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MALAYSIA ECONOMIC UPDATE: NAVIGATING RISING GLOBAL TRADE FRICTIONS

Tariff Rollercoaster Continues, Trade Fight with China Escalate

- **The 2nd April "Liberation Day" tariff announcement by United States (US) President Trump, was more significant and broad-based than projected**, bringing the US effective tariff rates to above 20%, something not seen since 1900s. Trump had invoked the International Emergency Economic Powers Act (IEEPA) which enabled him to issue an Executive Order on the imposition of a 10% baseline tariff on all imports to the US, as well as reciprocal tariffs on several economies & one economic bloc (EU comprises 27 countries). The "reciprocal" rates are based on the US government's tally of the tariffs and nontariff barriers those countries imposed on US goods, and the customised levy imposed under Trump's proposal, is approximately equal to half of that calculated amount (i.e. Tariffs charged to US by Malaysia= 72%, proposed US reciprocal tariff on Malaysia= 24%). That said, according to USTR, the reciprocal tariff rates are calculated simply based on the US' trade deficit with the said country divided by the said country's exports to the US and adjusted by price elasticity of import demand and tariff pass-through to import prices.

Table 1: Reciprocal Tariffs

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
China	67%	34%
European Union	39%	20%
Vietnam	90%	46%
Taiwan	64%	32%
Japan	46%	24%
India	52%	26%
South Korea	50%	25%
Thailand	72%	36%
Switzerland	61%	31%
Indonesia	64%	32%
Malaysia	47%	24%
Cambodia	97%	49%
United Kingdom	10%	10%
South Africa	60%	30%
Brazil	10%	10%
Bangladesh	74%	37%
Singapore	10%	10%
Israel	33%	17%
Philippines	34%	17%
Chile	10%	10%
Australia	10%	10%
Pakistan	58%	29%
Turkey	10%	10%
Sri Lanka	88%	44%
Colombia	10%	10%

Reciprocal Tariffs

Country	Tariffs Charged to the U.S.A. Including Currency Manipulation and Trade Barriers	U.S.A. Discounted Reciprocal Tariffs
Peru	10%	10%
Nicaragua	36%	18%
Norway	30%	15%
Costa Rica	17%	10%
Jordan	40%	20%
Dominican Republic	10%	10%
United Arab Emirates	10%	10%
New Zealand	20%	10%
Argentina	10%	10%
Ecuador	12%	10%
Guatemala	10%	10%
Honduras	10%	10%
Madagascar	93%	47%
Myanmar (Burma)	88%	44%
Tunisia	55%	28%
Kazakhstan	54%	27%
Serbia	74%	37%
Egypt	10%	10%
Saudi Arabia	10%	10%
El Salvador	10%	10%
Côte d'Ivoire	41%	21%
Laos	95%	48%
Botswana	74%	37%
Trinidad and Tobago	12%	10%
Morocco	10%	10%

Sources: The White House, Bank Islam

- **Just less than a day after imposing reciprocal tariffs, on 9th April, US President Trump issued a directive for a 90-day pause on reciprocal tariffs (and lowered to 10%)** on other countries to allow time for US officials to negotiate with them. However, the exception was China which Trump ratcheted up the tariff to 125% (from 104%) with immediate effect after China raised the tariff on all US exports to China to 84%. The 10% baseline tariff for all imports into US remains in place.

- **The temporary 3-month reciprocal tariff pause eases immediate trade-related shocks for 2Q25 as ASEAN bloc seeks negotiation with the US.** Nevertheless, whipsawing US tariff measures, probable breakdown in bilateral tariff talks, softening demand from key markets (China and US), and prospects of goods dumping by China poses headwinds for regional growth outlook. The recent imposition of a 24% tariff by the United States on Malaysian exports has introduced significant challenges to Malaysia's economic landscape. In response, Prime Minister Datuk Seri Anwar Ibrahim has underscored the necessity for a unified ASEAN approach to effectively address these trade barriers. He emphasized that "Malaysia and ASEAN countries need to come together and form an agreement on the tariffs announced by the United States to ensure that upcoming negotiations and discussions have a solid foundation".

- **US President Trump announced a 90-day pause of higher reciprocal tariffs on all countries except China**, meaning that only the 10% universal tariffs (applied from 5 Apr) remains from his April announcements. China was the exception, with import tariffs for Chinese goods raised further to at least 145%, after China retaliated by raising tariffs on US imports from 34% to 84%. The president claimed that that the policy reversal allow room for negotiations to continue.

Table 2: Timeline of US Tariffs in April

April	US Tariffs Announcements
2	The US announced the implementation of global universal tariffs and reciprocal tariffs, adding an additional 34% levy on all Chinese imports—on top of the existing 20%—effective 9 April. Tariffs at varying rates will also be applied to imports from other countries.
2	China initially responds with only investment restrictions by local companies in the US.
4	China announced it will impose 34% reciprocal tariffs on all US goods starting 10 April, signaling a shift toward full retaliation and a more confrontational stance, in contrast to its earlier measured responses to the US tariffs imposed in February and March. Meanwhile, regional countries have indicated their preference for dialogue and negotiation rather than confrontation in dealing with the US trade measures.
5	The US's 10% baseline import tariff has taken effect, applying to nearly all countries and products - excluding those covered under separate or planned exemption mechanisms.
7	A war of words escalated as Trump threatened to impose an additional 50% tariff on China if it proceeds with its planned 34% retaliatory tariffs. In response, China vowed to "fight to the end", signaling a hardening of its stance amid rising trade tensions.
9	Trump's reciprocal tariffs kick in on midnight, while China raised tariffs on US imports from 34% to 84% due to earlier threats.
9	Trump subsequently announced a 90-day postponement of all reciprocal tariffs ahead of planned trade dialogues with other countries. However, tariffs on Chinese imports were further raised to 125%, up from the previous 104%, in response to China's retaliatory measures.
10	The White House clarified that the 125% tariff figure previously announced by Trump against China is 145%, once the 20% fentanyl tariffs he imposed earlier are included.
11	In response to Trump's increased tariffs, China has announced it will raise tariffs on U.S. goods from 84% to 125%, with the new rate set to take effect on April 12.
13	Trump's top economic advisers clarified that tariffs on smartphones, computers, chips, and other electronics would be imposed in the next month or two, reversing the tariff exemptions on some of these items that were announced on Friday (April 11)

Current US Tariffs as at 14 April	**By Country:** • China: 145% • Canada/Mexico: 25% on non-USMCA trade • All other countries: 10% **By Product:** • Steel and Aluminum: 25% • Automobiles and major auto parts: 25%

Sources: CEIC Data, Bank Islam

Malaysia Policy Responses

- The Malaysian government has opted for negotiation over retaliation, aiming to resolve trade disputes amicably and avoid escalating tensions. This approach seeks to protect Malaysia's export sectors while maintaining stable international relations. Prime Minister Anwar Ibrahim has called for a collective ASEAN response to the U.S. tariffs, aiming to strengthen the region's negotiating position and maintain stable international relations.

Macroeconomic Impact and Revised Forecasts

Table 3: Macro Forecasts

	2023	2024	2025F
GDP Growth (%)	3.6	5.1	4.4
Real Exports Growth (%)	-8.1	8.5	3.7
Real Imports Growth (%)	-7.4	8.9	4.8
IPI (%)	0.7	3.8	2.9
CPI (%)	2.5	1.8	2.7
Unemployment (%)	3.40	3.20	3.20
OPR (%)	3.00	3.00	3.00
USD/MYR (year-end)	RM4.59	RM4.47	RM4.25
USD/MYR (average)	RM4.56	RM4.58	RM4.53
Brent Crude (pbd)	USD82.6	USD80.7	USD68
CPO (tonne)	RM3,810	RM4,218	RM4,100

Sources: CEIC Data, Bank Islam

Malaysia 2025 Macroeconomic Outlook: Navigating Global Uncertainty

- The announcement of the "Liberal Day Tariffs" has shaken the global trade landscape, and is expected to hamper trade growth across many economies. Although the 90-day pause in tariff implementation and the exclusion of certain key products have provided some temporary relief, Malaysia remains vulnerable to both the direct and indirect impacts of escalating global trade tensions. Weaker export performance, alongside a slight moderation in investment activity, are the key drags behind this downward revision. Escalating trade tensions—particularly the imposition of tariffs by President Trump on major U.S. trading partners, including Malaysia—pose a significant threat to the country's trade prospects. The potential for retaliatory measures and further disruptions to global supply chains may dampen external demand even more, as the international trade environment becomes increasingly characterized by protectionism.

- The Malaysian economy faces mounting external headwinds as the global trade environment grows increasingly volatile. We have revised our GDP growth forecast for 2025 down to 4.4%, from an earlier estimate of 4.7% (2024: 5.1%), reflecting heightened downside risks stemming from escalating global trade tensions, protectionist U.S. policies, and a softening external demand environment. Nevertheless, domestic resilience, particularly in private consumption and public infrastructure investment, will provide a key buffer against external shocks.

Growth Outlook: External Headwinds, Domestic Anchors

- While the global trade outlook remains clouded by tariffs and retaliatory risks, Malaysia may benefit from trade diversion. Multinational semiconductor and automotive firms looking to mitigate U.S.-China tensions may increase production in Malaysia or relocate part of their operations. This shift could offer long-term upside to Malaysia's E&E and manufacturing base. That said, short-term trade uncertainty, higher shipping costs, and input price fluctuations may weigh on margins and investment decisions, particularly for export-oriented industries.

- Malaysia's growth trajectory in 2025 is expected to moderate as trade-related uncertainties weigh on external demand. The recent reimposition of tariffs by U.S. President Trump on key trading partners, including Malaysia, has dampened the global trade outlook. We anticipate export growth to ease to 3.7% (2024: 8.5%), while import growth will also moderate to 4.8% (2024: 8.9%), reflecting weaker global demand and potential supply chain disruptions.

- IPI growth forecast revised downward to 2.9% from 3.5% for 2025. The moderation is largely attributed to direct and indirect tariff hikes by major economies. Also contributing to the revision is our lower in-house Brent crude oil price forecast, which has been adjusted from USD75 per barrel to USD68 per barrel.

- Nonetheless, private consumption, which accounts for over half of GDP, is projected to grow 5.3%, driven by:
  - A robust labor market, with unemployment falling to 3.2%.
  - Rising disposable incomes from the minimum wage hike and phased civil servant salary adjustments.
  - Continued government cash transfers, which will support low- to middle-income households.

- Private investment is expected to remain steady at 7.5%, albeit revised down from 8.0% previously, amid investor caution over trade policy uncertainty. However, this is partially offset by momentum from national strategic initiatives—including the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS), and National Energy Transition Roadmap (NETR). Flagship projects like PETRONAS's Kasawari CCS and TNB's Hybrid Hydro-Floating Solar installation underscore Malaysia's shift toward high-value, sustainable investment. Meanwhile, public investment will continue to support growth through infrastructure programs under Budget 2025 and the Public-Private Partnership Master Plan 2030 (PIKAS 2030).

Sectoral Performance: Broad-Based Moderation

- Almost all key sectors are expected to moderate in 2025:
  - **Services (5.0%):** Will remain the primary growth driver, supported by household spending, air travel recovery, logistics and tourism. The launch of LRT 3 and new highways will further lift transport-related activities.
  - **Manufacturing (3.4%):** The manufacturing sector—Malaysia's largest IPI contributor—is projected to grow at a slower pace of 3.4%, supported by sustained demand for E&E products and government-led investments in high-tech industries to help cushion external shocks. Meanwhile, the domestic-oriented industries are expected to remain resilient, supported by sustained domestic demand. However, export-oriented industries are expected to moderate due to external shocks, and we maintain a cautious outlook in the near term. However, the global tech upcycle, rising AI chip demand, and expansion in data centers may provide an offset.
  - **Construction (10.2%):** Growth will moderate from a high base in 2024, but remain robust due to mega projects and increased infrastructure spending at state and regional levels.
  - **Agriculture (1.5%) and Mining (1.1%)** are projected to post moderate growth, constrained by commodity price volatility and structural challenges.

Inflation: Stable but with Watchpoints

- We maintain our CPI forecast at 2.7% for 2025. Despite external price pressures, inflation will likely remain manageable due to:
  - The government's decision to avoid retaliatory tariffs.
  - Subdued global demand.
  - Stable domestic food prices.

  While commodity price fluctuations could exert some upward pressure, inflation expectations remain well-anchored.

Monetary Policy: BNM to Stay Cautious

- Despite the downward revision in GDP forecasts, we believe the central bank is likely to maintain the OPR at its current level, supported by resilient domestic demand. While inflation is expected to rise, the increase is largely driven by supply-side factors, with core inflation remaining steady, signaling that demand-side pressures are still contained. Under these circumstances, with inflation deemed manageable and growth remaining steady, BNM is expected to adopt a cautious, data-dependent approach. The central bank will likely keep a close eye on global economic and financial developments, aiming to strike a delicate balance between sustaining growth and containing inflation risks amid an increasingly volatile external environment. At 3.00%, the current OPR is viewed as a neutral rate in the post-pandemic landscape.

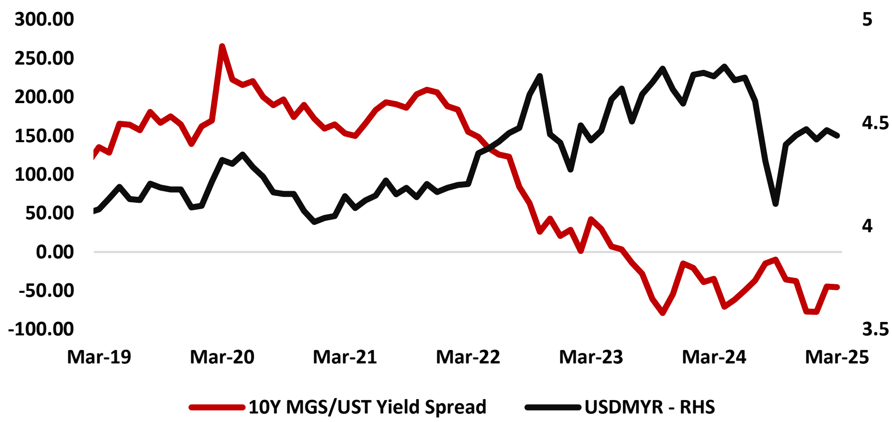
- Bank Negara Malaysia (BNM) is expected to prioritize domestic growth stability when determining its Overnight Policy Rate (OPR). The Ministry of Finance (MOF) and Bank Negara Malaysia (BNM) have initially projected GDP growth of 4.5% to 5.5% for 2025. However, in light of recent global and domestic developments, Prime Minister cum Finance Minister Datuk Seri Anwar Ibrahim has indicated that this target range may need to be reassessed. Should GDP growth slip below the 4.0% threshold, there could be a growing bias toward monetary easing. In such a scenario, we anticipate BNM may initiate a 25bps cut in OPR to 2.75%, while continuing to monitor broader macroeconomic indicators before making further adjustments. On the flip side, if strong domestic demand drives GDP growth above 5.0% for at least two consecutive quarters, BNM may lean toward a more hawkish stance, potentially considering a rate hike to manage inflationary pressures and maintain macroeconomic stability.

Currency Outlook: MYR to Appreciate on USD Weakness

- On the MYR, we expect the Malaysian ringgit (MYR) to remain relatively resilient. While global uncertainties may spark short-term volatility, Malaysia's solid economic fundamentals—including robust domestic demand, healthy external balances, and sustained fiscal discipline—should act as key anchors for the ringgit. Additionally, as the U.S. dollar softens in response to potential Fed easing and trade-driven recession fears, regional currencies like the MYR are likely to benefit. Malaysia's status as a diversified trade player with strong ties to ASEAN, China, and other major economies could help buffer the worst of the trade fallout. Moreover, a relatively stable inflation outlook and steady monetary policy guidance from Bank Negara Malaysia (BNM) should further support currency stability in the months ahead. Overall, while we acknowledge the fluidity of the situation, we maintain our view for two Fed rate cuts by year-end, with a downside bias on the greenback. Against this backdrop, the ringgit is well-positioned to hold firm amid a turbulent global environment.

- We expect the Malaysian ringgit (MYR) to strengthen to 4.25 against the U.S. dollar by end-2025, underpinned by a potential Fed rate cut and the anticipated weakening of the USD due to tariff-induced inflationary risks in the U.S. Additionally, Malaysia's current account surplus, healthy FX reserves, and expected capital inflows from new investments should support the ringgit's appreciation.

Chart 1: MYR vs. 10Y MGS/UST Yield Spread



Sources: BNM, Bloomberg, Bank Islam

Conclusion: Resilience Amid Realignment

- The GDP forecast for 2025 has been revised downward by 0.3 percentage points—from an initial estimate of 4.7% to 4.4%—due to the dampening effects of ongoing global trade tensions, tariff uncertainties, and a slowdown in export growth. The manufacturing sector, a key contributor to economic activity, is expected to register lower growth, falling from 4.0% to 3.4%, reflecting the broader constraints imposed by deteriorating external market conditions.

- Malaysia's economic outlook for 2025 reflects a delicate balancing act between external challenges and domestic resilience. Trade tensions, while disruptive in the short term, may catalyze structural shifts that position Malaysia as a strategic beneficiary of supply chain realignments. In the near term, strong domestic demand, targeted policy support, and sound macroeconomic management will help the economy navigate ongoing volatility.

- In conclusion, while the downward revision reflects some short-term headwinds driven by a tightening global trade environment and adjustments in key inputs (including a lower Brent crude forecast from USD75 to USD68), domestic demand remains resilient thanks to government cash transfers, robust consumer sectors, and supportive fiscal policies. This cautious outlook is underpinned by a monetary policy stance likely to maintain the Overnight Policy Rate at 3%, ensuring that despite the challenges, there remain opportunities for gradual recovery and sustainable long-term growth.