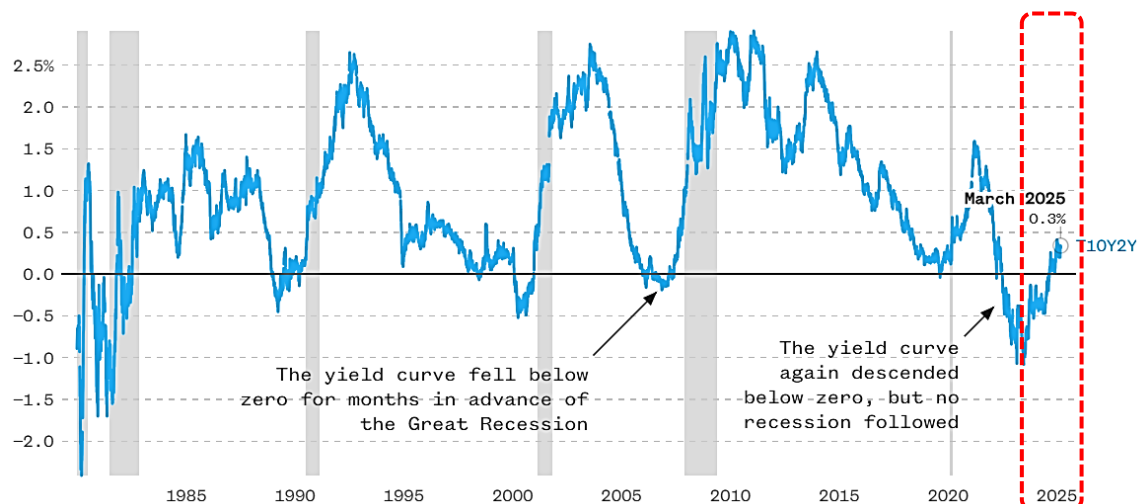


Is Malaysia Ready for The Next Global Recession

By Mohd Khairul Ramli

The global economic landscape is becoming increasingly uncertain, and Malaysia has reason for concern. On March 10, 2025, U.S. stocks took a sharp dive, with the Dow shedding 890 points and the tech-laden Nasdaq and S&P 500 recording their steepest single-day declines in over two years.¹ This turbulence, coupled with President Donald Trump's acknowledgment of a "period of transition" in the U.S. economy, has reignited fears of an impending recession.

Figure 1: US Timeline of The Last Six Economic Recessions



Source: Federal Reserve Bank of St. Louis via FRED, National Bureau of Economic Research, March 2025

Report from J.P. Morgan estimate a 40% likelihood that the U.S. will enter a recession by the end of 2025.² While this probability does not confirm an inevitable downturn, it underscores prevailing market anxiety. The ripples of this uncertainty have already spread, with global stock markets tumbling and Asian equities mirroring the U.S. slowdown. For Malaysia, a small, open economy heavily reliant on trade with the U.S. and other major partners, these signals are a clarion call to reassess its preparedness for a potential downturn.

¹ https://www.wsj.com/livecoverage/stock-market-today-dow-nasdaq-sp500-03-10-2025?mod=film_whatsnews_pos4

² <https://www.usatoday.com/story/money/2025/03/12/jp-morgan-economist-us-recession-chance/82303062007/>

The Signal

The indicators are not promising. The prolonged Russia-Ukraine war continues to disrupt supply chains, while China's economic slowdown adds further strain on global trade. Within Southeast Asia, stock markets have lost momentum, with Malaysia ranking among the region's weakest performers. The broader decline has seen Indonesia and Thailand suffer some of the sharpest losses among 92 major equity benchmarks this year.

Economic distress is evident across Malaysia's regional neighbours. Indonesia recorded its first deflation in over two decades in February 2025, alongside a concerning 30% drop in tax revenue which raising doubts about its fiscal sustainability.³ Meanwhile, Vietnam posted a trade deficit of \$1.55 billion in February 2025,⁴ reversing a previous surplus. These signals suggest that Southeast Asia is already feeling the brunt of external shocks, a warning Malaysia cannot afford to dismiss.

For Malaysia, the potential recession in the U.S. poses a direct threat to its trade-dependent economy. Semiconductor exports as one of the country's primary revenue sources remain vulnerable due to tariffs and declining global demand. Foreign investment, another key pillar of economic growth, is likely to retreat in a downturn. In a worst-case scenario, large-scale infrastructure projects such as the East Coast Rail Link (ECRL) and Forest City could stall, adding further pressure on public finances.

A Fragile Economic Foundation

Malaysia's economic resilience is under scrutiny. Its public debt has risen to RM 1.7 trillion, surpassing 60% of GDP, with an 8.6% increase recorded in 2023 alone.⁵ The persistent budget deficit leaves little fiscal space for counter-cyclical measures. More concerning is that debt servicing already consumes 16.4% of government revenue which far exceeding the 6% benchmark observed in more fiscally stable economies.

³ <https://www.reuters.com/markets/asia/indonesia-sees-first-deflation-reading-more-than-two-decades-2025-03-03/>

⁴ <https://theedgemalaysia.com/node/746981>

⁵ <https://theedgemalaysia.com/node/730713>

Moreover, tax collection continues to fall short of budget targets, placing additional strain on government finances.

Purchasing power is expected to contract as households tighten budget that would hit both domestic consumption and exports. Economists argue that such a scenario would force Malaysia to pivot towards self-sufficiency, bolstering its domestic economy to weather the storm. Yet, the country's current fundamentals suggest this shift may be easier said than done.

Although Bank Negara Malaysia (BNM) insists that the Ringgit's depreciation does not reflect Malaysia's economic fundamentals, the market remains unconvinced. Should a recession materialize, further currency depreciation would be inevitable, pushing inflation higher, particularly for food, of which over 60% is imported.⁶

The Self-Sufficiency Mirage

Food security remains a critical weakness in Malaysia's economic framework. Heavy reliance on food imports makes the country susceptible to inflationary shocks, especially as a weaker Ringgit raises the cost of imported staples like rice, poultry, meat and eggs. Despite discussions on boosting local agricultural production, progress has been sluggish, and the scale of investment required is substantial.

Energy security is another pressing issue. While Malaysia benefits from oil and gas exports, domestic economic resilience hinges on diversifying its energy mix. The transition toward renewable energy has been slow, leaving the country exposed to fluctuations in global oil prices. Without substantial policy shifts, Malaysia will remain vulnerable to external shocks in both food and energy markets.

Foreign reserves, comparatively lower than regional counterparts, present another vulnerability. Malaysia's ability to defend the Ringgit in the event of a financial crisis is constrained by its limited reserves. Some economists suggest bolstering gold reserves through increased domestic mining and bullion purchases as a hedge against U.S.

⁶ <https://www.thestar.com.my/news/focus/2025/03/09/up-and-about-trumps-tariffs-cheaper-foods-for-malaysia>

dollar volatility. However, such measures require significant investment and long-term planning and resources that Malaysia may not readily have.

The Domestic Dilemma

Domestic consumption, a crucial driver of economic growth, is already showing signs of strain. If the U.S. enters a recession, it will weaken demand for Malaysian exports, further dampening economic activity. Additionally, local consumer confidence is likely to decline, leading to reduced spending on both goods and services. This could create a negative feedback loop, where lower consumption reduces GDP growth, worsening economic conditions.

The manufacturing sector, traditionally a stronghold of Malaysia's economy, offers little reassurance. The industry's heavy reliance on foreign labour limits wage growth among local workers, especially youth, restricting its ability to drive domestic demand. Meanwhile, foreign direct investment (FDI) inflows could slow, especially as global investors reassess their exposure to emerging markets.

Adding to the challenge is the issue of financial mismanagement. The 2025 Auditor-General's Report revealed that RM65.145 billion was funnelled into 217 subsidiary companies under federal agencies, yet 26 of these entities remain dormant. Moreover, 86 government-linked companies collectively recorded RM2.81 billion in losses in 2023.⁷ Such inefficiencies undermine Malaysia's ability to mount a credible response to economic downturns and add to the burden of public debt.

Way Forward

Malaysia must act swiftly to cushion the potential fallout from a global slowdown. A balanced and sustainable budget, prioritizing fiscal stimulus, could reassure markets and stabilize the Ringgit. Lowering interest rates to encourage business borrowing and injecting liquidity into the financial system would also be necessary steps.

Beyond immediate monetary measures, Malaysia must address its structural weaknesses. Reducing reliance on the U.S. dollar through currency diversification in

⁷ Auditor-General's Report 2025 <https://www.audit.gov.my/>

trade payments or expanding gold reserves could help insulate the economy from external shocks. Equally important is investment in self-sufficiency, particularly in food and energy production. Expanding local agriculture and developing alternative energy sources would mitigate exposure to global supply disruptions.

The government must also address inefficiencies in public spending. Redirecting resources toward empowering micro, small, and medium enterprises (MSMEs) could foster greater economic resilience, as these businesses contribute more to local employment than capital-intensive projects dominated by foreign labour. Additionally, rethinking education policies and shifting from a university-centric model to technical and vocational training (TVET) could equip the workforce with skills that align with evolving economic needs.

Conclusion

The world economy already shows signs of distress. Domestically, mounting debt, weak reserves, and financial inefficiencies leave little room for complacency. While policymakers have offered reassurances, their rhetoric must be matched with concrete action. Half-measures will not suffice. Malaysia must rethink its economic strategy, from an overreliance on exports to a more balanced, self-sufficient growth model. Failure to act decisively risks leaving the country unprepared for the next recession, a scenario that could have long-lasting consequences for our economic stability. The question remains: is Malaysia ready?