive quarter of annual growth. Capital expenditure significantly slowed due to rising interest rates, and government spending declined sharply. On the other hand, private consumption showed solid growth, driven by wage increases. External demand continued to weigh on GDP, contributing negatively for the third consecutive quarter. This data comes amid the Bank of Japan's (BoJ) decision to raise interest rates from 0.1% to 0.25% in July, marking the highest level since 2008. The BoJ has indicated that it may implement additional interest rate hikes if economic activity and inflation remain on their projected path. Higher interest rates typically dampen economic growth by increasing borrowing costs for businesses and consumers. In a significant shift, Japan seems to have overcome deflation in 2024, with a virtuous cycle of rising wages and prices taking shape. Japan's economy is expected to grow by merely 0.3% in 2024. However, household spending is beginning to increase, driven by a rebound in real incomes, and strong corporate profits are fueling higher capital expenditure. The 2024 Shunto wage negotiations led to substantial pay increases, far exceeding historical norms. Businesses have also shown a readiness to pass on higher costs. Although headline inflation has been volatile due to energy subsidies, inflation, is projected to average 2.2% this year. Additionally, prices in labor-intensive services have begun to increase.

- **China's recovery gains traction with stimulus rollout.** China's economy grew by 5.4% y-o-y in 4Q24, up from 4.6% in 3Q24 and exceeding the 5.0% market forecast. This marked the fastest expansion in 18 months, driven by stimulus measures introduced since September to support the recovery. Industrial output in December reached an eight-month high, while retail sales rebounded from a three-month low, despite the unemployment rate rising to its highest level in three months. For the full year, GDP growth was 5.0%, meeting Beijing's target but slightly below the 5.2% growth achieved in 2023. Fixed investment grew by 3.2%, improving marginally from 3.0% the previous year. Inflation remained subdued, with the CPI slipping to 0.1% in December 2024, its lowest level since March. Food prices declined (-0.5% vs. 1.0%), while non-food prices edged up slightly (0.2%). Costs for housing, healthcare, and education saw modest increases, whereas transportation costs fell at a slower rate (-2.2% vs. -3.6%). Despite government stimulus and supportive monetary policies, deflationary pressures remain a concern. China's external sector showed strength, with exports surging 10.7% in December 2024, the highest growth in three years and extending a streak of nine consecutive months of expansion. This was fueled by manufacturers accelerating shipments ahead of potential U.S. tariffs. Imports also rose by 1.0%, reaching a 27-month high, supported by stronger domestic demand and anticipation of U.S. chip restrictions. While the outlook remains challenging, the economy demonstrated resilience amid global uncertainties. To support recovery and ensure adequate liquidity, monetary policy was significantly eased in autumn 2024. The central bank implemented multiple rate cuts, including a 20-basis-point reduction in the primary policy rate in September and a 25-basis-point cut to both the 1-year and 5-year loan prime rates (LPR) in October. These measures aim to boost economic momentum and restore confidence.

Chart 1: Selected major economies GDP growth, y-o-y%



Sources: Bloomberg, Bank Islam

PART TWO: 2025 GLOBAL OUTLOOK – RESILIENCE IN UNCERTAIN TIMES

- The global economy showcased remarkable resilience in 2024, and on paper, everything about 2025 looks good. Inflation has returned to target levels in most major economies, labor markets appear surprisingly resilient and consumer spending remains steady despite having eased back from a post-pandemic splurge. The global economy is projected to grow 3.3% in 2025, and the multiyear doubt about a hard versus soft landing has been settled definitively by a landing so cottony-soft it hardly seems like a landing at all.

- However, the shifting tides of leadership and policy, particularly in the United States, are set to pose new challenges in 2025. Notably, President-elect Trump's proposed tariff policies mark a significant step in the growing trend of protectionism. Over recent years, especially in the post-COVID era, nations have increasingly turned to inward-looking trade measures. While the global economy has largely weathered these rising barriers, Trump's proposed tariffs signal a sharp escalation, potentially undermining the resilience seen in 2024.

- These policies are expected to create headwinds for both the U.S. and global economies. The U.S. could face material economic pressures, while the ripple effects would disrupt international trade and economic activity. The combination of higher tariffs and broader policy uncertainty is likely to weigh on global growth in 2025.

- Our baseline forecast assumes a modest slowdown in global growth, but risks remain finely balanced. Should the full scope of President-elect Trump's proposed tariffs - such as a global 10% tariff and a 60% tariff on Chinese imports - be implemented, the deceleration could be significantly steeper, further straining global economic momentum.

The United States: Second Term Trump

- The U.S. economy is expected to experience steady growth in 2025, with GDP projected to increase by 2.8% for the full year. Uncertainty around the forecasts is high given unknowns about the extent President-elect

Trump's campaign promises will materialise. Growth will be driven by robust consumer spending, which remains the core pillar of the economy, supported by rising real incomes and wealth effects. Business investment is also set to recover, spurred by spending on artificial intelligence (A.I.), factory equipment, and reinstated tax incentives. Monetary policy will shift as the Federal Reserve (Fed) caps 2024 with 3rd rate cut to reduce the target range of its Fed Funds Target Rate (FFTR) to a range of 4.25%-4.50%. However, the Fed also signaled the pace of easing will slow going forward. According to CME Fedwatch Tools, the market is currently looking at FFR to hover in the range of 4.00% and 4.25% as at end-2025. Non-monetary factors, such as large fiscal deficits and resilient risk sentiment, are seen as offsetting the impact of higher interest rates on demand, influencing the Fed's policy approach. While inflation remains the key risk, a universal 10% tariff could push inflation above 3.0%, potentially delaying rate cuts. Major fiscal and trade policy changes are expected to influence the economic outlook.

- Following a Republican sweep in the 2024 elections, the U.S. is likely to impose higher tariffs on imports from China and autos, which could contribute to higher inflation, but its effect on GDP is expected to be modest. A more significant risk is the proposed 10% universal tariff, which could reduce GDP growth, if implemented. On the fiscal side, the full extension of the 2017 tax cuts and additional personal tax cuts will provide a boost to consumption and help offset some of the drag from tariffs and immigration constraints. Despite the strong growth outlook, there are risks that could derail the economy. The most significant is the potential for a 10-20% universal tariff, which would be several times larger than the tariffs imposed on China in 2019. Such a tariff could reduce GDP growth and push inflation above 3%, presenting challenges for monetary policy. Another key risk is growing concern about fiscal sustainability. The U.S. debt-to-GDP ratio is nearing an all-time high, with real interest rates significantly higher than anticipated. This could increase borrowing costs and add pressure to financial markets. Nevertheless, the probability of a recession remains low at 15%, aligning with historical averages, and markets appear to have absorbed the potential risks thus far.

Eurozone: Recovery Path is Littered With Hurdles

- The Eurozone is expected to continue its gradual recovery in 2025, reaching its potential growth rate. GDP growth is projected at 0.8% in 2024 and 1.0% in 2025, with Germany trailing behind other member states, while Spain maintains its strong performance. The supportive domestic conditions that have driven growth so far are anticipated to persist into 2025. Eurozone's negotiated nominal wages saw a 5.4% increase in 3Q24 (2Q24: 3.5%) which will bolster household income to support private consumption alongside a resilient labour market. Furthermore, the region's unemployment rate has been steadying at a pre pandemic low of 6.3% for the past four months while consumer confidence has slowly begun to rise. Nevertheless, the disinflation trend seemed to have hit a bump with headline inflation ticking up (Dec: 2.4%, Nov: 2.2%) above the target of 2.0% while core inflation stagnated at 2.7% for four straight months. Exacerbating the price pressure risks, services inflation was stickier than expected (Dec: 4.0%, Nov: 3.9%). Therefore, while the ECB had reduced key interest rates by 100bp cumulatively since June 2024, we expect the ECB to maintain an easing bias, with expectations of continued rate cuts into 2025 to sustainably curb inflation while stimulating growth.

- On the flipside, fiscal consolidation will be a key focus following the reformed EU fiscal framework, which will take effect starting in 2025. The framework necessitates member states fitting the requirements to set forth a medium-term fiscal structural plan which will be operationalised via multiannual net expenditure trajectories, aimed to rebuild the region's fiscal buffers and address debt sustainability. The Next Generation EU (NGEU) programme will remain key support for public spending and investment amid disbursement of the

NGEU funds. While we expect easing financial conditions and favourable labour market to support domestic demand, external demand has yet to materialise significantly into the economy. Recent data points to persistent weakness in the manufacturing sector and business activity while exports remained under pressure due to geopolitical conflicts and trade tensions.

- Moving forward, the prolonged geopolitical conflicts in the Middle East and Ukraine, the U.S.-China trade war, and other trade frictions ignited under Trump pose as threats to the global supply chain, of which could adversely impact Eurozone with energy price shocks and weaker than expected global demand. Such scenario would cause the already straining manufacturing and trade sectors to deteriorate further. On the home front, political uncertainties could cost the region its growth. In Germany, the ruling coalition crumbled over economic policies dissention with the national snap-elections to be held on 23 February 2025, leaving the helm empty. In France, centrist Francois Bayrou has been appointed as the new Prime Minister, sparking criticisms from the opposing parties which threatens the political stability. Already, France has seen the appointment of three different prime ministers in 2024 alone and should this trend persist, it may come at a cost of growth. On the upside, the robust labour market coupled with strong wage growth and favourable disinflation are expected to maintain their momentum, supporting real household incomes and spurring on private consumption.

UK: Economy set to rebound as inflation and rates ease

- While we expect the British economy to remain weak in 2024 due to prolonged restrictive interest rates, it is likely to gain momentum with the implementation of looser fiscal policy. We anticipate growth to rebound in 2025, driven by government consumption and investment from front-loaded fiscal loosening, though higher taxes and borrowing needs may later constrain private consumption and business investment. Strong residential investment will be spurred by excess household savings, population growth, and monetary easing, while improving global conditions will boost trade's contribution to growth. Meanwhile, unemployment is forecast to fall further, supported by public spending and firm labour retention despite subdued participation and skills shortages, even as employer social security costs rise. Headline inflation is expected to remain above target in 2025–26, driven by persistent services inflation and demand pressures from fiscal stimulus pushing the economy beyond potential. At the same time, we expect monetary policy to keep easing until early 2026, with the Bank Rate gradually falling to 3.5% from 4.75%, as inflation converges towards the target. Nonetheless, limited fiscal buffers pose a downside risk, as external shocks like rising global energy prices could necessitate fiscal support, particularly given UK households' reliance on natural gas. Persistent price pressures from higher government spending and uncertainty over labour market slack may keep monetary policy tighter for longer, while a smaller-than-expected crowding out of private investment presents an upside risk.

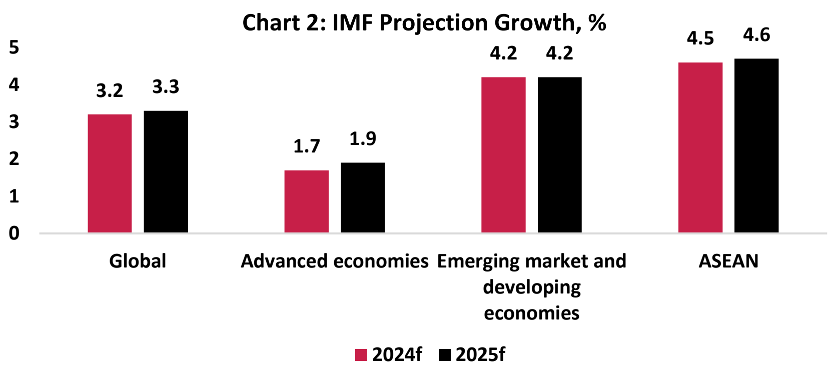
Japan: Gradual pace of recovery to continue in 2025

- Although inflation is expected to moderate, persistent labor supply constraints and increasing inflation expectations are likely to drive a structural rise in wages in the coming years. With wages remaining elevated, growth surpassing the trend, and the yen stabilizing around 150 against the greenback, underlying inflation is projected to average at around 2% in 2025. In the longer term, forecasts suggest that consistent 3% wage increases will align with underlying inflation just below 2%. The government's JPY39 trillion fiscal package is expected to boost government spending by 0.6% in 2025. Increases in tax thresholds and minimum wages should help support a modest rebound in private consumption. However, household spending growth will remain constrained by weak confidence, with some of the real income gains likely being saved. Corporate profits are expected to keep rising, and investment in technology to address a shrinking workforce will continue to drive investment. With the wage/price spiral firmly established and growth slightly above trend in 2025, we expect the Bank of Japan (BoJ) to proceed with its policy normalization to bring interest rate at 0.75% as at end-2025, following the Upper House elections in July 2025. However, we believe the BoJ will pause further rate hikes after that.

China: Trump's return clouds China's outlook for 2025

- The world's second-largest economy has displayed early signs of recovery since October, following Beijing's introduction of various stimulus measures, including interest rate reductions. This is promising for China to achieve its 2024 growth target of around 5%, although the potential return of Donald Trump as US president could impact the economy's key drivers in the years ahead. Nevertheless, we expect China's economy to progress with consumption supported by stimulus measures, though existing challenges will likely limit overall growth. We are seeing that the service sector is likely to continue being a major driver of growth, while manufacturing in some sub-sectors may face challenges due to oversupply. Consumption, though still muted, is projected to pick up in the first half of 2025, supported by additional subsidies. However, this positive trend could lose momentum if property sector measures fail to deliver sustainable improvements in wealth and sentiment. Additionally, a weak labour market could hinder the pace of consumption recovery. Investment may improve as domestic demand strengthens, and exports could experience a temporary boost as businesses clear inventories in anticipation of tariff hikes.

- Despite these improvements, we think that structural weaknesses will continue to constrain overall economic growth. Risks include potential credit disruptions in the property sector, delayed fiscal and social reforms, and global trade restrictions. Additionally, Trump, who will assume office in January 2025, has stated that he will impose an extra 10% tariff on Chinese goods unless Beijing takes stronger action to curb the trafficking of the highly addictive narcotic fentanyl. In response to additional tariffs, Chinese leadership may consider implementing larger fiscal packages next year "in multiple stages" as it monitors and adapts to U.S. policy. To support long-term stability, the government must focus on strengthening the social safety net, improving labour market matching, and reforming vocational education, while also encouraging a shift toward consumption-driven growth. Although the exact figures will be announced in March, it is widely expected that Beijing will set next year's GDP growth target at "around 5%", the same as this year or slightly lower.



Sources: International Monetary Fund (IMF), Bank Islam

Tariffs: Negative for global economy, but effects vary by country

- While rising tariffs can have negative implications for the global economy as a whole, tariff exposure - combined with potential for retaliatory tariffs - will play a role in determining which economies will be most affected by changes in U.S. trade policy. Countries reliant on U.S. consumer demand and the U.S. as an export destination likely will experience the most intense economic disruptions.

- On the other hand, nations with relatively closed economies that are not dependent on U.S. trade may be more insulated. In fact, countries with limited exposure could potentially benefit from tariffs by becoming more integrated into the global supply chain. As tariffs raise the cost of doing business in China, importers may step up efforts to find alternative manufacturing hubs. New investment into low-cost production centers and improved export capacity could boost growth and overall economic prospects in certain countries. On balance, new tariffs should be a net negative for the global economy, but variations in exposure to U.S. trade policy could also lead to diverging economic prospects for economies around the world. Divergent growth prospects for the world's economies based on tariff exposure will be an interesting dynamic to watch unfold in 2025.

- **China and Mexico likely have most to lose.** As far as countries that could be negatively affected by adjustments to U.S. trade policy, China and Mexico are two economies with heightened vulnerability. During his first administration, President Trump placed particular focus on rebalancing and renegotiating trade relations with both nations. Campaign rhetoric suggests President-elect Trump's attention has not shifted much from this original agenda. In the case of China, a 60% tariff on all exports to the U.S. should be more impactful on China's economy relative to tariffs imposed during President Trump's first term.

- With that said, we do not believe new tariffs will upend, or excessively disrupt, China's economy. Chinese authorities have multiple policy response options that can mitigate the impact of new tariffs, such as tools deployed during the original U.S.-China trade war and actions we would expect to be repeated. These policy responses can support Chinese activity in a new tariff environment, but not completely offset the impact. Meanwhile, tariffs can be more consequential for Mexico, as Mexico's economy is heavily reliant on U.S. demand. With close to 80% of exports going to the United States and those exports accounting for ~30% of Mexico's total economic output, policies that disrupt trade can wreak havoc on Mexico's economy.

- **Other countries may be more insulated from U.S. tariffs.** Similar dynamics may not necessarily materialize in other economies that contribute meaningfully to global growth. Most of the world's advanced economies are either diversified enough to weather the impact of tariffs or do not have overly strong trade linkages to the United States. As much as emerging market countries are exposed to tariffs, select economies in the developing world are more insulated.

Monetary Policy Outlook: Divergence In Some Major Foreign Economies

- Global inflation trends in 2024 revealed significant moderation, yet notable divergences have emerged across regions. While inflation in major economies continues converging toward central bank targets, progress remains uneven. In the U.S., inflationary pressures have stalled, with recent data reflecting stagnation and persistent services inflation. Australia and, to a lesser extent, the U.K. exhibit similar challenges. Meanwhile, the Eurozone has experienced a rebound in core inflation, which now aligns closely with target levels.

- Throughout 2024, the narrative of rate cuts dominated monetary policy discourse. Following the unprecedented rate hikes deployed to counter pandemic-induced disruptions, central banks began cautiously easing rates. However, they faced a delicate balancing act: navigating stubborn inflation, resilient labor markets, and the need for monetary easing. The magnitude and pace of rate cuts varied across regions, reflecting diverse economic landscapes.

- Policy rate adjustments in 2024 were largely gradual, with central banks charting divergent paths. Leading the charge, the Bank of Canada (BOC) implemented 175 bp in rate cuts since mid-year. The European Central Bank (ECB) and the U.S. Federal Reserve (Fed) followed with 100 bp reductions, while the Bank of England (BOE) cut rates by 50 bp. Notably, the Reserve Bank of Australia (RBA) has held steady, refraining from any rate cuts. The pace of monetary easing in 2024 has been markedly slower compared to the aggressive hikes of 2022 and early 2023, with only two 50 bp cuts recorded among these central banks to date.

- As 2025 approaches, policymakers are expected to adopt a more measured approach to monetary easing. Most developed market central banks, excluding Japan, are projected to lower rates to neutral levels by year-end. However, should economic conditions deteriorate beyond expectations, central banks may consider pushing rates below neutral to stimulate growth.

- Divergences in monetary policy are likely to intensify in 2025 as the effects of evolving trade policies take hold. Central banks will adjust their strategies at varying speeds and, in some cases, diverging directions. Trade policy sensitivities, such as exposure to U.S. tariffs, will increasingly influence monetary policy decisions globally. For instance, the Federal Reserve faces the challenge of navigating potential policy shifts - including trade tariffs - that may or may not materialize. Any resurgence in inflationary pressures could compel the Fed to pivot toward a more restrictive rate path in 2025 and beyond, complicating the policy landscape further. While the Fed is expected to continue easing rates, it is likely to proceed cautiously due to the inflationary impacts of tariffs. In contrast, many G10 central banks may accelerate their easing cycles. The Bank of Japan remains a notable outlier, poised to tighten monetary policy further.

- Emerging markets present a contrasting picture. While most emerging-market central banks are expected to adopt accommodative policies in 2025, exceptions persist. Inflation softening and dimming growth prospects are likely to drive a broad shift toward easing. However, in Asia, the pace of monetary easing has lagged behind the Fed's cycle, resulting in only a slight decline in the region's average policy rate. This contrasts with earlier market expectations of synchronized rate cuts with the Fed. Country-specific factors such as high household debt, property price inflation, and sticky inflation have maintained a "tighter-for-longer" stance. Nevertheless, several Asian economies, including Indonesia, the Philippines, New Zealand, South Korea, and Thailand, have already implemented rate cuts. Looking forward, Asian central banks may have limited room to ease further, especially as the Fed's rate cuts could be less aggressive than initially anticipated, influenced by reflationary pressures from proposed U.S. fiscal measures under Trump's economic agenda.

Table 2: Central Banks Rate Movements (end-period)

Central Bank	2020	2021	2022	2023	2024
FED	0.25	0.25	4.50	5.50	4.50
ECB	0	0	2.00	4.00	3.00
BOE	0.10	0.25	3.50	5.25	4.75
SNB	-0.75	-0.75	1.00	1.75	0.50
BOC	0.25	0.25	4.25	5.00	3.25
BOJ	-0.10	-0.10	-0.10	-0.10	0.25
RBA	0.10	0.10	3.10	4.35	4.35
RBNZ	0.25	0.75	4.25	5.50	4.25
BNM	1.75	1.75	2.75	3.00	3.00
BI	3.75	3.50	5.50	6.50	6.00
BSP	2.00	2.00	5.50	6.50	5.75
BOT	0.5	0.5	1.25	2.50	2.25

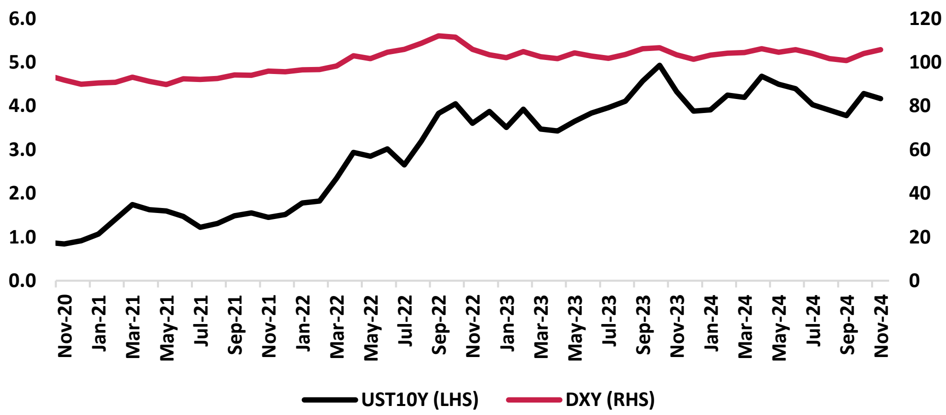
Sources: Bloomberg, Bank Islam

FX 2025: What Does 2025 Hold For Currency Markets

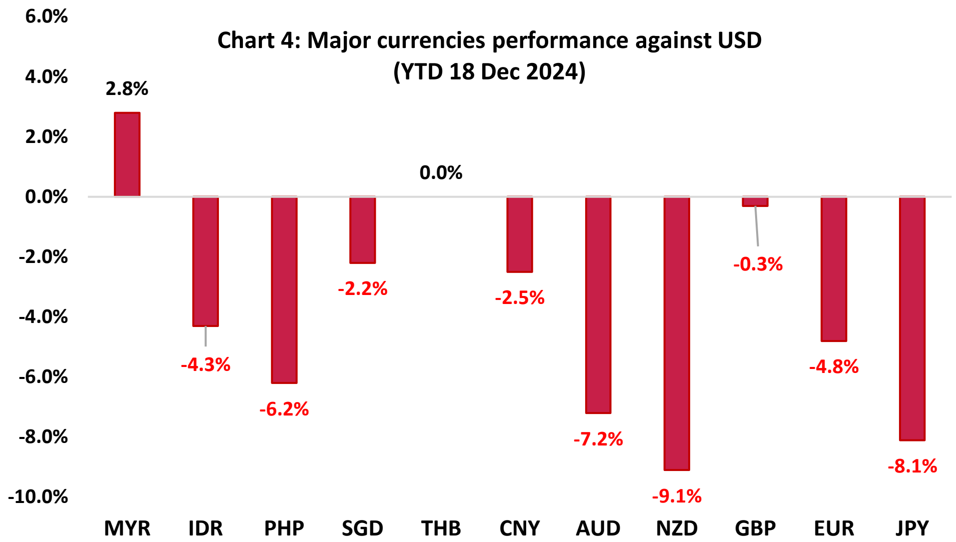
- The Federal Reserve finally cut interest rates in September, but far from falling, the US dollar (USD) embarked on a fresh rally as policymakers dashed hopes of aggressive policy easing. Currency markets in 2024 were shaped by a combination of monetary policy shifts, economic recovery efforts, and political developments. The USD experienced a rollercoaster year, initially depreciating against major currencies as markets anticipated the Federal Reserve's first rate cut since the COVID-19 pandemic. However, it rebounded toward the end of the year, tracing higher US Treasury yields influenced by post-election optimism and expectations of protectionist trade policies under the Trump administration.

- As we head into 2025, there can be no denying about the USD's superiority. The greenback is not only being supported by a resilient US economy and persistent price pressures, but also by expectations that the incoming Trump administration will enact polices that will further boost growth and inflation.

Chart 3: Dollar Index (DXY) and US10Y Yield



The dollar made a strong comeback as yields surge
Sources: Bloomberg, Bank Islam



Sources: Bloomberg, Bank Islam

- With Donald Trump's return to the White House, his trade and fiscal policies have shifted market sentiment, boosting prospects for the USD. The Federal Reserve's likely gradual pace of monetary easing contrasts with faster easing from other G10 central banks, creating a favorable backdrop for USD strength. This divergence in monetary policies, reflected in widening interest rate differentials, is expected to underpin the greenback's performance. Additionally, markets are pricing in the potential risks posed by Trump's trade tariffs, expansionary fiscal measures, and stricter immigration policies, which could disrupt the U.S. disinflation trend and complicate the Fed's plans to lower interest rates. While the USD is anticipated to remain strong in the near term amid policy uncertainties, the sustainability of this recovery remains in question.

- Trump's trade policies, particularly tariffs, are likely to dominate the USD outlook in 2025, especially in the first half of the year. The USD is expected to strengthen further against most major currencies during 1H25 as markets react to tariff-related uncertainties. However, in 2H25, the greenback's momentum could moderate as the impact of tariff repricing diminishes and the Fed's downward trajectory in interest rates begins to weigh on the USD. A renewed focus on Trump's policies also poses a key risk to the outlook for Asian currencies. A potential replay of the 2018-2020 U.S.-China trade war could weaken Asia's exports, dampen growth prospects, and erode investor sentiment, leading to depreciation across Asia FX. For most of 2025, Asian currencies, including the CNY, are expected to weaken, with a potential rebound anticipated in 4Q 2025.

- In summary, the global currency market in 2025 is expected to reflect significant divergence, driven by varying monetary policy trajectories and geopolitical risks. The USD is likely to retain its dominance in the early part of the year, supported by interest rate differentials and safe-haven flows. However, the greenback's strength could face headwinds in the latter half as the Fed's easing cycle progresses. Meanwhile, G10 currencies may exhibit mixed performances, with those from economies pursuing aggressive monetary easing likely underperforming against the USD.

- Emerging market currencies, particularly in Asia, may remain under pressure due to trade uncertainties and the knock-on effects of a stronger USD. However, selective opportunities could arise in the latter part of the year as the global economic outlook stabilizes and risk sentiment improves. Overall, the global currency market will be shaped by the interplay of monetary policy dynamics, trade policy developments, and evolving growth prospects.

Risks to the Outlook

- The global economy in 2025 is expected to navigate a challenging and complex landscape. While there are signs of a moderate recovery supported by easing inflationary pressures and resilient labor markets, persistent geopolitical tensions, rising trade barriers, and climate-related challenges could dampen growth prospects.
  1. **Geopolitical Tensions:** Elevated geopolitical tensions remain a critical near-term risk, particularly if escalating conflicts in the Middle East intensify and jeopardize the security of oil supplies from the region. A sharp and unexpected rise in oil prices would significantly elevate global inflation, erode consumer and business confidence, and dampen economic growth, particularly in oil-importing countries. Additionally, rising tensions in Eastern Europe, the Indo-Pacific, or other flashpoints could exacerbate supply chain disruptions and fuel market volatility.
  2. **Trade Policy Uncertainty:** The sharp increase in trade policy uncertainty over recent months adds a considerable downside risk. The growing number of import-restrictive measures imposed by major economies could drive up import prices, elevate production costs for businesses, and reduce living standards for consumers. Prolonged trade conflicts, particularly between major economies such as the U.S. and China, could hinder investment flows, slow global trade recovery, and undermine growth in export-dependent economies.
  3. **Financial Market Vulnerabilities:** Unanticipated growth shocks or deviations from a smooth disinflation path could trigger disruptive corrections in financial markets, leading to turbulence in capital flows and exchange rates in emerging-market economies. High global debt levels, stretched asset valuations, and deteriorating credit quality in sectors such as commercial property amplify financial risks.
  4. **Climate-Related Risks:** The accelerating impacts of climate change represent a rising structural risk to the global economy. Extreme weather events, such as droughts, floods, and hurricanes, could disrupt agricultural production, increase commodity price volatility, and strain fiscal budgets, particularly in vulnerable economies.
  5. **Policy Missteps:** The risk of policy missteps remains significant, particularly in the context of monetary and fiscal policy. Premature easing of monetary policy could reignite inflationary pressures, while overly aggressive fiscal tightening may stifle growth. Additionally, inconsistent or poorly coordinated global responses to economic challenges - such as trade conflicts, debt distress, or climate goals - could exacerbate existing vulnerabilities and hinder recovery.
  6. **Pandemic-Related Risks:** Although the immediate threat of COVID-19 has subsided, the risk of new pandemics or the emergence of highly transmissible variants remains. Renewed outbreaks could disrupt global supply chains, impede labor market recovery, and strain healthcare systems, particularly in developing countries with limited access to vaccines or treatments.

PART THREE: ASEAN - TECHNOLOGICAL ADVANCEMENTS AND AI ADOPTION AS NEW AREAS OF SUPPORT

- The ASEAN economies had remained resilient thus far despite the challenging global environment, heightened geopolitical tensions and adverse weather conditions that hugely disrupted agriculture production. Nevertheless, key drivers to growth across the region stems from the strong domestic demand, robust recovery in tourism and rising external demand. Furthermore, in line with the current global semiconductor upcycle, the rapid progress in digital technology uptake, Internet of Things (IoT) and AI adoption has spurred on higher demand for electronics exports, especially benefitting Singapore, Malaysia and Vietnam.

- Another crucial support to growth under the technology dimension is the growing data centre landscape in the region, drawing high influx of investments into these countries. The top destinations for these investments are Malaysia, Thailand, Indonesia and Vietnam. Such interest is buoyed by the location-specific advantages presented by these countries, namely the abundance of land area, the low share of non-revenue water in Malaysia and the ‘site to power’ model in Thailand. Furthermore, the expenses front also tip on the side of favourable considering that the data centre construction costs and running costs in these countries are lower, including labour and utilities bills as well as sufficient resource supply. Adding to these, the governments of these nations are offering incentives to attract prospective investors which include but not limited to tax incentives, comprehensive regulations, better infrastructure and eased processes and approvals. Moreover, it is reported that the ASEAN data centre infrastructure remains below full capacity compared to advanced economies so there appears to be ample room for further expansions. Moving into 2025, we believe the investment momentum to remain upbeat following ample opportunities for the development of data centre hubs in this region. Alongside the data centre boom, investments into this region will also be concentrated in the industrial hubs and IC design parks.

- Another focal area for growth is ASEAN’s tourism sector which has long been lauded as one of the top destinations by international travellers. With offerings spanning from traditional recreational activities and popular tourist spots to health tourism and agrotourism, ASEAN countries remain appealing due to their affordable costs, warm and friendly communities, rich culture and a wide range of attractions. Looking closer, there seemed to be a divergence in post pandemic tourism industry recovery with some countries reviving successfully from the slump while others have yet to surpass their pre pandemic levels. However, in the latter case such as Thailand, it still recorded an impressive 8.6 million tourist arrivals in 3Q24 alone, sealing its place as the top player in tourism. We believe that such uptrend in ASEAN will prevail in 2025 amid the rollout of accommodative visa policies and rampant promotional activities to achieve their respective tourism targets in these countries, barring global shocks.

- Although the economic recovery in these regions remains gradual, they have demonstrated resilience throughout the first three quarters of 2024. Private consumption has continued to support growth, while government spending has generally increased, and investment momentum has accelerated across the region. These key factors are expected to sustain the region's progress through 2025, despite potential challenges from a more difficult global environment. With the potential return of a Trump administration and the onset of a more intense trade conflict between the U.S. and China, markets anticipate that supply chain disruptions could reignite price pressures, leading to tighter financial conditions as a whole.

Table 3: An overview of 2024 GDP performance at selected ASEAN countries, y-o-y%

Country	1Q24	2Q24	3Q24	4Q24	Official 2024 forecast	Official 2025 forecast
Malaysia	4.2	5.9	5.3	-	4.8-5.3	4.5-5.5
Indonesia	5.1	5.1	5.0	-	4.7-5.5	4.8-5.6
Philippines	5.8	6.4	5.2	-	6.0-6.5	6.5-7.5
Thailand	1.6	2.3	3.0	-	2.6	3.0
Singapore	3.1	3.2	5.4	4.3	2.0-3.0	1.0-3.0
Vietnam	6.0	7.3	7.4	7.6	6.0-6.5	6.5-7.0

Sources: Bloomberg, Bank Islam

Singapore: Economy Grows at the Fastest Pace Since 2021

- Singapore's GDP expanded by 4.3% YoY in 4Q24 following a surge of 5.4% YoY in 3Q24 to mark a 4.0% growth for 2024 (2023: 1.1%), the fastest acceleration since 2021. Looking closer, the economy grew at a smaller pace of 0.1% QoQ (3Q24: +3.2%) on a seasonally adjusted basis. Such favourable performance was driven by the expansion of the construction sector (4Q24: +5.9%, 3Q24: 4.7%). On a seasonally adjusted basis sequential basis, the sector also displayed strength to grow by 3.4% QoQ SA (3Q24: +1.6% QoQ SA). Services sector (4Q24: +4.3%, 3Q24: +4.0%) a mainstay for growth amid broad based expansions across multiple subsectors, namely the wholesale and retail trade, finance and insurance, transportation and storage, information and communication, and professional services sectors. Nevertheless, the performance of tourism-related sectors was slightly dampened by the sustained strength in outbound travel and weaker than anticipated inbound international visitor arrivals (IVA). Meanwhile, the manufacturing sector showed signs of moderation following its significant rebound in 3Q24 (4Q24: +4.2% YoY, 3Q24: 11.0% YoY) amid the global electronics upcycle. Reflecting the slowdown, the seasonally adjusted sequential basis shows manufacturing activities contracting by 2.5% QoQ SA, reversing the double-digit 12.8% gain in 3Q24. On the expenditure front, latest available figures showed private consumption accelerating by 6.9% YoY in 3Q24 (2Q24: +6.2%) while public consumption rose at a faster pace of 4.5% YoY (2Q24: +2.8%). Meanwhile, gross fixed capital formation (GFCF) eased marginally to 2.5% YoY in the same quarter (3Q24: +2.7%). Net exports rebounded strongly from its significant contraction of 10.7% to 1.1% in 3Q24, backed by the expansion in exports (3Q24: +8.3%, 2Q24: +7.9%) and slower pace of imports (3Q24: +9.7%, 2Q24: +12.0%). Meanwhile, the disinflationary trend in Singapore continues favourably as both the headline (Nov: 1.6%, Oct: 1.4%) and core (Nov: 1.9%, Oct: 2.1%) inflations trended below the 2.0%, the latter hitting the lowest level since November 2021.

- In 2025, the Ministry of Trade and Industry (MTI) projects Singapore's economy to expand within the range of 1-3%, driven by continuous strength in external demand to lift the manufacturing and trade-related services sector. As a major technology-exporting country, Singapore stands to benefit from the global technology upcycle, which had rolled in from 2024 and supported the country's manufacturing sector thus far. Moving forward, the World Semiconductor Trade Statistics (WSTS) foresees the semiconductor market to experience a 12.5% growth amid increased global demand for Artificial Intelligence (AI)-related goods and services as well as faster and wider refresh cycle of electronics. As the adoption of AI increases alongside rising need for data centres, Singapore's electronics cluster is expected to expand further with spillover growth experienced by the precision engineering clusters and wholesale trade sector under the machinery, equipment and supplies segment. Furthermore, the services sector will remain robust as demand the financial services sector accelerates against a backdrop of positive global financial conditions and easing monetary policy cycles while the tourism-related sector's recovery will continue amid rising IVA and tourism spending. More catalysts to drive growth will stem from the government's Forward Singapore agenda where the government has ample fiscal room to balance between near and long-term initiatives. Furthermore, 2025 is the year of election for the country as the general election must be held no later than November. As such, more focus may be channelled towards managing social and welfare issues plaguing the people which could point to measures addressing the high costs of living situation and elevated housing prices. Nevertheless, the People's Action Party (PAP) has held the reigns of Singapore since its independence and the premia of political stability will continue as a beacon to foster confidence in both domestic and foreign investors.

Indonesia: Economy grows at a slower pace in 3Q24

- Indonesia's GDP clocked in at 4.95% YoY in 3Q24, marginally slower than the 5.05% YoY growth recorded in 2Q24. On the supply side, such performance was underpinned by the manufacturing (+4.74%), trade (+4.82%), agriculture (+1.69%), construction (+7.48%) and mining (+3.46%) sectors. The construction sector was supported by progress on multiple civil engineering and infrastructure development projects, most notably in the National Capital City development in Nusantara. Furthermore, the services sector also experienced positive growth whereby the transportation and storage sector surged by 8.64% amid increased traffic across all transportation modes as well as higher shipping activities in line with the expansion of trade. Meanwhile, the Accommodation and Food Beverages activities sector grew by 8.33% amid higher tourist arrivals as well as international-scaled events held. On the other hand, the economic growth was driven by the robust household consumption as it grew by 4.91% in 3Q24 (2Q24: +4.93%), supported by solid labour market conditions and low inflation environment. Indonesia's labour force participation rate (LFPR) marked a historic high of 70.63% for 2024 while the unemployment rate had returned to the pre-pandemic low. Another focal support to the economy was higher government consumption (3Q24: +4.62%, 2Q24: +1.42%) amid extended social assistances, increased fiscal spending and election-related spending in light of Indonesia's presidential election earlier in 2024. Indonesia's GFCF increased to 5.15% in 3Q24 from 4.43% in 2Q24 amid realized investments from both government and private categories and the progress on development projects. Building on top of the construction sector's expansion, imports of capital goods, namely machinery and equipment, supported the double-digit growth of imports (3Q24: +11.47%, 2Q24: +8.57%). Exports also improved to 9.09% in the same quarter (2Q24: +8.28%), bolstered by the exports of manufacturing and mining goods. The larger value of imports had counterbalanced exports with Indonesia's trade recording a smaller growth of 4.82% in 3Q24 from 4.86% in 2Q24.

- Throughout the first three quarters of 2024, the economy remained solid, underpinned by resilient domestic demand. Moving into 2025, BI anticipates the economy to expand within the range of 4.8% to 5.6%, emphasizing focus on domestic demand and economic stability to continue uplifting growth amid expectations of global headwinds. On the labour market front, low unemployment and solid employment figures across sectors are expected to prevail, backed by a 6.5% increase in minimum wages effective in 2025. BI also highlighted the importance of job creation and encouraging productivity to promote domestic demand, which is in line with the government's steps in the 2025 budget to increase public service expenses by 8.2% in 2025. Meanwhile, inflation has been trending within Bank Indonesia (BI)'s inflation target of 1.50-3.50% thus far with December's headline inflation moderating to 1.57% (November: 1.55%) while core inflation remained steady at 2.26% for two consecutive months. Downside risks to household spending remain from the value-added tax (VAT) increase from 11% to 12% on selected goods which was rolled out in January 2025, making it the highest in the region next to Philippines'. On another key theme, support for investment momentum is the government's launch of the golden visa program in August which offers long-term residency of 5 to 10 years to foreign nationals who make significant investments into the country, which also include expertise as skilled professionals in addition to financial investments. This initiative is aimed to attract higher FDI while simultaneously strengthening various economic sectors. Headwinds to growth stems in 2025 stems from possible supply chain disruptions due to the trade war between U.S. and China and the murky path of the Fed's rate cuts. While Indonesia could benefit as China remains its top trading partners as well as from trade diversion efforts, supply chain disruptions as a whole may cause reignited price pressures on a wider scale. Meanwhile, under Trump's administration, it is foreseen to cause delays in the Fed's monetary easing cycle which has adverse impacts on the Rupiah. If the Rupiah weakens further in the face of a strong Dollar, BI will have to raise its policy rate, now at 6.00%, to mitigate the capital outflows and restabilize the Rupiah. Nevertheless, BI remains confident that external demand for exports will remain sustained although declining commodity prices could pose as a concern.

Philippines: Poor weather conditions weigh on the economy in 3Q24

- The Philippine economy loses momentum as it grew by 5.2% in the third quarter, lower than 6.4% YoY in the previous quarter and the weakest in more than a year. The slowdown is mainly attributable to similar slowdown in government consumption and to a lesser extent, weaker gross fixed capital formation. Government consumption loses momentum from a double-digit growth (+11.9%) in 2Q24 to 5.0% in 3Q24 following the adverse weather conditions that causes administrative delays and disruptions to economic activities. Meanwhile, GFCF moderated to 7.5% in 3Q24 (2Q24: +9.7%) amid lower construction (3Q24: +8.9%, 2Q24: +16.2%) and intellectual property products (3Q24: +1.7%, 2Q24: +3.7%). Nevertheless, private consumption remained solid as it expanded by 5.1% in 3Q24 (2Q24: 4.7%), backed by improving financial conditions, easing inflation and resilient job market. On a seasonally adjusted basis, the Philippine's real GDP accelerated by 1.7% QoQ (2Q24: 0.7%). On the trade front, exports contracted by 1.0% in the same quarter, down from 4.2% in 2Q24, while imports improved to 6.4% (2Q24: 5.3%). Looking on the other side, most major economic sectors posted more muted performances in 3Q24 as compared to 2Q24. The services sector – Philippines' key growth driver – expanded by 6.3% (2Q24: 6.8%) while the utilities (3Q24: 7.4%, 2Q24: 9.1%), manufacturing (3Q24: +2.8%, 2Q24: 3.9%) and mining & quarrying (3Q24: +1.0%, 2Q24: +6.6%) sectors staged similar slowdowns. Amid the adverse weather conditions, the construction sector decelerated rapidly to increase by 9.1% in 3Q24 compared to 16.1% in 2Q24. The sector that was disrupted the most by the weather conditions was the agriculture, forestry & fishing sector which posted a bigger contraction of 2.8% in 3Q24 (2Q24: - 2.3%). Such performance, the weakest since March 2016, was caused by a double whammy of the El Nino phenomenon impacting planting season, and multiple typhoons wreaking havoc during the harvest season.

- In light of the severe weather conditions, Philippines' Development Budget Coordination Committee (DBCC) revised the growth target for 2024 to 6.0-6.5%. Meanwhile, the Philippine economy is projected to grow by 6.0-8.0% in 2025. Moving forward, key themes of tailwinds to the economy remain from the resilient domestic demand amid strong household consumption, solid government spending and sustained investment momentum. Household consumption will be fortified by higher income growth following the solid labour market conditions as well as robust overseas remittances, which thus far has clocked in higher receipts in both land-based and sea-based workers. Furthermore, the tourism and tourism-related industry stands to benefit from the influx of international visitors with the arrivals reaching a total of 5.5 million arrivals in 2024, signalling the strong demand to persist in 2025. The manufacturing sector will also prop up the economy as the Manufacturing PMI had trended expansionary for more than a year, staging the highest level since April 2022 in December at 54.3 points. Thus, the outlook for the economy remained balanced with key supports to counteract the drags. Nevertheless, risks to the outlook remain from the lagged impacts of the severe weather conditions whereby Philippines' Department of Agriculture (DA) reported rising vegetable prices stemming from the disruption to key farming areas as well as soaring rice imports, both catalysts for hotter price pressures. Latest readings showed that this has translated into consumer prices with both the headline (Dec: 2.9%, Nov: 2.5%) and core (Dec: 2.8%, Nov: 2.5%) inflations ticking up, possibly tightening the space for the central bank to further reduce rates.

Thailand: Economy picked up momentum in 3Q24

- Thailand's real GDP expanded by 3.0% YoY in 3Q24 from 2.2% YoY in 2Q24. Such strength reflected on a seasonally adjusted basis with the economy growing by 1.2% QoQ compared to 0.8% QoQ in 2Q24. The acceleration emerged as a result of higher government consumption and a surge in public investment, providing boost amidst slower private consumption and investment. Government consumption jumped by 6.3% YoY in 3Q24 (2Q24: 0.3%) on the back of expansion of social transfers and fiscal spending while public investment revived strongly (3Q24: +32.3%, 2Q24: -7.8%) amid disbursement of the annual expenditure budget. In line with the accelerated momentum, the construction sector stage a rebound of 15.5% (2Q24: -5.5%), the fastest pace since the final quarter of 2015. Contrary to this however, household consumption slowed to a 3.4% growth in 3Q24 (2Q24: +4.9%) amid high levels of household debt and tighter financial conditions which led to more cautious spending. Meanwhile, exports increased by 10.5% (2Q24: 4.7%) amid higher exports of goods (3Q24: +8.3%, 2Q24: +1.9%) and services (3Q24: +21.9%, 2Q24: +19.6%). Imports also remained on an uptrend (3Q24: +9.6%, 2Q24: +1.3%) amid a rebound in imports of goods (3Q24: +8.3%, 2Q24: -1.0%) and continuous growth in services import (3Q24: +15.2%, 2Q24: +10.8%). On the production side, growth was propelled by the services sector as it accelerated by 4.1% in 3Q24, up from 3.0% in 2Q24. The agriculture sector recorded a smaller contraction of 0.5% (2Q24: -1.9%) as adverse weather conditions hindered crop yields although production of poultry and fisheries increased. Furthermore, the manufacturing sector expanded at a slower pace of 0.1% (2Q24: +0.3%) which dragged the growth of the industrial sector (3Q24: +1.2%, 2Q24: +1.9%).

- Bank of Thailand (BoT) forecasts the Thai economy to grow by 2.7% in 2024, higher than the 9M real GDP growth of 2.3%. This growth is expected to be supported by continuous strength in the tourism sector and goods and services exports as well as higher public investments. Meanwhile, BoT expects 2025's growth to come in at 2.9%, propelled by resilient domestic demand, supportive fiscal measures and favourable external demand. Whilst the battle with slowing household consumption will persist amid tighter loan conditions and low employment in non-tourism-related sectors, we believe that government stimulus measures would help to spur consumer spending such as the 10,000-baht cash handout program, totalling at 145.6 billion baht that is disbursed from September 2024. Thailand's Energy Minister also recently announced that electricity price will be reduced to 4.15 baht from 4.18 baht for the January-April billing cycle to alleviate the financial burden on consumers. Meanwhile, the tourism sector will expand further, bolstered by the Tourist Visa Exemption Scheme, which extends visa exemption period to 60 days for visitors from 93 countries and territories, as well as the Visa on Arrival program, which allows visitors to apply for visa on arrival at the immigration checkpoints. The number of foreign tourists reached 35.5 million persons in 2024 (2023: 28.2 million persons) and the uptrend will be sustained in 2025, benefiting tourism-related sectors such as accommodations & food services, transport & storage and wholesale & retail trade. Moreover, new facet of growth booster stems from the influx of investments into Thai's data centres amid growing global attention for AI and technological advancements. Thailand's offerings are widespread from the affordable labour and supportive regulations to the strategic Eastern Economic Corridor and its potential as a high-tech industrial hub, attracting investments from with major players. On the inflation outlook, the headline inflation averaged at 0.40% in 2024 (2023: 1.23%), lower than the official target 2024 of 0.5% while the core inflation averaged at 0.56% (2023: 1.27%), slightly higher than the official target of 0.5%. In 2025, BoT expects headline and core inflation to reach 1.2% and 0.9% respectively. In achieving this target while also stimulating economic growth, the finance minister proposed a faster rate cut from the current 2.25% although BoT's view edged on more hawkish.

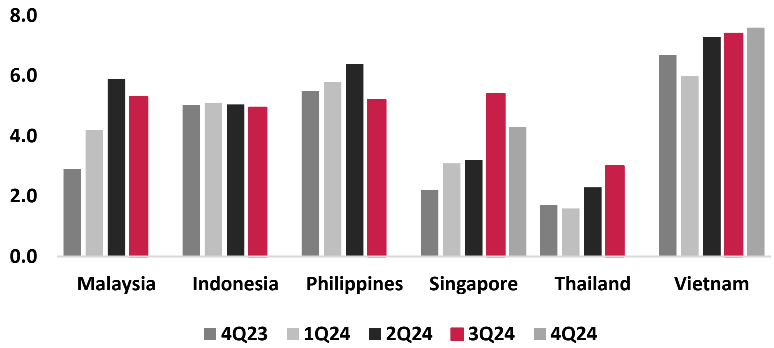
Vietnam: Vietnam marked highest GDP growth in more than two years

- Vietnam's GDP growth accelerated by 7.6% YoY in 4Q24 from 7.4% YoY in 3Q24, marking the highest growth since 3Q22. Such performance was driven by broad-based expansions across all economic sectors with the services sector remaining as the heavyweight. The services sector expanded by 8.2% in 4Q24 (3Q24: 7.5%), supported by resilient labour market conditions and the 2% Value-added Tax (VAT) cut from 8% to 6% until year-end 2024 which supported household consumption. Furthermore, the tourism industry also displayed positive growth, albeit lower than the pre-pandemic level, with the total visitor arrivals recording more than 17.6 million visitors (2019: 18.0 million visitors). The growth momentum was also driven by the agriculture, forestry & fishing sector which grew at a faster pace of 3.0% in the same quarter (3Q24: +2.6%), slowly recovering from the impact of adverse weather conditions on agricultural activities. Meanwhile, the industrial output slowed to 8.4% from 9.0% in 3Q24 while the construction sector also moderated to 8.4% (3Q24: +9.1%). Notably, goods and services exports for 4Q24 recorded a strong pace of 15.5% (3Q24: +16.9%) while goods exports alone accelerated by 11.4%. Such momentum was lifted by the global electronics upcycle and growing interest into technology and AI adoption. Thus, Vietnam's economy grew by 7.2% YoY in 2024, up from 5.1% growth in 2023, exceeding the official target of 6.0-6.5% growth.

- Heading into 2025, the National Assembly underlined a GDP growth target of 6.5-7.0% while the Prime Minister is eyeing a higher target of about 8.0%, aiming to build momentum for double-digit growths for the period 2026-2030. In achieving this target, major economic sectors are also projected for further expansions. The tourism industry's recovery is anticipated to accelerate in the coming quarters with national authorities optimistic of reaching the pre-pandemic level by 2024, signalling higher demand to prevail as the focal support in 2025. Another lift to the services sector will stem from strong domestic demand as the labour market conditions and moderating inflation remain conducive for household spending. On the investment front, the government had pointed towards accelerating the disbursement of public investment capital on key national projects. Public investment will focus on the structural development and large-scale transport projects such as the Long Thanh International Airport, Hanoi's Ring Road No.4 and the North-South Expressway eastern region project. Meanwhile, registered FDI as of December 2024 had surged to USD38.2 billion and realized

FDI stands at USD25.4 billion. Such upbeat momentum is expected to continue into 2025 following higher influx of investments into Vietnam's electronics and manufacturing sectors, plus into the rapid development of data centres. Coupled with the global economic stabilisation and higher demand for Vietnam's exports, the government remains positive on its trade outlook. Alongside the expansion of manufacturing and construction, we expect similar strength to be observed in imports of capital and intermediate goods, bolstering the trade sector. Barring major supply chain disruptions, worse-than-expected global slowdown or global financial market shocks, the Vietnam economy's outlook remains sanguine.

Chart 5: ASEAN (selected countries) GDP growth, y-o-y%



Sources: Bloomberg, Bank Islam

- Overall, the outlook for ASEAN is relatively positive, with the IMF projecting strong growth of 4.5% in 2024 and 4.6% in 2025, driven primarily by robust domestic demand and exports. While overall growth in the region is solid and well-balanced, there are notable variations among individual economies. Domestic demand remains strong in much of the region, and exports continue to support growth, although momentum has moderated. The incoming Trump administration promises significant policy changes with implications for the ASEAN region.

PART FOUR: MALAYSIA'S ECONOMY – STEADYING THE COURSE AMID CHALLENGES

Table 4: Malaysia Key Economic Indicators

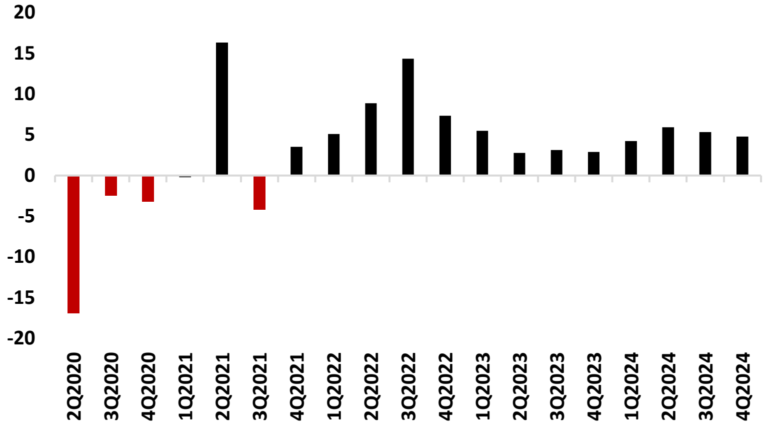
	2023	2024f	2025f
GDP Growth (%)	3.6	5.0	4.7
OPR (%)	3.00	3.00	3.00
IPI (%)	0.9	5.3	4.1
CPI (%)	2.5	2.0	2.7
Unemployment (%)	3.3	3.3	3.2
Exports Growth (%)	-8.1	5.0	4.8
Imports Growth (%)	-6.4	14.3	5.3
USD/MYR (year-end)	RM4.59	RM4.30	RM4.25
USD/MYR (average)	RM4.56	RM4.58	RM4.53
Brent Crude	USD82 pb	USD80 pb	USD75 pb
CPO (tonne)	3,810	4,100	4,100

Sources: Bloomberg, Bank Islam

Stronger economic performance in 2024

- The Department of Statistics Malaysia (DOSM) advance GDP report estimates that growth slowed to 4.8% in 4Q24, down from 5.3% in 3Q24, marking the second consecutive quarter of moderation. The growth in 4Q24 was driven by expansions in the services, manufacturing, and construction sectors. The services sector recorded a slight improvement, growing by 5.3% in 4Q24 compared to 5.2% in the previous quarter. All sub-sectors within the services sector contributed positively, with wholesale and retail trade, transportation and storage, and information and communication leading the gains. Meanwhile, the manufacturing sector experienced a deceleration, expanding by 4.3% in 4Q24 compared to 5.6% in 3Q24. This growth was supported by the production of electrical, electronic, and optical products, petroleum, chemical, rubber, and plastic products, as well as vegetable and animal oils, fats, and food processing products. The construction sector remained robust, with growth at 19.6% in 4Q24, slightly lower than the 19.9% recorded in 3Q24. The sector's performance was primarily driven by increased activity in residential and non-residential building projects. However, the primary sectors dragged on overall growth. Agriculture, in particular, faced challenges likely due to softer volume demand, even as prices for crude palm oil (CPO) and rubber remained strong. For the full year 2024, DOSM projects GDP growth at 5.1%, marginally higher than our forecast of 5.0%. This reflects continued resilience in key sectors despite signs of slowing momentum in the latter half of the year.

Chart 6: Quarterly GDP Growth, y-o-y%



Sources: Bank Negara Malaysia, Department of Statistics Malaysia, Bank Islam

GDP growth to moderate in 2025

- Supported by strong domestic and external demand, the economic performance has significantly improved in 2024. Growth is however projected to moderate from 5.0% in 2024 to 4.7% in 2025. Malaysia's economic performance in 2025 will remain anchored by favourable labor market conditions, continued demand for electrical and electronics (E&E) exports and faster implementation of investment projects. Private consumption, one of the key growth pillars, will also be uplifted by the upcoming minimum wage hike to RM1,700 a month (previously RM1,500 a month) effective February 2025. Risks to growth are tilted to the downside, mainly due to the uncertain global outlook, including external risks from deeper geoeconomic fragmentation. Meanwhile, upside risks could arise from the faster-than-envisaged implementation of large investment projects in Malaysia.

- **Domestic consumption will remain a key driver of Malaysia's economic growth.** In November, Malaysia's distributive trade sales grew at a slower pace of 4.7% (Oct: 5.5%) and the growth rate in retail trade also decelerated to 5.8% in November from 7.1% in the previous month. Nevertheless, the December holiday season and school breaks, which usually lead to a spike in holiday shopping and increased family spending, along with higher tourist arrivals and a pay raise for civil servants last year will likely uplifted domestic demand to close 2024 with a positive remark. Thus, the consumer demand in Malaysia continues to point towards resilience alongside the positive trends in the job market and stable inflation. Tourism arrivals saw a strong boost, with 22.46 million foreign tourists visiting in 11M2024 (2023: 20.14 million), achieving over 80% of the 27.3 million annual target. For 2025, we envisage that growth will be sustained by government cash transfers, Phase 1 of civil servant salary revision effective December 2024 and the increase in minimum wage to RM1,700 from RM1,500 per month. The services sector remained resilient, with tourism and consumer-related industries benefiting from the return of tourists and favorable labor market conditions. The retail sector is projected to keep thriving under these positive conditions, which will enhance its performance in the months ahead.

- **Most major sectors expected to maintain their upward trajectory.** The services sector is set to thrive on robust household spending and a surge in tourist expenditure. Manufacturing is poised to benefit from rising overseas demand and a continued recovery in exports, alongside strong domestic market consumption. Meanwhile, the construction sector is riding high, with activity reaching a two-year peak. This dynamic growth is fueled by swift progress on key infrastructure projects and the unveiling of new initiatives. In 3Q2024, construction work surged 22.9% year-on-year, building on the 20.2% growth in the previous quarter. Landmark projects like the Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore, the East Coast Rail Link (ECRL), the Pan-Borneo Highway, and the Kuching Autonomous Rail Transit are driving this momentum. Adding to the pipeline are transformative projects such as the Johor-Singapore Special Economic Zone, the Miri Airport expansion, and the Penang LRT and MRT Circle Line. This acceleration is backed by substantial public and private investments, anchored by the government's Public-Private Partnership Master Plan 2030 (PIKAS 2030). With 37 ongoing and 41 proposed projects, PIKAS 2030 aims to enhance governance, strengthen partnerships, and boost economic dynamism, especially when aligned with other Madani policies. The mining sector is also set for a rebound, powered by increased natural gas extraction and a potential recovery in crude petroleum output. However, relatively lower crude oil prices could temper growth in this sector. Overall, these developments signal a robust and diversified economic expansion.

- **Export to navigate trade challenges.** On external demand, exports picked up to 4.1% YoY in November 2024. We anticipate that U.S. protectionist policies under Trump will have a muted direct impact on Malaysia's export-oriented sector. Malaysia's trade dynamics during Trump's first term (2016–2020) were shaped by external shocks, including commodity price volatility, escalating trade tensions, and the COVID-19 pandemic. Trade remained subdued in 2016–17 due to global uncertainties and falling commodity prices, particularly for crude oil and palm oil. However, in 2018–19, Malaysia rebounded as export-oriented sectors - notably electronics, chemicals, and palm oil - benefited from trade diversion stemming from the US-China trade war. Despite global trade volume growth moderating sharply to 0.1% YoY in 2019, down from 2.9% in 2018, Malaysia capitalized on shifting supply chains, strengthening its position as a key supplier of export-driven goods.

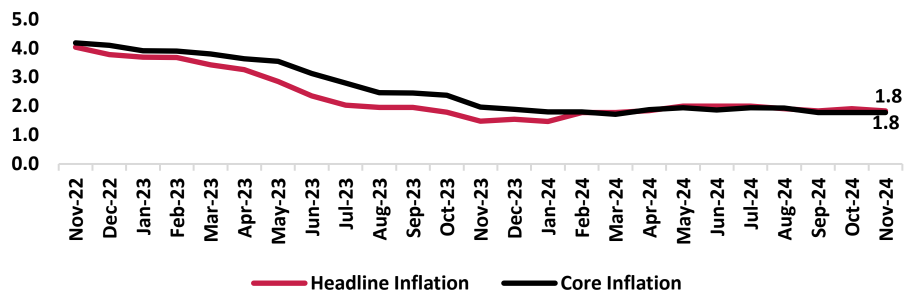
- In 2024, Malaysia's trade recovery has been propelled by robust demand for export-oriented goods, particularly in high-value sectors. Looking ahead to a potential Trump 2.0 presidency, Malaysia's trade outlook remains uncertain. While direct impacts may be minimal, the indirect effects via China-centric supply chains could be significant. Given Malaysia's greater trade exposure to China and its role as a key supplier in China-centric global supply chains, a potential escalation of US-China trade tensions could lead to significant negative repercussions for Malaysia's exports, especially in the E&E sector. In contrast, Global Semiconductor Shipments (GSS) have seen double-digit growth throughout 2024, with November marking a 20.5% increase (Oct: 22.0%). This strong performance is expected to provide a substantial boost to Malaysia's E&E exports. For export-driven industries, the E&E sector is projected to continue improving, driven by growing global demand for electronics, spurred by ongoing innovations and expansion in the consumer electronics market. Additionally, the rising demand for AI chips, data centers, and next-generation computing applications will further strengthen Malaysia's semiconductor industry. Malaysia's trade outlook remains cautiously optimistic and the outlook for 2025 is shrouded in uncertainty, driven by potential shifts in trade and tariff policies under a possible Trump 2.0 administration. As a result, we anticipate a moderation in trade dynamics, with export growth projected at 4.8% and import growth at 5.3% driven by resilience in export-oriented industries and opportunities emerging from global supply chain realignment.

- Malaysia's industrial production index (IPI) surged by 3.6% YoY in November (Oct: 2.0%), driven by consistent output growth in the manufacturing sector which grew by 4.6%, up from 3.3% in October 2024, along with a 3.9% increase in electricity output (compared to 1.9% in October 2024). The stronger manufacturing output was primarily driven by increased production in export-oriented sectors, with the IPI expanding (Nov: 5.6%; Oct: 3.3%) and the modest growth in domestic-oriented sectors (Nov: 2.6%; Oct: 3.3%). We anticipate that this positive trajectory will endure, as increasing demand from both domestic and international markets is projected to drive future IPI growth. With the resurgence of export expansion, we forecast a 4.1% IPI growth rate in 2025. This projection reflects our expectation of improved demand conditions and our optimism regarding the sustained performance of domestic-oriented businesses, supported by robust domestic spending. We believe this will enhance confidence in future production prospects.

Inflation hinged on domestic policy shifts

- Headline inflation eased to 1.8% in November (Oct: 1.9%), driven by lower technology and clothing costs. Demand pressures remained subdued, with core CPI unchanged at 1.8% YoY, marking the lowest rise in seven months. The year-to-date (YTD) inflation at 1.9% aligns with our 2024 forecast of 2.0%, highlighting muted impact from policy changes on overall price pressures. Looking ahead to 2025, we expect inflation to edge up modestly to 2.7% (MoF estimate: 2.0%-3.5%), driven largely by supply-side factors. Policy adjustments, including broader SST coverage and an increased minimum wage, are likely to raise operating costs, which may be passed on to consumers. Transportation costs are also expected to rise, with higher retail petrol prices stemming from the anticipated introduction of a targeted RON95 subsidy. Price stability will depend on a mix of domestic policies and external factors. Key areas to monitor include demand-driven price pressures, potential shifts in U.S. policies, global commodity trends, and currency fluctuations. Geopolitical tensions, such as the ongoing Gaza conflict and U.S. opposition to a ceasefire, may further exacerbate commodity price volatility, underscoring the need to remain vigilant to global developments shaping Malaysia's inflation outlook.

Chart 7: Malaysia CPI Growth, y-o-y%



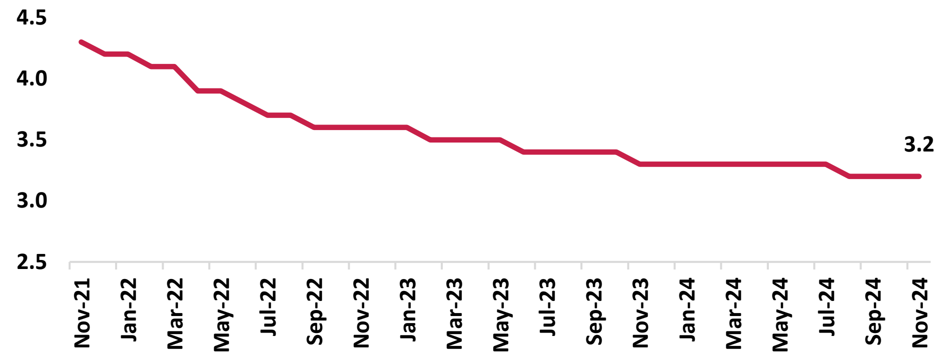
Sources: DOSM, Bank Islam

- Amid these uncertainties, Bank Negara Malaysia (BNM) is expected to keep the Overnight Policy Rate (OPR) at 3.00% through 2025. While inflation is anticipated to rise, this increase is primarily due to supply-side factors, as core inflation remains stable, indicating contained demand-side pressures. Given these conditions of manageable inflation and steady economic growth, BNM is expected to adopt a cautious stance, closely watching global developments to strike a balance between supporting economic growth and mitigating potential inflationary risks in this volatile global environment.

Healthy job market

- Malaysia's labour market is experiencing significant growth, driven by strong economic progress and a stable labour force participation rate. Unemployment remained at 3.2% in November, the lowest level since January 2020, while labor force participation maintained at a record high of 70.5%, reflecting a thriving job market. Looking ahead to 2025, continued domestic demand, a recovering tourism sector, and steady export growth are expected to sustain job creation. Key sectors driving job growth include manufacturing, electrical and electronics (E&E), and services. The services sector was supported by resilient private consumption, driven by robust labour market conditions and the ongoing recovery in tourist arrivals. Tourism growth, supported by RM550mn for Visit Malaysia Year 2026 and Malaysia's role as ASEAN Chair in 2025, will further strengthen the economy and employment. However, geopolitical tensions and a slow trade recovery pose risks to stability. The potential return of Trump and his policies could challenge Malaysia's labour market in 2025, especially due to expected shifts in U.S. trade, economic, and foreign policies. These changes may impact Malaysia's manufacturing sector, the second-largest contributor to national employment after services. We foresee the unemployment rate to remain at 3.3% for 2024 and improve to 3.2 for 2025.

Chart 8: Malaysia Unemployment Rate (November 2021 - November 2024), %



Sources: DOSM, Bank Islam

USD/MYR

- The MYR has been on a ride 2024, appreciating to the highest level since 2021 during end-September (RM4.1075) before slumping in the wake of Trump's win in the U.S. presidential election. The main drag tipping the scale against the local note thus far is the external factor. When markets are rallying behind dovish Fed bets, Ringgit stood to gain from the greenback's weakness and vice versa. With the expectations of a looser fiscal policy under Trump alongside his rhetoric of higher tariffs on several trade partners, markets are now anticipating delays in the Fed's monetary easing cycle. This was further solidified by the Fed repricing their dot plot projections, pointing to only two cuts in 2025 compared to the previously anticipated four cuts. Moving forward, the resilience of the U.S. economy, backed by solid labour market conditions and Trump's U.S. protectionist policies, will cast a shadow over the Ringgit's shine. In addition, trade frictions and the trade war with China will reignite price pressures, possibly necessitating the need for monetary policy to stay restrictive for longer. Nevertheless, while we expect the local note to remain under pressure in 1H2025, 2H2025 should bring some relief as we expect Trump to have unveiled his policies and the market having ample space to fully digest them. Furthermore, Ringgit will strengthen due to the narrowing interest rate differentials following Fed's rate cut cycle, albeit more gradual than initially anticipated, and BNM holding the OPR steady at 3.00%. Based on historical trend, Ringgit has a strong inverse correlation with MGS/UST yield differentials. As the Fed continues to slash interest rates, the narrowing yield differentials will also provide support to the local note.

- Delving into the mainstays of support, we believe the strong economic fundamentals will continue to provide tailwinds to Ringgit's appreciation. Investment momentum will be sustained, underpinned by the data centre boom, renewable energy (RE) interest and the global technology upcycle. Another perk of easing global monetary policies is the influx of risk-on investors into emerging market assets, benefitting Malaysia in particular. Meanwhile, Malaysia's trade performance and tourism sector is also on track for further expansions amid growing external demand, sustaining the current account surplus. BNM had also underlined the growing diversification in the current account, laying the foundation for meaningful support to the local note. The Ringgit will also strengthen on the back of BNM's initiatives with the government to encourage repatriation of foreign currency funds into the local market. One such measure is the pilot Qualified Resident Investor (QRI) programme with a deadline extension to June 2025. Taking all that into consideration, we expect USD/MYR to average at 4.53 and reach RM4.25 by year-end 2025.

Chart 9: USDMYR vs. MGS/UST Yield Spread

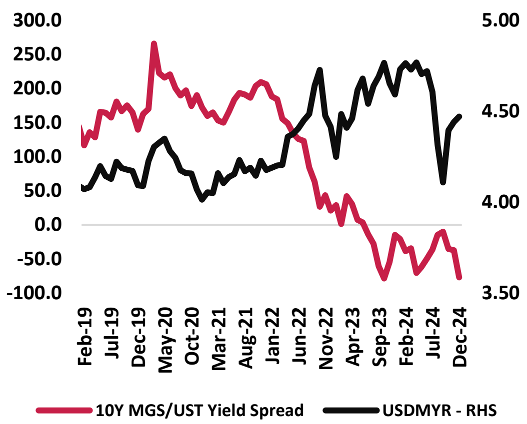
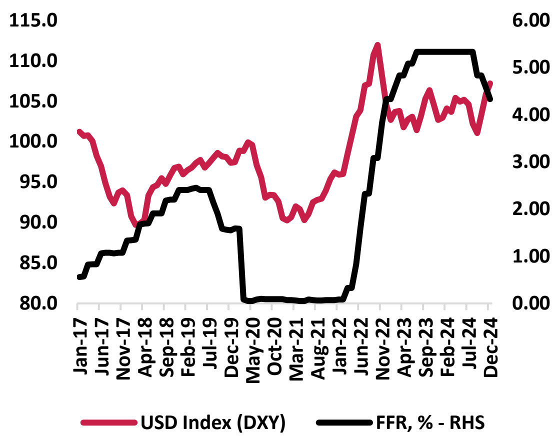


Chart 10: USD Index (DXY) vs. Federal Funds Rate (FFR)



Sources: BNM, Bloomberg, Bank Islam

Fiscal consolidation to cap bond issuances

- Bank Negara Malaysia concluded the issuances of Malaysian Government Securities (MGS) and Government Investment Issues (GII) in 2024 with the final issuance of 10y reopening of MGS on December 9. Overall, the total issuances of MGS and GII amounted to RM175.0 billion (MGS: RM87.5 billion, GII: RM87.5 billion), in line with our forecast of within RM175.0 billion to RM180.0 billion. Local government bond offerings persisted in attracting significant investor interest in 2024. All issues were oversubscribed, the average bid-to-cover ratio for local government bonds in 2024 stood at 2.4x, surpassing the 2.1x ratio recorded in the prior year. Breaking it down, the average BTC ratio of 2.2x for MGS, a notable increase from the 2.0x observed in the preceding year. Likewise, GII witnessed robust demand with a BTC ratio of 2.7x in 2024, up from 2.2x in 2023. For 2025, we posit that the gross MGS/GII issuance will amount in the range of RM160.0 to RM165.0 billion (2024: RM175.0 billion) based on the upcoming MGS/GII maturities of RM83.5 billion (MGS: RM46.5 billion, GII: RM37.0 billion) in 2025, and the government's projected fiscal deficit of RM80.0 billion in Budget 2025 (2024: -RM84.3 billion) in tandem with the government's commitment to fiscal consolidation.

Yields movement to be dependent on U.S. development

- In 2024, MGS yields remained elevated despite lower government bond issuances in 2024. MGS yields ticked slightly higher in the range of 1bp and 8bps. The Fed has started on its monetary policy easing cycle in 2024. President-elect Trump's policy thrust of immigration controls, tariffs and personal and corporate tax cuts likely to mean the Fed signals a shallower, slower path of easing through 2025, along with escalation of trade tensions under Trump's second term of presidency could spark uncertainty into the bond market. Based on the CME Fedwatch, the market foresees the FFR to hover at 4.00%-4.25% as at end-2025. We envisage BNM to keep OPR at 3.00% for all of 2025 amid Malaysia's stable inflation and growth outlook. As of 11M2024, both headline and core inflation remained stable at 1.9% and 1.8%, respectively, indicating that the diesel subsidy rationalization implemented in June has had a limited impact on broader prices. For 2025, Malaysia's inflation is projected to average between 2.0% to 3.5%, taking into account the implementation of targeted RON95 fuel subsidies and the expanded scope of the Sales and Service Tax (SST) as per outlined in Budget 2025.

Chart 11: Gross MGS/GII issuances, RM billion

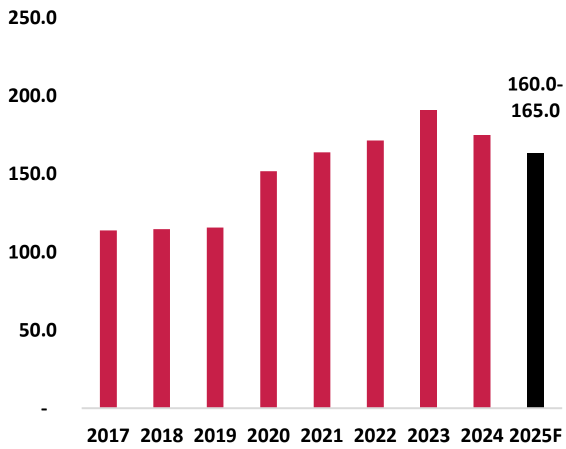
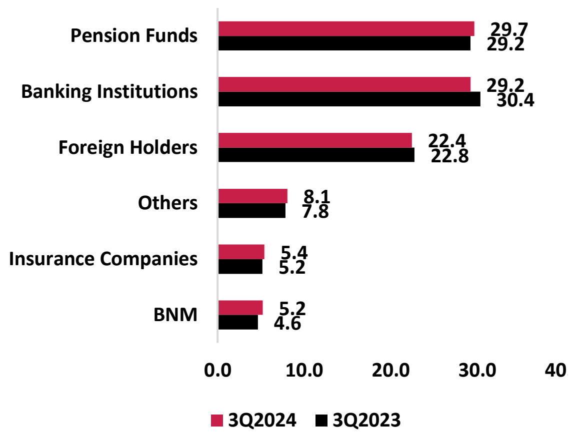


Chart 12: Ownership distribution of MGS, GII, MTB and MITB (%)



Sources: BNM, Bank Islam

Significant decline in net inflows in 2024

- In 3Q2024, pension funds became the largest holders of local government bonds, accounting for 29.7% of the total outstanding, closely followed by the banking institutions with a share of 29.2% of total outstanding. Other domestic institutional investors, including Development Financial Institutions, BNM, and insurance companies, also played a significant role in driving demand in the local government bond market. In 2024, the local bond market saw cumulative net foreign inflows of RM4.8 billion, a significant decline compared to the RM23.6 billion inflows logged in 2023. Furthermore, the foreign shareholdings in MGS and GII dipped to 21.2% as at end-2024, down from 22.7% in December 2023. Of note, the total foreign shareholdings in the local bond market edged lower at 13.1% of total outstanding in December 2024. Looking into 2025, capital flows into emerging markets, including Malaysia, will be significantly influenced by a number of key factors. These include the implications of US foreign policy, particularly in the areas of diplomacy and trade, China's economic growth prospects, global monetary policy settings, and geopolitical factors.

Risks to outlook

- There are significant downside risks to the outlook. The only certainty is uncertainty and we foresee heightened external challenges which could undermine Malaysia’s external trade performance and export-oriented sectors. One key risk is the potential tightening of trade policies by the new U.S. administration, including higher import tariffs, which may dampen U.S. demand. The exact impact remains unclear, as it depends on the timing and extent of such measures. A protectionist U.S. trade policy, coupled with potential retaliatory measures, could weaken global trade. Geopolitical tensions in key regions like the Middle East and Europe pose a risk of escalating into broader conflicts, further disrupting global trade. Moreover, supply chain disruptions, triggered by trade tensions or commodity price volatility, could lead to renewed inflationary pressures, forcing central banks to reconsider their accommodative monetary policies. A stronger U.S. dollar, driven by safe-haven demand amid geopolitical tensions and growth concerns, could further complicate the outlook for the ringgit. On the domestic front, a sharper rise in inflation poses a destabilizing threat, potentially eroding consumer sentiment and purchasing power. Other risks include a deepening slowdown in China, a hawkish pivot by the Fed, and escalating geopolitical conflicts - all of which could weigh heavily on Malaysia’s economic trajectory.

Table 5: Malaysia GDP Growth, y-o-y%

	2023	1Q2024	2Q2024	3Q2024	YTD 2024	2024f	2025f
GDP, y-o-y%	3.6	4.2	5.9	5.3	5.2	5.0	4.7
Supply Side							
Agriculture	0.7	1.7	7.3	3.9	4.3	4.0	1.5
Mining	0.5	5.7	2.7	-3.9	1.6	1.3	1.0
Manufacturing	0.7	1.9	4.7	5.6	4.1	4.3	4.2
Construction	6.1	11.9	17.3	19.9	16.4	16.2	10.2
Services	5.1	4.2	5.9	5.2	5.3	5.3	5.4
Demand Side							
Domestic Demand	4,6	6.1	6.9	7.0	6.7	6.4	5.9
Private Consumption	4.7	4.7	6.0	4.8	5.2	5.2	5.4
Public Consumption	3.3	7.3	93.6	4.9	5.2	5.0	4.5
Gross Fixed Capital Formation	5.5	9.6	11.5	15.3	12.1	11.1	7.2
Private Investment	4.6	9.2	12.0	15.5	12.2	11.6	8.1
Public Investment	8.6	11.5	9.1	14.4	11.8	11.4	4.8
Exports of Goods & Services	-8.1	5.2	8.4	11.8	8.5	5.0	4.8
Imports of Goods & Services	-7.4	8.0	8.7	13.5	10.1	14.3	5.3

Sources: Bloomberg, Bank Islam