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5 May 2025

Parliament Sounds the Alarm: Navigating Malaysia’s Tariff Exposure

Urgency recognized

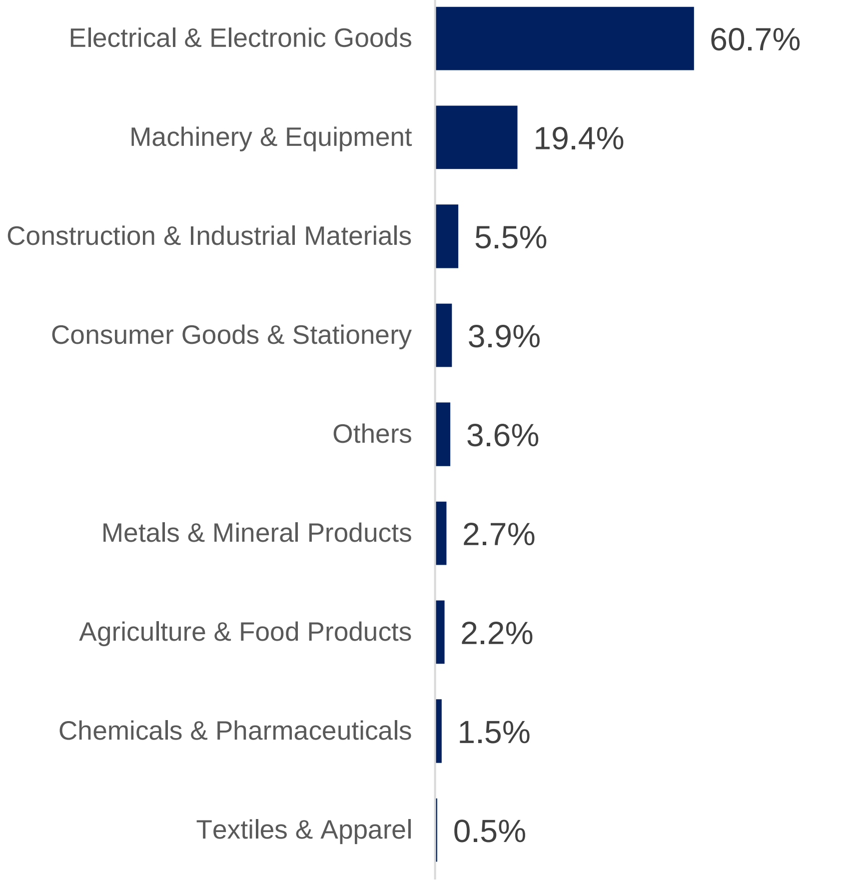
Parliament convened a **special sitting at 11am today** to address the **economic implications of the newly imposed reciprocal tariffs by the US**. Held under Standing Order 11(3), the session enabled urgent deliberation on issues of national interest; and in line with Standing Order 14(1)(i), several cabinet ministers briefed and debated on the tariffs’ potential impact on Malaysia’s economy and outlined the government’s cross-ministerial response. **We commend the government for taking this timely step** — a necessary move to ensure policy coordination, transparency, and reassurance as Malaysia navigates rising global trade tensions.

Economic impact acknowledged

The administration acknowledged importance of the **US as a key economic partner**, accounting for **13% of Malaysia’s exports and the largest goods export destination** in 2024. Bilateral trade totaled RM325 billion, with a RM72 billion surplus, while US firms remain the largest FDI source, contributing over RM166 billion in investments and creating more than 200,000 jobs.

Given these strong ties, the administration warned that the US tariff action—even with a temporary reduction to 10%—poses a real threat to exports and growth. The imposed 24% reciprocal tariff was deemed discriminatory and inconsistent with WTO rules. **Malaysia rejected Washington’s claims of a 47% tariff rate**, clarifying the actual average tariff on US goods is only 5.6%. In response, Putrajaya pledged a **measured and pragmatic approach**, balancing national interests with the need to preserve strong bilateral relations.

% of US imports from Malaysia in 2024, by products



Sources: UN Comtrade, BMMB Economics

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MADANI Measures: Six-Pronged Response to the US Tariffs

To mitigate the potential fallout from the US reciprocal tariffs and bolster Malaysia's economic resilience, the administration has outlined the following measures:

1 Data-Driven Policy Coordination

Establishment of the NGCC to **monitor trade disruptions, coordinate responses across ministries**, and strengthen strategic industries. The government will also track key economic indicators (e.g. exports, manufacturing orders, layoffs, credit growth) to implement timely and targeted policy actions.

2 Trade Diplomacy

Ongoing negotiations with the US include strategic offers such as procurement of Boeing aircraft**, easing non-tariff barriers**, and facilitating digital and agricultural trade to position Malaysia for partial or full tariff exemptions.

3 Support for Export-Oriented SMEs

An a**dditional RM1 billion in government guarantees (SJPP) and RM500 million in financing via DFIs** will be made available to help SMEs directly affected by the tariffs secure credit and sustain operations.

4 Market Diversification & Regional Integration

Enhanced efforts to diversify export markets beyond the US, including deeper ties with ASEAN, the EU, GCC, and BRICS, while fast-tracking regional economic cooperation projects such as the Johor-Singapore SEZ, cross-border infrastructure, and local currency settlement frameworks.

5 Fast-Tracking Domestic Investment & Development

The administration will **accelerate implementation of approved projects**, including flood mitigation, rural schools, and clinics. Procurement thresholds have been raised to facilitate quicker disbursement, especially to G1–G4 contractors.

6 Reinforcing Economic Reforms for Long-Term Resilience

Commitment to continue Ekonomi MADANI **reforms**, including NIMP 2030, NETR, and digital adoption (AI, blockchain). GLICs will invest RM120 billion over five years, with RM25 billion in 2025 alone, to boost domestic high-value activities like semiconductors and renewable energy.

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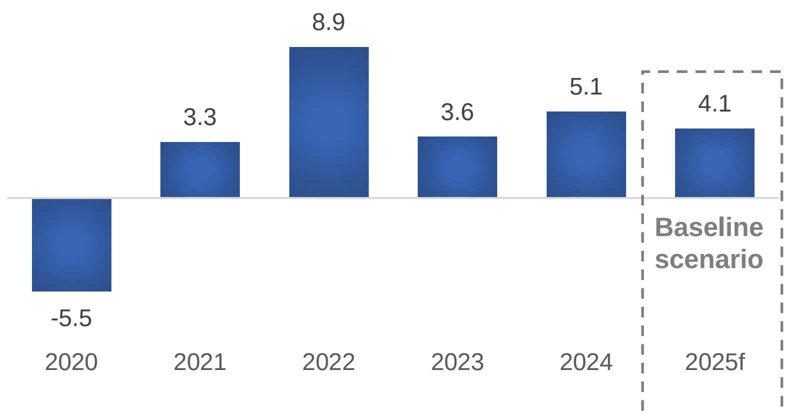
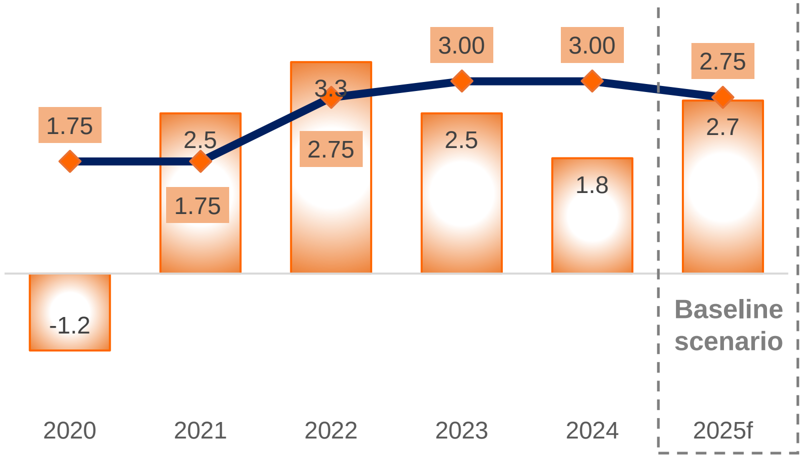
External Drag Deepens: A Pre-emptive Policy Move is Justified

Malaysia's GDP Growth (% yoy)



Inflation (% yoy) vs OPR (end-period)



Our Take: Growth Risks Are Mounting

The US tariff action strikes at a **delicate juncture for Malaysia's economy**. While 1Q2025 growth was modestly positive, forward-looking indicators — including **weaker ISM data, softer global demand, and rising trade costs** — point to growing external headwinds. **Export-oriented sectors are likely to come under pressure**, particularly if trade disruptions persist. In light of these developments, we reiterate our downgraded 2025 GDP growth forecast of 4.1%, compared to our earlier projection of 4.7%, to reflect the rising external uncertainties and potential spillovers from escalating trade tensions.

Policy Response: A Case for an Early OPR Cut

Given the deteriorating external outlook, a **25bps cut in the OPR** at BNM's upcoming meeting on 8 May would be **a timely and appropriate policy response**. With mounting risks to growth from global trade tensions and signs of weaker momentum domestically, **monetary easing could help preserve demand conditions** and reinforce market confidence. Rationale for a potential rate cut:

1. Escalating external headwinds from trade disruptions pose a growing threat to Malaysia's export outlook and overall economic momentum.
2. Inflationary pressures remain contained, with core inflation still tracking below long-term trends, providing policy flexibility.
3. The real policy rate remains relatively elevated, offering BNM room to act without compromising price stability. While BNM may weigh incoming data and ongoing negotiations with the US, an early, pre-emptive adjustment could signal policy readiness and help cushion downside risks more effectively.

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