

# Populist Undercurrents Across the Globe: Risks to Malaysia's Reform Momentum?

Recent developments across Asia and beyond highlight how economic grievances are fueling political populism. **Indonesia unveiled a USD1 billion stimulus package** following protests triggered by perceptions of political privilege and rising living costs. In Thailand, reformist leaders have been sidelined, sparking discontent. Japan's PM has resigned after election losses tied to cost-of-living pressures, while France's fiscal downgrades show how markets punish credibility slippage. While Malaysia remains stable, the regional backdrop raises a key question: **could populist pressures here derail the fiscal and structural reforms now starting to bear fruit?**



**Common key triggers: economic grievances — particularly cost of living, inequality, and perceptions of unfair governance**



## Indonesia

Protests were triggered by revelations that lawmakers enjoyed **generous housing allowances even as households struggled with high food and living costs**. The government responded with a USD1 billion stimulus package, offering rice aid, cash-for-work schemes, and tax relief.

## Thailand

Protests reignited after the **Constitutional Court disqualified Move Forward Party leaders and blocked charter reform**, reinforcing public anger at entrenched elites and sparking demonstrations.

## Japan

**PM Ishiba resigned** after the LDP's historic election defeat, driven by voter anger over inflation and stagnant wages, leaving policy direction uncertain.

## France

Large-scale protests erupted against **proposed austerity measures**, with Fitch downgrading the sovereign rating to A+. The episode highlights how fiscal strains, if left unchecked, directly translate into political and market penalties.

## Nepal

Public anger erupted after the government imposed **sweeping social media bans and clamped down on online platforms**. Youth-driven protests quickly escalated into a broader movement against corruption, civil-liberty restrictions, and political insensitivity.

# Malaysia's Position — Reform Progress but Political Risks Remain

Malaysia has so far avoided the turbulence seen in its neighbours. **Fiscal consolidation is on track**, with revenues in the first seven months of 2025 up 5.6% y-o-y to RM177.1b, while the fiscal deficit narrowed to RM46.7b from RM52.9b a year earlier. These improvements reflect stronger tax collection and subsidy rationalisation, which are starting to ease pressure on government finances.

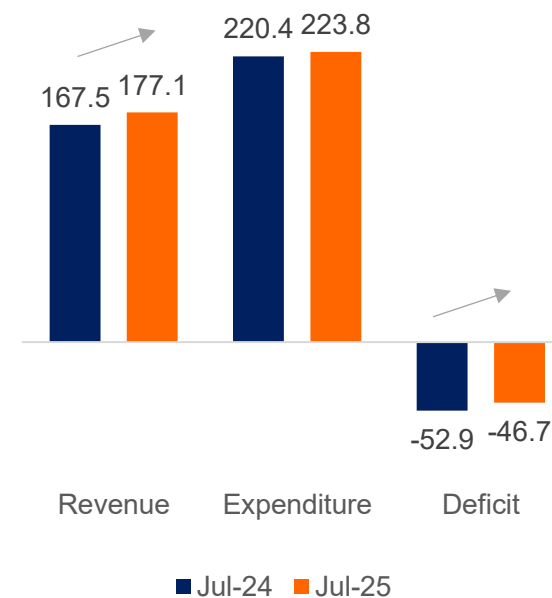
**Still, risks cannot be dismissed.** Rising populist sentiment in neighbouring countries highlights the possibility of spillovers, whether through voter demands or shifts in political climate. Any reversal of reforms — such as slowing subsidy rationalization, particularly the RON95, or reintroducing populist handouts — would undermine Malaysia's hard-won fiscal credibility.

**For now, Malaysia remains a relative bright spot in the region**, but the durability of its reform path will hinge on **political stability and discipline in maintaining fiscal targets**. Investors and credit rating agencies will be watching closely for continuity in policies, especially as regional populist waves grow louder.

Sovereign Credit Ratings – Malaysia and Peers

Country	S&P Global Ratings	MOODY'S	Fitch Ratings
Malaysia	A- / Stable	A3 / Stable	BBB+ / Stable
Indonesia	BBB / Stable	Baa2 / Stable	BBB / Stable
Thailand	BBB+ / Stable	Baa1 / Negative	BBB+ / Stable
Japan	A+ / Stable	A1 / Stable	A / Stable

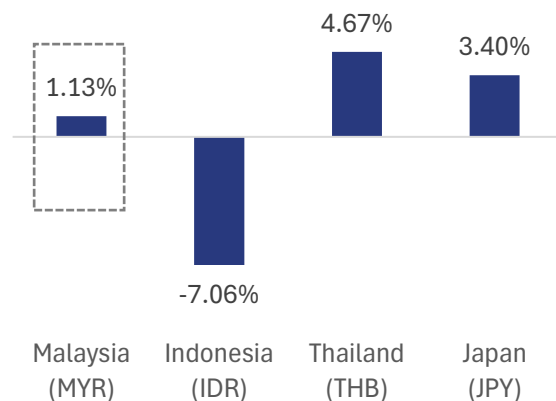
Malaysia's fiscal position (Jan-July 2025)



Sources: Bloomberg, CEIC, Department of Statistics, BMMB Economics

# Malaysia Stands Out: Stable Ringgit, Anchored Yields, Credibility Intact

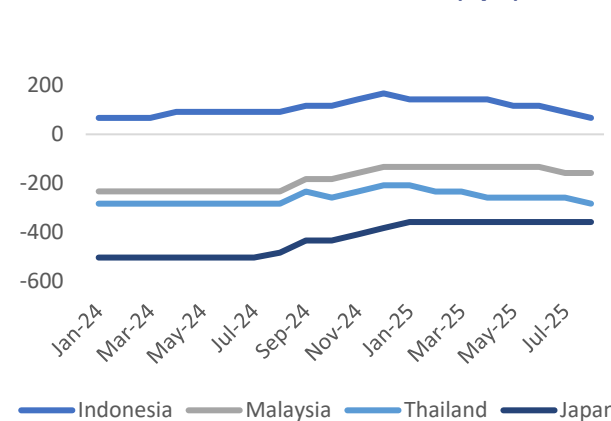
Spot returns within a year  
(Sep 2024 - Sep 2025)



Standard deviation of currency movements  
within a year (Sep 2024 - Sep 2025)

Malaysia (MYR)	0.11
Indonesia (IDR)	369.21
Thailand (THB)	0.81
Japan (JPY)	4.37

Interest rate differentials (bps)



YTD Malaysia's credit spread (bps)



Sources: Bloomberg, CEIC, BMMB Economics

The ringgit has held up well, posting modest gains and showing the lowest volatility among peers — **a clear signal that fiscal credibility and policy consistency are anchoring sentiment**. This contrasts with sharper swings in Indonesia, Thailand, and Japan, where politics and growth uncertainty have weighed on confidence. Yield spreads versus the Fed remain negative, but the absence of stress in MYR or local bonds shows investors are looking beyond rate differentials as long as Malaysia's fiscal story holds. Corporate spreads have widened slightly YTD but remain orderly and well within historical norms.

**Bottom line:** Malaysia remains a relative bright spot in a volatile region. The key risk is political — any U-turn on reforms or populist giveaways could quickly test investor confidence. For now, fiscal discipline and anchored policy settings are buying Malaysia credibility, but vigilance is warranted.

**Outlook:** We expect the ringgit to **end 2025 in the 4.15–4.20 range**, supported by fiscal consolidation and relative policy stability, while MGS yields should remain on a mild downward trajectory as investors continue to price in credibility and subdued inflation.