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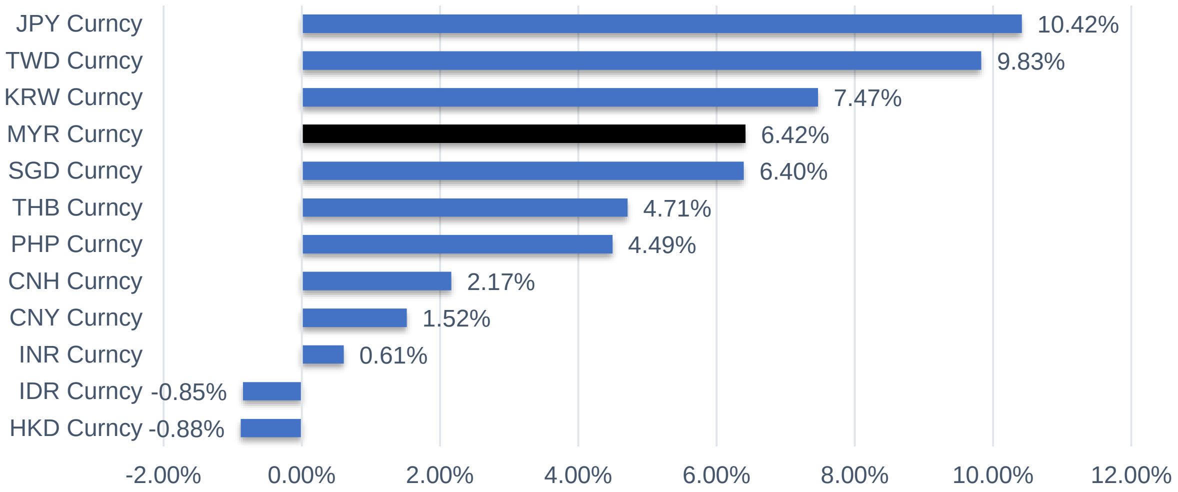
27 MAY 2025

Ringgit Revival: Strength with Caution Ahead

Despite prevailing global uncertainties, the Malaysian Ringgit (MYR) has shown remarkable strength against the US Dollar (USD), appreciating by 6.42% year-to-date to RM4.2025. This performance comes amid a broader trend of de-dollarisation, as evidenced by the decline in the USD's share of global reserves to 58.4% in Q3 2024, down from 71.2% in Q1 1991. Concurrently, foreign investor confidence in Malaysia has been gradually improving, underpinned by a pragmatic fiscal consolidation strategy that supports a cautiously optimistic outlook. The government remains prudent in advancing fiscal reforms, targeting a reduction in the budget deficit to approximately 3% of GDP and maintaining the statutory debt limit at 65% of GDP over the medium term. Since 2018, Malaysia's economic and political landscape has undergone meaningful transformation, with fiscal discipline emerging as a central policy theme. Although outcomes have been mixed, the trajectory is broadly encouraging. The long-term vision is anchored on market-based economic principles with minimal government intervention, laying the groundwork for sustainable and resilient growth.

Year-to-date performance against the US dollar



USDMYR (in reverse order)

Source: Bloomberg

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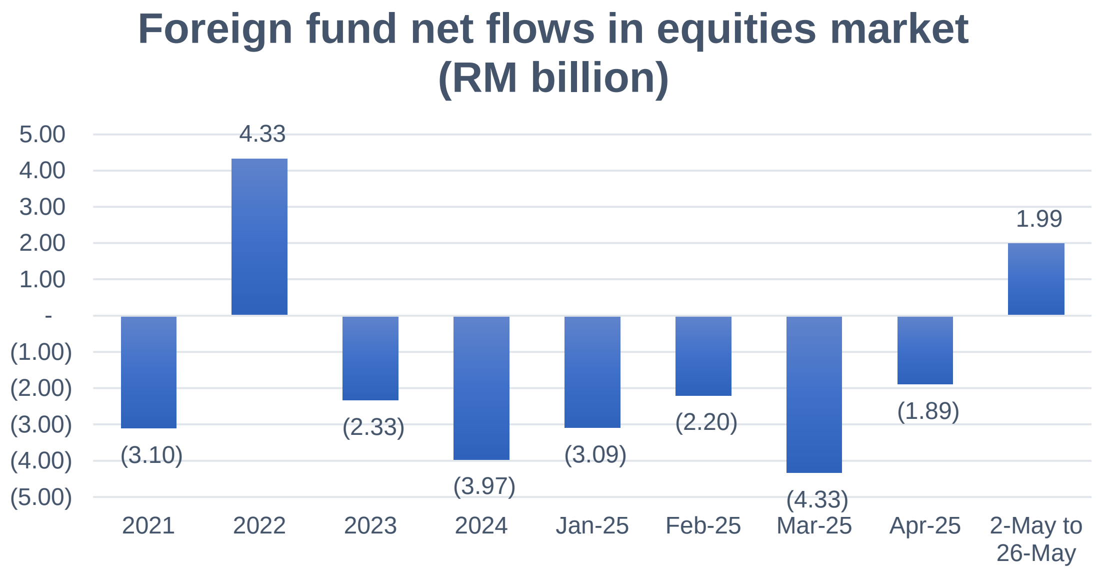
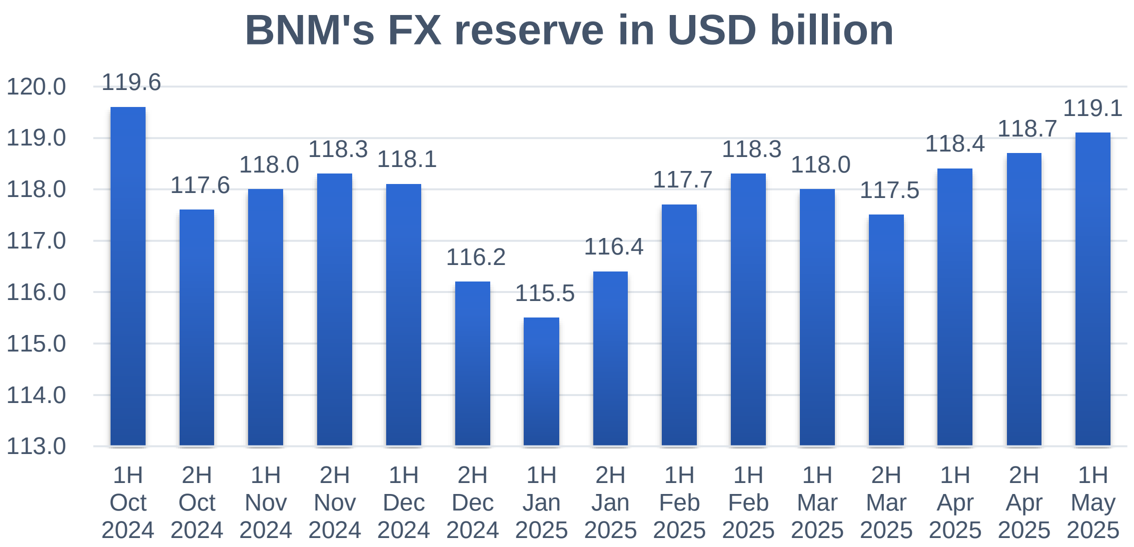
Market confidence has been decent





Source: CEIC & Bloomberg

The tariff shocks triggered by the Trump administration on 2 April sent ripples across global markets, with Malaysia not spared from the fallout. The FBMKLCI slipped below the 1,400-point threshold, while the USDMYR exchange rate briefly weakened to nearly RM4.50 in early April. In response, Malaysia's Prime Minister signaled the potential need to revise the 2025 GDP growth forecast, currently projected between 4.5% and 5.5%. However, sentiment has gradually improved as signs emerged of the US government's willingness to make concessions—albeit at an early stage. Confidence returned steadily, reflected in net foreign inflows of RM1.99 billion between 2 and 26 May. Simultaneously, Bank Negara Malaysia's foreign reserves rose to USD119.1 billion in the first half of May, up from USD118.7 billion in late April, indicating renewed interest from foreign investors in Malaysian assets.

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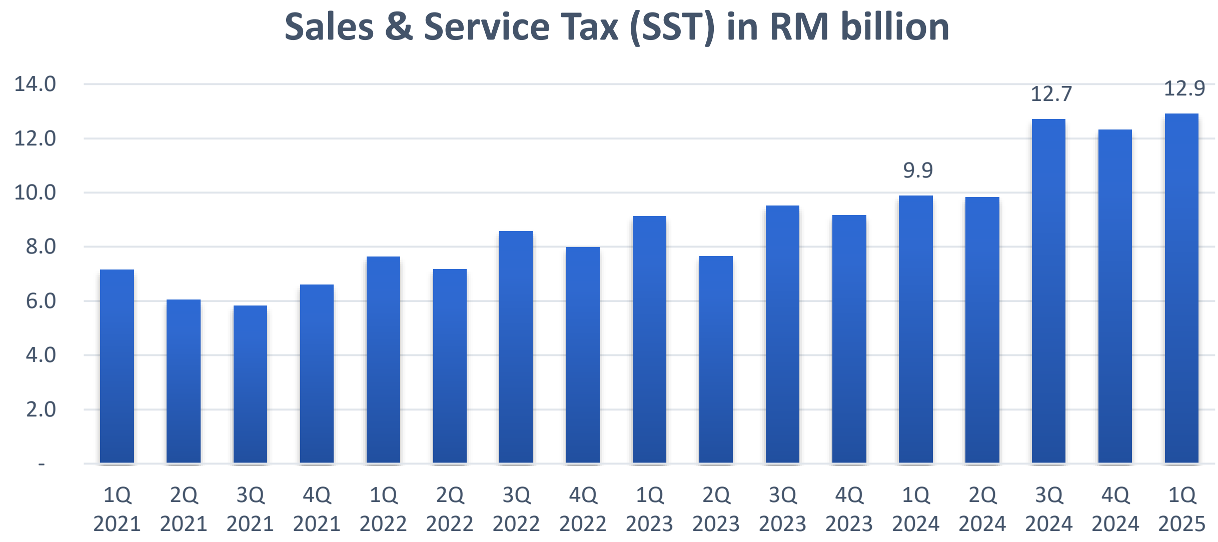
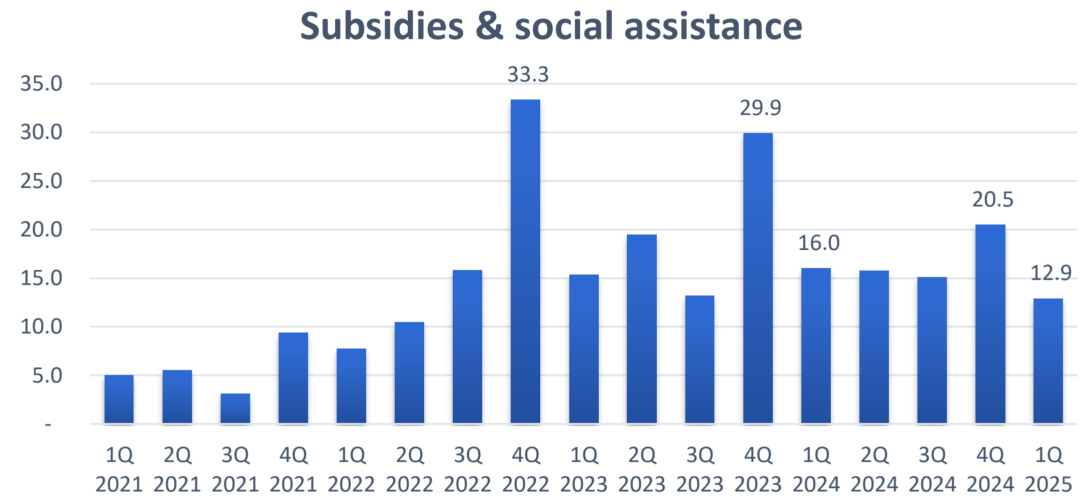
Fiscal consolidation exercise started to see positive outcome





Sources: MOF & CEIC

The return of market confidence has also coincided with concrete progress in Malaysia's fiscal consolidation efforts. Notably, Sales and Service Tax (SST) revenue surged by 30.3% year-on-year to RM12.9 billion in Q1 2025. This was largely driven by the government's move to raise the service tax rate from 6% to 8%, effective 1 March 2024. At the same time, expenditure on subsidies and social assistance declined to RM12.9 billion in Q1 2025, down from RM16.0 billion a year earlier. This reduction can be attributed to the rationalisation of diesel subsidies announced on 10 June 2024, coupled with the decline in global crude oil prices. These reforms are commendable, particularly in the context of Malaysia's evolving political dynamics and the growing influence of social media as a key information source among the public. Implementing such measures in today's environment reflects both political will and fiscal discipline.

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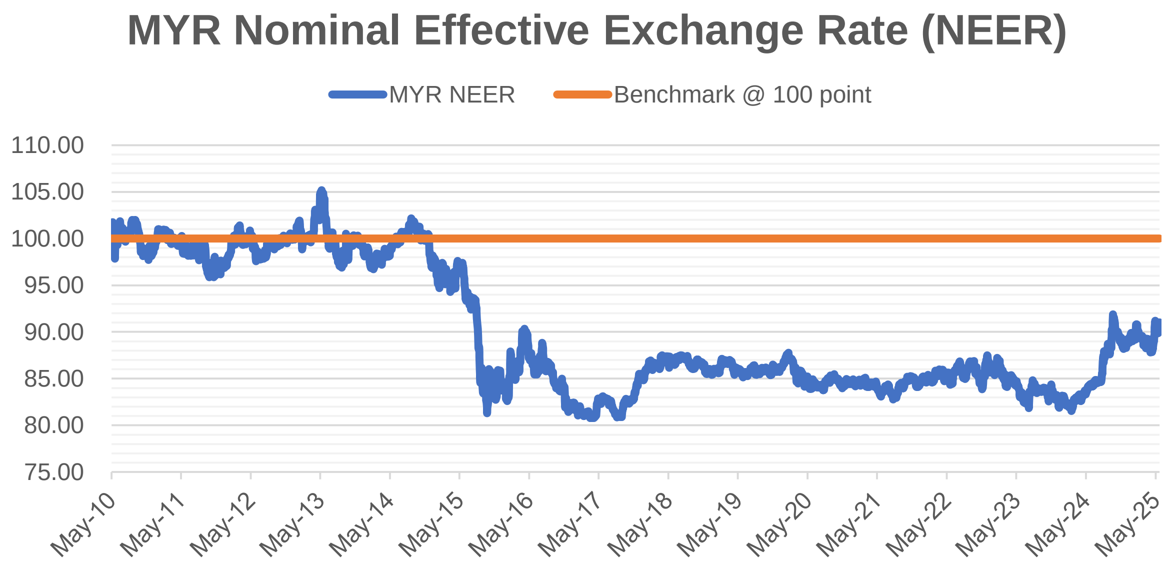
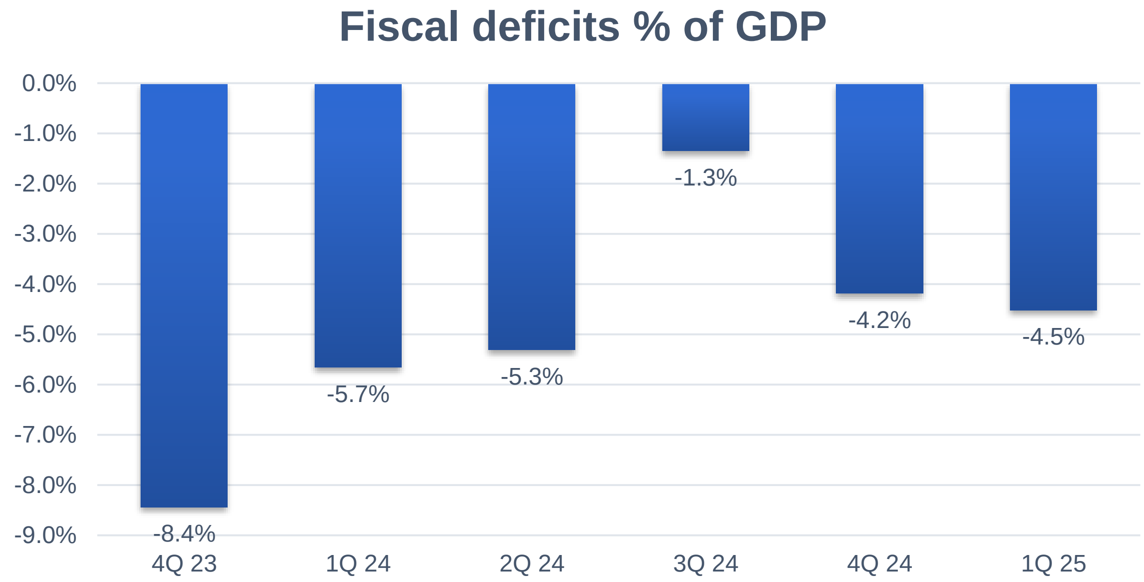
Narratives and outcomes of fiscal consolidation is key to sustaining the market confidence





Sources: BNM, CEIC & BMMB's Economics and Market Analysis

In summary, clear policy narratives, effective communication, and tangible outcomes are critical in fostering market confidence. Despite facing significant challenges since 2018—including the COVID-19 pandemic, political shifts, and economic disruptions—Malaysia has demonstrated resilience. The country continues to attract foreign investments and has successfully returned to a state of full employment. Nonetheless, underlying structural challenges remain, particularly stagnant wage growth and widening income inequality, compounded by the impact of recent tariff shocks. Looking ahead, we expect the USDMYR to strengthen to around RM4.15 by end-June. However, following the conclusion of the 90-day pause period on 9 July, lingering pessimism could trigger a reversal, with the USDMYR potentially correcting to RM4.20 by the end of Q3 2025 and RM4.30 by Q4 2025 (Previous: RM4.50).