ASEAN Focus: Indonesia & Malaysia

Lavanya Venkateswaran, Senior ASEAN Economist

Enver Ahmad, ASEAN Economist

Jonathan Ng, ASEAN Economist

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Summary

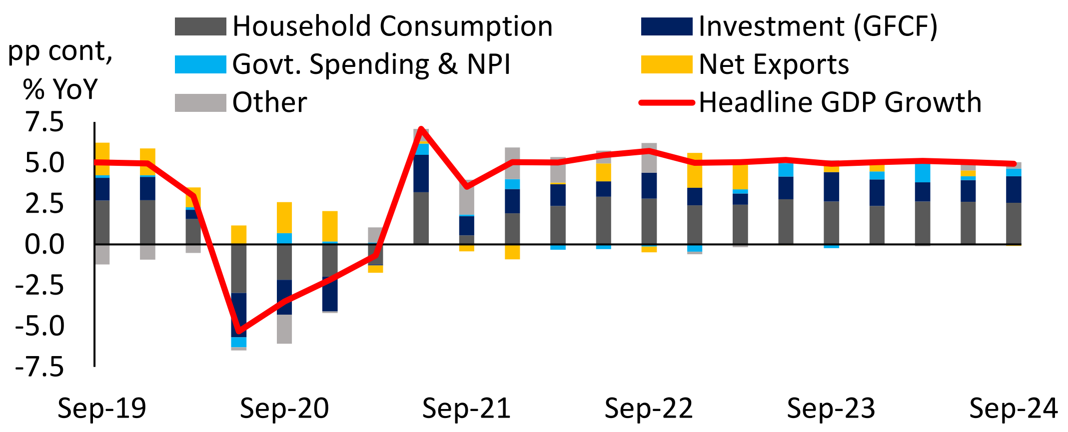
- In the 'ASEAN focus' chart pack series, we will focus on select economies to provide our readers with our in-depth views on the macroeconomic outlook.
- For Indonesia, the growth outlook has been remarkably stable over the past few years and is likely to remain so in 2025. We forecast GDP growth of 5.1% in 2025 versus 5.0% in 2024. Activity data, however, has become increasingly mixed suggesting some downside risks to growth.
- Bank Indonesia (BI) cut its policy rate by 25bp at its 15 January meeting and we expect another 25bp in rate cuts in the coming months.
- For Malaysia, economic growth is firing on all engines. We expect GDP growth to remain resilient at 4.5% YoY in 2025 versus 5.2% in 2024. Some important changes are lined up for this year including the rationalization of RON95 prices, which we expect will come into effect in 2H25.
- Fiscal outcomes will impact an otherwise benign inflation outlook. While our base case is for Bank Negara Malaysia (BNM) to keep its policy rate unchanged at 3.00% in 2025, we expect BNM will be watchful of the persistence and pervasiveness of inflation.
- External risks and uncertainties will linger through 2025, and policymakers in these economies (as with the rest of the world) will likely remain nimble building buffers to mitigate downside risks to growth.

Indonesia

Indonesia: Stable growth in 2025

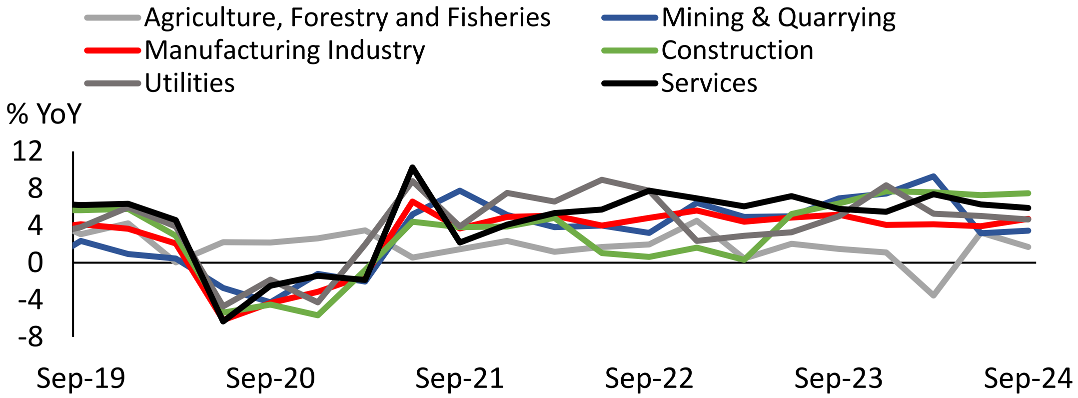
- GDP growth has been remarkably stable since the pandemic, around the 5% handle. We expect 2024 GDP growth to also come in at 5%, before improving to 5.1% in 2025.
- Under our baseline, we expect growth to be supported by resilient domestic demand conditions including higher household spending reflecting lower interest rates, solid credit growth and resilient wage increases. Government spending will be a priority given President Prabowo's focus on raising social spending. Investment spending from the public and private sectors will be bolstered by a continued focus on physical infrastructure development and encouraging FDI's.
- Admittedly, recent economic activity data has become more mixed as indicated by retail sales, cement sales, consumer confidence and monthly trade data.

GDP: Expenditure



Note: Other refers to combined value of change in inventories and statistical discrepancies.
Source: Statistics Indonesia (BPS), CEIC, OCBC.

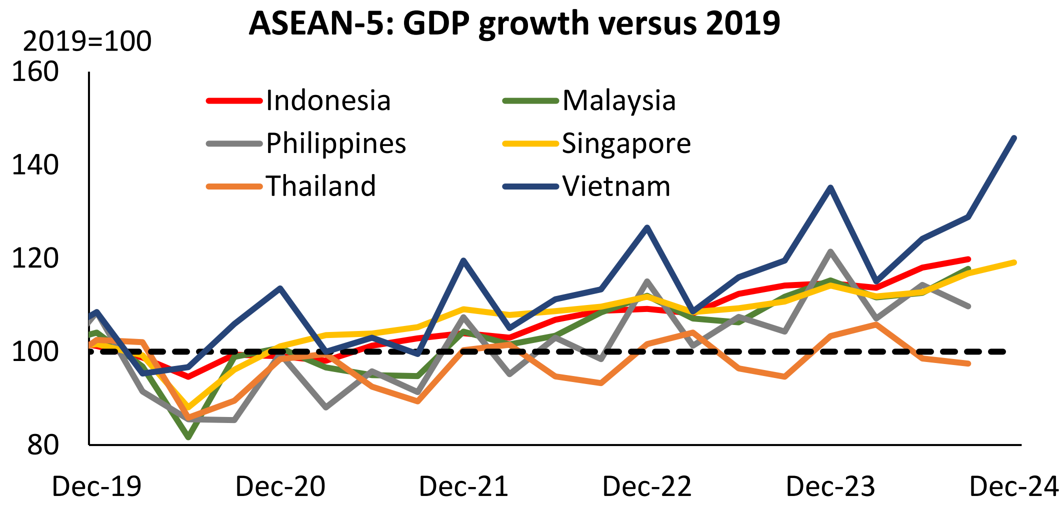
GDP: Industry



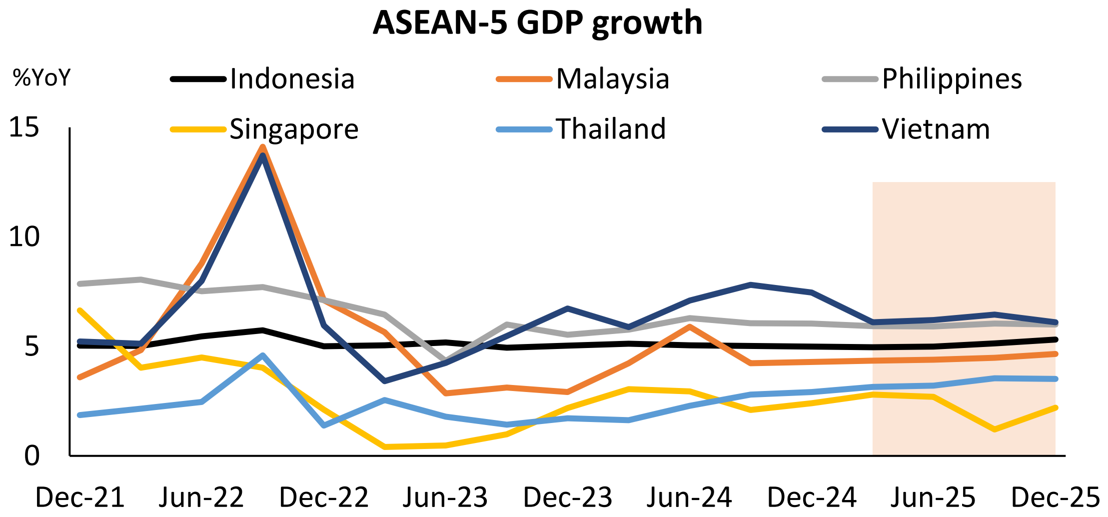
Note: Services = Combined value of Wholesales & Retail Trade, Repairs, Transportation & Storage, Accommodation & Food Beverages Activity, Information & Communication, Financial & Insurance Activity, Real Estate, Business Services, Public Admin, Defence & Social Security, Education Services, Human Health & Social Work Activity, Other Services. Source: Statistics Indonesia (BPS), CEIC, OCBC.

Indonesia: Pandemic scars have faded

- Importantly, economic growth momentum has more than recovered from the pandemic. Indonesia's economy has recovered in a steadier manner than regional peers.
- This has been partly supported by the mix of stead reform momentum and fortuitously higher commodity prices.
- Indonesia's economic growth rate is expected to be at the middle of the pack for 2025 compared to other ASEAN peers. The steadiness in the growth outlook is even clearer when looking at other countries in the region.



Source: CEIC; OCBC Bank

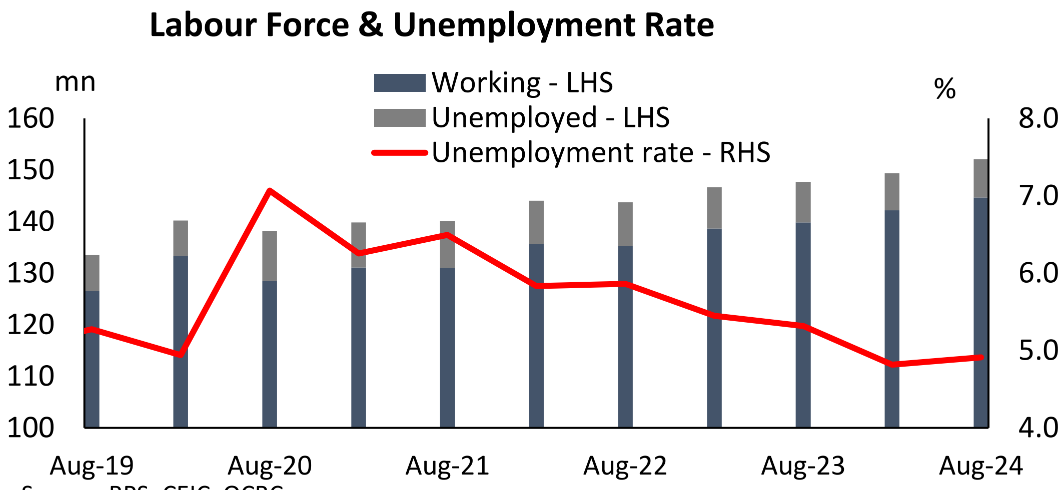


Source: CEIC; OCBC

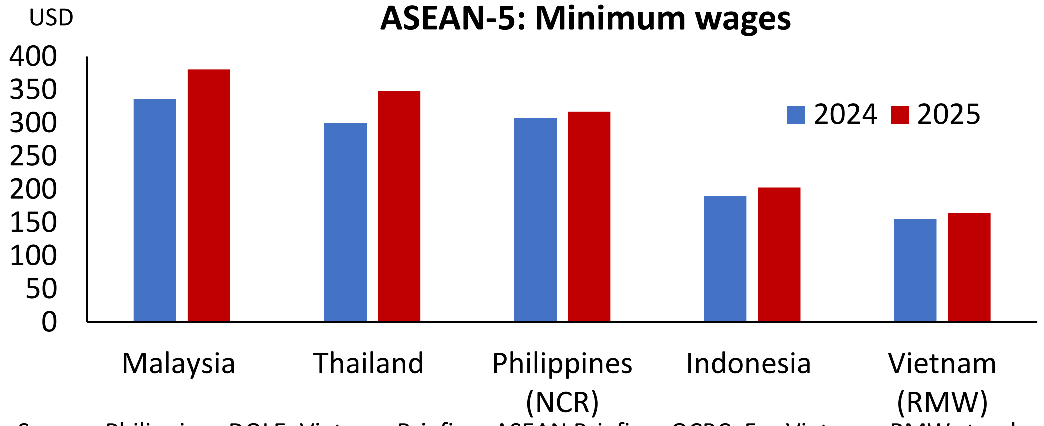
OCBC

Indonesia: Labour market improvements are clear

- There has been a steady decline in the unemployment rate since the pandemic. The unemployment rate fell to 4.9% as of August 2024 from 5.3% in Feb 2024, representing a decrease of 385k people to 7.5mn people.
- Additionally, the number of employed individuals rose by (4.8mn) to 144.6mn people in August 2024. Similarly, the labour force participation rate improved to 70.6% in August 2024 from 69.5% during the same period in 2023. Furthermore, informal employment fell to 58% August 2024 compared to 59.1% in 2023.
- Additionally, wage growth continues as underscored by the 6.5% increase in minimum wages for 2025 and 8% increase in civil servants' salary from January 2024. Although the minimum wage increase does outpace improvements in labour productivity, Indonesia's wages remain competitive compared to regional peers and is positive for further FDI inflows.



Source: BPS, CEIC, OCBC.

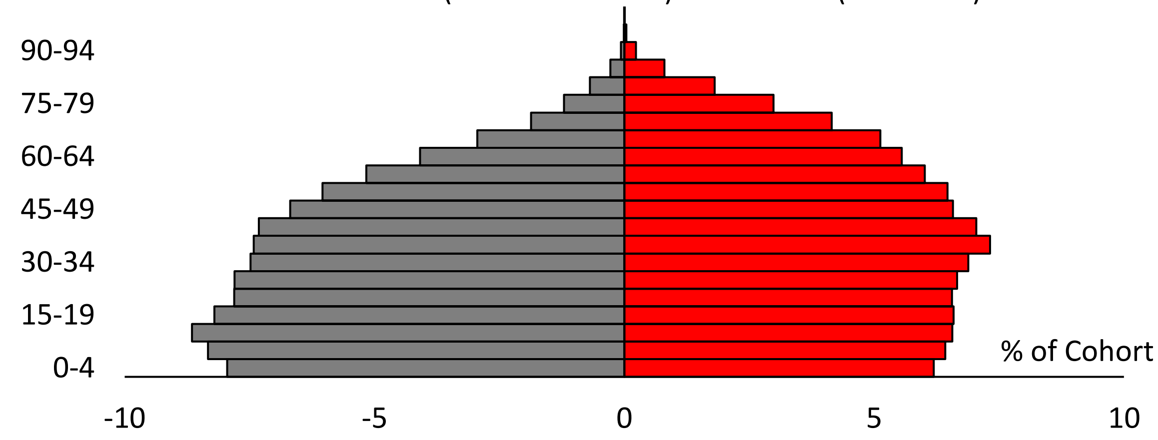


Source: Philippines DOLE; Vietnam Briefing; ASEAN Briefing; OCBC. For Vietnam, RMW stands for regional minimum wages. Monthly minimum wages are computed from daily wages for 30 days. The exchange rate used is as of 12 December 2024.

Indonesia: Labour market fundamentals are strong

- The fundamentals of the labour market remain strong supported by young working age population and a rising middle-class. These bode well for consumption patterns over the medium-term.
- The growth of both the aspiring middle class and the middle class demonstrates some upward social mobility, albeit mixed. The pandemic did impact growth of the middle class and concomitantly increase the proportion of the vulnerable population, the continued improvements in economic activity, reduction in the unemployment rate and higher wage growth signal potential better growth for the middle-class over the medium-term.

Indonesia: Total Population (Both Gender Combined) by Five-year Age Group, 2023 versus 2050



Source: United Nations Department of Economic and Social Affairs, OCBC

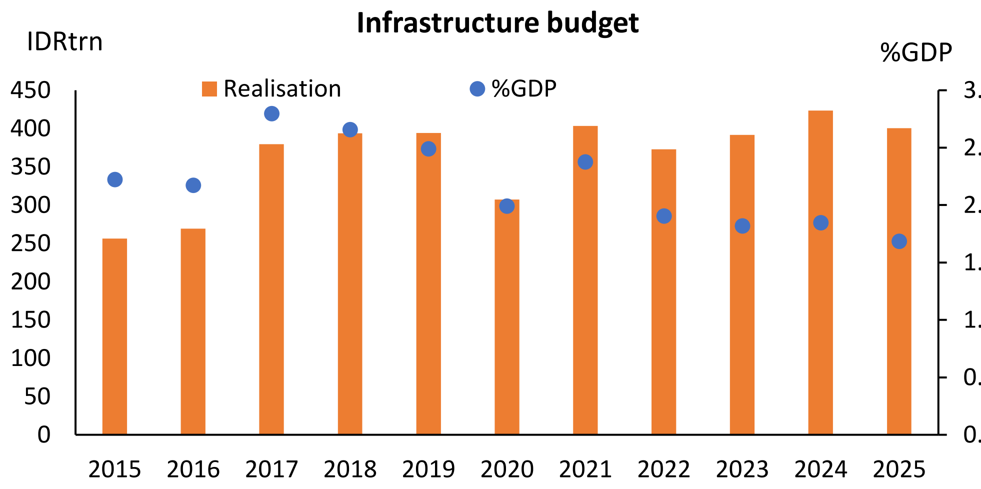
Population distribution in terms of income groups						
mn	**2019**	**2021**	**2022**	**2023**	**2024**	**2024 vs 19**
Poor	25.1	27.5	26.2	25.9	25.2	**0.08**
Vulnerable	55.0	58.3	62.5	64.4	67.7	**12.72**
Aspiring Middle Class	128.9	130.8	134.9	136.9	137.5	**8.65**
Middle Class	57.3	53.8	49.5	48.3	47.9	**-9.48**
Upper Class	1.0	1.1	1.1	1.3	1.1	**0.05**

Note: BPS poverty line is at IDR582.932/capita/month. Class definition. Poor: Below poverty line (PL); Vulnerable: >10% chance of being poor next year, (1.0-1.5xP); Aspiring: <10% chance of being Vulnerable (1.5-3.5xPL); Middle class: <10% chance of being poor or vulnerable (3.5-17 PL); Upper Class: >17xPL. Source: DDTC, BPS, OCBC.

OCBC

Indonesia: Focus on infrastructure spending steadfast

- The authorities have been steadfast in their focus on building physical infrastructure across the archipelago.
- The list of priority infrastructure projects remain well distributed across all the islands and the infrastructure budget has been maintained at 1.7%-1.8% of GDP over the past few years.
- The focus on building rail, road, bridge and port connectivity will continue into 2025 underscored by certain priority projects.



Source: CEIC; OCBC. Note 2024 and 2025 numbers are from the budget document.

Selected PSN Projects	Details	Total investment (IDRtrn)	Status
Balikpapan – Samarinda Toll Road	99.4km toll road located in Balikpapan, East Kalimantan	8.5	Completed
Serang - Panimbang Toll Road	83.6km toll road located in Serang, Banten	9.9	Partial Operation
Pekanbaru - Kandis - Dumai	135km toll road part of the Trans Sumatra toll	16.2	Completed
Probolinggo – Banyuwangi Toll Road	170.4km toll road located in Java	21.1	Under construction
Pekanbaru - Bangkinang - Payakumbuh - Bukittinggi	185km toll road part of the Trans Sumatra toll	28.7	Under construction
Kuala Tanjung International Hub Port	Port development estimated to increase container volume flows to 12.5mn TEUSs in 2039. Located in Kuala Tanjung, North Sumatra	30	Partial Opertaion
Patimban Port	Construction of a port with a container terminal with an estimated capacity of 75mn TEUs. Located in Patimban, Subang, West Java	43.2	Partial Opertaion
Morowali Smelter	Construction of Morowali Smelter located in Central Sulawesi	32.4	Completed
Konawe Smelter	Construction of Konawe smelter on an area of 351 Ha, located in South Sulawesi	13.4	Completed

Source: Komite Percepatan Penyediaan Infrastruktur Prioritas (KPPIP), OCBC.

Indonesia: Private sector participation is being encouraged

Government Guarantee Programme	
Credit Guarantee	Power (Electricity) – Full credit guarantee for PT PLN's debt payment obligations under FTP 1 10.000MW and 35GW programs*
	Clean water – Guarantee for 70% of PDAM's debt principal payment obligations
	Toll road – Full credit guarantee for PT Hutama Karya's debt payment obligations for the development of Sumatra Toll Roads
	Infrastructure - Full credit guarantee on SOE's borrowing from international financial institution & financing guarantee for PT SMI's local infrastructure
	Public Transportation (Light Rail Transit) – Full credit guarantee for PT Kereta Api Indonesia's debt payment obligations for the development of LRT Jabodebek
	Jakarta-Bandung High Speed Train – Full credit guarantee in order to fulfill obligation of sharing amount of capital into joint corporation or to financing the cost overrun of KCJB project.
Business Viability Guarantee	Power (Electricity) – Guarantee for PT PLN's obligations under Power Purchase Agreements with IPPs (off-take and political risk) under FTP-2 10.000MW and 35GW programs*
PPP Guarantee	Infrastructure – Guarantee for Government-related entities obligations (line ministries, local governments, SOEs, local SOEs) under PPP contracts/agreements
Political Risk Guarantee	Infrastructure – Guarantee for infrastructure risk of National Strategic Projects (Presidential Decree No.58/2017) which are not covered by other type of guarantees

Source: Indonesia Investor Relation December 2024.

- Maximum new guarantee issuance for the period 2024-2027 is set at 0.6% of GDP per year.
- Starting from 2008 the Government has allocated a contingent budget with respect to these guarantees. The allocated fund is then transferred to a guaranteed reserve fund. This reserve fund can be used to serve any claims that may arises from the guarantees.

No	Central Government Guarantee for Infrastructure Programs	Exposure/ Outstanding (USDbn)
1	Coal Power Plant 10,000MW Fast Track Program (FTP 1)	0.1
2	Renewable energy, Coal and Gas Power Plant 10,000 MW (FTP 2)	4.0
3	Electricity Infrastructure Fast Track Program (35 GW)	5.7
4	Direct Lending from International Financial Institution to SOEs	2.3
5	Public –Private Partnerships (PPP)	6.8
6	Sumatera Toll Road	1.8
7	Light Rail Transit Jabodebek	1.5
8	Jakarta-Bandung High Speed Train	0.5
9	Clean Water Supply Program	0.0
10	Regional Infrastructure Financing	0.1
Total		**22.6**

Source: Indonesia Investor Relation December 2024.

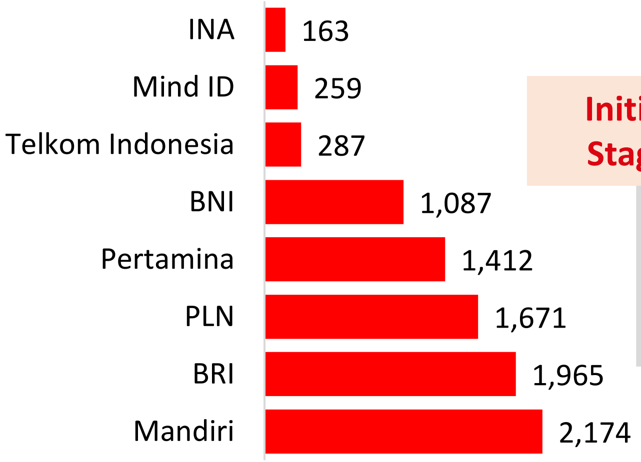
Source: Statistics Indonesia (BPS), CEIC, OCBC.

Indonesia: Setting up of a Sovereign Wealth Fund (Danantara)

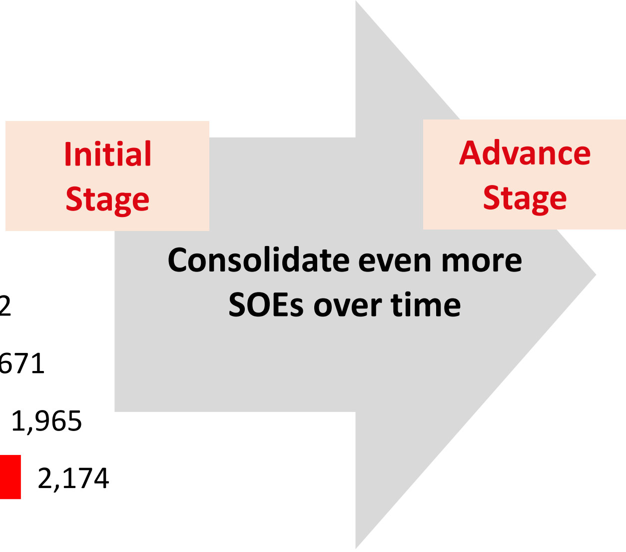
- The proposed establishment of the Daya Anagata Nusantara (Danantara), as both a superholding agency for SOEs and an investment management agency, highlights President Prabowo's focus on a more coordinated and strategic approach to managing national investments. Early reports indicated that Danantara will directly report to the President.
- Danantara's three pillars are: 1) Asset management – consolidating the assets of SOEs, 2) Investment management under the sovereign wealth fund (INA), which will be "widened and optimized," and 3) Investment banking under SOE banks and the Ministry of Finance's special mission vehicles (SPO), which will channel funds to infrastructure and other long-term projects.
- The timeline for the introduction of Danantara is unclear along with the subsequent reorganisation of the SOE ministry.

Proposed initial holdings

(Total asset: IDR9,018trn)



Note: Assets as of December 2023.

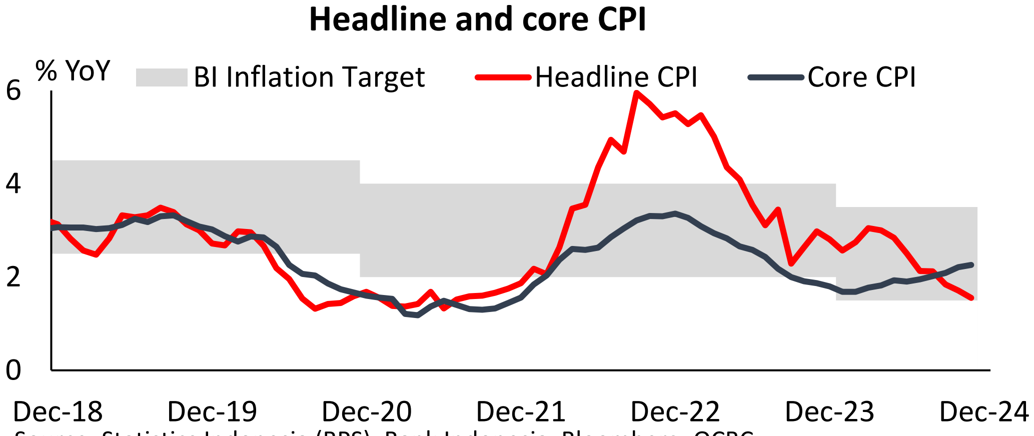


Total Assets: *IDR10,402trn*	Distribution of Portfolio Assets by Cluster (%)	Directly Owned	Delegated	Liquidation Process	Total
Financial Services	48.9	4			4
Energy, Oil & Gas Industry	26.6	2			2
Infrastructure	5.6	9			9
Insurance & Pension funds	5.1	5			5
Telco & Media services	2.5	2			2
Mineral & Coal	2.3	1			1
Logistic Services	2.1	7			7
Food & Fertilizer	1.9	3			3
Tourism & Support	1.8	3			3
Plantation & Forestry	1.4	2			2
Manufacturing	0.9	3			3
Investment company	0.7	5	17	1	23
Healthcare	0.3	1			1
Total	**100**	**47**	**17**	**1**	**65**

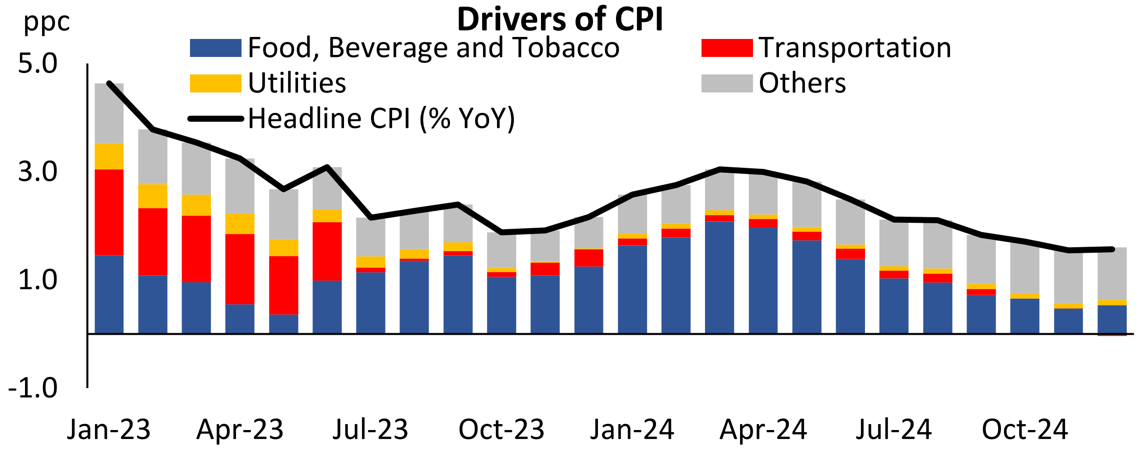
Source: Ministry of SoE, OCBC. Delegated to Danareksa for controlling stake.

Indonesia: Inflationary pressures have been well-managed

- Headline inflation picked up marginally to 1.6% YoY in December versus 1.5% in November, within Bank Indonesia's target range of 1.5% to 3.5%. Headline CPI averaged 2.3% YoY in 2024, compared to 3.7% in 2023. Meanwhile, core figure remained unchanged at 2.3% YoY in December.
- The disinflation trajectory has remained on track for overall price pressures led by well managed food prices (more on next slide) and transportation prices. Indeed, retail fuel prices have remained stable since September 2022. Recently, core inflation has been higher than headline inflation reflecting higher global gold prices.
- The inflation outlook for 2025 remains benign. The 1% VAT tax rate increase was limited to luxury items, while the government announced 50% electricity tariff discounts in January and February 2025 for some 81.4mn households whose electricity usage is below 2200 VA (~97% of PLN’s customers). These should offset the ~9.5% price hike for tobacco (effective 1 Jan 2025). As such, we expect headline inflation to average 2.8% YoY this year.



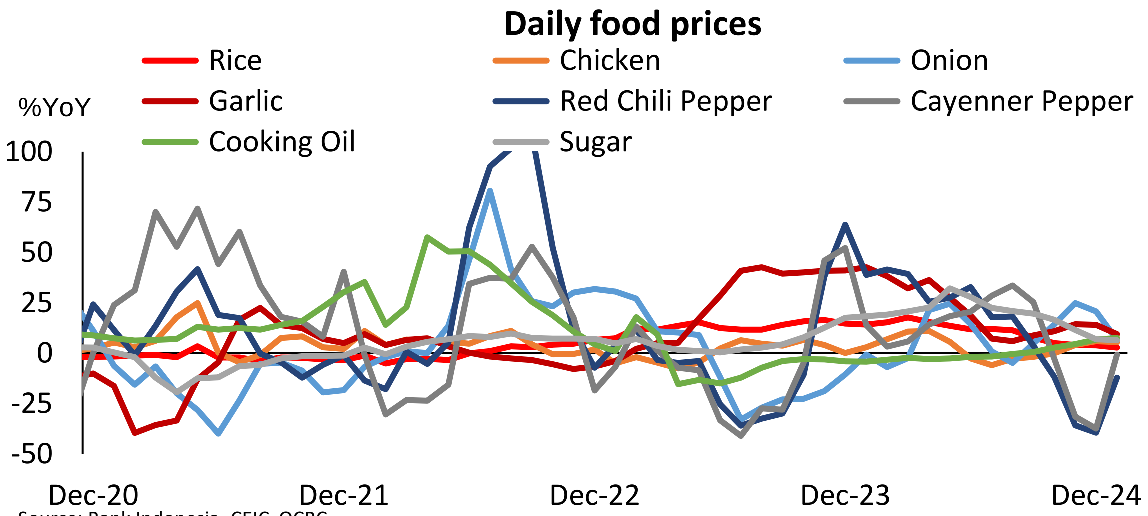
Source: Statistics Indonesia (BPS), Bank Indonesia, Bloomberg, OCBC.



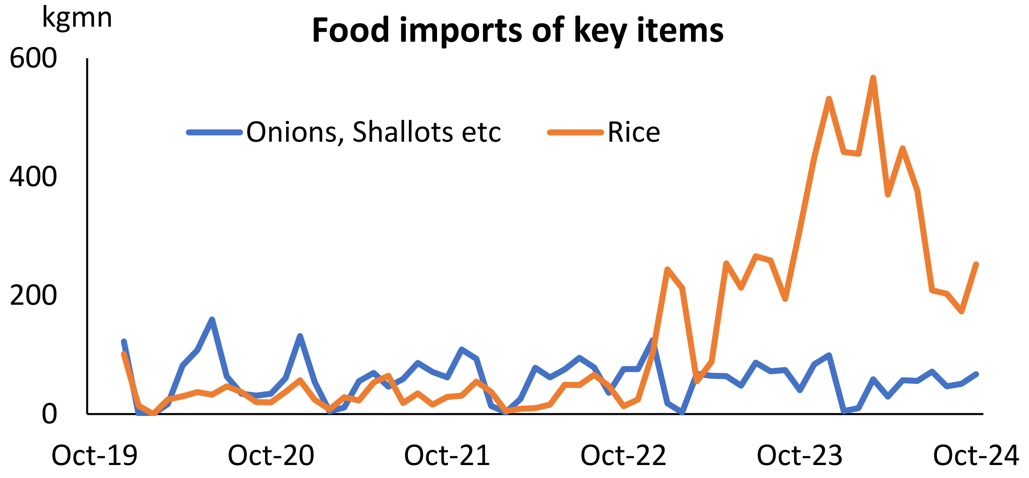
Source: Statistics Indonesia (BPS), Bloomberg, OCBC.

Indonesia: Government and BI efforts are paying dividends

- Food price policies adopted in coordination between the government and Bank Indonesia (BI) have been a success in recent years. Even as late as 2019, the seasonal fluctuations in volatile food prices were a source of risk for the inflation outlook.
- The setting up of regional food price monitoring centers, timely implementation and changes to food import quotas have helped mitigate risks around volatile food prices. We expect this practice to continue over the medium-term allowing for more informed decisions and less fluctuations in prices.
- The risk is that the incoming administration free meal scheme could increase the demand for basic food items and hence, some food price volatilities might arise on this account.



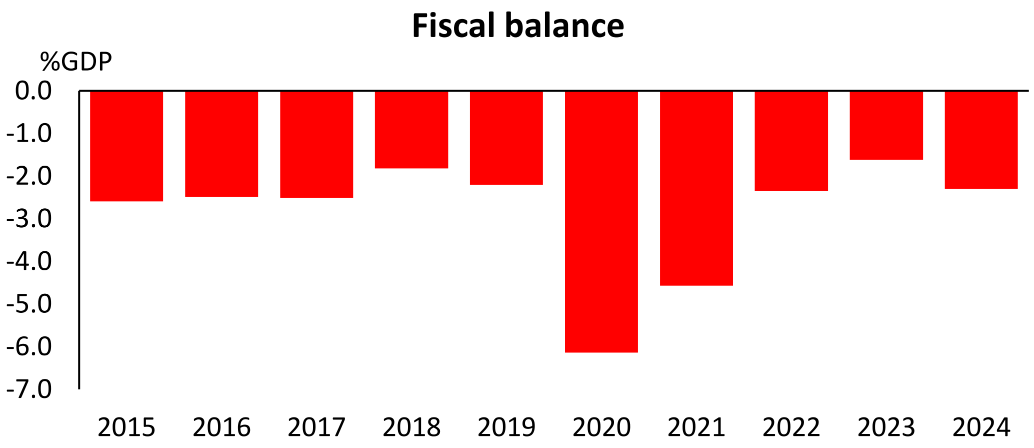
Source: Bank Indonesia, CEIC, OCBC.



Source: CEIC; OCBC.

Indonesia: Comfortable fiscal position

- The government continues to adhere to its fiscal rules of keeping the deficit below 3% of GDP and public debt below 60% of GDP. For 2024, the unaudited results, showed that the fiscal deficit was narrower-than-expected at 2.3% of GDP versus the outlook of 2.7% of GDP.
- The government has pegged the 2025 fiscal deficit at 2.5% of GDP. But the additional space provided by the narrower-than-expected 2024 fiscal outturn provides room for the budget to pursue more expansionary fiscal policies, if needed.
- The flagship expenditure program for 2025 is the 'free meal scheme', which has started in a pilot manner in certain parts of the country.

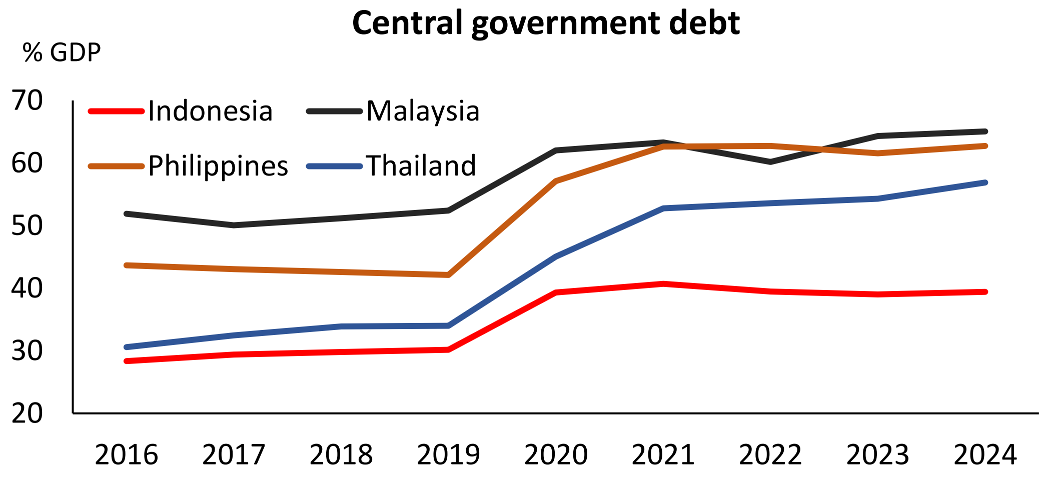


Note: RE refers to Revised Estimate, while PB refers to Proposed Budget.
Source: MoF, CEIC, OCBC.

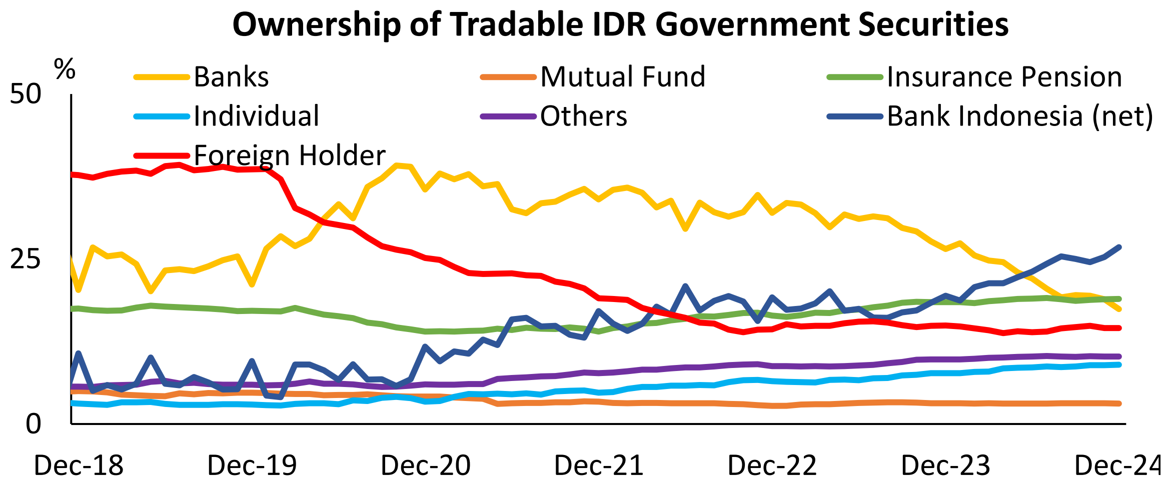
Accounts (IDR tn)	2023	2024		
	Realization	Budget	Budget Outlook	Realization (Unaudited)
Revenue & Grants	2784	2802	2806	2843
Tax Revenue	2154	2310	2218	2233
Tax	1868	1989	1922	1932
Customs & Excise	286	321	297	300
Non-Tax Revenue	613	492	549	580
Grants	17	0	35	30
Expenditure	3121	3325	3412	3350
Central Government	2240	2468	2558	2487
Regional Transfer	812	858	854	864
Surplus (Deficit)	-337	-523	-610	-508
% of GDP	-1.6	-2.3	-2.7	-2.3

Indonesia: Public debt levels remain below regional peers

- The public debt to GDP ratio at 39.2% of GDP (as of November 2024) is well below the legal limit of 60% of GDP and lower than regional peers or similarly rated sovereign peers.
- This leaves room for further fiscal expansion. President-elect Prabowo has indicated a keenness in becoming more expansionary in terms of the fiscal deficit as well as public debt. Based on the current profile, there is room to do so. There are also reduced external vulnerabilities in terms of foreigner holdings of government bonds, which has reduced sharply from 38.6% of outstanding in December 2019 to 14.5% as of December 2024.
- That said, the mechanics of the pursuing expansionary fiscal policies and clear communication with investors will be critical to maintaining investor confidence.



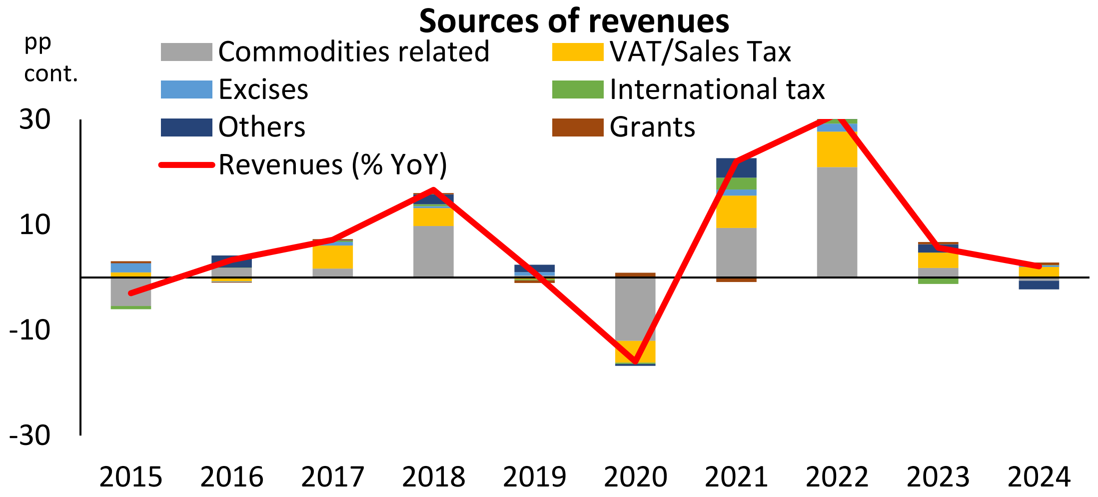
Source: CEIC, OCBC.



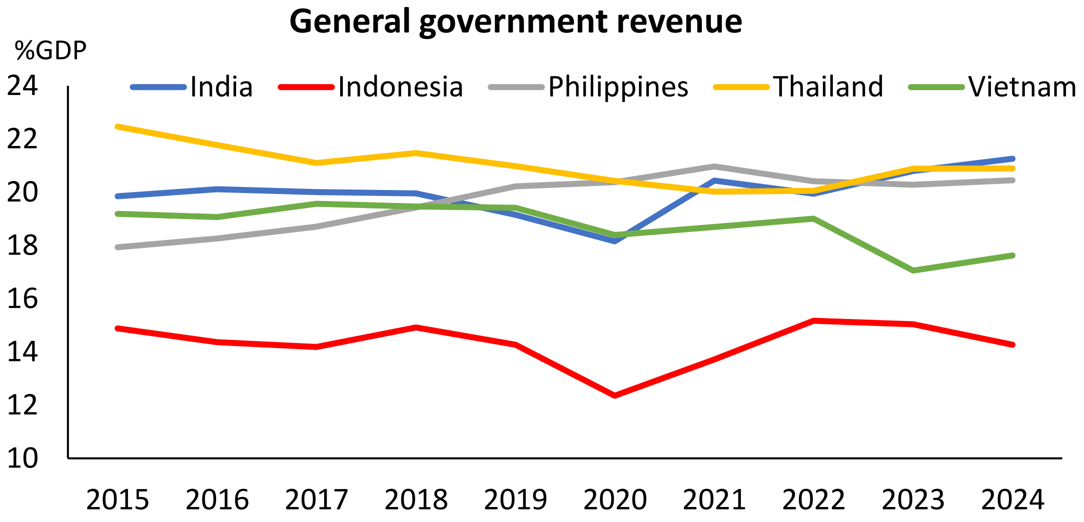
Note: Others such as security company, corporations, and foundation. Last updated: 9 January 2025.
Source: Bank Indonesia, CEIC, OCBC.

Indonesia: Fiscal risks – spending constrained by low revenues

- Revenue growth eased significantly in 2023 and 2024 as commodity tailwinds faded and the drag from commodity prices became more apparent. Apart from the watered down 1% increase in the VAT rate to 12% from 11% for luxury goods, not many major tax policy changes are due for this year.
- The World Bank has set out certain recommendations to raise tax revenues, considering Indonesia's general government revenue to GDP ratio is the lowest amongst regional peers. The recommendations include a) broadening the tax base by reducing the registration threshold for VAT, removing special treatments and concessional schemes, rationalizing tax incentives; b) increasing compliance by strengthening access to high-quality third-party data and simplifying regulations.



Note: We define commodities related revenues as Oil & Gas Tax and Non Tax revenues.
Source: MoF, CEIC, OCBC.



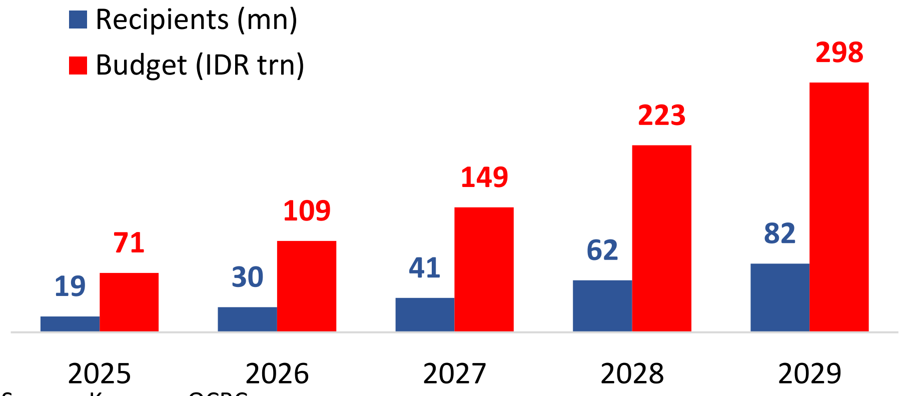
Source: IMF Fiscal Monitor Oct 2024, OCBC.

OCBC

Indonesia: Free Nutritious Meal

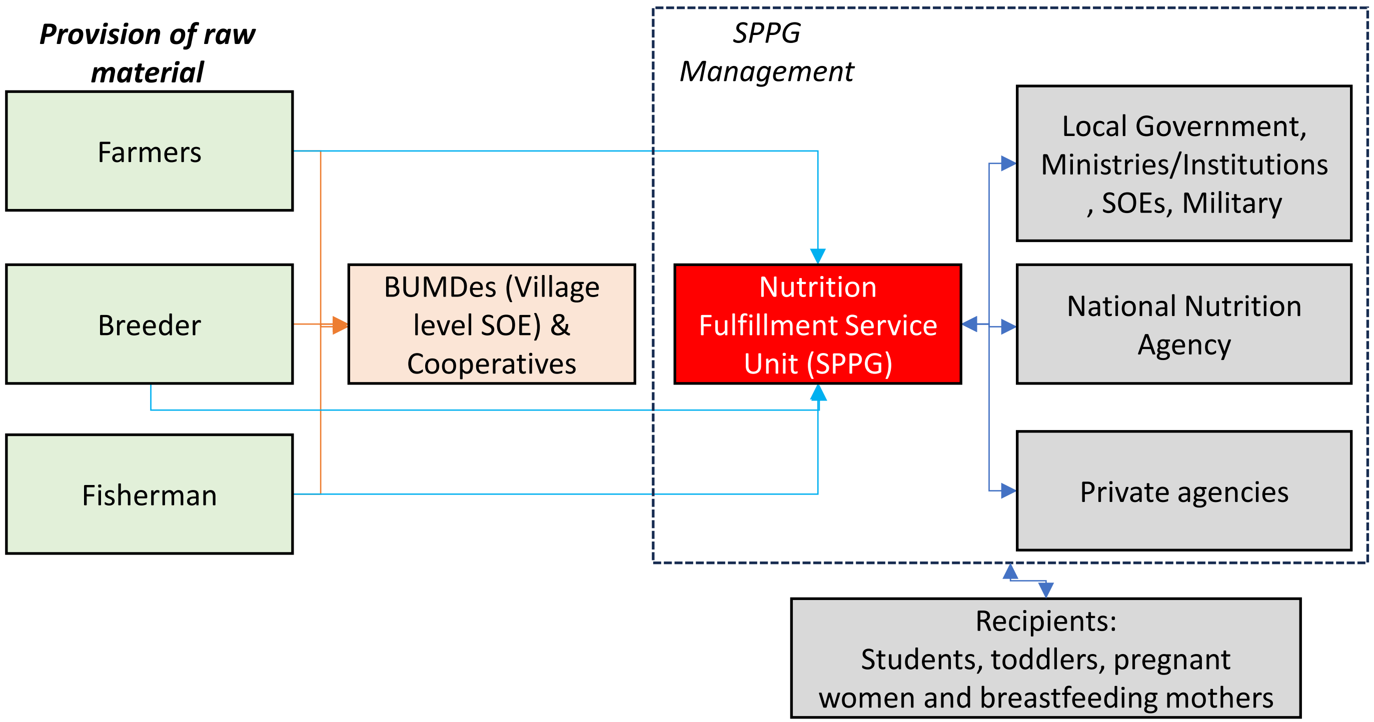
- The government has launched President Prabowo Subianto's flagship campaign promise to provide free nutritious meals (MBG) to over a quarter of the population, starting with some 570k beneficiaries on its opening day on Monday (6 January 2025). Meals of rice and fried chicken were provided to school children and pregnant women across 26 provinces.
- The program is budgeted at IDR71trn (0.3% of GDP) in its initial year and aims to provide meals for 15mn people. The initiative, designed to address child malnutrition and boost economic growth, plans to serve over 82mn people by 2029, despite concerns over its estimated IDR450trn (1.2% of GDP) cost over five years.

Budget Plan and Target Recipients of Nutritious Meals



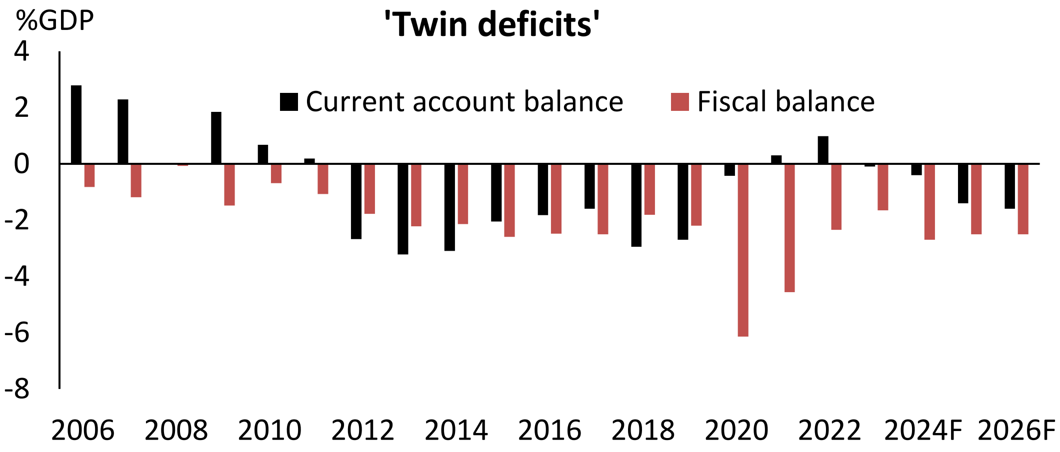
Source: Kompas, OCBC.

Free Nutritious Meal Programme Ecosystem

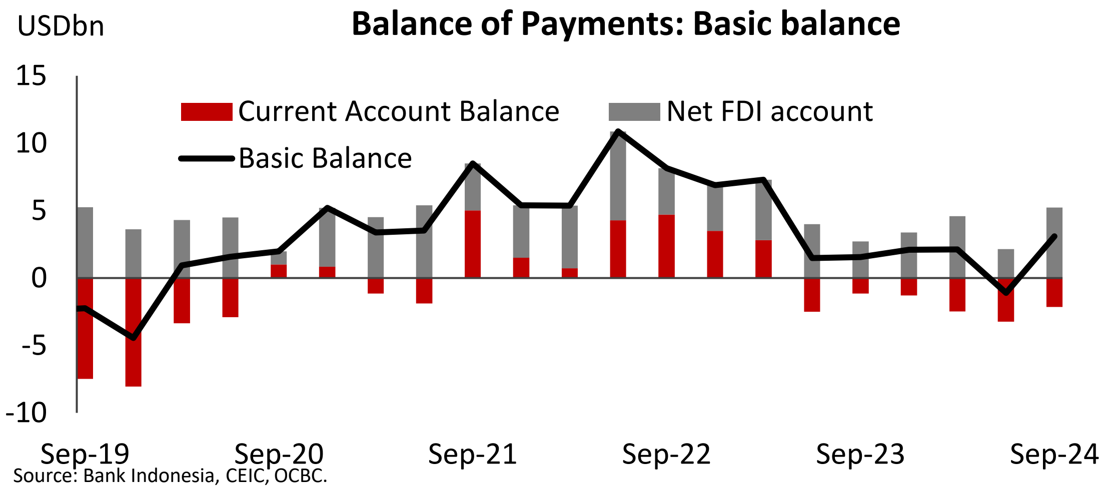


Indonesia: The return of 'twin deficits'

- The 'twin deficits' on the current account and fiscal balance returned in 2024 and will likely continue into the medium-term. We forecast the current account deficit to widen to 1.4% of GDP in 2025 and 1.6% of GDP in 2026 from 0.6% in 2024.
- The wider current account deficits will largely be driven by the goods trade balance and higher primary income deficits. The former reflecting higher import needs compared to exports and the latter reflecting higher FDI dividend repatriations on account of increased FDI inflows.
- There will be greater focus on the economy's ability to finance the current account deficit through portfolio and FDI inflows. Although the basic balance (net FDI + current account balance) was in a surplus for the past few years, more frequent current account deficits could see an increased reliance on volatile portfolio flows.



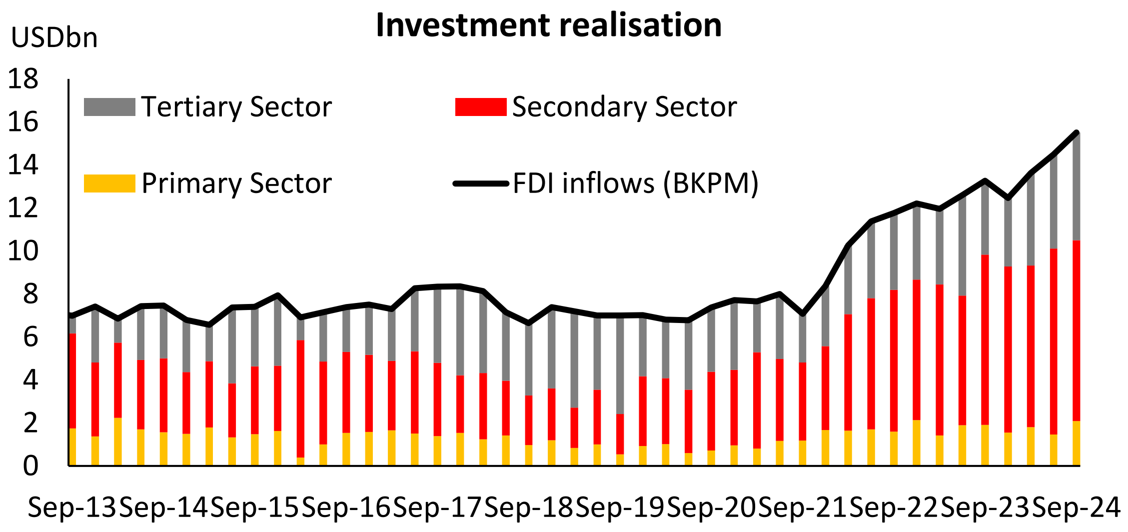
Source: Bank Indonesia, CEIC, OCBC



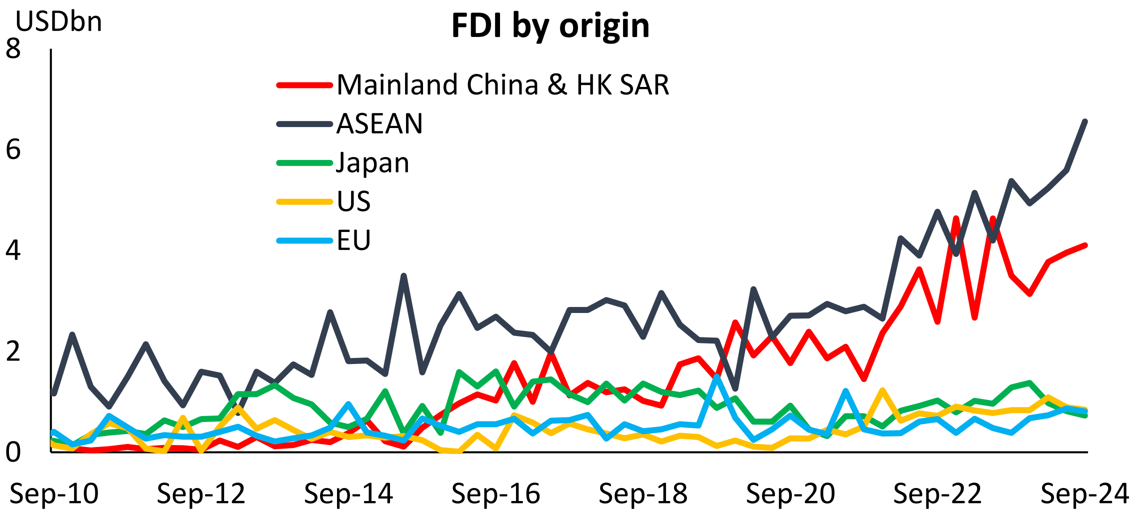
Source: Bank Indonesia, CEIC, OCBC.

Indonesia: FDI's have risen but from limited sources

- FDI inflows, as measured by the Investment Coordination Board (BKPM), showed that the economy registered USD43.6bn inflows for 1Q-3Q24. FDI inflows have risen noticeably over the past few years from USD28.2bn in 2019 to USD50.3bn in 2023.
- A bulk of the inflows have been directed to the manufacturing sector followed by the services sector. A focus on the adding value to the minerals' exports, as well as broadly attracting more FDI into the trade and transportation sectors has paid dividends.
- By country, FDI inflows are shown to be mainly from two regions, ASEAN & Mainland China & HK SAR. Inflows from US and Japan have reduced in recent quarters.



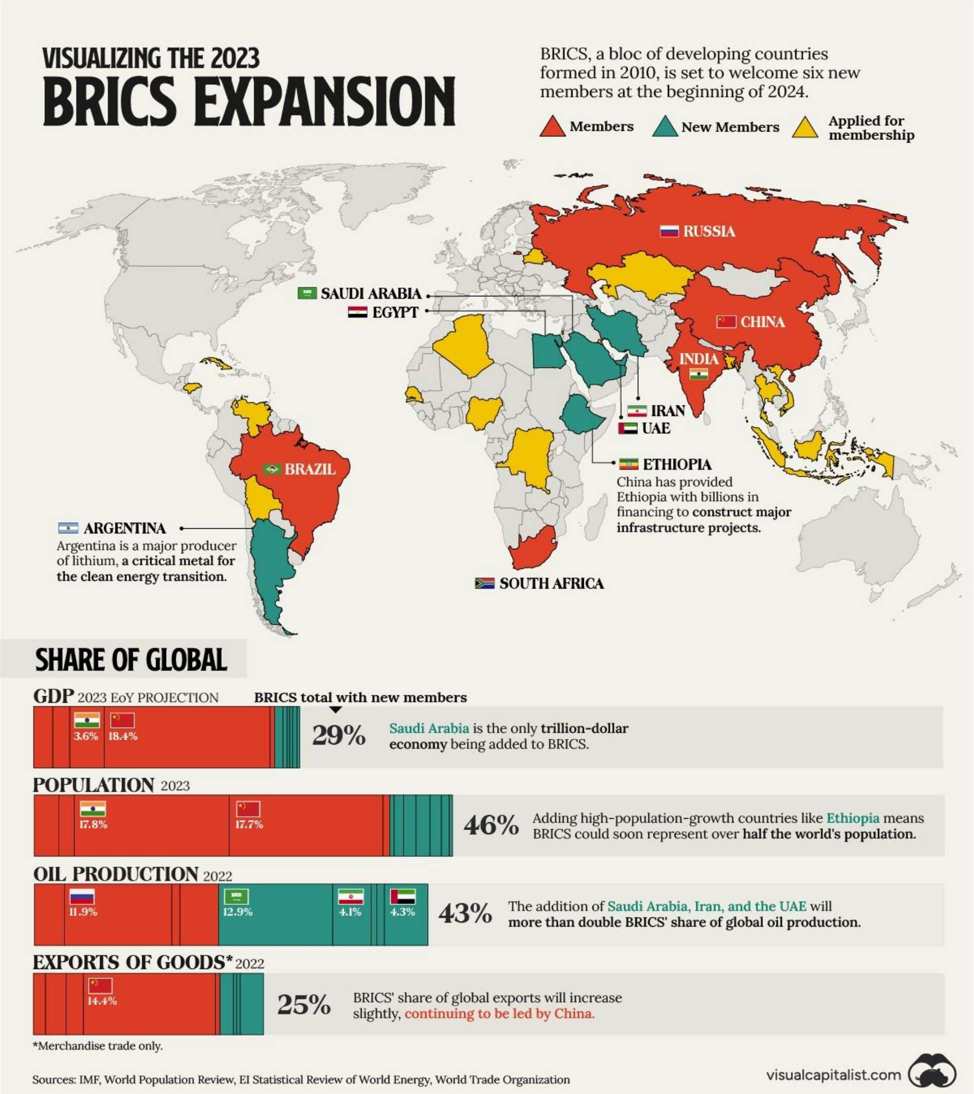
Source: BKPM, CEIC, OCBC



Source: BKPM (quarterly data), CEIC, OCBC.

Indonesia: Broadening trade partners will help (BRICS Membership)

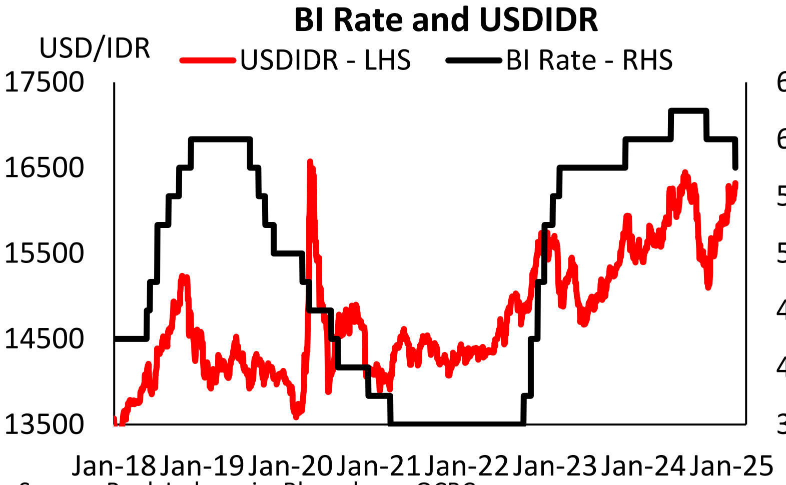
- Indonesia has officially joined BRICS as a full member, as announced by Brazil's government on 6 January 2025, marking another step in the group’s expansion. Indonesia views its membership as a strategic move to enhance collaboration among developing nations and to promote South-South cooperation in global governance.
- Meanwhile, Malaysia, Vietnam, and Thailand have shown an interest in joining the BRICS+ alliance. We believe the desire to accede to the formal alliance is unlikely to waver (at for the near-term) following US President-elect Donald Trump’s suggestion of 100% tariffs on these countries should they “move away from the dollar…”.
- President-elect Trump said in 2024, “we require a commitment from these countries that they will neither create a new BRICS currency nor back any other currency to replace the mighty US dollar or they will face 100% tariffs and should expect to say goodbye to selling into the wonderful US economy.”
- As it stands, the BRICS+ is an alliance of economies at different stages of development. While the ambition is to increase trade and investment flows, the path is less clear cut. Indonesia does not have an FTA agreement with the US.



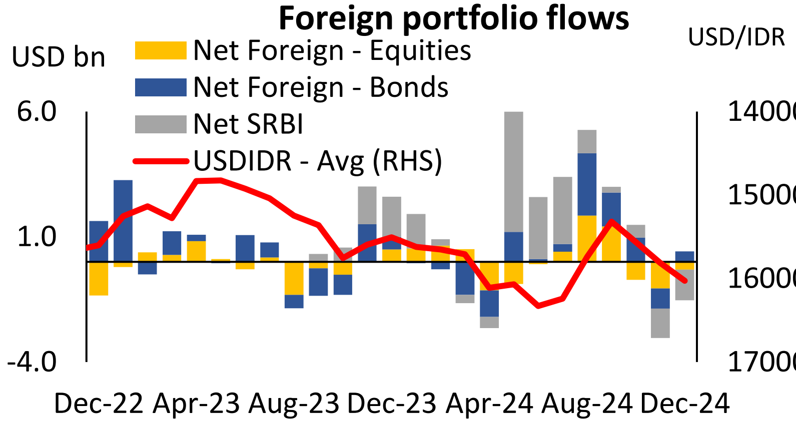
Source: BPS, BI, Indonesia Cement Association, GAIKINDO, CEIC, OCBC.

Indonesia: Monetary policy – BI rate focused on IDR

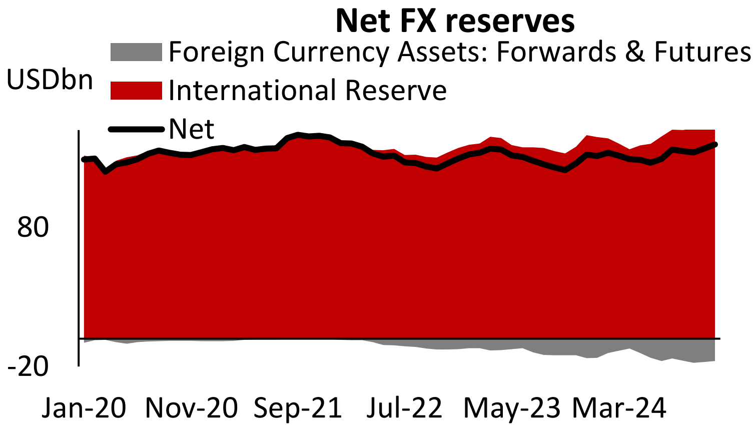
- BI shifted to a clear growth focus at its 15 January meeting, lowering its policy rate by 25bp. We expect another 25bp cut from BI in the coming months.
- BI has adopted a multipronged approach to monetary policy, smoothing volatile FX moves and attracting portfolio inflows. BI introduced the SRBI instrument in September 2023, to attract inflows to support the currency. The authorities also introduced FX term deposits for export proceeds in August 2023 to encourage exporters to repatriate foreign earnings. Most exports park funds in the 3 months tenor, which is the minimum mandated period. The government is considering extending this minimum period to 12 months.
- The window of opportunity to deliver further rate cuts is limited for 2025 given that external pressures are likely to persist from uncertainties surrounding US trade policies. Hence, we expect a relatively modest rate cutting cycle.



Source: Bank Indonesia, Bloomberg, OCBC.



Note: Last updated: 9 January 2024. Source: IDX, MoF, BI Bloomberg, CEIC, OCBC.



Source: CEIC; OCBC. We assume interpolate the forward book for Sep and Nov 24.

Indonesia: Macroprudential policies supportive of growth

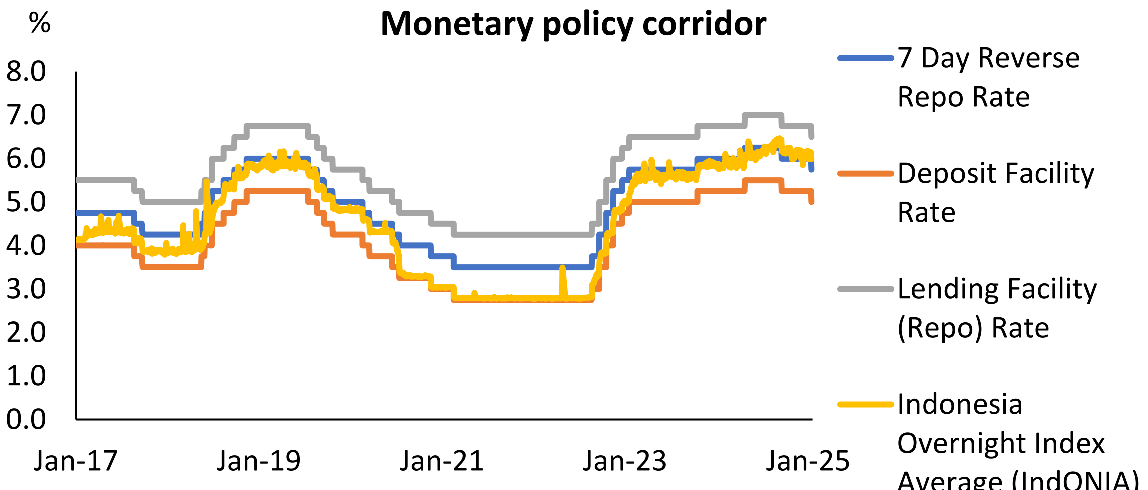
- Although the BI rate has remained elevated, macroprudential policies have been geared towards supporting credit and economic growth.
- The reserve requirement ratio for banks can be lowered by as much 5-6% compared to 9% after BI expanded reductions to additional priority sectors, including agriculture, manufacturing, wholesale trade, and micro enterprises. This policy, known as the Macroprudential Liquidity Incentive Policy (KLM), will increase by IDR39trn for 2025.
- BI also extended the 100% loan-to-value ratio for mortgages and zero down payment for car loans until the end of 2025. Finally, BI offered zero fees on QR-based payments below IDR0.5mn for micro enterprises.
- These measures are expected to keep consumer and industry credit growth supported into 2025. BI targets loan growth of 10-12% in 2024 and 11-13% in 2025 & 2026.

BI Macroprudential Incentives (KLM)	MPC: Apr 2024. (Effective June 2024)	
	Sub-sector coverage:	64
	Maximum Incentives:	400+
Downstream Sector: Minerals and non-minerals	Maximum incentive:	80
	Threshold credit/financing growth	incentive
	≥2% - 5%	60
	>5% - 8%	80
	>7%	80+
Housing Sector	Maximum incentive:	40
	Threshold credit/financing growth	incentive
	≥2% - 5%	30
	>5% - 6%	40
	>6%	40+
Hospitality and Creative economy	Maximum incentive:	50
	Threshold credit/financing growth	incentive
	≥3% - 7%	40
	>7% - 8%	50
	>8%	50+
Automotive, trade, electricity-gas-water (LGA, and social services	Maximum incentive	50
	Threshold credit/financing growth	incentive
	≥3% - 7%	40
	>7% - 8%	50
	>8%	50+
Green credit/financing	Maximum incentive:	50
	Threshold share of KP/PP & KKB/PKB*	incentive
	>0%	50

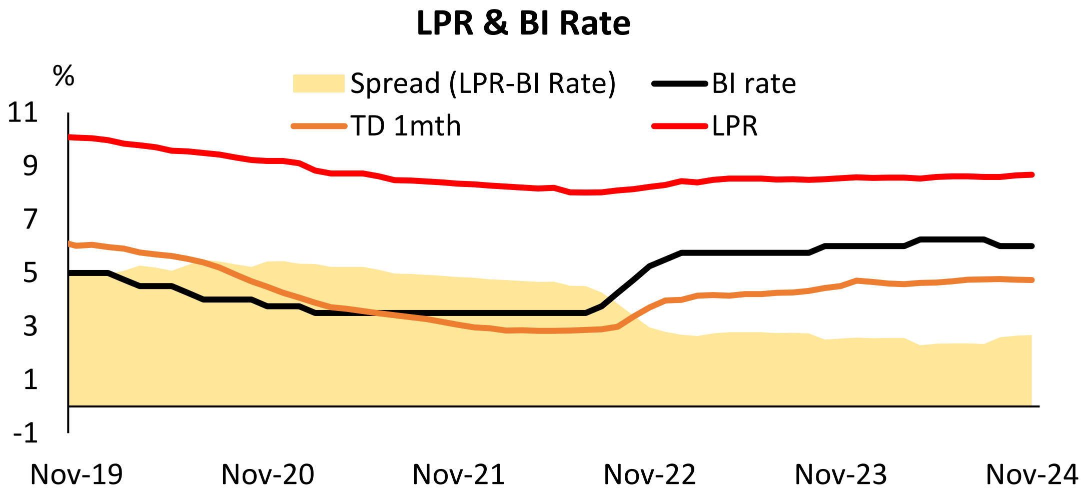
Note: (+) is an additional incentive for banks with high credit growth with an amount of 0.2% for each sector or a maximum total incentive of 4% for each bank. RPIM: Macroprudential Inclusive Financing Ratio, KP: Property Loans, PP: Property Financing, KKB/PKB: Advances for Credit or Motor Vehicle Financing.

Indonesia: BI shifting to growth support

- BI is adopting a multi-pronged approach to monetary policy. It is using the policy rate to manage IDR risks, SRBI and other monetary instruments to attract portfolio flows and macroprudential measures to support credit and economic growth. The challenge for BI will be to sync its policy approach ultimately.
- The BI policy rate remains the anchor for the interest policy corridor. The interbank rate, Indonesia Overnight Index Average (IndONIA), is still expected to hover close to the policy rate indicating stable domestic liquidity conditions. The BI rate is also the reference rate for bank loans, underscored by the loan prime rate (LPR) and term deposit rates, keeping it relevant for the domestic banking sector.
- BI shifted to a clear growth focus at its 15 January meeting, lowering its policy rate by 25bp. We expect another 25bp cut from BI in the coming months.



Source: CEIC; OCBC.

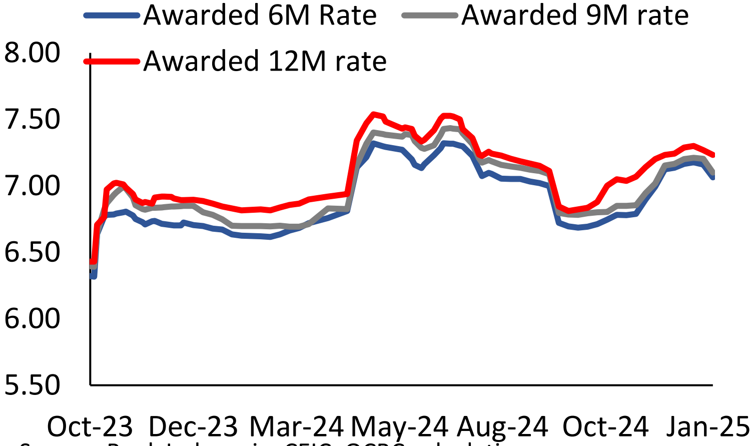


Source: Bank Indonesia, CEIC, OCBC Calculation.

Indonesia: Monetary policy – dealing with uncertainties

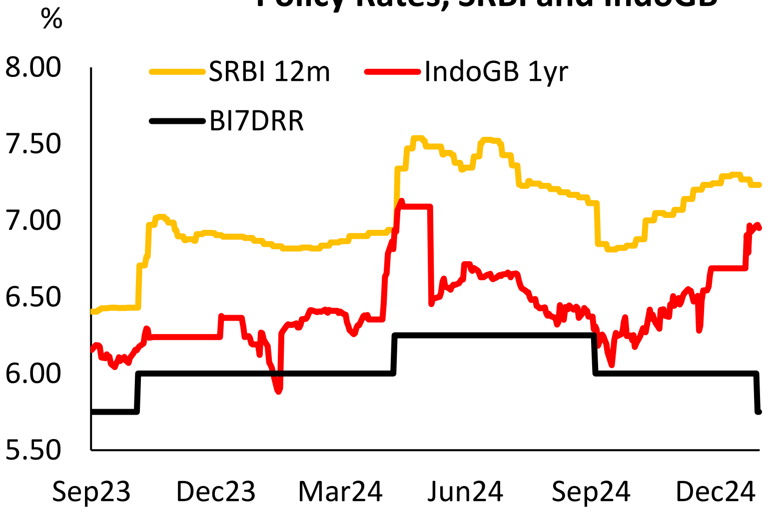
- The challenge for BI is linking policy rate moves to the newly introduced SRBI rate. SRBI rates at recent auctions have been above 7.00% across the 6M, 9M and 12M tenors. Notably, the SRBI rate awarded came off at the 10 January auction from the previous auction on 3 January.
- The foreigner holding of SRBI instruments have come down in recent months, but outstanding remains sizeable at IDR91.06trn as of end December 2024 (24.3% of total outstanding). The instrument has increased BI's liabilities to non-residents and BI will need to continue to manage issuances compared to maturities so to keep its liabilities manageable.
- The question now is how BI will square off communicating its potential policy rate cuts and its SRBI policy to maintain the relevance of the policy rate.

SRBI - Auction Results



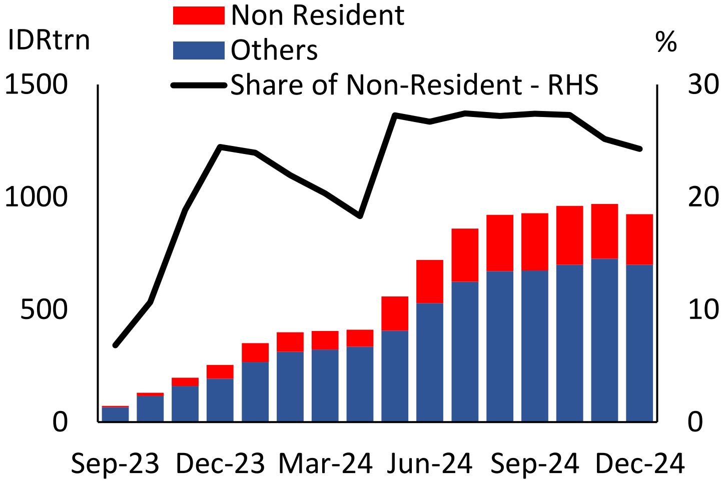
Source: Bank Indonesia, CEIC, OCBC calculation.

Policy Rates, SRBI and IndoGB



Source: Bloomberg, OCBC.

SRBI Ownership



Source: Bank Indonesia, CEIC, OCBC.

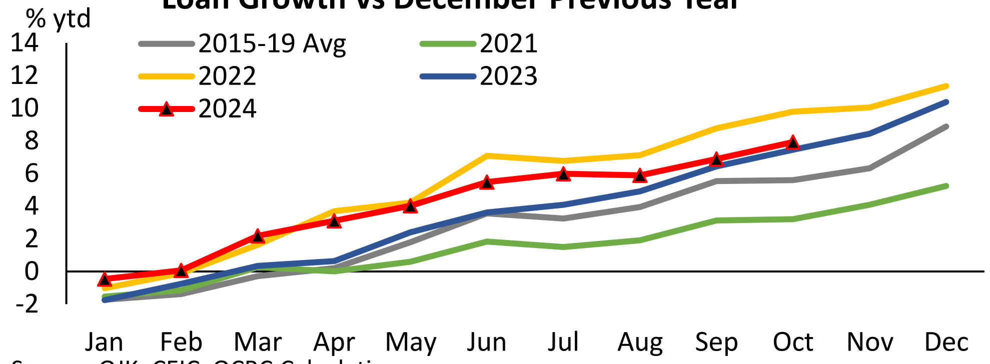
Indonesia: Uncertainty around policies are rising

- While the political transition was smooth, and policy continuity has been maintained there are signs that the noise around policy making is rising.

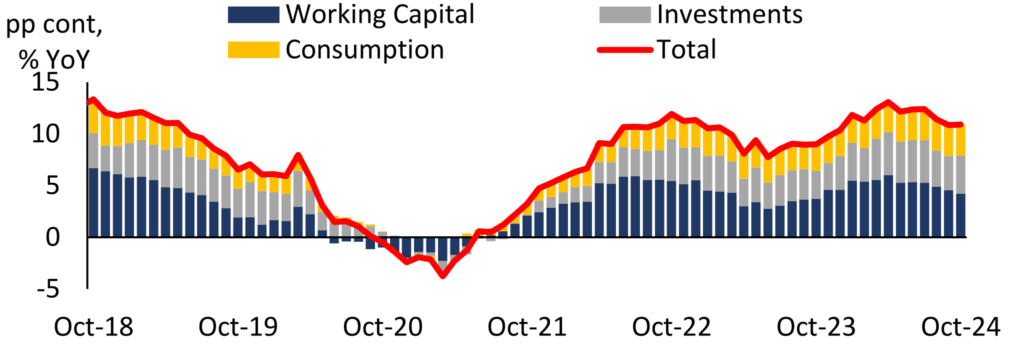
No	Measures	Details	Status
1	A more targeted fuel subsidy in 2025	President Prabowo Subianto has directed his administration to develop a more targeted energy subsidy scheme that directly benefits eligible individuals as part of efforts to prevent misuse by ineligible parties. The new scheme could reportedly come in the form of direct cash handouts.	Being studied
2	Extending the people's business credit (KUR) incentives for SMEs, Agricultural Machinery and labour-intensive industries	The incentives do not have an expiry date and are included in the 2025 Proposed Budget. However, the government has indicated that KUR disbursement in 2025 is likely to be more 'thematic' and more 'targeted.	Being studied
3	Exports proceeds requirements (DHE SDA) review	The government signaled plans to extend the mandatory holding of Export Proceeds from Natural Resources (DHE SDA). Currently, natural resources exporters are required to retain 30% of their proceeds for three months for every customs document for exports worth at least USD 250k.	Under review
4	Omnibus Job Creation Law Judicial Review	Follow-up to the Constitutional Court's decision regarding the Judicial Review (JR) of the Job Creation Law. The government is required to made changes to certain clauses within the next two years.	On going
5	Creation of Sate Revenue Agency	Indonesia plans to establish a state revenue ministry to enhance revenue collection, managing taxes, excises, and mining royalties, with deputy FM III Anggito Abimanyu likely to lead it, according to Hashim Djojohadikusumo.	Being studied
6	VAT hike for luxury goods	The government announced on 31 December 2024 that an increase in the value-added tax (VAT) rate from 11% to 12% will only apply for luxury goods and services, while maintaining the 11% rate will apply for all other items. President Prabowo Subianto highlighted that luxury items will include private jets, yachts, and luxury houses. Additionally, basic necessities will continue to be exempt from VAT, maintaining a 0% rate for essential goods and services like rice, meat, and public transportation.	Implemented
7	Extending the Government-Borne Sales Tax for property	The VAT exemption on property purchases worth up to 5 billion rupiah was extended in full to the end of June 2025, and then there will be a 50% exemption until the end of 2025.	Implemented
8	Constitutional court change on eligibility for Presidential candidate	The Constitutional Court annulled the threshold for political parties in nominating presidential candidates on 2 January 2025. Previously, the law stipulated that a party or a coalition of parties must secure a minimum of 20% of parliamentary seats or 25% of the popular vote nationwide to nominate a candidate in the presidential election.	Implemented

Indonesia: Loan growth

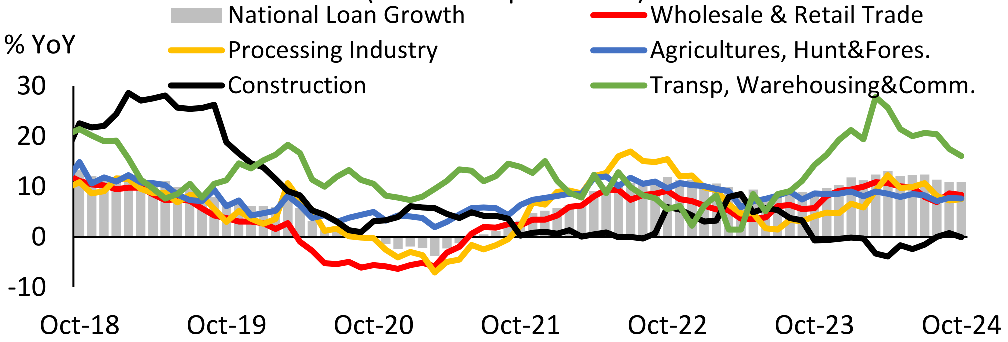
- Commercial banks credit growth slowed to 10.9% as of October 2024, vs April high of 13.1%. Slower growth were more obvious for working capital loan (9.3% YoY), while investment (13.6%) and consumption (11.0%) loan were more resilient.



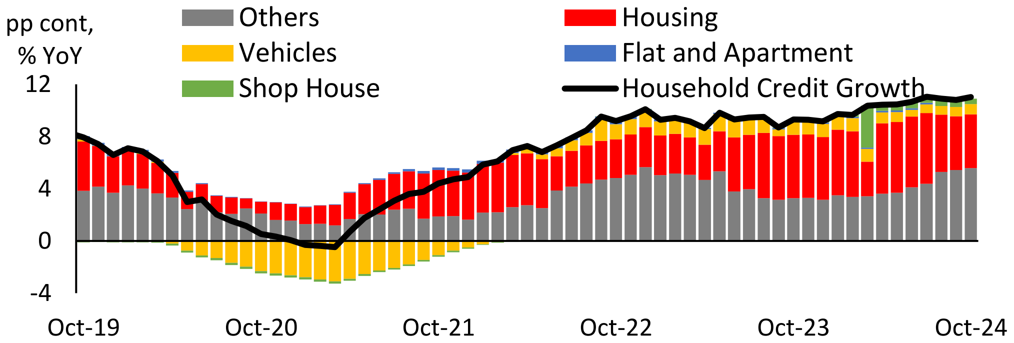
Source: OJK, CEIC, OCBC Calculation.



Source: OJK, CEIC, OCBC Calculation.



Note: Loan % share of total = Wholesale & Retail Trade: 16.1.5%, Processing: 15.8%, Agri: 7.0%, Construction: 5.6%, and Transp, Warehousing & Comm: 5.3%. Data as of October 2024. Source: OJK,

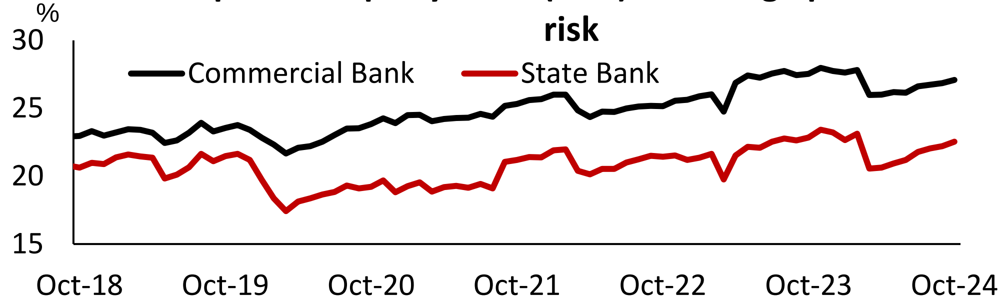


Note: Other can include loan for ownership of household equipment (including multipurpose loan).Household loan accounts for 23% of total loan share as of 2023. Within household loan, housing accounts for 40%, followed by vehicles (8%), Flat & Apartment (2%), Shop House (1%), and Others (49%). Source: OJK, CEIC, OCBC.

Indonesia: Banking system has adequate buffers

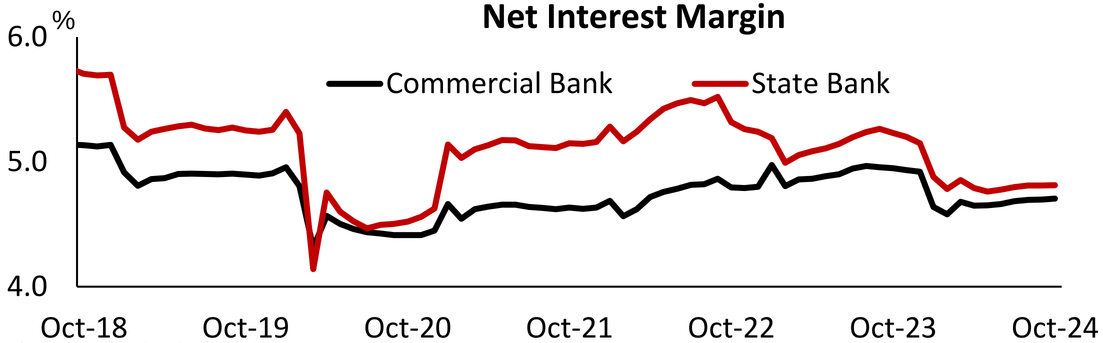
- Banking asset quality is relatively strong, with the capital adequacy ratio (CAR) at 26.9%, well above the minimum regulatory requirement of 10.5%. Similarly, the non-performing loans ratio remains low at 2.2% for commercial banks.
- According to the World Bank, the system-wide loan at risk ratio was down to 10.1% in September 2024 from over 20% during the pandemic. Net Interest Margins (NIMs) are also lower, while the return on assets has been gradually picking up.

Capital Adequacy Ratio (CAR) including operational risk



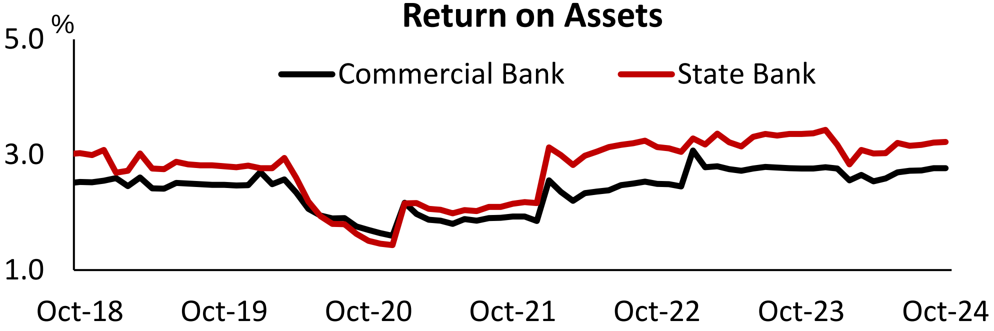
Source: BI, CEIC, OCBC.

Net Interest Margin



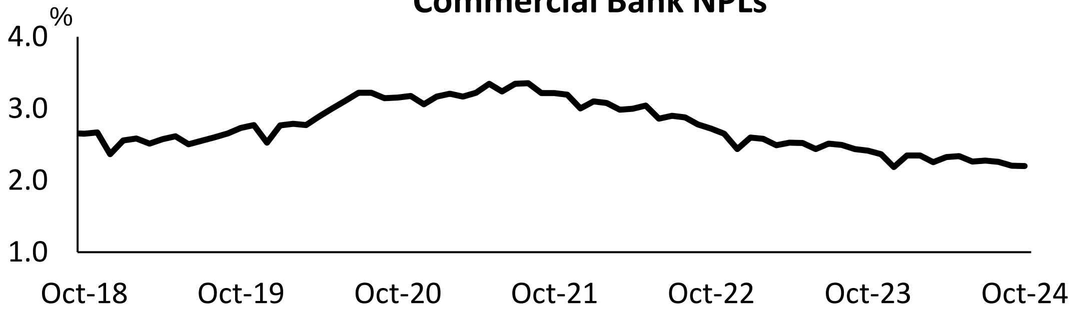
Source: BI. CEIC. OCBC.

Return on Assets



Source: BI, CEIC, OCBC.

Commercial Bank NPLs



Source: BI, CEIC, OCBC.

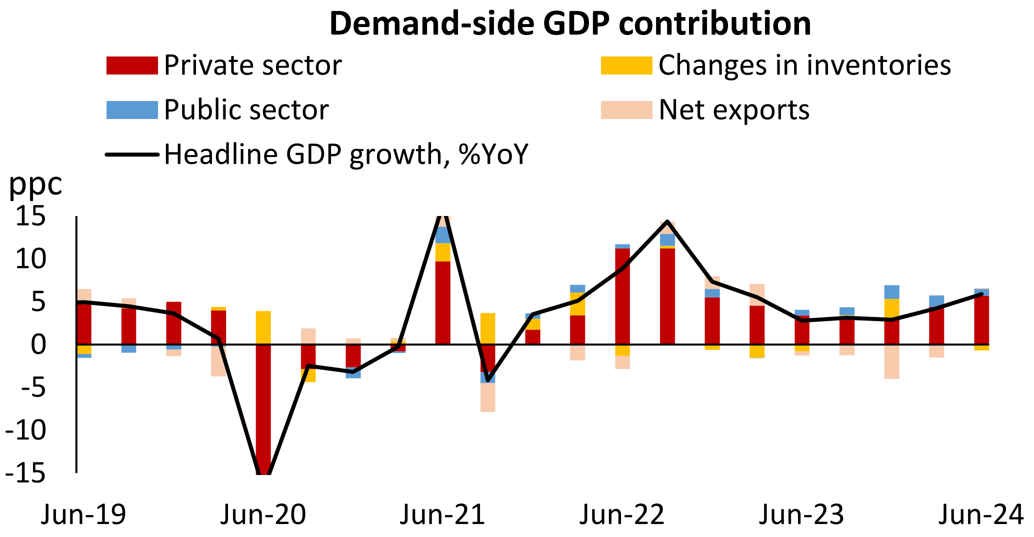
Summary of economic forecasts: Indonesia

Indonesia	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	1187.3	1318.3	1372.0	1396.3	1517.2	1669.1
GDP (% YoY)	3.7	5.3	5.0	5.0	5.1	5.2
Exports (% YoY)	20.0	14.3	-1.1	6.1	6.2	6.2
Imports (% YoY)	26.6	12.4	-3.4	8.0	6.0	5.8
Current Account Balance (% of GDP)	0.3	1.0	-0.2	-0.6	-1.4	-1.6
Unemployment Rate (%)	6.5	5.9	5.3	4.9	5.0	5.0
Fiscal Balance (% of GDP)	-4.6	-2.4	-1.6	-2.3	-2.5	-2.5
Headline CPI (% YoY)	1.6	4.2	3.7	2.3	2.8	2.7
BI Rate (% EOP)	3.50	5.50	6.00	6.00	5.50	5.50
USDIDR (EOP)	14253	15568	15397	16102	16200	15800
Source: BPS, Ministry of Finance, Bank Indonesia, CEIC, Bloomberg, OCBC. FX forecasts are as of 15 January 2025.						

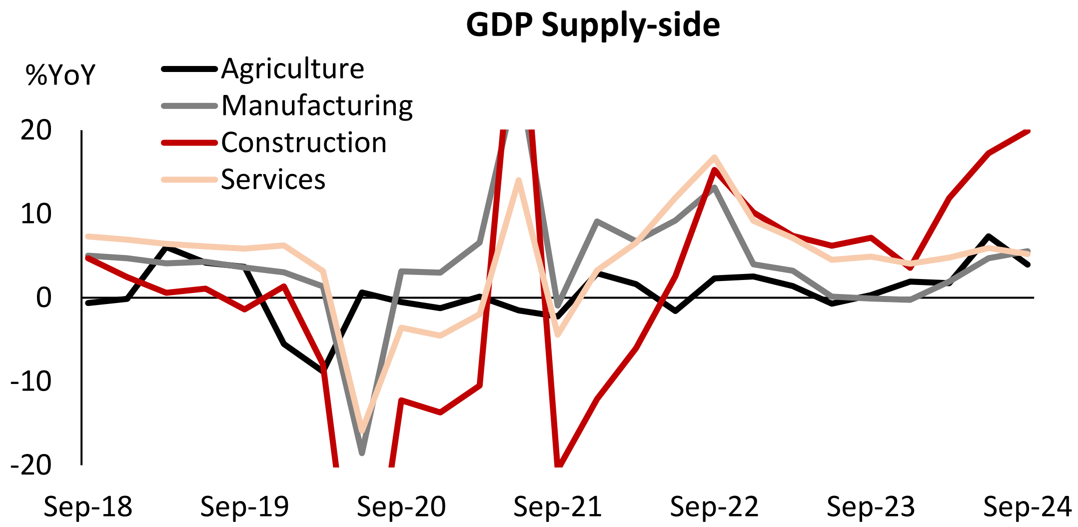
Malaysia

Malaysia: Growth firing on all engines

- GDP growth will be 5.2% and 4.5% in 2024 and 2025, by our forecasts. This will be supported by solid export growth and resilient domestic demand.
- Growth is firing on all cylinders. On the external front, notwithstanding monthly fluctuations, export growth remained resilient supported by a bottoming in the global electronics export downcycle.
- On domestic demand, household spending is strong supported by rising wages and resilient labour markets, investment spending is supported by medium-term reform plans that is crowding-in private sector investment spending. These factors will more than offset the pull back in government spending, reflecting the fiscal consolidation agenda.



Source: CEIC;OCBC Bank

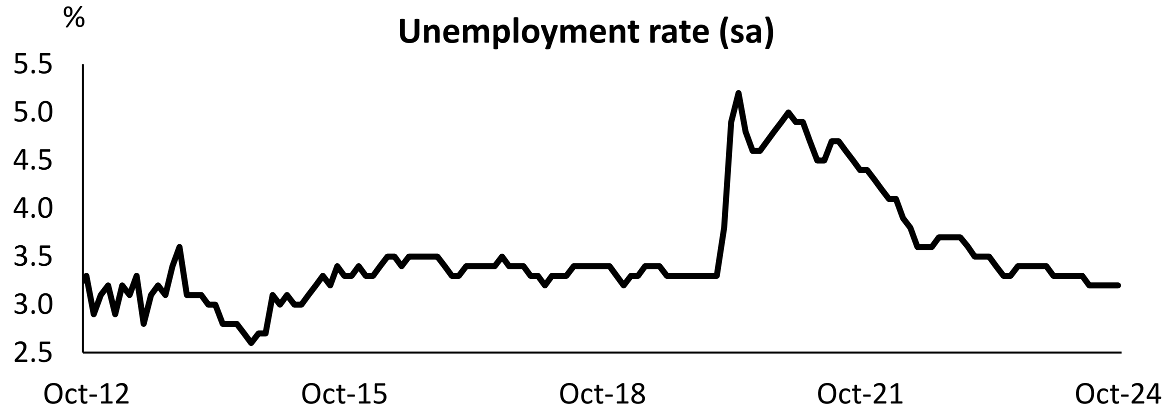


Source: CEIC; OCBC Bank

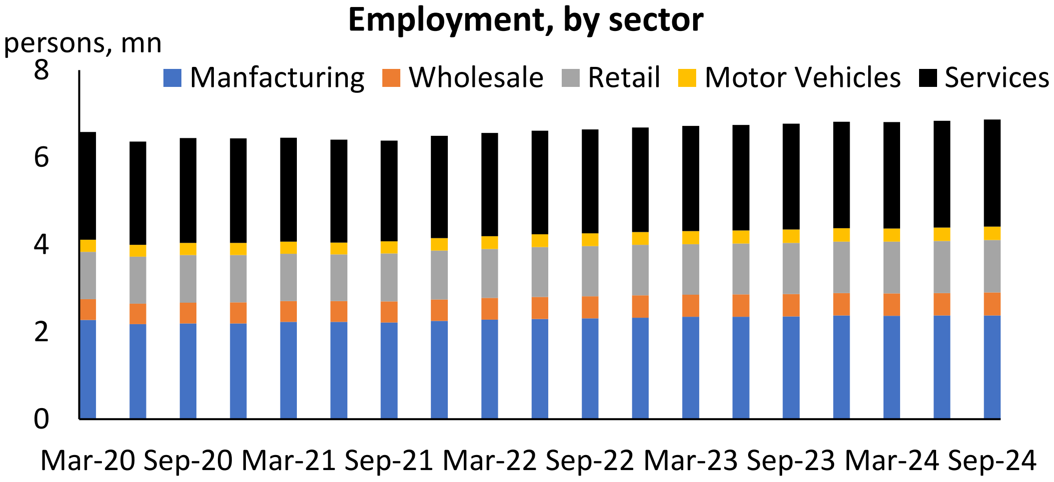
OCBC

Malaysia: Strong labour markets

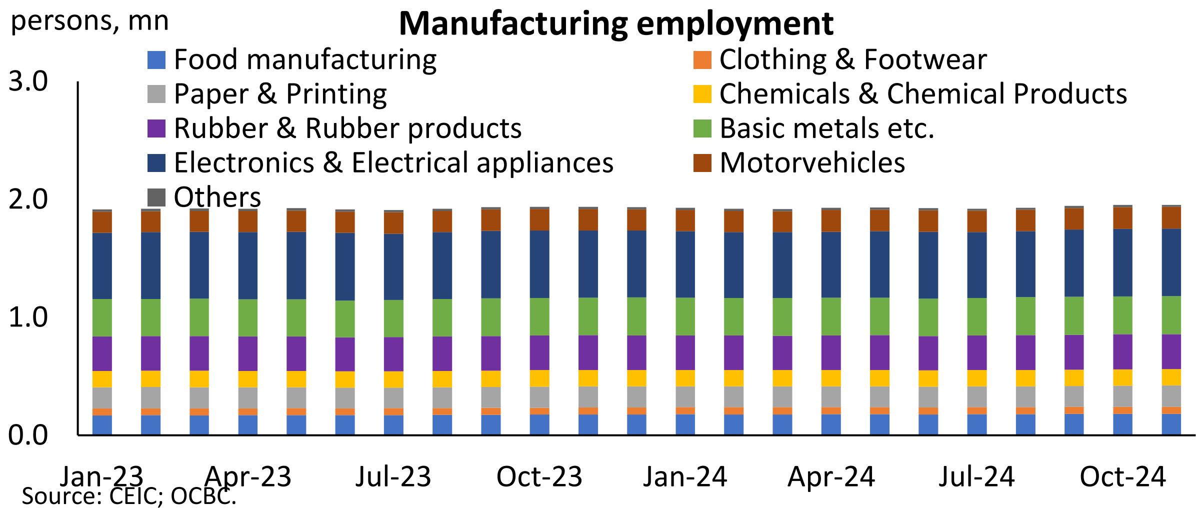
- Employment gains have continued across various sectors including manufacturing and services. Within the manufacturing sector, the E&E remains the biggest employer.
- The unemployment rate has stabilized close to historical lows of 3.2% on a seasonally adjusted basis. Barring any shocks, we expect the rate to remain at these levels in 2025.



Source: CEIC; OCBC Bank

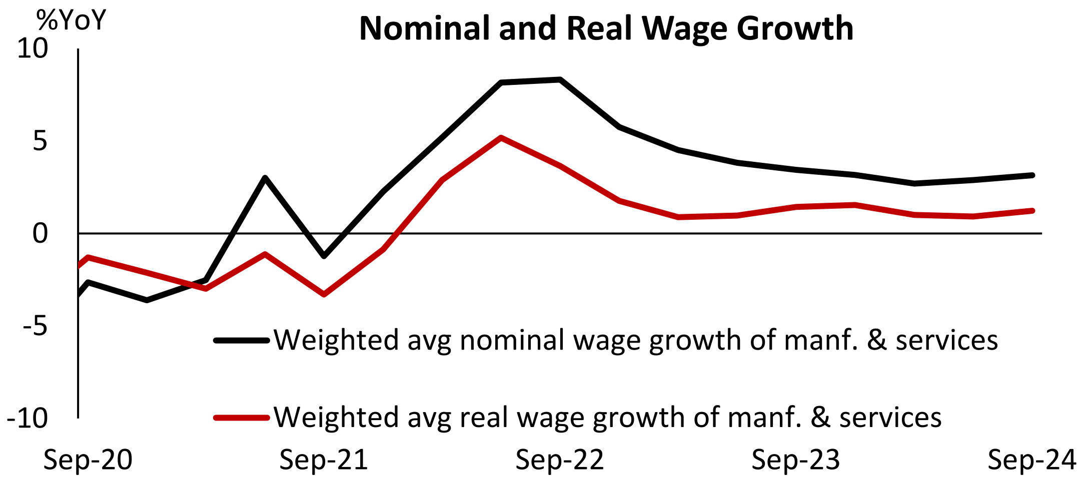


Source: CEIC; OCBC.

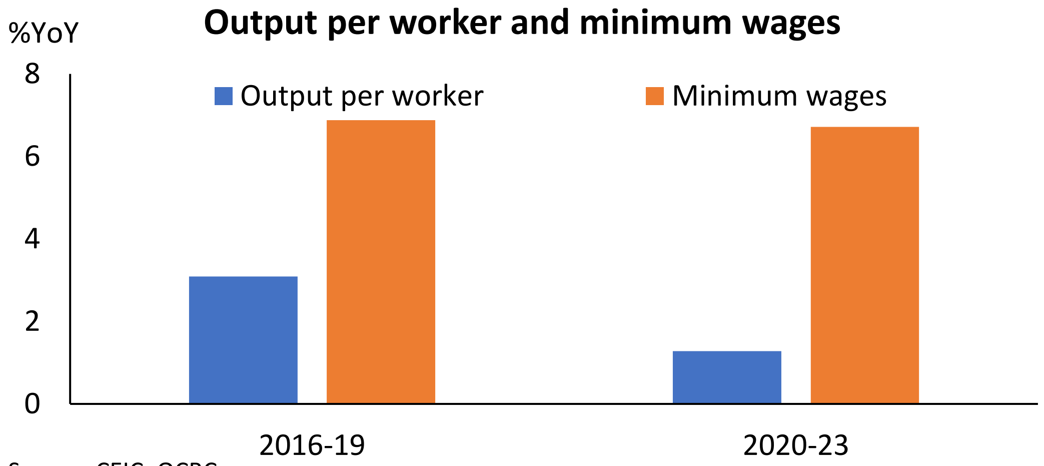


Source: CEIC; OCBC.

Malaysia: Wages continue to rise



Source: CEIC; OCBC Bank



Source: CEIC; OCBC.

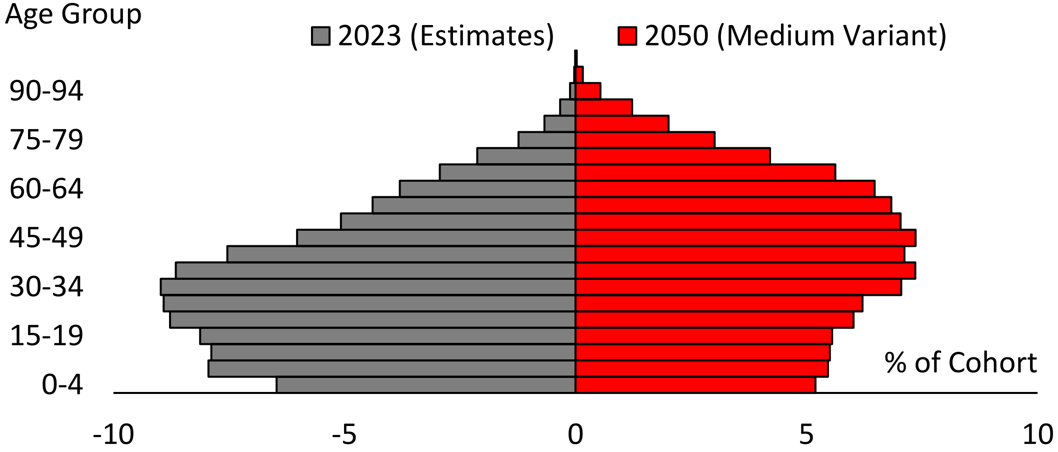
Employee Provident Fund	On 11 May 2024, all EPF members <55 years will have their accounts restructured into three (3) accounts namely Akaun Persaraan (Account 1), Akaun Sejahtera (Account 2) and Akaun Fleksibel (Account flexible). After 11 May 2024, contributions will be allocated: 75% into Akaun Persaraan, 15% into Akaun Sejahtera and 10% into Akaun Fleksibel.	4.1mn EPF members under the age of 55 have opted for a Flexible Account structure, with MYR14.5bn transferred to Flexible Accounts and MYR6.6bn to Retirement Accounts as of 27 Nov 2024.
Minimum wage	Effective 1 February 2025, minimum wages will be increased to MYR1,700 from MYR1,500 per month.	This is a 13.3% increase in minimum wages. The latest data of formal sector wages show that ~2.2mn persons earn <MYR2000 per month
Civil servants' salary	15% pay raise for civil servants under the management and professional category and a 7% salary raise for civil servants in the upper management category.	This will be introduced in two phases: phase 1 is from 1 December and phase 2 is from 1 January 2026.

Source: Budget 2025; EPF; OCBC Research.

Malaysia: Population dynamics remain favourable

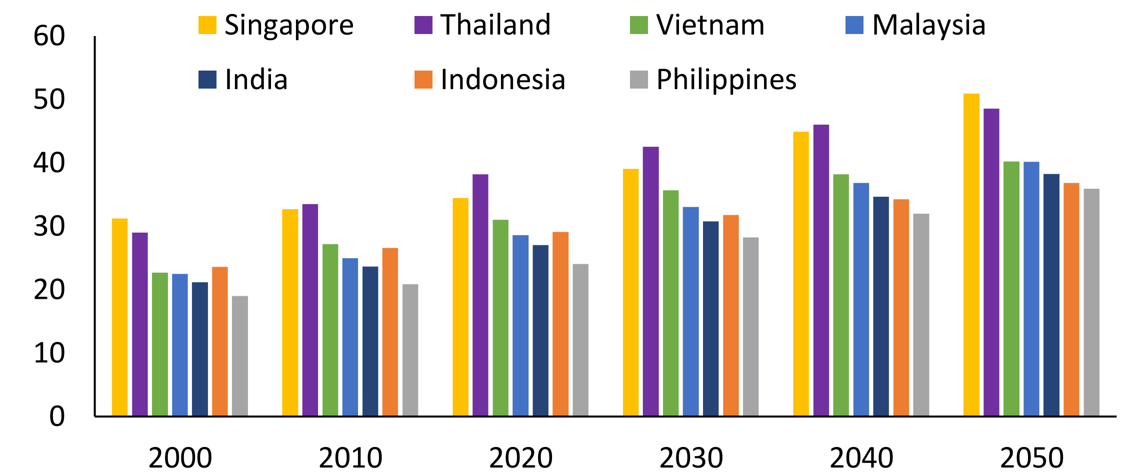
- The working age population and relatively low median age (33 years) suggests that Malaysia remains in a good position to harness labour market advantages.
- The challenges include equipping the relatively young labour force with the skills required in a fast-changing jobs markets, creating appropriate programs link education outcomes to job market requirements and keeping the education curriculums up-to-date to benefit the younger labour force.

Malaysia: Total Population (Both Gender Combined) by Five-year Age Group, 2023 versus 2050



Source: United Nations Department of Economic and Social Affairs, OCBC

Median age

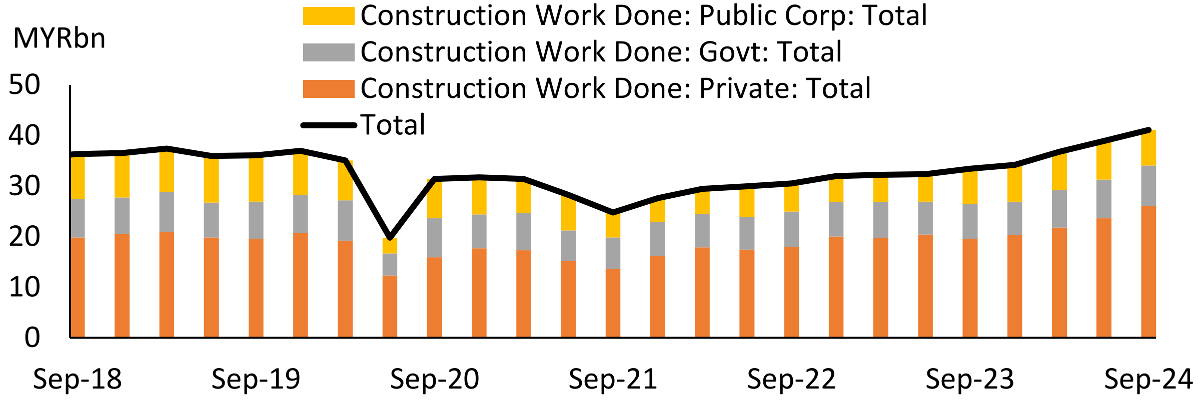


Source: Our World in Data; OCBC.

Malaysia: Construction spending on an uptick

- Construction activities have picked up since 2023 and the trend remains strong. Encouragingly, support has come from private and public sectors. By type of project, there increases were clear in civil engineering and non-residential construction work.
- There is a strong pipeline of public sector infrastructure projects that will keep construction spending supported over the next few years.

Construction work done, by sector

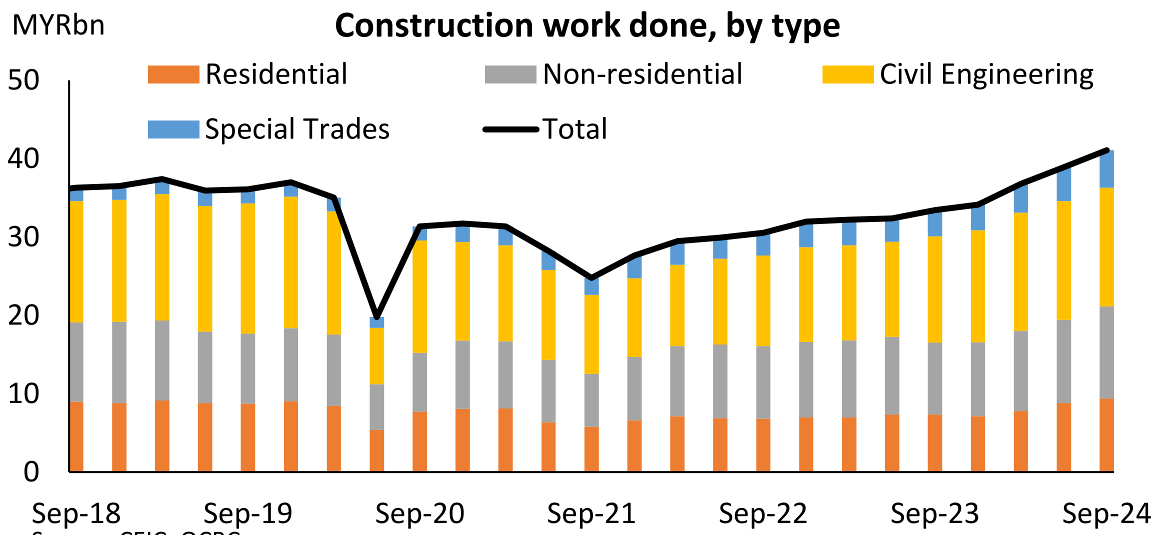


Source: CEIC; OCBC.

Project name	Cost of project (MYRbn)	Expected project completion
East Coast Rail Link (ECRL)	75.0	2028
MRT3	45.0	2032
Penang LRT, Segment 1	8.3	2028
Northern Coastal Highway, Sarawak	6.1	2030
Kuching Urban Transportation System-Green Line	6.0	2027
Sabah-Sarawak Link Road Phase 2	5.6	2025
Sungai Perak Raw Water Transfer Project	4.0	2030
Pan Borneo Sabah Phase 1A	1.3	2026
Pan Borneo Sabah Phase 1B	1.2	2029

Sources: Various newspapers; OCBC Research

Construction work done, by type



Source: CEIC; OCBC.

OCBC

Malaysia: Push to broaden infrastructure spending

- The authorities continue to push public-private partnerships (PPPs) and have developed the PPP Master Plan 2030 (PIKAS 2030). According to the UKAS PPP bulletin (Dec '24), PPP projects have contributed MYR185.5bn in total investments since 2009. The government aims for PPP projects to elevate private investments to MYR78bn under PIKAS2030. The government also introduced the GEAR-up Program, whereby six GLICs (including Khazanah, EPF, KWAP, PNB, LTAT) have pledged to invest MYR120bn into the economy from 2024-2029 (i.e., over five year).

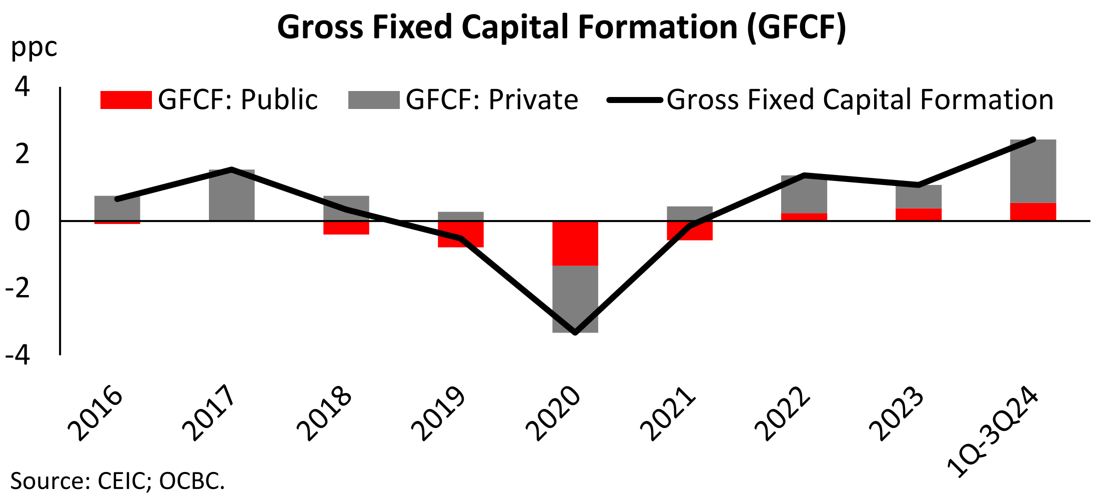
- There is also been some measures introduced by Bank Negara Malaysia (BNM) as of 15 November 2024 to liberalise FX policy for Multilateral Development Banks and Qualified Non-Resident Development Financial Institutions. The MDBs and qualified non-resident DFIs will be able to issue MYR denominated debt securities for use in Malaysia and provide MYR financing to resident entities.

Some past significant PPP projects
KESAS Highway
Shah Alam-Ulu Kelang Expressway (SUKE)
Damansara-Shah Alam Expressway (DASH)
Kinrara Fire Station
e-Tanah System
Bukit Tagar Sanitary Waste Disposal Site
UiTM Puncak Alam and Dengkil
West Port and North Port
Kuala Lumpur International Airport
Ongoing PPP projects
Expansion project of container terminals CT10 to CT17 at West Port
LRT project in Langkawi
Kuala Linggi International Port expansion project in Malaysia
Malaysia 5G Network PPP project
Source: UKAS; PPP Unit PM Department; InfraPPP, OCBC Research.

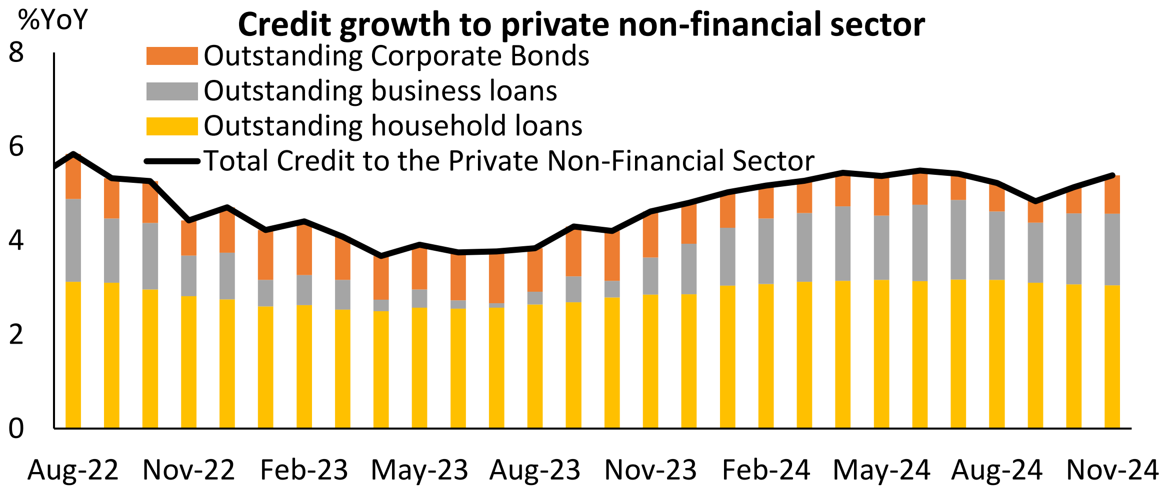
OCBC

Malaysia: Private sector investment spending

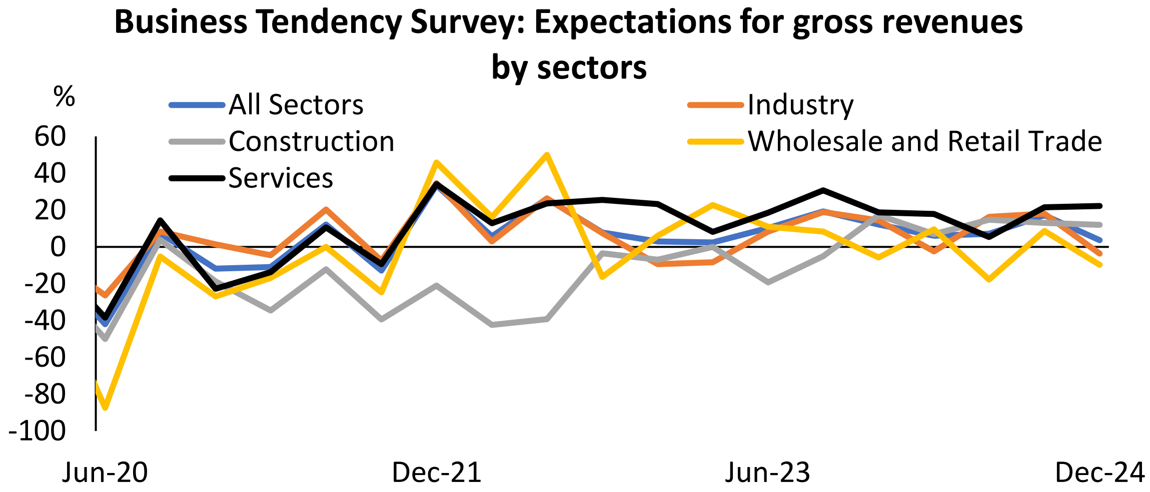
- The private sector contributed to ~78% of the growth in investment spending in the first three quarters of 2024. Some forward looking sentiment and real indicators such that private sector spending could remain sustained into 2025.
- Credit growth to the private non-financial sector grew by 5.4% YoY in November while the business tendency survey showed that expectations for gross revenues in construction and services remains positive.



Source: CEIC; OCBC.



Source: BNM; OCBC



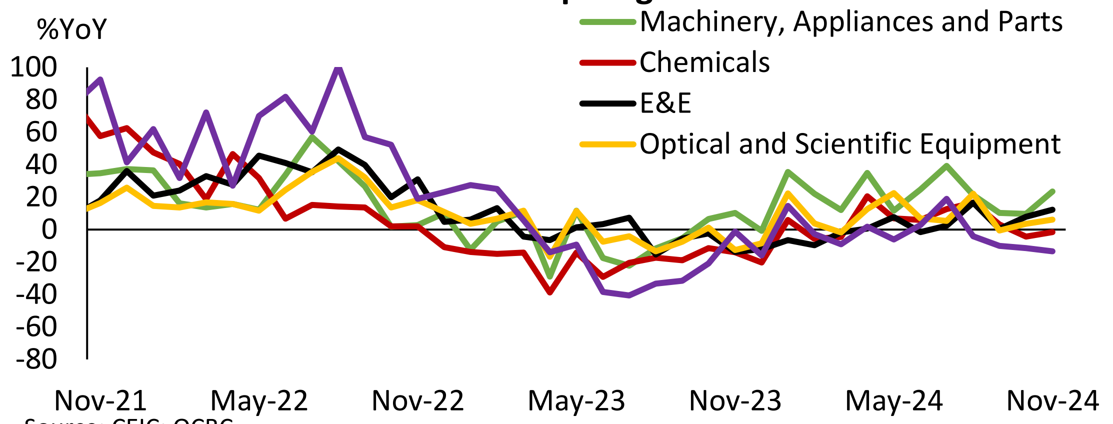
Source: CEIC; OCBC.

The survey result is presented in the form of net balance, which is the difference between the percentage of respondents with favourable and unfavourable answers. The summary result is obtained by combining the direction of change and only the net balance is shown. The net balance with its appropriate sign indicates the direction of the business trends, where a positive sign indicates a likely upward trend, while a negative sign indicates a likely downward trend.

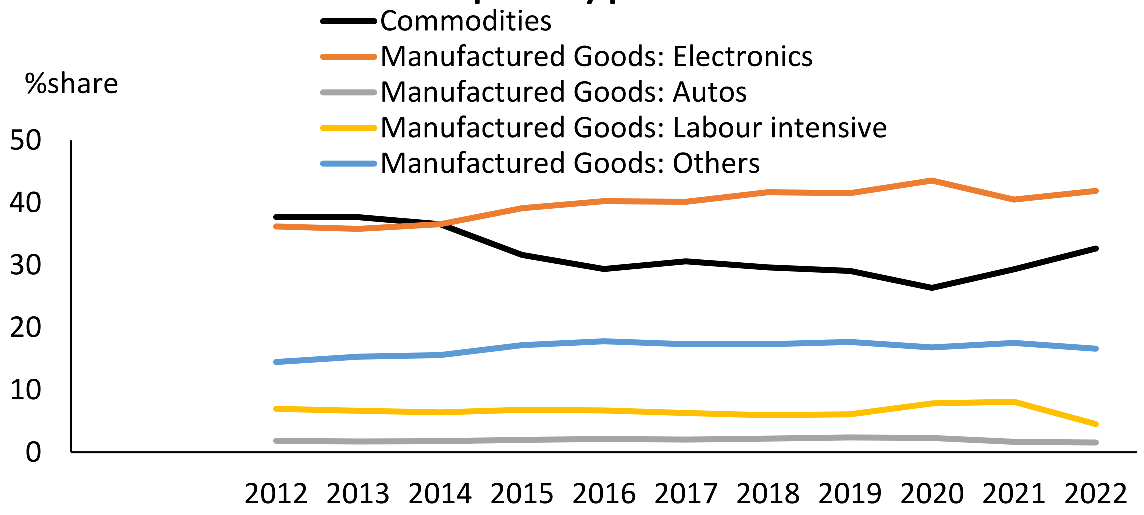
OCBC

Malaysia: Exports well-diversified by products

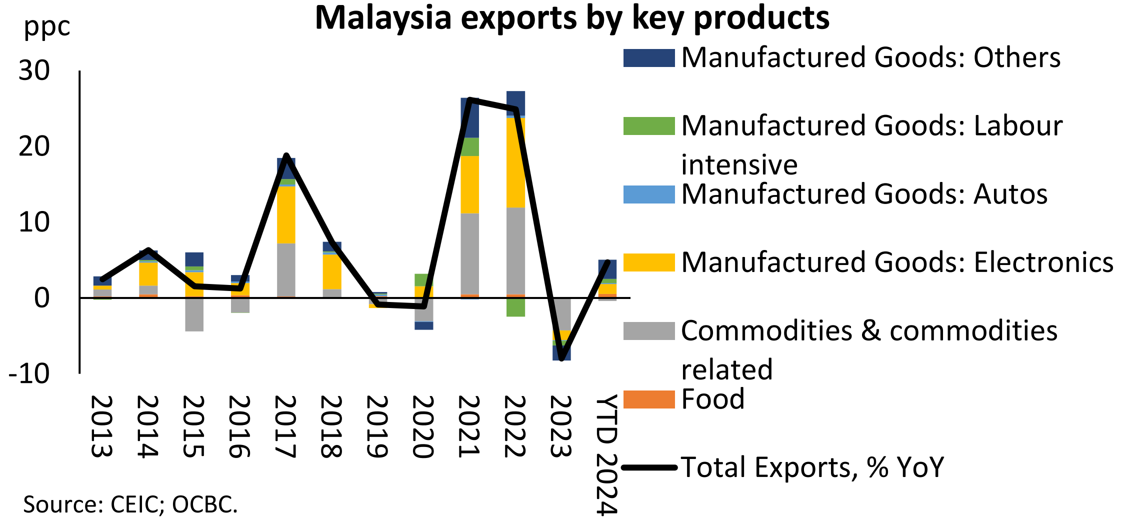
- Export growth is supported by a well-diversified base in terms of products.
- Electronics and electrical appliances account for over 40% of exports (YTD 2024), while commodities including rubber, palm oil, petroleum, base metals accounts for ~30% of exports. Other manufactured exports such as chemical products, specialized equipment account for ~17% of exports.



Source: CEIC; OCBC



Source: CEIC; OCBC



Source: CEIC; OCBC.

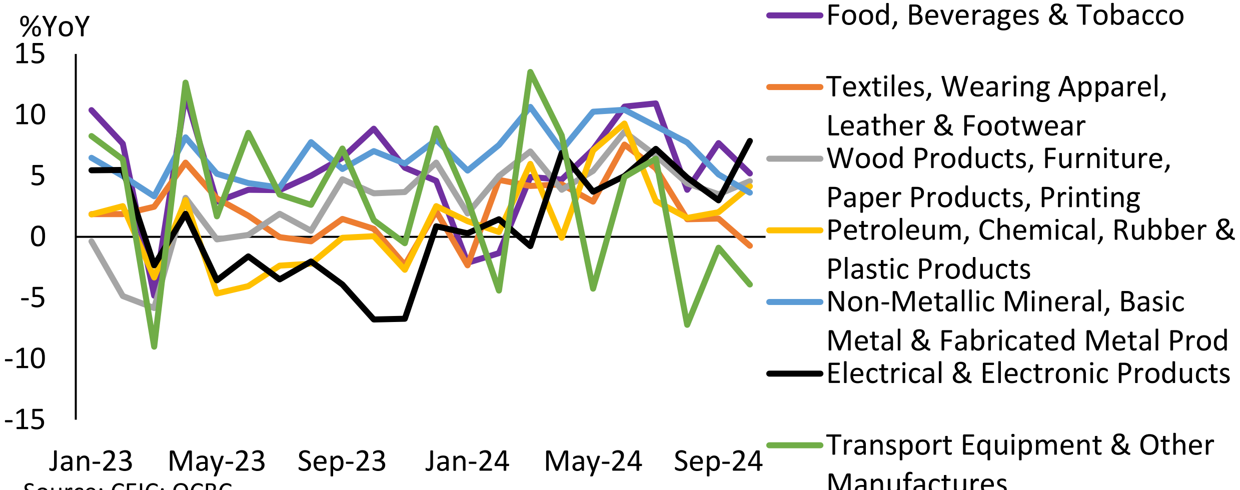
Malaysia: E&E to remain well supported in 2025

- Exports and industrial production for the E&E sector increased from Jan-November 2024. This trend is expected to continue, albeit at a slower rate of growth in 2025.
- The World Semiconductor Trade Statistics (WSTS) predicts broad based growth for the semiconductor market in 2025, with an 11.2% YoY, bringing the global market valuation to an estimated USD697bn.

World Semiconductor Trade Statistics forecast (Dec '24)

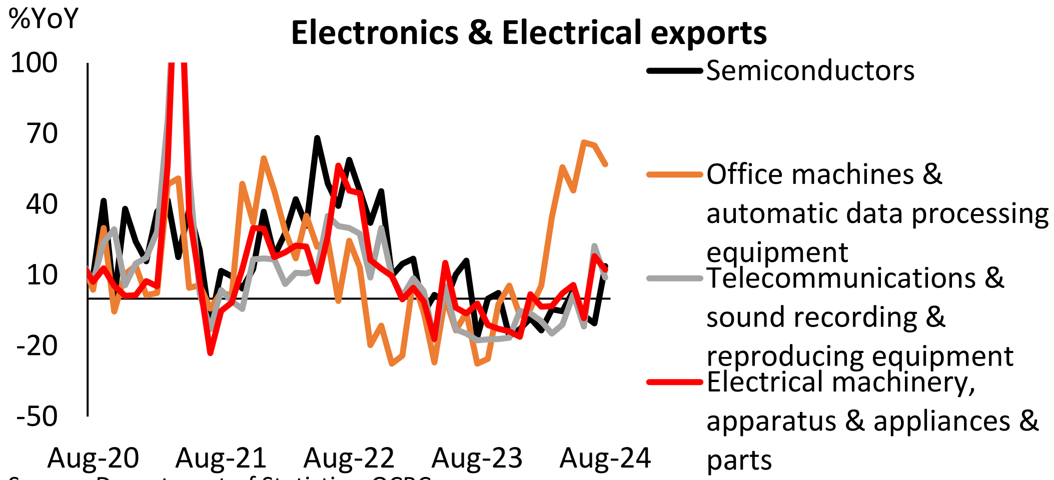
Fall 2024	Amounts in US$M			Year on Year Growth in %		
	2023	2024	2025	2023	2024	2025
Americas	134,377	186,635	215,309	-4.8	38.9	15.4
Europe	55,763	52,031	53,736	3.5	-6.7	3.3
Japan	46,751	47,410	51,866	-2.9	1.4	9.4
Asia Pacific	289,994	340,792	376,273	-12.4	17.5	10.4
Total World - $M	526,885	626,869	697,184	-8.2	19.0	11.2
Discrete Semiconductors	35,530	31,546	33,377	4.5	-11.2	5.8
Optoelectronics	43,184	42,092	43,705	-1.6	-2.5	3.8
Sensors	19,730	18,732	20,034	-9.4	-5.1	7.0
Integrated Circuits	428,442	534,499	600,069	-9.7	24.8	12.3
Analog	81,225	79,433	83,157	-8.7	-2.2	4.7
Micro	76,340	79,291	83,723	-3.5	3.9	5.6
Logic	178,589	208,723	243,782	1.1	16.9	16.8
Memory	92,288	167,053	189,407	-28.9	81.0	13.4
Total Products - $M	526,885	626,869	697,184	-8.2	19.0	11.2

Manufacturing industrial production, by sub-sector



Source: CEIC; OCBC.

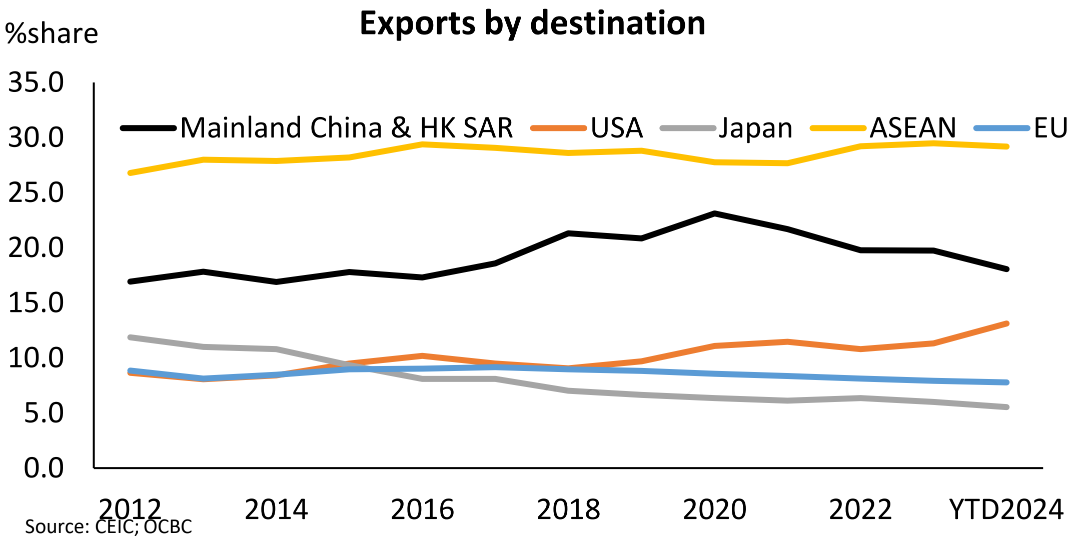
Electronics & Electrical exports



Source: Department of Statistics; OCBC.

Malaysia: Export base becoming broad-based by destination

- Malaysia's export base is also well-diversified in terms of destinations. ASEAN remains the largest trading partner, accounting for nearly a third of total exports since 2022.
- Exports share to USA increased to 13.1% in 2024 (Jan-Nov) from 11.3% in 2023; while the share of exports to Mainland China & HK SAR came down to 18.1% from 19.8% in 2023.



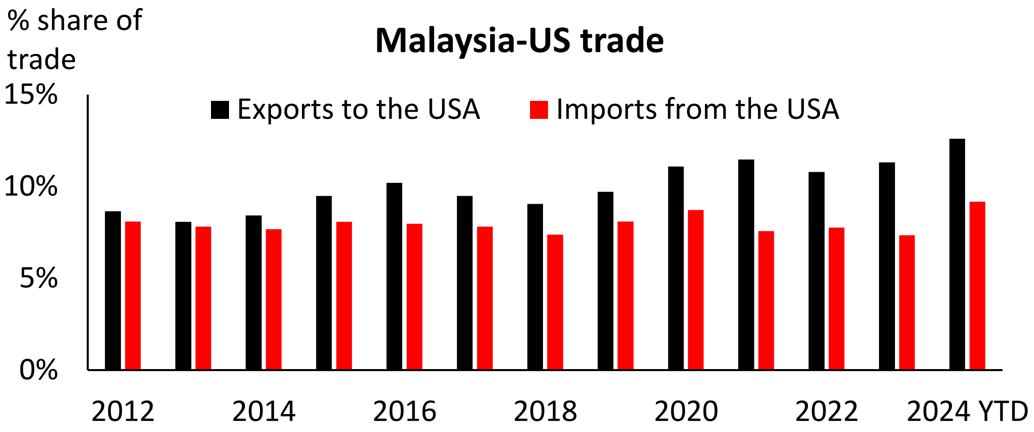
Source: CEIC; OCBC

Free Trade Agreements	Status
ASEAN Free Trade Area	Signed and In Effect
ASEAN-India Comprehensive Economic Cooperation Agreement	Signed and In Effect
ASEAN-Republic of Korea Comprehensive Economic Cooperation Agreement	Signed and In Effect
ASEAN-Japan Comprehensive Economic Partnership	Signed and In Effect
ASEAN-Australia and New Zealand Free Trade Agreement	Signed and In Effect
ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement	Signed and In Effect
Trade Preferential System of the Organization of the Islamic Conference	Signed and In Effect
Preferential Tariff Arrangement-Group of Eight Developing Countries	Signed and In Effect
ASEAN-Hong Kong, China Free Trade Agreement	Signed and In Effect
Regional Comprehensive Economic Partnership (RCEP)	Signed and In Effect
Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	Signed and In Effect
Australia-Malaysia Free Trade Agreement	Signed and In Effect
Japan-Malaysia Economic Partnership Agreement	Signed and In Effect
Malaysia-Pakistan Closer Economic Partnership Agreement	Signed and In Effect
New Zealand-Malaysia Free Trade Agreement	Signed and In Effect
India-Malaysia Comprehensive Economic Cooperation Agreement	Signed and In Effect
Malaysia-Chile Free Trade Agreement	Signed and In Effect
Malaysia-Türkiye Free Trade Agreement	Signed and In Effect

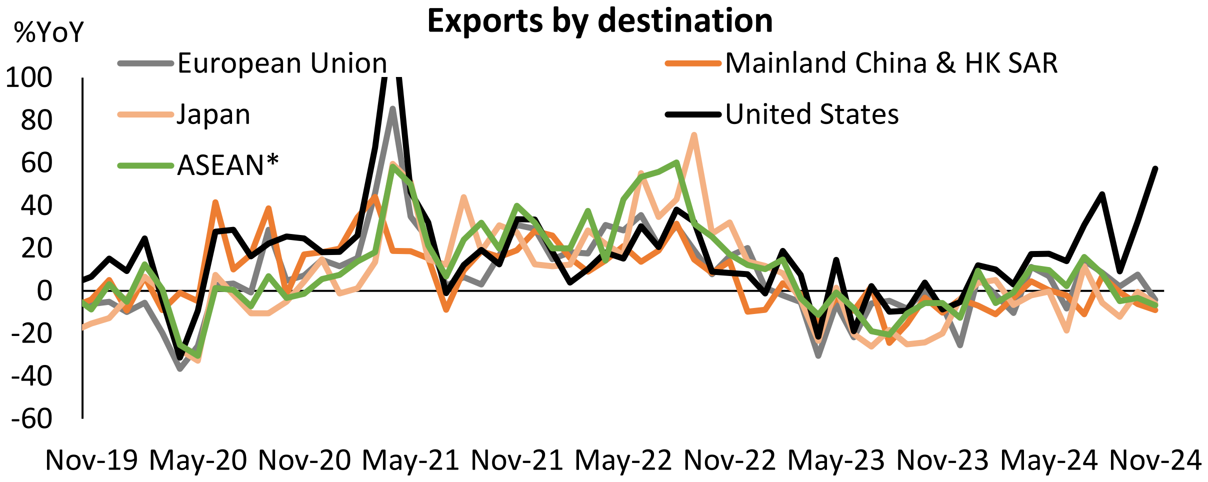
Source: Asia Regional Integration Center; OCBC Research.

Malaysia: Some front-loading of exports to the US

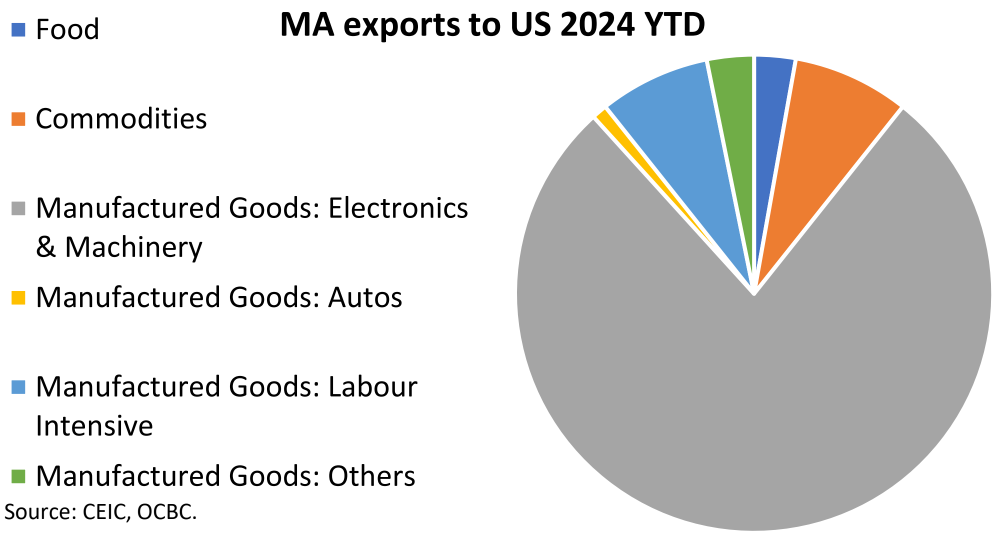
- Exports to the US have been steadily rising from 2018 onwards, accounting for ~13% of year-to-date total Malaysian exports as of 2024. Meanwhile, imports have remained relatively steady at around 8% of all imports.
- By products, majority of Malaysian exports to the US comprises of manufactured goods, with specifically electronics, machinery and optical instruments accounting for the majority of exports at ~77.6% for year-to-date 2024.



Source: CEIC, OCBC.



*ASEAN includes Brunei, Indonesia, Philippines, Myanmar, Singapore, Thailand & Vietnam.
Source CEIC; OCBC Bank

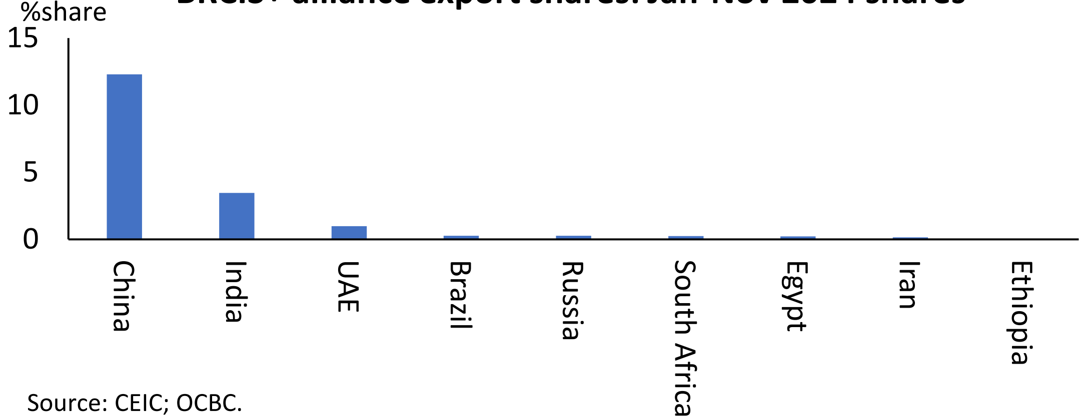


Source: CEIC, OCBC.

Malaysia: The alphabet soup of potential trade agreements

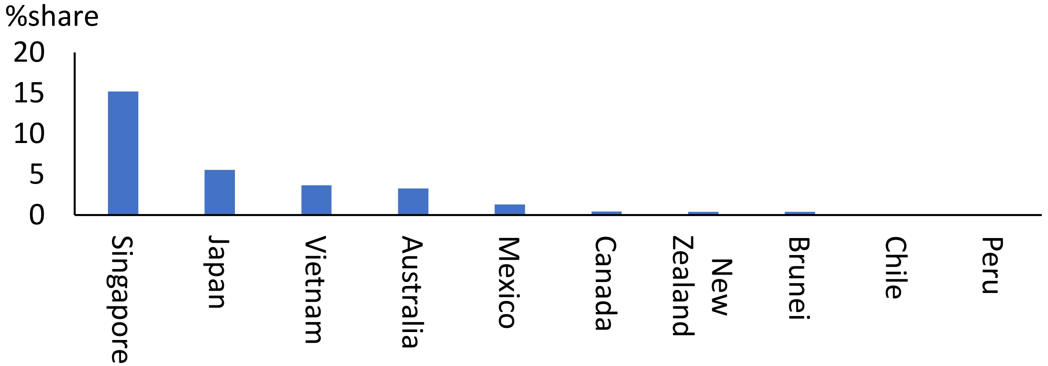
- There are overlaps in terms of countries under the multilateral trade agreements. For example, Mainland China is included in RCEP and BRICS+. Malaysia became a partner country of the BRICS+ alliance in October 2024.
- Benefits of previous agreements will also gradually benefit exports. For example, under the CPTPP, Malaysian goods were able to enter New Zealand duty-free from 2024 and will enter Canada duty-free in 2029.

BRCIS+ alliance export shares: Jan-Nov 2024 shares



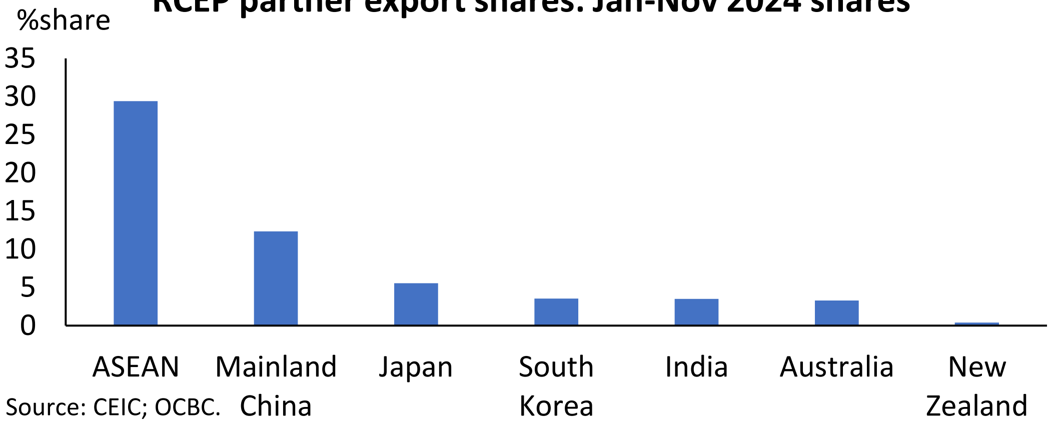
Source: CEIC; OCBC.

CPTPP partner export shares: Jan-Nov 2024 shares



Source: CEIC; OCBC.

RCEP partner export shares: Jan-Nov 2024 shares

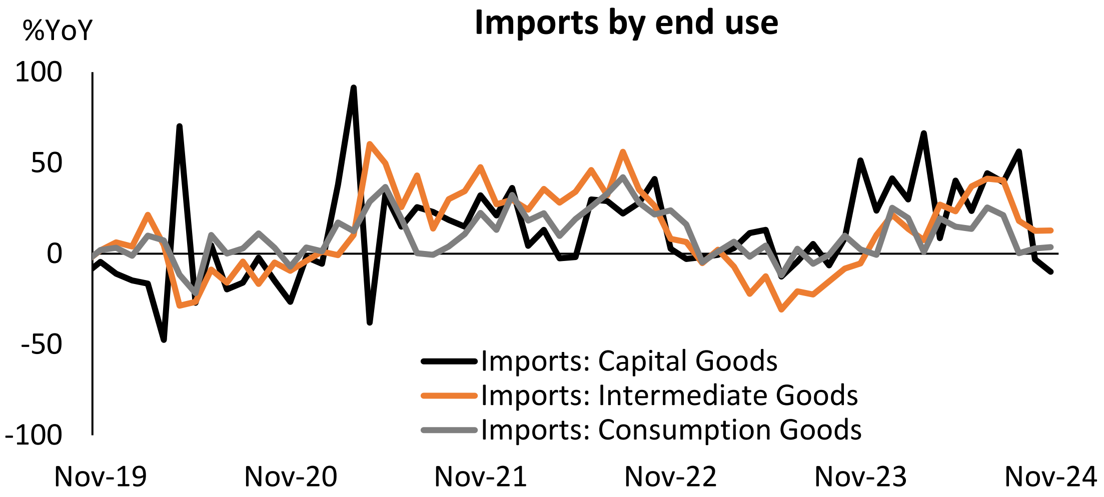


Source: CEIC; OCBC.

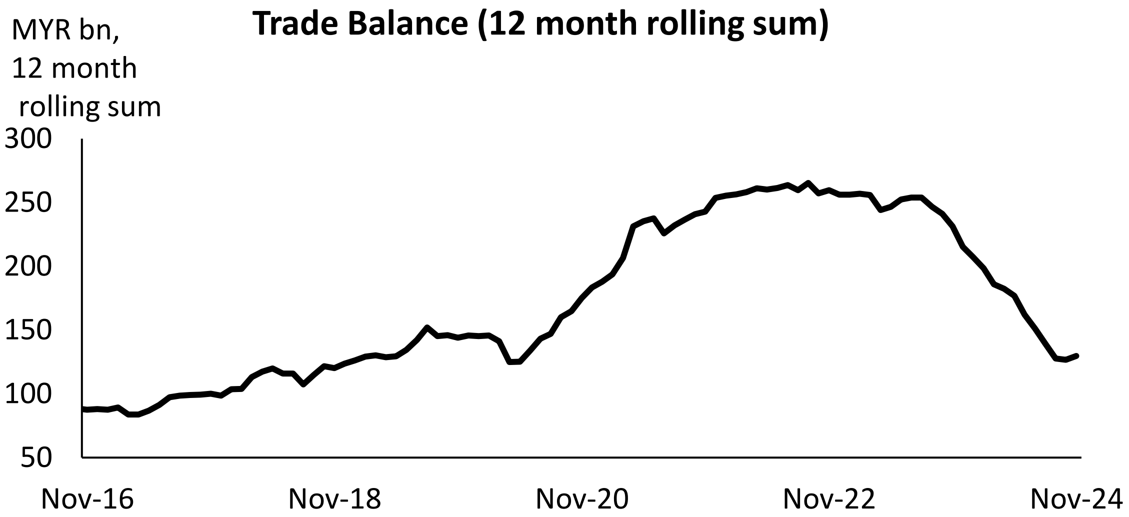
OCBC

Malaysia: Imports remain strong; trade surplus normalising

- Notwithstanding the monthly volatility, import growth trended higher in 2023 and 2024. This was driven by broad-based import growth across key end-use categories such as consumer goods, capital goods and intermediate goods.
- Import growth slowed sharply in October and November 2024, likely reflecting more staggered importation needs. Given the strong fundamentals for consumption and investment spending, we expect goods import growth to remain strong at 8% YoY (on a BoP) in 2025 versus 10% in 2024.
- The trade surplus is normalizing back to pre-pandemic levels, following the commodity price boom in 2022-23. We expect it will start to stabilize in 2025, barring shocks from US tariffs and trade policies.



Source: CEIC; OCBC Bank

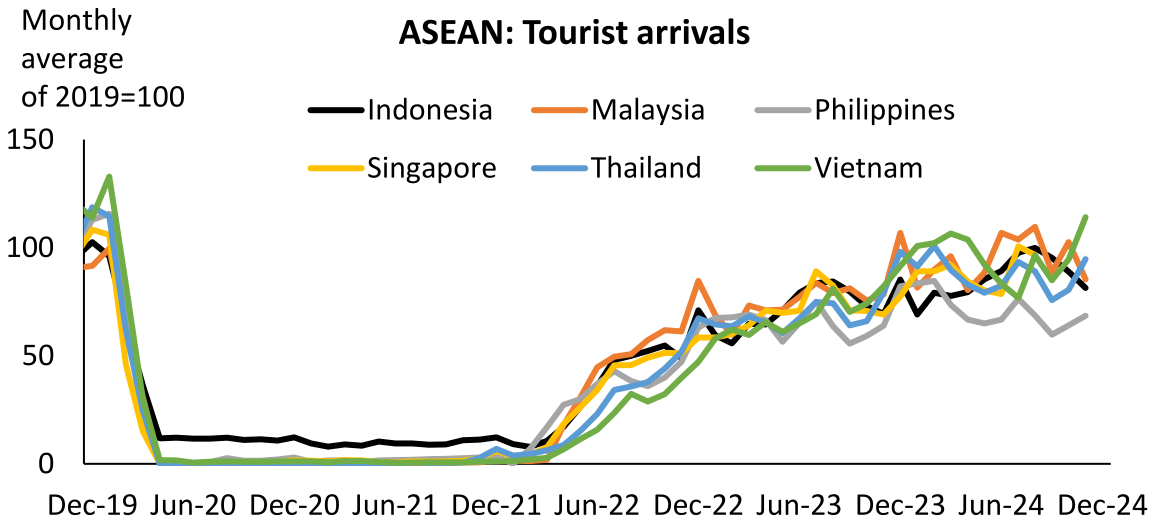


Source: CEIC; OCBC

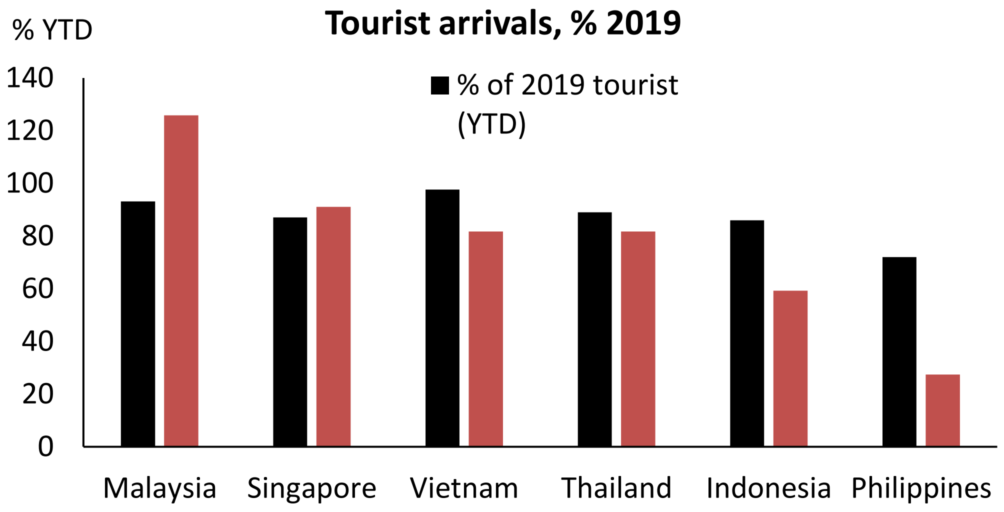
OCBC

Malaysia: Tourist arrivals remain strong

- Tourist arrivals have been strong. Year-to-date data suggests that tourist arrivals are close to pre-pandemic levels and tourism from China* is well ahead of pre-pandemic levels for Malaysia. In absolute terms, tourists from China were 3.0mn year-to-November, well above pre-pandemic levels. But still lower compared to Singapore (3.2mn) & Vietnam (3.7mn) and Thailand (7.6mn), suggesting further room to capitalize on tourist inflows from China.
- As part of Malaysia's broader National Agenda, Visit Malaysia 2026 (VM2026) aims to increase tourism revenue and strengthen Malaysia's global tourism competitiveness. The aim of VM2026 is to attract 35.6mn foreign tourists (Jan-November 2024: 22.5mn) and generate MYR147.1bn in tourism receipts.



Source:CEIC; OCBC

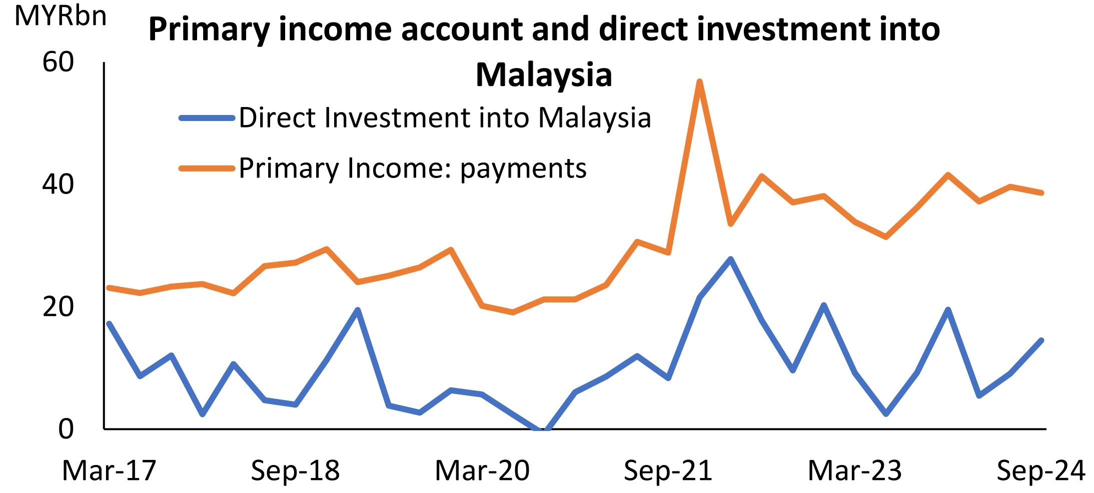


Source: CEIC; OCBC.

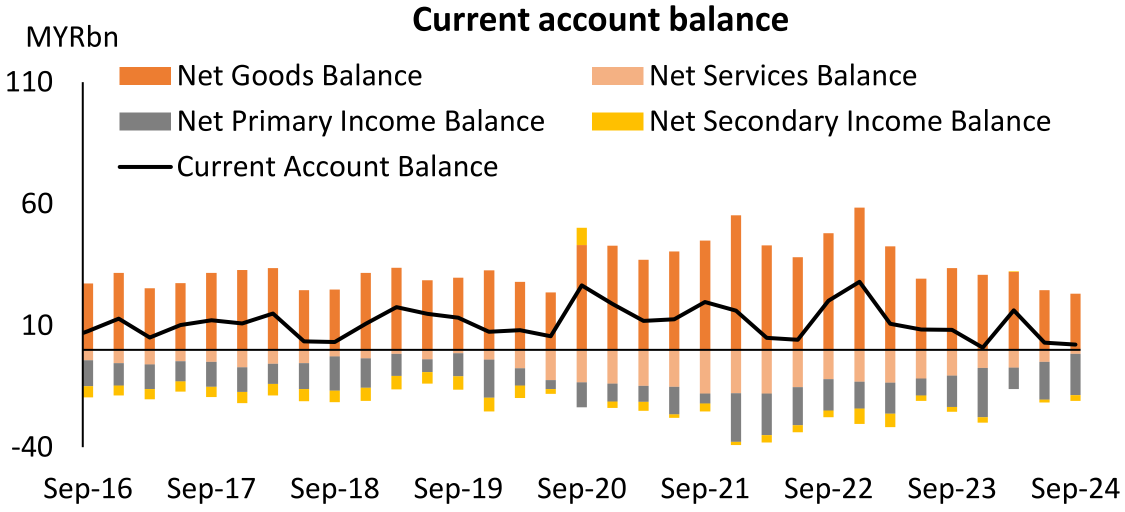
*Malaysia's tourism data is for China Incl HKSAR (CN) & MO SAR (CN)

Malaysia: Current account surplus to be sustained

- The normalising trade surplus, taken together with still strong tourist arrivals, suggests that the current account surplus will sustain. We reduced our current account surplus forecasts to 1.8% of GDP and 1.7% in 2024 and 2025 from 2.5% of GDP and 2.4% of GDP, respectively.
- The trade surplus will likely be maintained in 2025, albeit narrower than in 2024. The services account deficit could narrow in 2025 as tourist arrivals continue to rise. The primary income account will likely remain in a deficit as FDI inflows into Malaysia rise and attendant dividend repatriation is recorded as an outflow on the primary income account. Meanwhile, the secondary income account, which shifted to an unusual surplus in 1Q24 has since reverted to a deficit and will likely remain so.



Source: CEIC: OCBC.

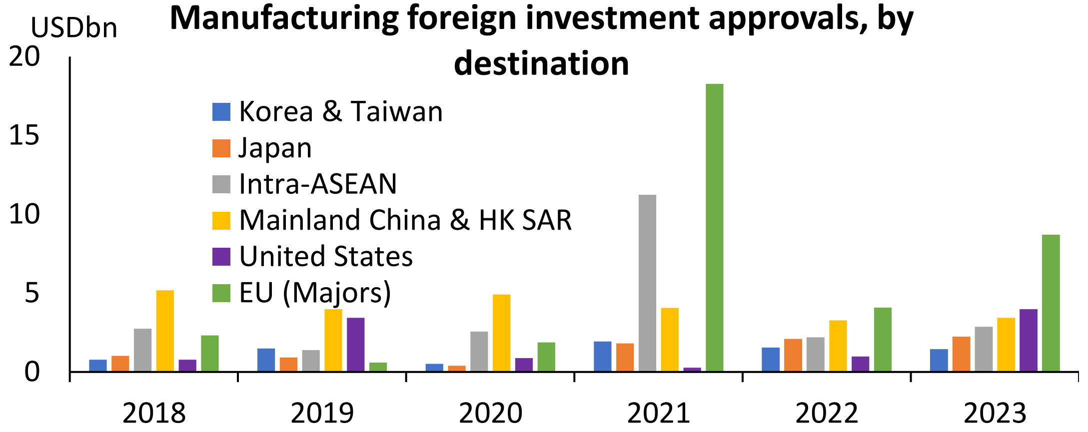


Source: CEIC; OCBC Bank

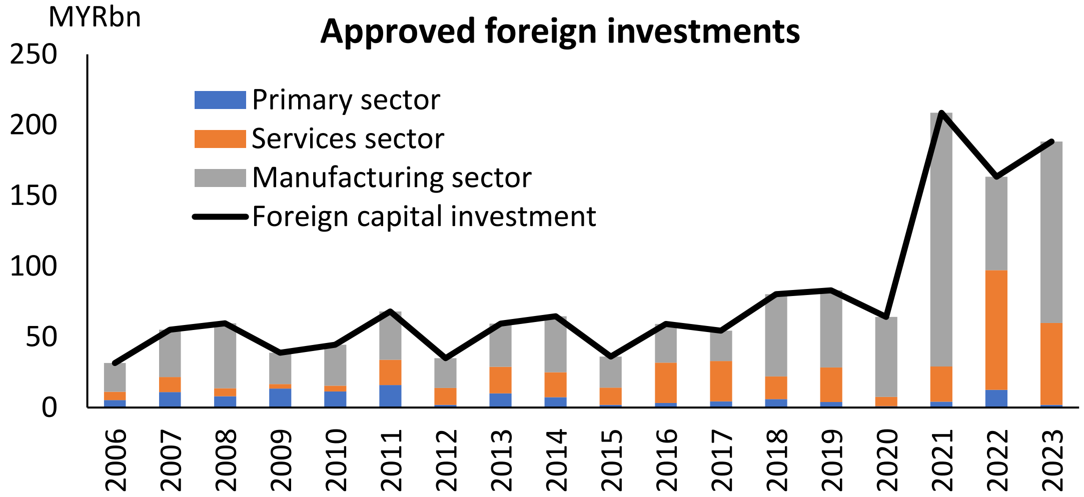
OCBC

Malaysia: FDI inflows on an uptrend

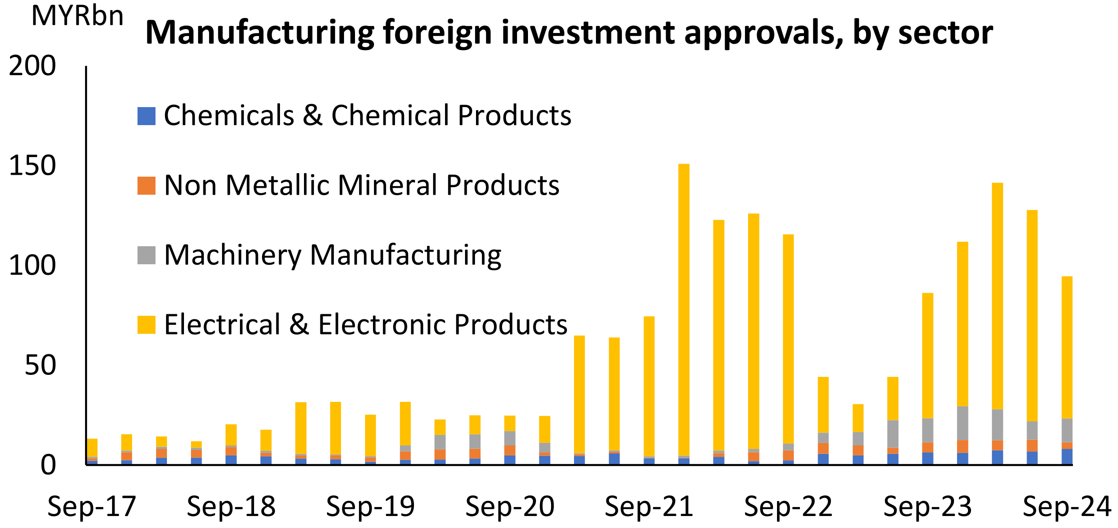
- Foreign investment approvals, as measured by MIDA, have been increased sharply since 2020. Majority of the approvals are for the manufacturing sector. Within this, the E&E sector receives the bulk of the inflows, followed by machinery manufacturing.
- EU, US, Mainland China and HK SAR are among the top investors in the manufacturing sector.



Source: CEIC; OCBC. Note: EU includes France, Netherlands, Germany, Italy and Belgium.



Source: CEIC; OCBC.

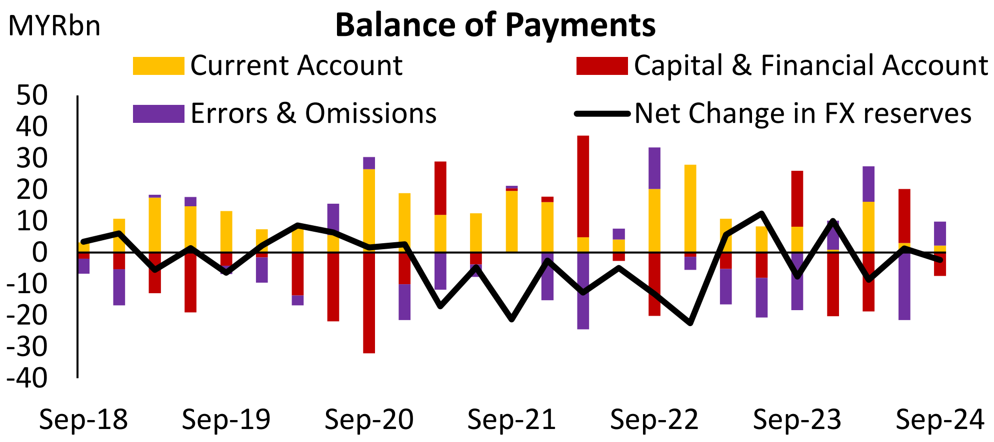


Source: CEIC; OCBC.

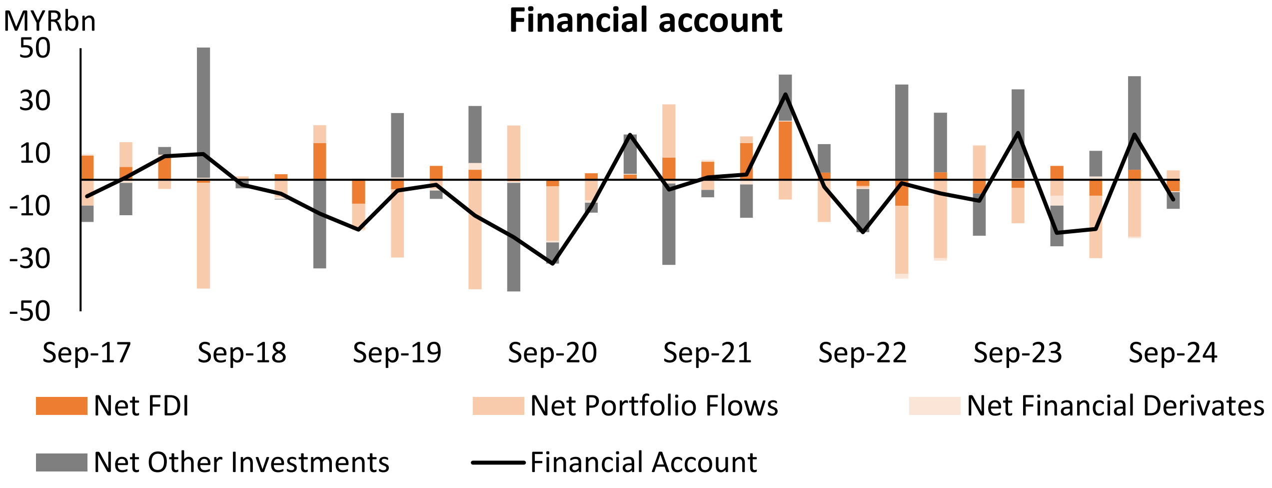
OCBC

Malaysia: Balance of payments position is comfortable

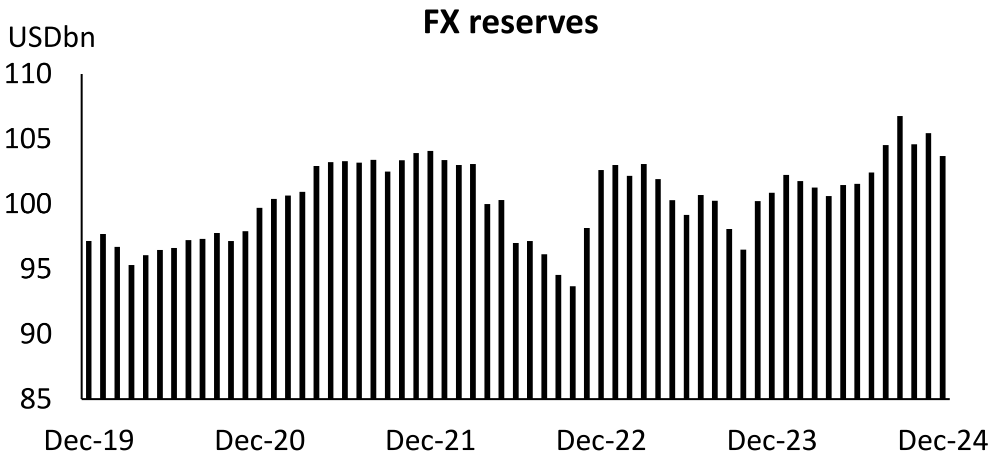
- The balance of payments position, while volatile, largely reflects a comfortable position. The basic balance (net FDI and current account balance) remains a surplus.
- Net FDI recorded outflows of MYR6.6bn in 1Q-3Q24 but this was largely because of higher FDI outflows (i.e., Malaysian companies investing abroad) rather than lower FDI inflows.
- FX reserves have stabilized at USD103.7bn as of end-Dec 2024, sufficient to meet international reserve adequacy requirements.



Source: CEIC; OCBC



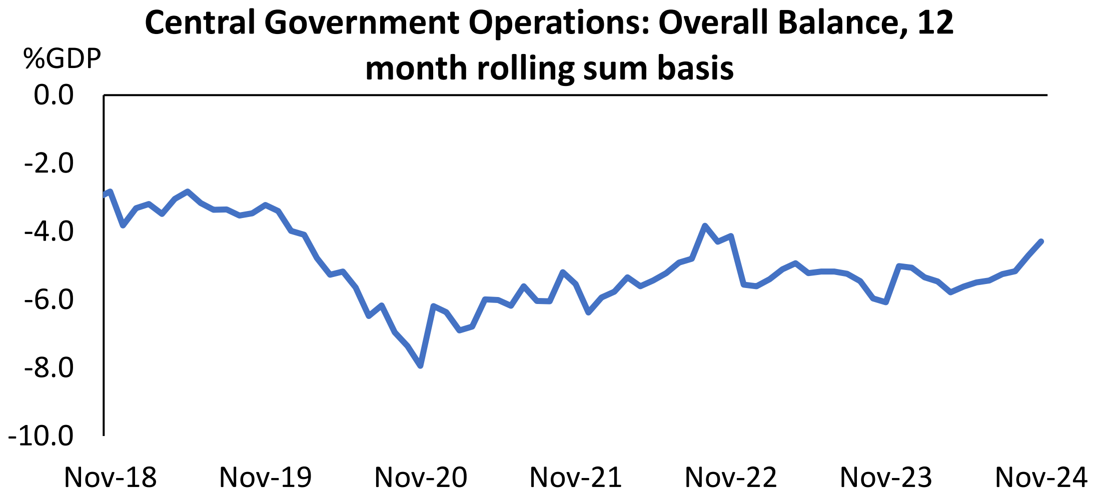
Source: CEIC; OCBC Bank



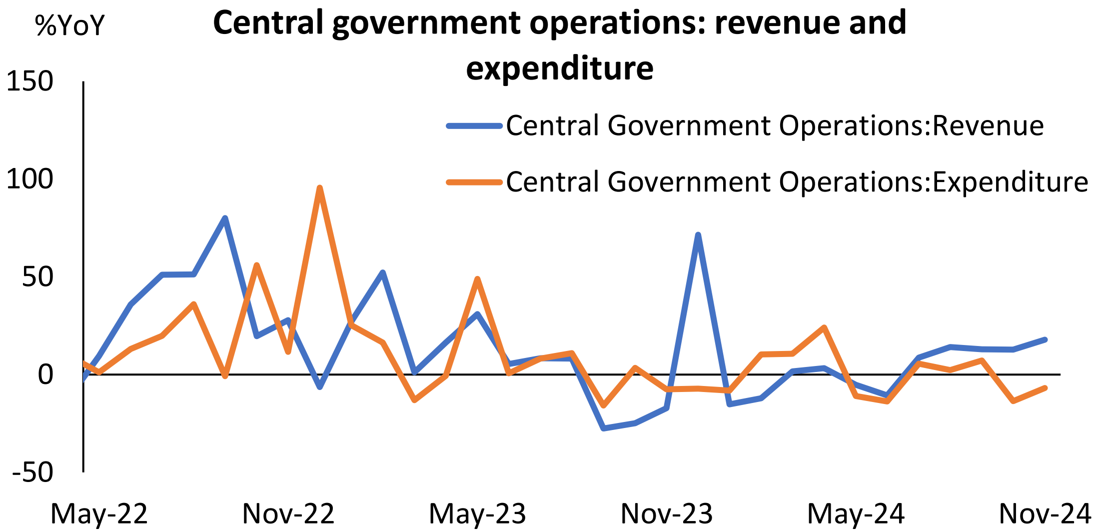
Source: CEIC; OCBC.

Malaysia: Current state of fiscal play

- On a 12-month rolling sum basis, we estimate that the fiscal deficit narrowed to 4.3% of GDP at the end of November compared to 4.7% in October. This suggests that the fiscal deficit outturn could narrow further in December, as was suggested by Second Finance Minister Amir Hamzah Azizan.
- Revenue collections increased by 15.4% YoY in October/November compared to flat growth in 1Q-3Q24. Expenditures, on the other hand, fell by 10.2% YoY in October/November after rising by 2.5% YoY in 1Q-3Q24. This likely helped narrow the fiscal deficit in for most of 4Q24.



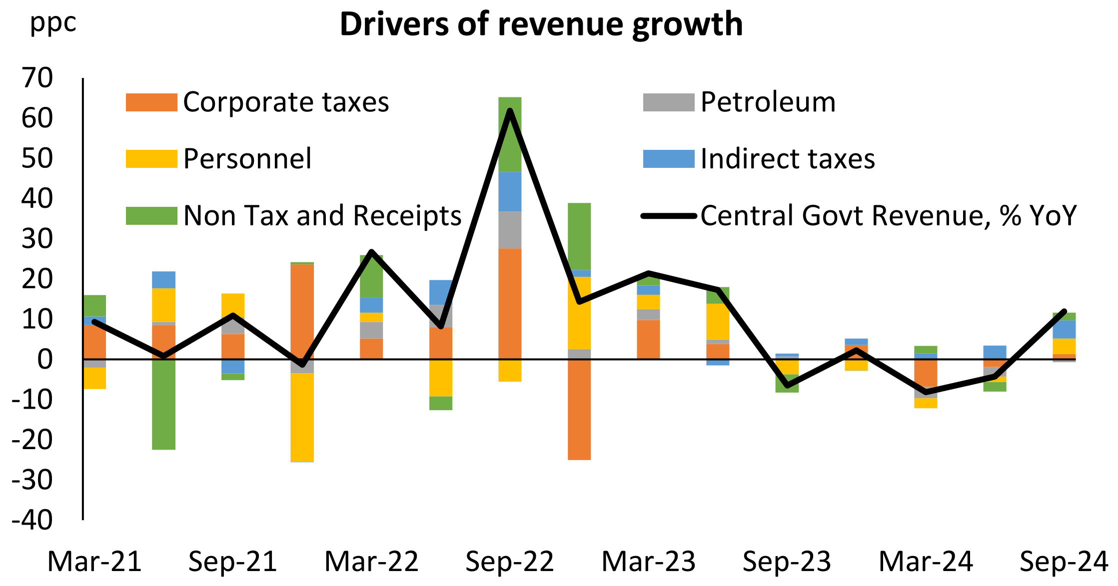
Source: CEIC; OCBC.



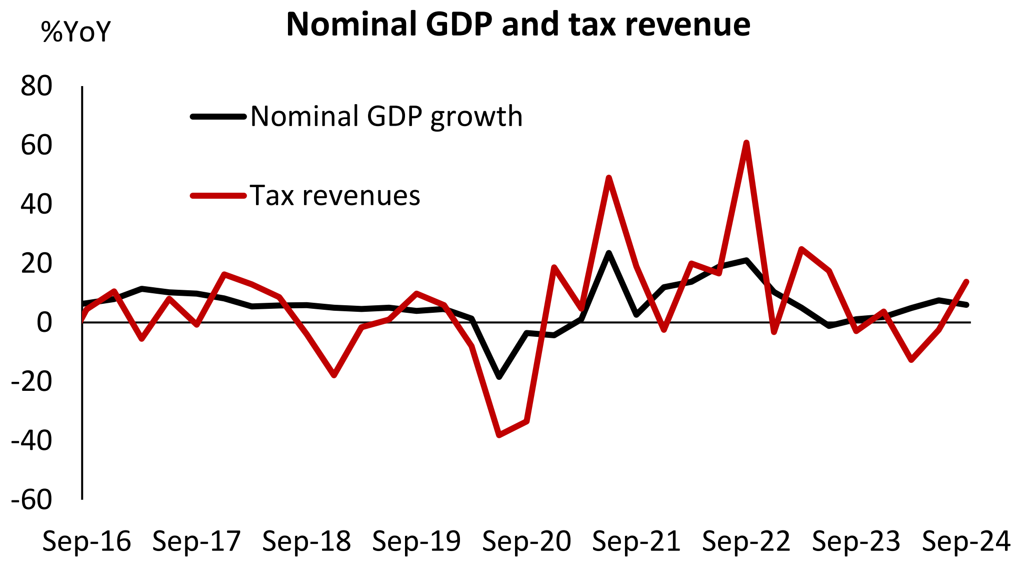
Source: CEIC; OCBC.

Malaysia: Revenue collections improved in 2H24

- Revenue growth improved in 3Q24 and continued into October and November. For 3Q24, the drivers of better revenue collections were higher direct personal taxes and indirect tax collections.
- More fundamentally, tax revenue collections will be supported by nominal GDP growth. Nominal GDP grew by 6.1% YoY in 1Q-3Q24 while tax revenue collections dropped by 0.7% YoY, albeit showing a clearer trend of improvement in 3Q24. Consistent growth in nominal GDP will bolster tax revenues into 2025.



Source: CEIC; OCBC.

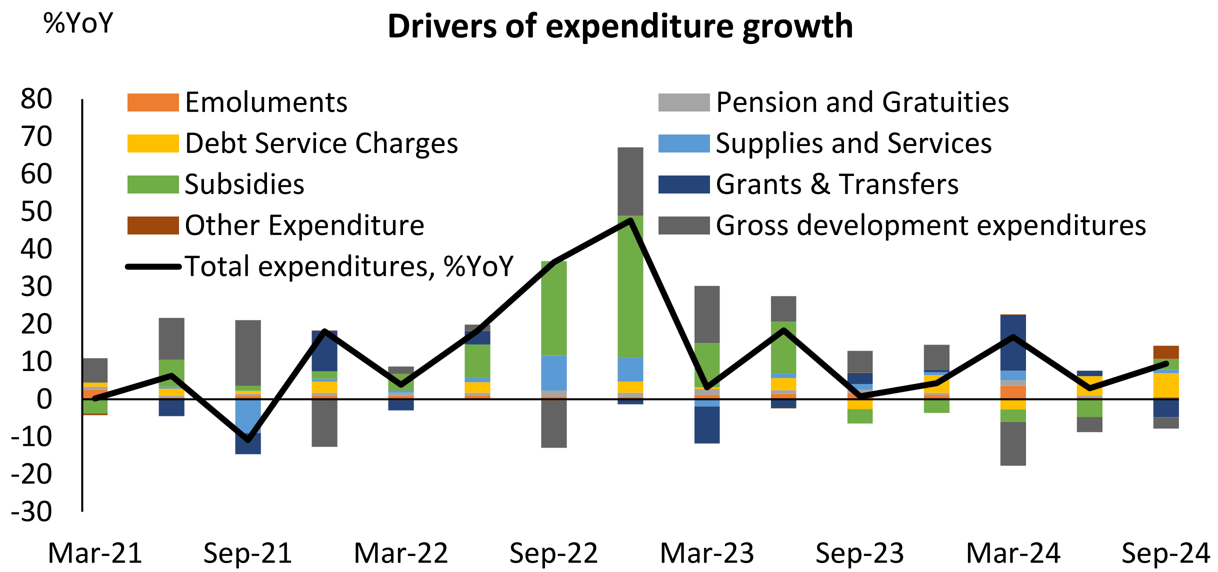


Source: CEIC; OCBC.

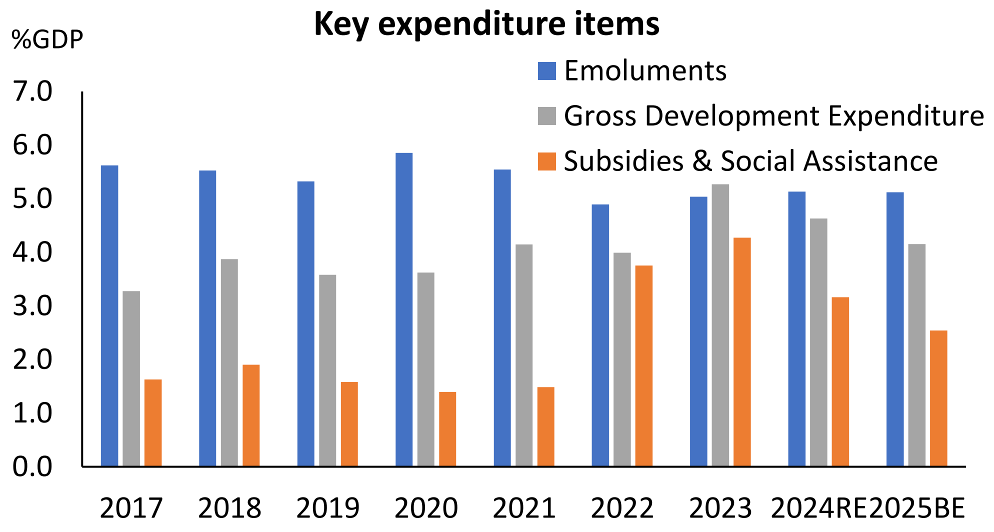
OCBC

Malaysia: Expenditure growth remains skewed

- Expenditure growth was mainly driven by debt service charges, emoluments and subsidies from 1Q-3Q24. Gross development expenditures dropped by 6.2% YoY in 1Q-3Q24.
- The expenditure profile remains skewed towards emoluments and subsides spending. However, in 2024 and 2025, the government plans to further rationalize subsidies. Diesel subsidies were rationalized in June 2024, and we expect RON95 subsidies to be rationalized by July 2025.
- The proportion of emoluments expenditure will likely remain elevated given the increases in civil servant's salary increases.



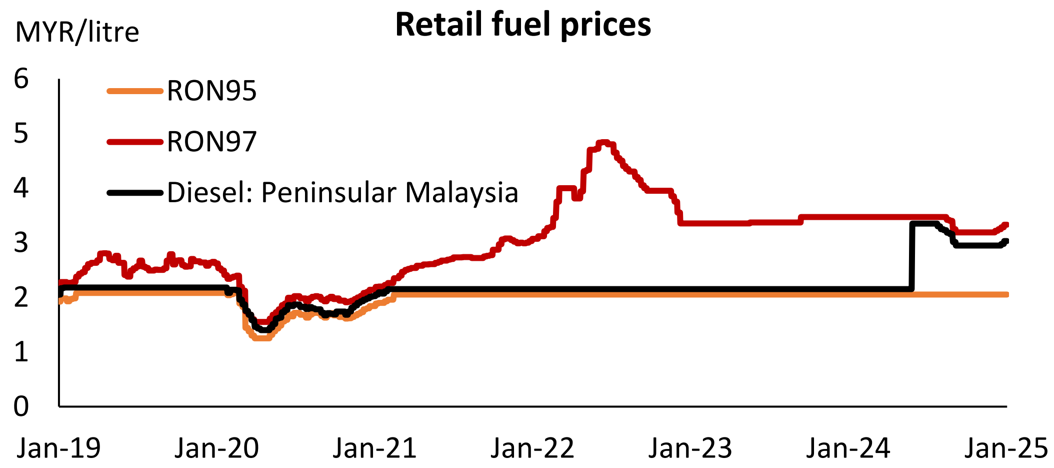
Source: CEIC; OCBC.



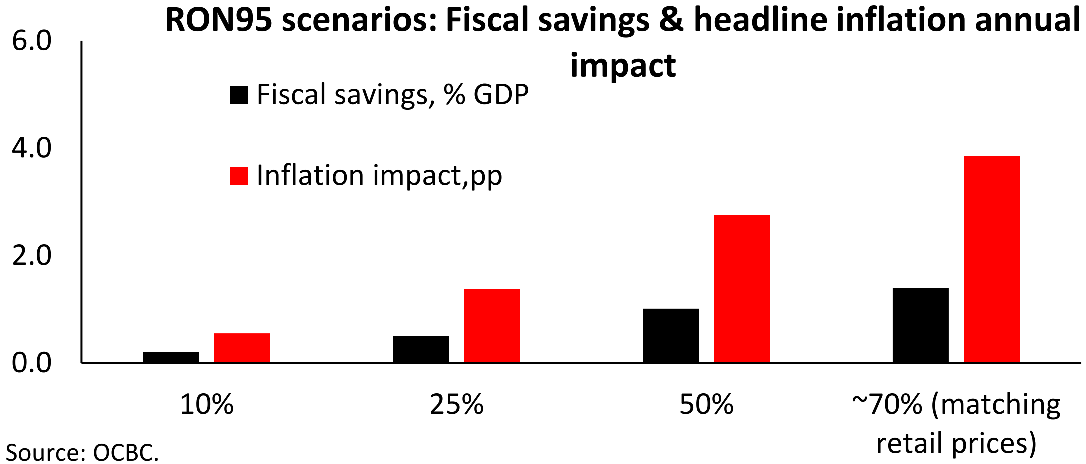
Source: MoF; CEIC; OCBC.

Malaysia: Fuel subsidy rationalization – a clear positive

- There is an approximate ~62% difference between RON97 and RON95 prices, with the former more linked to global oil prices. We expect a 20-25% increase in RON95 prices, starting from July 2025. We estimate the fiscal savings of 0.5% of GDP. This is similar to the officials estimates of MYR8bn (0.4% of GDP) in savings.
- The diesel rationalisation, which began in June 2024, is set to yield higher fiscal savings of MYR7.2-7.3bn (0.4% of GDP) in 2024 versus an estimated MYR4bn (0.2% of GDP), according to the government.
- The mechanism of RON95 rationalisation has been touted to be different from diesel subsidies, with the authorities look to reclassify recipients for RON95 subsidies based on disposable income rather than B40, M40 and T2 income classifications.



Source: CEIC; OCBC.



Source: OCBC.

OCBC

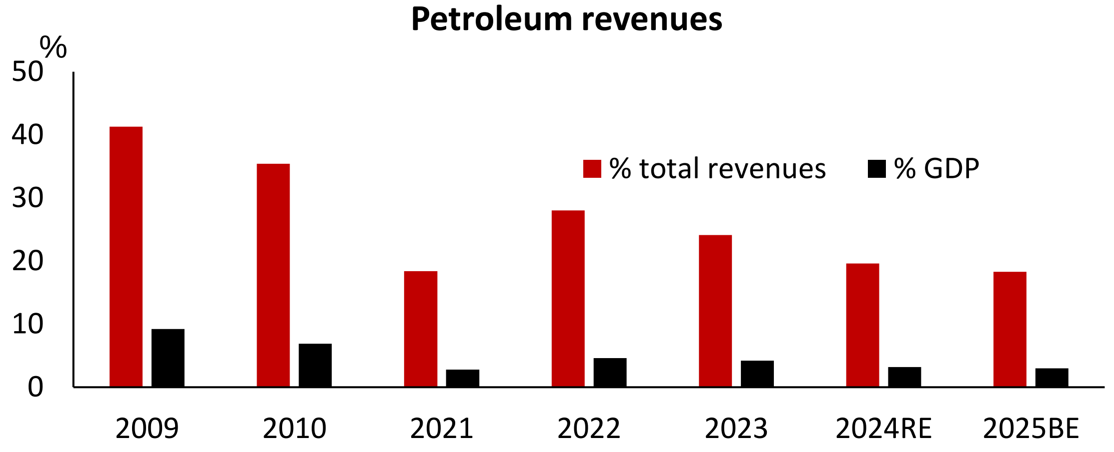
Malaysia: Budget 2025 aims for further fiscal consolidation

- The government aims to narrow the fiscal deficit to 3.8% of GDP in 2025 from 4.3% of GDP in 2024 on the assumption that revenues will grow by 5.5% YoY in 2025 (versus 2.3% in the 2024 revised budget estimate) and expenditures will rise by 3.3% YoY after remaining flat in 2024.

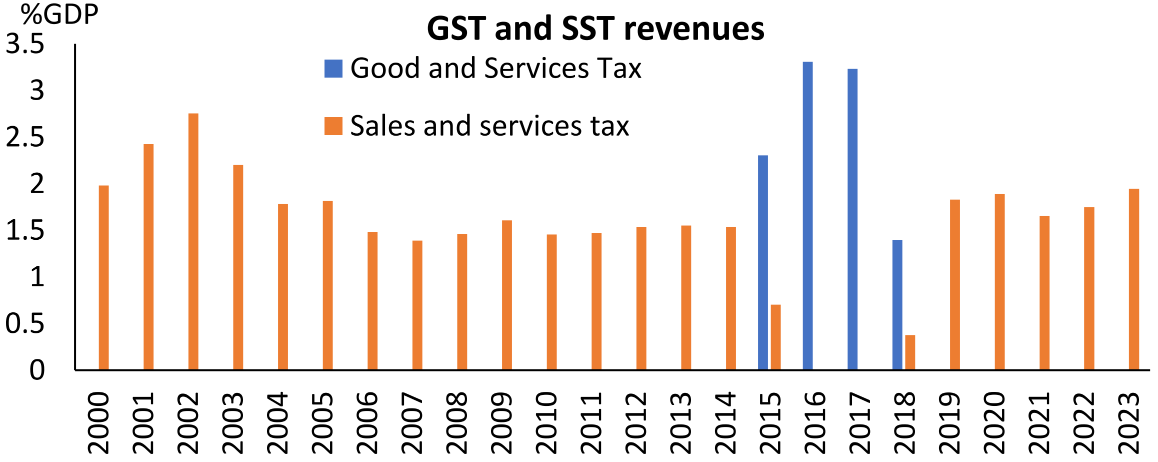
MYRbn	**2023**	**2024**		**2025**	
	Actual	**Budget Estimates**	**Revised estimates**	**Budget estimates**	**%YoY**
Central Govt Revenue	**315.0**	**307.6**	**322.1**	**339.7**	**5.5**
Tax Revenues	229.2	243.6	241.0	259.0	7.5
Direct Taxes	171.3	185.0	177.1	188.8	6.6
Indirect Tax	57.8	58.6	64.0	70.2	9.8
Non-Tax Revenues	85.8	64.0	81.0	80.7	-0.4
Central Govt Expenditures	**406.4**	**393.0**	**406.3**	**419.7**	**3.3**
Central Govt Current Expenditure	311.3	303.8	321.5	335.0	4.2
Emoluments	91.9	95.6	99.8	105.9	6.2
Pension and Gratuities	34.1	32.4	34.4	40.6	17.7
Debt Service Charges (DS)	46.3	49.8	50.8	54.7	7.7
Supplies and Services	35.9	38.0	39.2	40.7	3.7
Subsidies & Social Assistance	71.8	52.8	61.4	52.6	-14.4
Asset Acquisition	1.0	1.7	1.7	1.2	-30.6
Net Development Expenditure	**95.1**	**89.2**	**84.8**	**84.7**	**-0.2**
Gross Development Expenditure	96.1	90.0	86.0	86.0	0.0
Loan Recoveries	1.0	0.8	1.2	1.3	14.5
Fiscal balance	-91.4	-85.4	-84.3	-80.0	
% GDP	-5.0	-4.3	-4.3	-3.8	

OCBC

Malaysia: Revenue base needs to be broadened



Source: Malaysia Ministry of Finance; OCBC

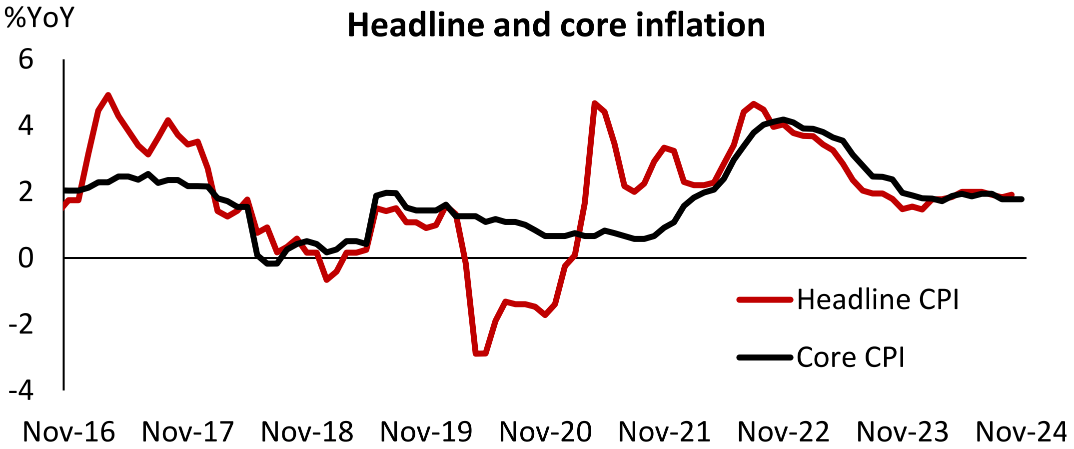


Source: CEIC; OCBC.

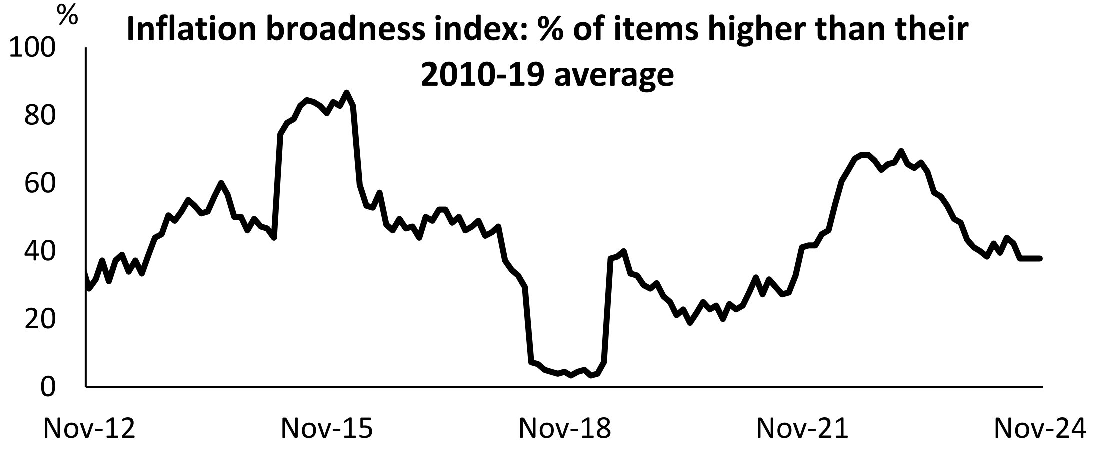
Tax measures announced in 2025		
Dividend tax	Introduction of a 2% dividend tax on certain dividend income received by individual shareholders.	AY2025
Sales tax	Sales tax rates would be increased on nonessential and imported goods, such as premium foods, although sales tax exemption would be maintained on basic food items consumed by the public.	May-25
Services tax	The scope of the service tax would be expanded to include commercial service transactions between businesses, such as fee-based financial services.	May-25
Carbon tax	Carbon Tax will be imposed on the iron, steel and energy industries.	2026
Excise duties	Increase the excise duty on specific sugar sweetened beverages. The proposed rate is an increase from MYR0.50 to MYR0.90 per liter.	Increases in phases, starting 1 Jan 2025
E-invoicing	Taxpayers with an annual turnover or revenue of more than MYR25mn and up to MYR100mn	01-Jan-25
	All other taxpayers	01-Jul-25
Source: MoF; PwC; OCBC.		

Malaysia: Inflation contingent on fiscal outcomes

- The inflation picture has been surprisingly benign in 2024, with both headline and core inflation averaging 1.8% in 1Q-3Q24.
- There are inflationary policies in the pipeline, including raising RON95 prices from mid-2025, 13.3% increase in minimum wages from February 2025 and 7-15% increase in civil servant salaries effective December 2024. Specifically, if RON95 rationalisation is implemented as outlined in Budget 2025, we estimate that retail prices could rise by 20-25% from July 2025, pushing our estimate of average inflation higher to 2.7% YoY in 2025 (versus 1.8% in 2024).
- The caveat, however, is the mechanism of implementation is unclear given that the subsidy removal will be targeted to a certain section of consumers. The authorities have estimated a wider headline inflation range of 2.0-3.5% in 2025 versus 1.5-2.5% in 2024.



Source: DOSM, CEIC, OCBC.

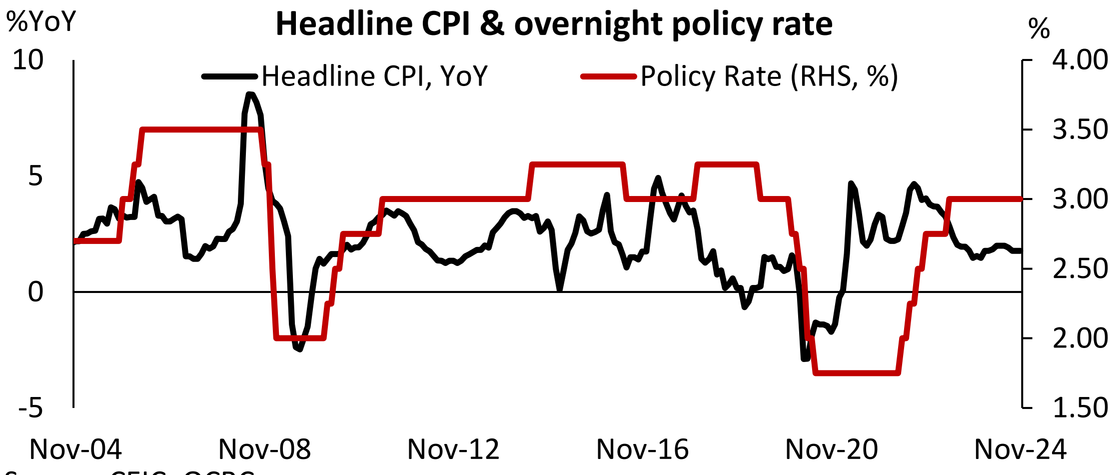


Source: CEIC; OCBC.

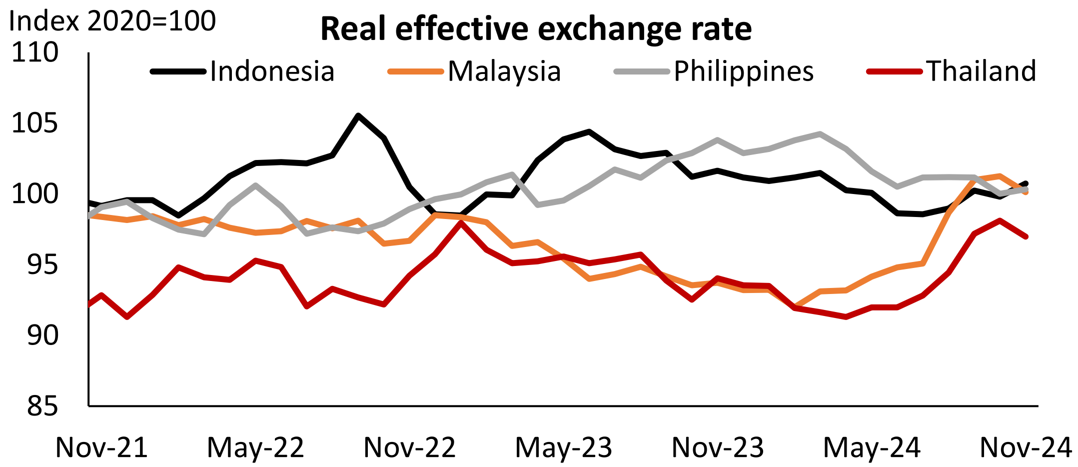
OCBC

Malaysia: Monetary policy in wait-and-see mode

- Our baseline forecast is for Bank Negara Malaysia (BNM) to keep its policy rate unchanged at 3.00% in 2025.
- Past precedence shows that BNM usually makes changes to the policy rate based on demand, rather than supply, driven inflationary conditions. However, should inflationary pressures become more persistent and pervasive, we do not rule out the possibility for BNM to hike policy rates in 2025.
- The authorities, including BNM and the government, have focused on supporting the currency (MYR). MYR appreciated versus USD, outperforming regional peers in 3Q24 (albeit giving some gains in October). Importantly, the REER has also appreciated, after remaining weak for much of 2023 and 1Q24.



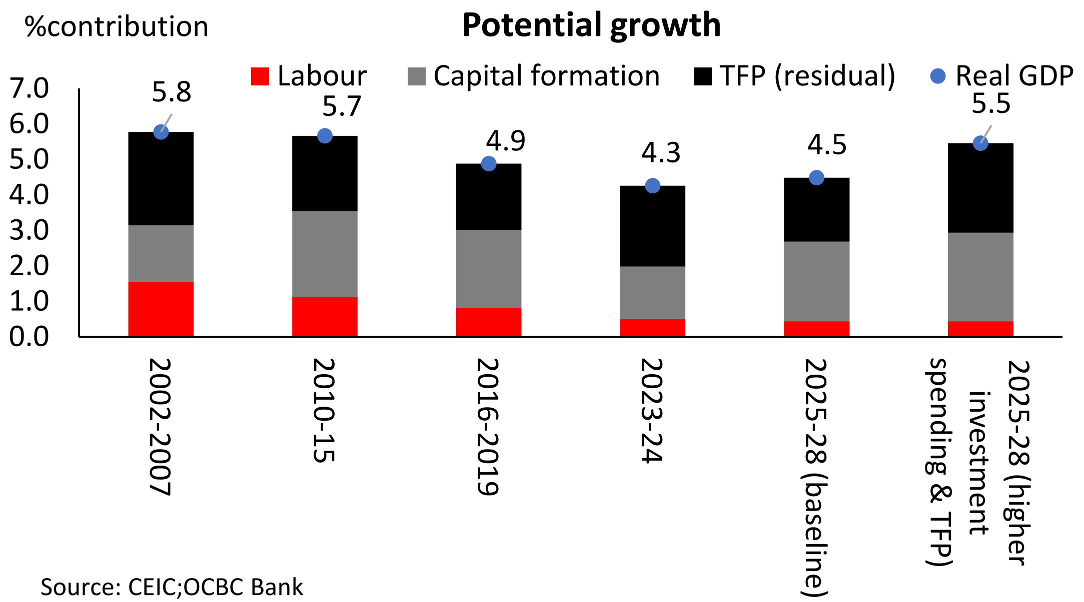
Source: CEIC; OCBC.



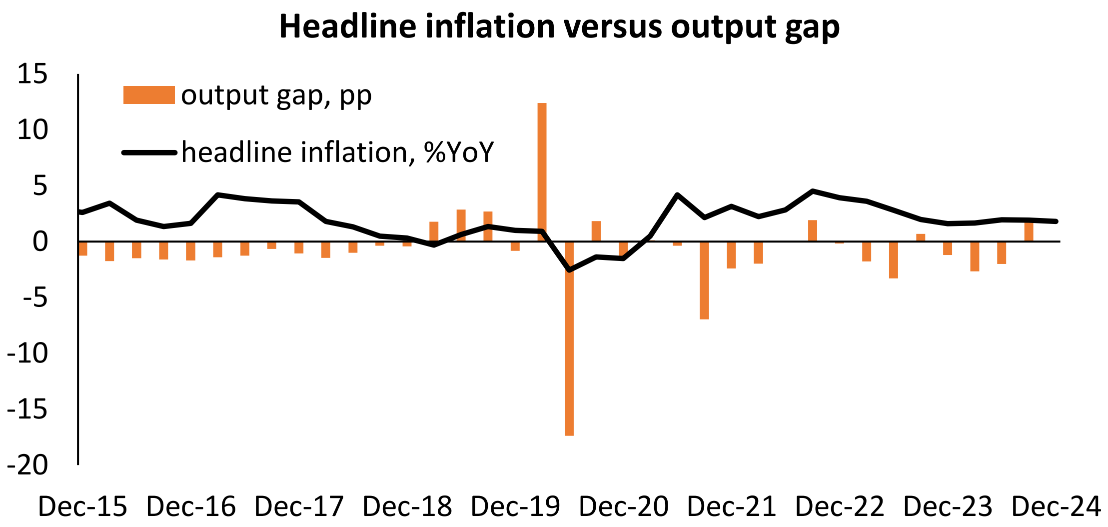
Source: CEIC; OCBC.

Malaysia: Potential growth & output gap

- With the components of headline inflation likely to be adjusted more in line with market expectations, the output gap dynamics will come into play more in 2025 to determine the path of inflationary moves.
- Our base case is for the positive output gap in 2024 to close in 2025, as GDP growth remains in line with potential growth. However, upside surprises to growth could mean pipeline inflationary pressures particularly if domestic demand strengthens further.
- We determine potential growth using the Cobb-Douglas production function, with total factor productivity as the residual component.



Source: CEIC;OCBC Bank



Source: CEIC; OCBC.

Summary of economic forecasts: Malaysia

	2021	2022	2023	2024F	2025F	2026F
GDP (USDbn)	373.6	407.6	399.4	423.1	464.3	504.9
GDP per capita (USD)	10896.9	11749.0	11371.0	11899.8	12904.5	13877.1
GDP (% YoY)	3.3	8.9	3.6	5.4	4.9	4.4
Exports (% YoY)	26.6	12.4	-3.4	8.0	6.0	5.8
Imports (% YoY)	23.8	14.4	-11.7	11.4	8.5	4.9
Current Account Balance (% of GDP)	3.9	3.2	1.5	1.8	1.7	1.8
Unemployment Rate (%)	4.2	3.6	3.3	3.2	3.2	3.3
Fiscal Balance (% of GDP)	-6.4	-5.6	-5.0	-4.3	-3.8	-2.7
Headline CPI (% YoY)	2.5	3.4	2.5	1.8	2.7	1.8
BNM overnight Rate (% eop)	1.75	2.75	3.00	3.00	3.00	3.00
USDMYR (eop)	4.17	4.40	4.59	4.47	4.56	4.46
Source: DOSM, Ministry of Finance, Bank Negara Malaysia, CEIC, Bloomberg, OCBC. FX forecasts are as of 15 January 2025.						

OCBC

Global Markets Research & Strategy

Macro Research

Selena Ling
Head of Research & Strategy
lingssselena@ocbc.com

Tommy Xie Dongming
Head of Asia Macro Research
xied@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau Economist
cindyckeung@ocbc.com

Herbert Wong
Hong Kong & Taiwan Economist
herberthtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
jonathanng4@ocbc.com

Ong Shu Yi
ESG Analyst
shuyiong1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Head of FX & Rates Strategy
francescheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Head of Credit Research
wongvkam@ocbc.com

Ezien Hoo, CFA
Credit Research Analyst
ezienhoo@ocbc.com

Wong Hong Wei, CFA
Credit Research Analyst
wonghongwei@ocbc.com

Chin Meng Tee, CFA
Credit Research Analyst
mengteechin@ocbc.com

OCBC

Co.Reg.no.: 193200032W