



Economic Focus

Weathering stormy waters

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Research Analysts

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- **Slower global economic growth looms large amid heightening external uncertainties**
- **Strong underlying fundamentals cement position of strength to help navigate trade protectionism**
- **Cautiously optimistic of 2025 growth prospects and expect 4.3% GDP growth**

Rising consternation amid uncharted waters

Challenging global environment due to US trade protectionism and escalating geopolitical conflicts has posed serious threats to global economic growth trajectory which has been exacerbated by volatile financial conditions. Meanwhile, global trade is expected to moderate in 2H25 as on-going trade tensions unfold amid ever-shifting US tariff policies, driven by US' increasingly untenable fiscal position. Unsurprisingly, global consumer confidence has deteriorated given the confluence of negative news flow that suggest weaker purchasing power ahead. Therefore, intensifying downside risks have prompted both the IMF and World Bank to cut 2025 global growth by 0.5bps and 0.4bps respectively. Subdued global growth is unlikely to improve significantly in the near term given the ensuing trade uncertainties.

Resilient domestic demand

Notwithstanding external headwinds, Malaysia's economy remains firmly on a healthy growth trajectory as domestic demand is likely to strengthen further with sustained consumer spending and strong investment activities. Its strong fundamentals and diversified economic structure, coupled with government's concerted effort to spur higher economic growth will help ensure Malaysia's uptrend stays intact. Despite concerns of slower growth, Apr 2025 credit demand has demonstrated healthy y-o-y growth as loans for households and businesses grew by 5.9% and 4.0%, respectively. Steady overall banking system loans growth of 5.1% in Apr 2025 (vs 5.5% in Dec 2024) signifies the positive growth trajectory of Malaysia's economic outlook in 2025.

Committed to reforms to bolster fiscal space for sustainable growth

The Madani administration has prioritized the people's well-being while implementing targeted reforms to uplift Malaysia's economy. After the implementation of diesel subsidy rationalization and the increase of sales & service tax (SST) rate to 8% from 6% in 2024, Malaysia is set to further reform its costly petrol subsidy and expand the coverage of SST in 2H25 to rectify the structural issue of low tax-to-GDP. E-invoicing has also been rolled out in phases for effective tax collection and compliance. More importantly, 2025 budget deficit is on track to fall to the lowest since 2019 at 3.8% (vs 4.3% in 2024) as 1Q25 fiscal deficit shrank 17% y-o-y. While short-term pains from implementing reforms is always challenging, Malaysia's robust labour market with the unemployment rate at a 10-year low of 3% will remain supportive of domestic demand.

Well-positioned to navigate trade protectionism

Malaysia's diversified export composition and non-aligned policy that prioritises economic cooperation and integration will stand it in good stead. We are cautiously optimistic of Malaysia's economic outlook, and project 2025 GDP growth to come in at a relatively healthy pace of 4.3%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Key downside risks include slower-than-expected recovery in external demand and spillovers from heightened geopolitical tensions.

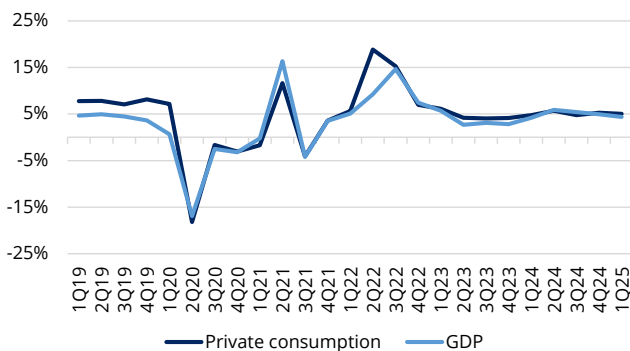


Malaysia's economy remains resilient

We expect Malaysia to register GDP growth of 4.3% y-o-y in 2025. This remains a relatively a respectable growth trajectory, thanks to Malaysia's resilient private consumption which constitutes ~60% of our economy. Malaysia is set to benefit from firm domestic demand, underpinned by robust labour market and strong economic activities. The upward revision of the minimum wage and civil servant salaries as well as higher financial assistance for the low-income group will ensure 2025 domestic expenditure remains intact.

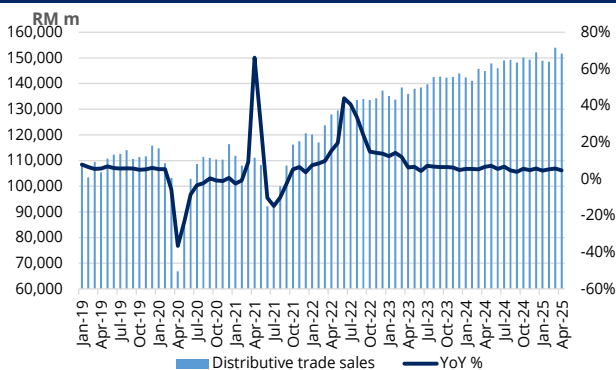
Meanwhile, private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. 1Q25 capital expenditure continued to sustain its growth momentum at 9.7% (4Q24: +11.8%), signifying the positive impact arising from record-high approved investments in 2021-2024 and various government-led strategic developments under national blueprints. This underlines the robust prospects of investment upcycle in Malaysia which will continue to provide further tailwinds in the near term.

Malaysia's GDP growth



Source: AllianceDBS, CEIC

Monthly distributive trade sales



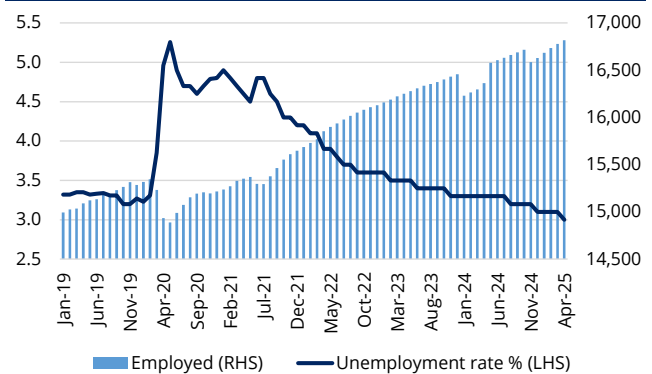
Source: AllianceDBS, CEIC

Robust labour market condition

Malaysia's economic growth momentum will continue to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia's unemployment rate in Apr 2025 came in at 3.0%, compared to 3.3% in Apr 2024. Notably, we are encouraged by the continuous growth in employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.8% in Apr 2025. This will certainly bode well for the economic outlook in 2025 given that domestic demand forms the bulk of our economy.

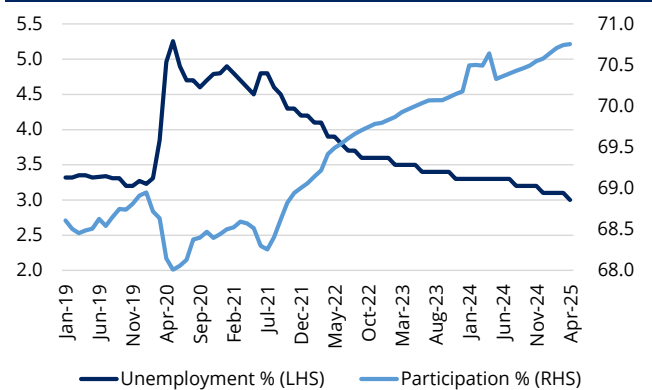
The robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia's unemployment rate will continue to stay low as more jobs are created with the realization of various investment activities.

Strong labour market



Source: AllianceDBS, CEIC

Favourable labour market dynamics

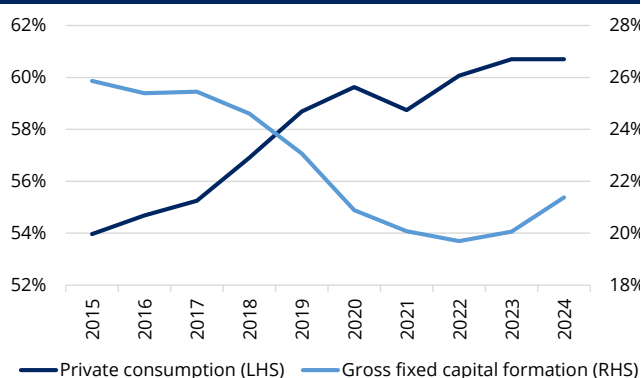


Source: AllianceDBS, CEIC

Investment upcycle remains intact

The Madani Economy Framework has started the ball rolling on kickstarting the economic transformation that is long overdue to move up the industrial value chain in Malaysia. NETR and NIMP 2030 have provided the key government framework to drive high value-adding industrialisation and green economy which will ultimately enable Malaysia to build a high-income economy if the well-curated strategic directions are successfully executed.

GDP share of consumption vs investment



Source: AllianceDBS, BNM, CEIC

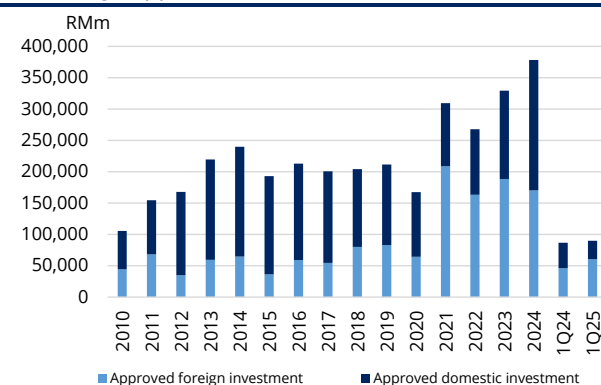
The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia's manufacturing industry, leveraging on the global trend of industrial value chain diversification. In fact, the heightened US-China trade tensions has benefitted not only Malaysia but the entire ASEAN as a whole given the attractive value proposition offered.

After achieving record high approved investments in 2021-2024, the winning streak has continued unabated in 2025 with the figures rising 4% y-o-y to RM90bn in 1Q25. This signifies the strong confidence that foreign investors have in Malaysia, a traditionally non-aligned country which is expected to benefit from the US-China tensions, indirectly helping to uplift Malaysia's industrial capabilities and boost its value-adding exports

In addition, the government has launched the National Semiconductor Strategy in May 2024 with a government allocation of RM25bn which is aimed at further advancing the development of semiconductor ecosystem, moving up the value chain to capture a larger share of global investments. Therefore, it is no surprise that globally renowned technology giants such as Infineon AG, Nvidia, Microsoft and Google have all committed to step up their investments in Malaysia which will help to cement Malaysia's global position as one of the world's key semiconductor hubs.

Meanwhile, the government is also committed to revive economic growth by undertaking various large-scale infrastructure projects which will create positive spillover effects to the local businesses. Some of the major projects that will continue in 2025 include RM10bn Penang LRT, RM3bn flood mitigation projects, RM 9.7bn Pan Borneo Sabah phase 1B and RM7.4bn Sarawak-Sabah Link Road 2. We believe there will be more progress on the RM45bn MRT 3 in 2025 which will be an added impetus for Malaysia's economy. All these come on top of the existing mega projects including the likes of RM50bn ECRL and RM3.7bn Johor-Singapore RTS which have progressed well so far.

Record-high approved investments



Source: AllianceDBS, BNM, CEIC

Some of the major government projects

Project	Investment RMbn	Timeline
MRT 3	45.0	from 2025
Penang LRT	10.0	2025-2030
Flood mitigation	3.0	2025
Pan Borneo Sabah phase 1B	9.7	2025
Sarawak-Sabah Link Road 2	7.4	2025
LRT 3 expansion	5.3	2024-2025
ECRL	50.0	2018-2027
Johor-SG RTS	3.7	2021-2026
My Digital 5G	16.5	2021-2031
Pan Borneo Sabah phase 1A	16.0	2016-2025

Source: AllianceDBS, MoF

Well-positioned for challenges in external trade

US trade protectionism has been escalating since President Trump's inauguration in Jan 2025 with more tariffs being imposed on US' top trading partners despite the concerns of a tariff-induced slowdown. Admittedly, Malaysia is a trading nation which will invariably be impacted by changes in the global trade landscape, but Malaysia's diversified export composition and non-aligned policy that prioritises economic cooperation and integration will stand it in good stead.

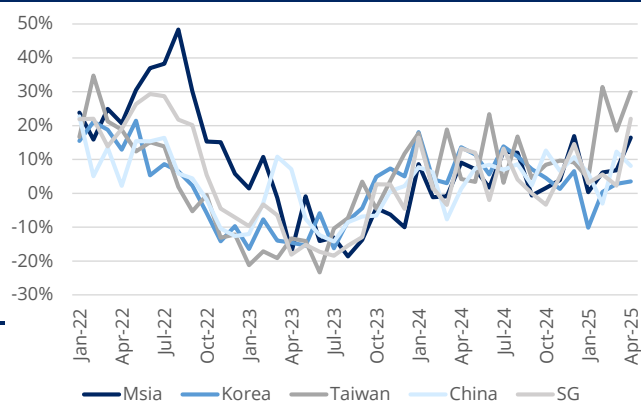
The apprehension of potential US trade protectionism under the Trump presidency may encourage traders to accelerate their shipments in the near term, though the impact of tariff hike for goods exported to the US remains unclear at this juncture. Most of the key exporting countries in Asia continue to register steady numbers over the past few months, thanks to the resilient global economy.

The positive trend of global semiconductor shipments as well as positive trade data among key Asian trading hubs will continue to spill over to Malaysia given our deep integration with the global supply chain. The de-globalisation trend, especially in the technology sector, will also result in more capital spending as countries rush to ensure supply security.

In addition, Malaysia's air passenger traffic for 2025 is expected to exceed the pre-pandemic volume given the encouraging growth momentum which will contribute to the sustained recovery in tourism activities. Meanwhile, Malaysia's strategic push to leverage on the global trend of industrial value chain diversification has been reflected in the record high approved investments in 2021-2024, helping to uplift Malaysia's industrial capabilities and boost its value-adding exports.

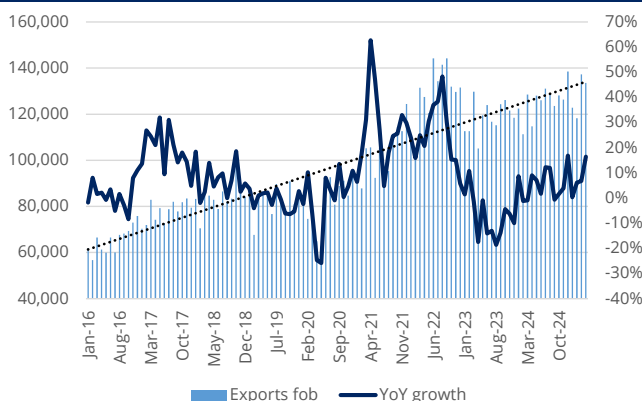
As the ASEAN chair in 2025, Malaysia is poised to seize the opportunity to wield its influence to strengthen the ASEAN economic bloc with better regional integration to enhance overall economic resilience amidst rising trade protectionism and external uncertainties.

Positive exports growth for key Asian exporters



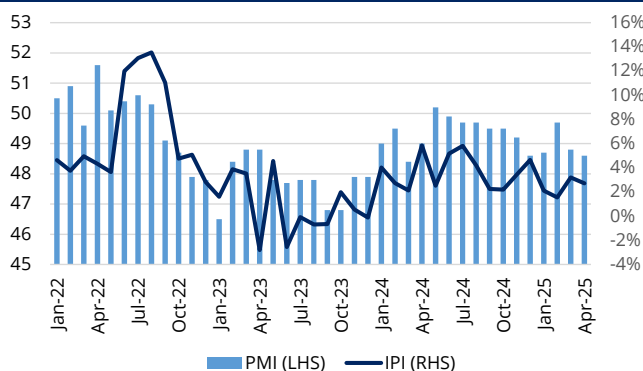
Source: AllianceDBS, CEIC

Malaysia's monthly exports



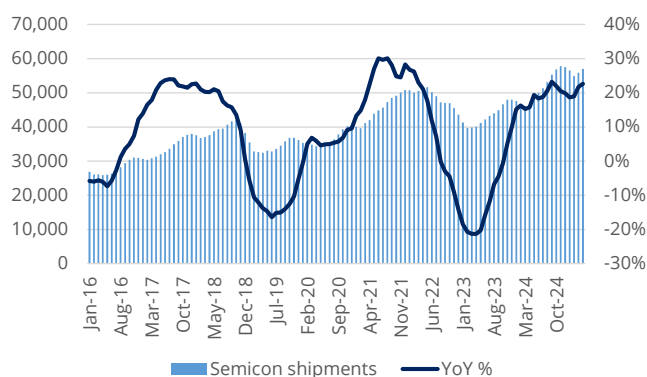
Source: AllianceDBS, CEIC

Resilient industrial production



Source: AllianceDBS, CEIC

Global semiconductor shipments

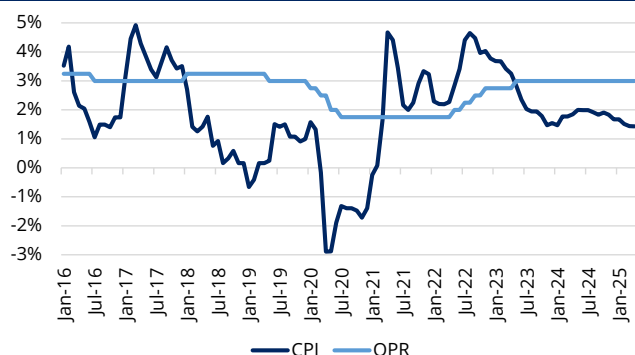


Source: AllianceDBS, SIA, CEIC

Steady loans growth momentum

Despite the beginning of global monetary easing in 2024, Bank Negara Malaysia has been maintaining its current OPR rate of 3% which is similar to its pre-pandemic level. We believe that BNM will keep its benchmark interest rate unchanged in 2025 as the current monetary policy remains supportive to sustainable economic growth amid price stability.

Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

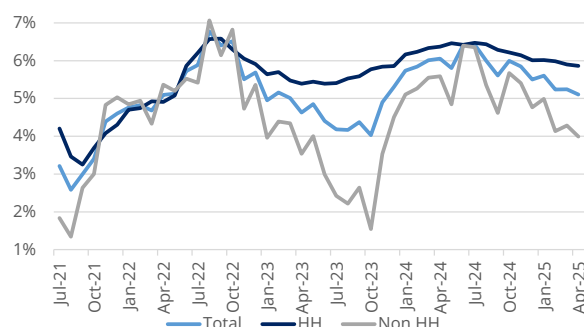
Our headline inflation has been moderating over the past 12 months. Therefore, the positive real rates are likely to continue in the near term, barring any major supply shocks. Going forward, the outlook for inflation will be largely swayed by the global commodity price developments as well as the implementation of petrol subsidy rationalisation.

Banking system loans growth



Source: AllianceDBS, BNM

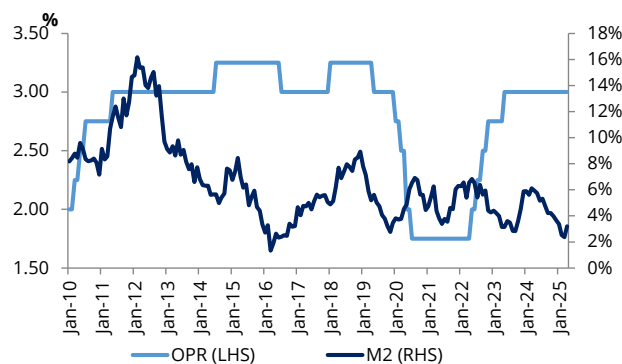
Loans growth remain at healthy levels



Source: AllianceDBS, BNM

Malaysia's banking system has been seeing steady credit demand with Apr 2025 loans growth coming in at 5.1% (vs 5.5% in Dec 2024). We believe resilient domestic demand will continue to underpin the banking sector loans growth for the remaining of 2025, notwithstanding the rising external uncertainties. In addition, the positive landscape of the property sector continues to bolster the loans growth for the household segment.

Normalising liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply has moderated to 3.2% in Apr 2025 (5.9% in Apr 2024) as liquidity condition normalises. Nevertheless, the healthy domestic economy will ensure that domestic liquidity remains robust, with continued orderly functioning of the financial market. Household spending will continue to be underpinned by improvements in labour market conditions and income prospects.

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