Malaysia Economy in Navigating the US Fed Cuts in 2024

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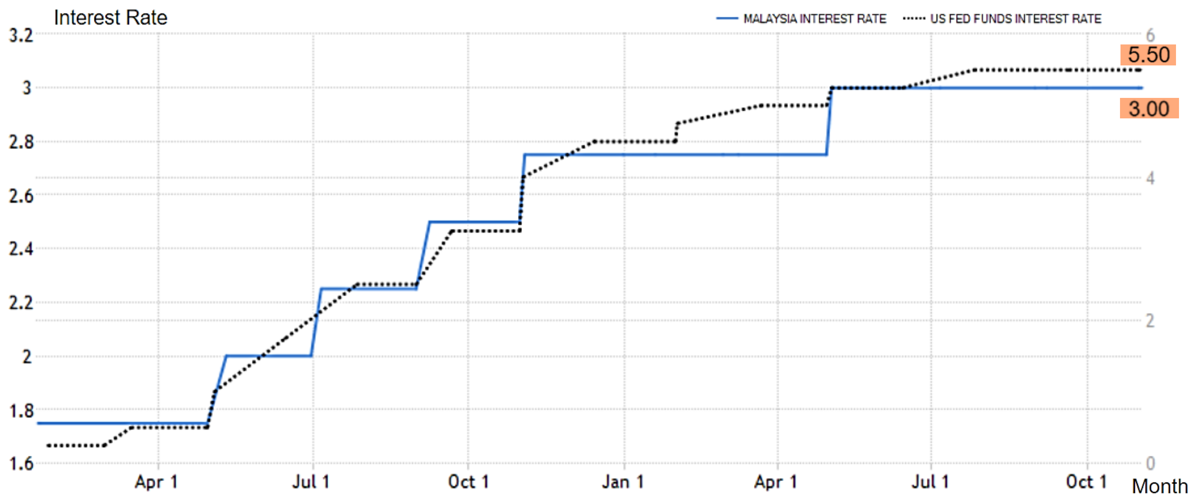
Mohd Khairul Ramli

The anticipated aggressive cuts in US interest rates in 2024, triggered by a forecasted recession, will undoubtedly ripple through the global economy, including Malaysia's Madani Economy initiatives. The effects are likely to be multifaceted, impacting various sectors in potentially both positive and negative ways. Let's delve deeper into these anticipated ramifications:

Figure 1: Malaysia vs USA Interest Rate, Monthly April 2022- October 2023



Source: Department of Statistics, DOSM

The interplay of factors, such as reduced demand in USD-linked markets and potential currency appreciation, poses both opportunities and challenges for Malaysia's economic objectives. Malaysian exports, especially to USD-linked markets like the US, face a looming threat of decreased demand. A weakened US economy could trigger this decline, impacting Malaysia's overall economic growth trajectory. Such a scenario might impede the objectives outlined in the Madani Economy, slowing down its intended pace of development.

The strengthening of the Ringgit against the US Dollar is a probable consequence of the diminishing interest rate gap between Malaysia and the US. While this appreciation might seemingly make imports more cost-effective, it could adversely affect Malaysia's export competitiveness. The inflated prices of Malaysian exports in the global market may pose challenges in maintaining market share against competitors.

On the other hand, lower interest rates have the potential to allure foreign portfolio investments into Malaysian assets. This influx of capital can significantly boost economic activities, offering avenues for technological advancements and expertise transfer, further bolstering the nation's development. With reduced interest rates on loans and credit cards, borrowing becomes more affordable for consumers. This affordability could translate to increased disposable income and subsequent spending boosts, invigorating domestic demand and positively impacting multiple sectors of the economy.

Lower borrowing costs incentivize businesses to consider expansion, potentially leading to the creation of new jobs. This also make access to credit becoming easier due to lower interest rates could augment the affordability of new car purchases. This accessibility might significantly boost demand for new cars, benefiting individuals and businesses involved in car sales and financing.

In conclusion, while global economic shifts may introduce challenges, Malaysia has opportunities to leverage these changes for economic growth and development. The government and economic stakeholders can strategically navigate these shifts to mitigate challenges and harness potential benefits for sustainable economic advancement. Our Economy's success will depend on adapting to this evolving economic landscape while staying true to its core principles of inclusivity and sustainable development.