Mizuho Flash: Malaysia

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Malaysia State Elections: Political Risk Premium Considered

In a nutshell

- Upcoming state elections in **Johor (11 July) and Negeri Sembilan (1 August)** will serve as **near-term barometer of political stability**, as the respective support for the two key coalition partners – Pakatan Harapan (PH) and Barisan Nasional (BN) – may ironically accentuate incentives to breakaway.
- More so, given the propensity for opportunistic defections by smaller and state-centric parties. Such destabilising splintering of the ruling coalition could bring forward general elections (GE16) currently only due February 2028.
- BN's decision to contest all 56 Johor state seats on its own and PH's counter move of calling for state elections in Negeri Sembilan highlights the **potential fragility of the ruling coalition**.
- To be clear, the **state elections may not directly translate into federal** seats given factors such as voter turnout and local issues could influence the elections.
- ***Nonetheless*, these state elections serve as high-stakes battlegrounds** that not only reveal, but may forge, federal ambitions for GE16, **with perversely adverse effects on the current coalition's stability**.
- Inevitably, **PM Anwar's supermajority in parliament (151 of 222 seats) is increasingly complicated** by *open competition between and within key partners,* as well as *internal strains within the ruling Parti Keadilan Rakyat* (PKR). And *further threatened by opportunistic defections amongst smaller parties.*
- FX Impact: Perceptions of accentuated political risks are likely to elevate **MYR risk premium and downside volatility** around key political events. But the **binary nature of political risks against solid economic fundamentals** for Malaysia suggests **rebound prospects for MYR once political uncertainties blow over**.

State Elections in Johor and Negeri Sembilan

- Johor: BN's Johor Menteri Besar Onn Hafiz Ghazi dissolved the Johor state assembly[1] on 1 June and called for early elections (originally due June 2027), with nomination day on 27 June and polling day on 11 July.
- In response to BN's decision to contest all 56 state seats independently, PH indicated that it would go head-to-head with BN by contesting all 56 seats as well. With PN also saying it will contest all 56 seats and Parti Bersama Malaysia (splinter party from PM Anwar's PKR) confirming its debut in Johor, **most seats will be up for a three-cornered fight** or even see competition from all four sides.

[1] BN held a two-thirds majority in Johor and governed the state prior to the dissolution of the assembly.

Table 1: Number of state and federal seats in Johor

Party	State seats	Federal seats
Barison Nasional (BN)	40	8
Pakatan Harapan (PH)	12	15
Perikatan Nasional (PN)	3	2
Malay United Democratic Alliance (MUDA)	1	-
Independent	-	1
Total	**56**	**26**

- Despite the stiff competition, BN is likely hoping for a strong showing to rebuild credibility and shore up its case for contesting GE16 independently.
- While the results may tilt in BN's favour, given that **multi-cornered contests tend to split the opposition vote and benefit the incumbents**, this could make the narrative of a "BN revival" harder to interpret at face value.
- Negeri Sembilan: Subsequently, PH dissolved the Negeri Sembilan assembly on 5 June following the collapse of the PH-BN alliance[2] due to a dispute involving the state's monarchy[3], although elections were originally due November 2028.
- Nomination day is scheduled for 18 July and polling day on 1 August, with PH and BN contesting on opposing fronts.

Table 2: Distribution of state and federal seats in Negeri Sembilan

Party	State seats	Federal seats
PH	17	3
BN	14	5
PN	5	-
Total	**36**	**8**

- While PM Anwar said the decision for an early election was necessary to prevent a prolonged uncertainty amid the monarchy dispute in Negeri Sembilan, the move is also widely read as a counter to BN in Johor, aiming to balance the political narrative.

State Elections – Divergent Representation

- Both state elections are widely seen as testing grounds ahead of GE16. **Johor, in particular, is significant** given its 26 federal parliamentary seats, **making it the largest peninsular state by federal representation.**
- Notably, the **outcomes of the state elections may not directly translate to wins at the federal level** due to other factors like voter turnout, local issues that do not map to national issues and different electoral dynamics and should not be treated as a reliable guide to GE16 seat projections.

[2] Unlike Johor, Negeri Sembilan was governed under a PH-BN alliance holding a combined 31 of 36 state seats.

[3] Unlike other states, Negeri Sembilan's monarch is elected by four traditional territorial chiefs (Undangs). The dispute began on 19 April 2026 when the Undangs attempted to depose the state ruler, Tuanku Muhriz, over allegations of misconduct. While the PH Menteri Besar dismissed the move as invalid, the 14 BN assemblymen withdrew their support for him in protest of his handling of the situation.

- This was observed at GE15 for **Johor where state and federal results diverged** (refer to Table 1) likely due to differences in **voter turnout.**
- Specifically, the voter turnout in Johor's March 2022 state election was relatively low at around 54%, likely due to COVID pandemic-related restrictions that prevented some Malaysians from returning home to vote. Lower voter turnout has traditionally benefited BN, given its extensive grassroots machinery and more stable base of supporters. In contrast, at GE15 when voter turnout was significantly higher at about 75%, PH secured more seats at the federal level.
- Furthermore, local issues may overshadow national issues in state elections. For instance, the monarchy dispute in Negeri Sembilan is likely to be a key point of contention in the upcoming state election.
- **Electoral dynamics may not be entirely comparable** as well, particularly for Negeri Sembilan, as PH and BN had avoided head-to-head contests in the 2023 state election under a collaborative Unity pact, despite having contested as rivals at GE15.

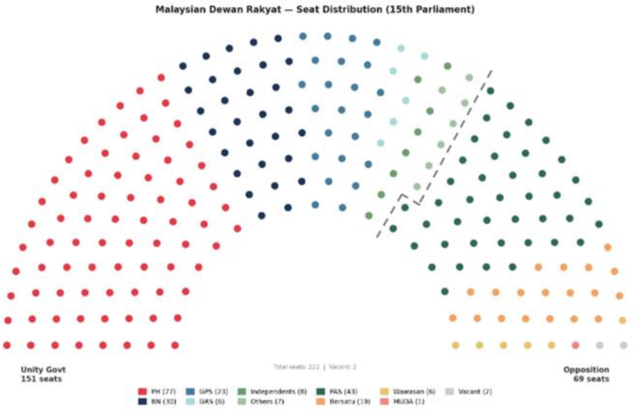
Testing Unity

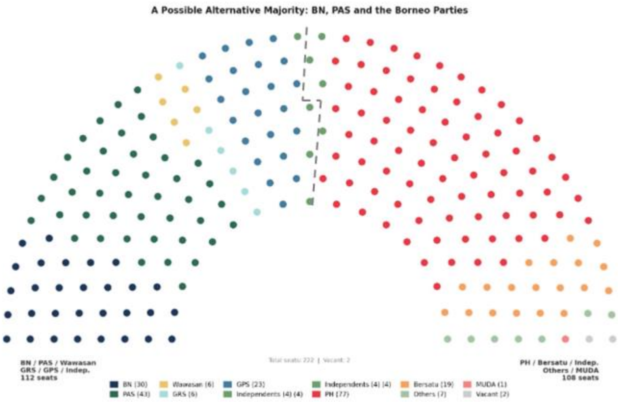
- Nonetheless, with GE16 on the horizon, these state elections represent high-stakes battlegrounds that will not only **test the stability of the Unity Government** by forcing PH and BN to manage state rivalries while being partners at the federal level, **but also shape the federal ambitions of coalition partners.**
- A strong showing by BN or the opposition at the state elections could compromise the Unity Government as BN may alter its stance within the current administration or pursue alternative strategies for GE16 such as contesting independently or seeking alliances with opposition parties.
- Even a status quo outcome may expose and deepen underlying frictions within the PH-BN alliance, leaving the coalition intact but potentially more fragile heading into GE16.
- Conversely, a clean sweep by PH in both states would provide PM Anwar with fresh mandate and momentum heading into GE16.

Exploring Fragility Risks

- Moving beyond the state elections to the federal level, the underlying fragilities of PM Anwar's administration may become increasingly apparent despite commanding a supermajority (151 of 222 parliamentary seats) on paper.
- The **status quo of the administration is coming under scrutiny** by BN's challenge in Johor which reflects its ambition to contest GE16 independently.
- **<u>First</u>**, administration's majority (151) over the opposition (69) may be **statistically over-accentuated** with Borneo parties who are part of the coalition (Gabungan Parti Sarawak (GPS) with 23 seats and Gabungan Rakyat Sabah (GRS) with 6 seats), are not ideologically bound to the Unity Government.
- **Both blocs have historically prioritised state-level interests**, allying with whichever federal government delivers the most for Sarawak and Sabah respectively. The component parties of GPS were once aligned with BN but left the coalition after BN's defeat in 2018 and GPS later played a role in the Sheraton move that brought PN to power in 2020. GRS was formed in 2020 and has been aligned with different major coalitions (PN, BN and PH) at different points.
- **<u>Second</u>**, **divisions within the opposition coalition may not portend stability for the federal government**.

- Within the opposition, the main coalition PN (made up of Parti Pribumi Bersatu Malaysia (Bersatu) and Parti Islam Se-Malaysia (PAS)) has been weakened by internal divisions, including a breakdown in cooperation between the two parties recently. Nonetheless, PAS has indicated openness to working with a breakaway faction led by Hamzah Zainudin from Bersatu, who controls 6 parliament seats.
- Taken together, the opposition-aligned bloc account for 49 seats and in theory, BN could seek to cooperate with this group to form a majority coalition if it can also win over the Borneo parties and independents who had previously defected to the Unity Government from Bersatu.
- This broader alignment has been hinted at by BN leadership, with President Ahmad Zahid floating a potential "grand collaboration" among Malay-Islamic parties during UMNO's general assembly in January.





- <u>**Third**</u>**, internal tensions have also surfaced within PM Anwar's party**, PKR, following the resignation of senior leaders Rafizi Ramli and Nik Nazmi who have vacated their seats to take over another political party, Parti Bersama. This splinter group is likely to target the same urban, progressive, non-Malay voter base as PH, creating vote-splitting risk in seats DAP and PKR would otherwise hold. While its grassroots machinery may be relatively nascent, it could still garner support in marginal urban constituencies and seats in the upcoming Johor state elections.

MYR – Reintroducing Risk Premium

- The building political uncertainty is likely to introduce a **modest risk premium into MYR** and engender episodes of **downside volatility** in the lead up to key events in the months ahead.
- Given that total coalition breakdown remains a tail risk, impact on the MYR is likely to be contained given Malaysia's supportive fundamental backdrop.
- That said, the **re-introduction of a political risk premium colliding into a period of hawkish perspectives on Fed rate path may set back the MYR** especially with the BNM remain set for a prolonged hold providing little rates backstop against surging UST yields.
- Despite the near-term volatility, MYR may see scope for recovery once political uncertainties dissipate, underpinned by Malaysia's economic fundamental.

Table 3: Breakdown of seats in Malaysia's Parliament

Party	Seats	Notes
Unity Government	**151**	
Pakatan Harapan (PH)	**77**	
PKR	29	
DAP	40	
Amanah	8	
Barisan Nasional	**30**	
UMNO	26	
MCA	2	
MIC	1	
PBRS	1	
Gabungan Parti Sarawak (GPS)	23	
Gabungan Rakyat Sabah (GRS)	6	
Parti Warisan	3	
Independents	8	Comprised 6 Bersatu MPs who were sacked after declaring support for PM Anwar post GE15, and 2 independents.
Other parties	4	United Progressive Kinabalu Organisation (UPKO) – 2, currently applying to be part of GRS Social Democratic Harmony Party (KDM) - 1 Parti Bangsa Malaysia (PBM) – 1
Opposition	**69**	
Bersatu	19	
Parti Wawasan Negara	6	Set up by Hamzah Zainudin and other MPs who were sacked by Bersatu recently.
PAS	43	
MUDA	1	
Vacant	**2**	Rafizi Ramli and Nik Nazmi resigned from PKR and vacated their seats, to take over Parti Bersama.
Total	**222**	

Source: Malaysia Parliament