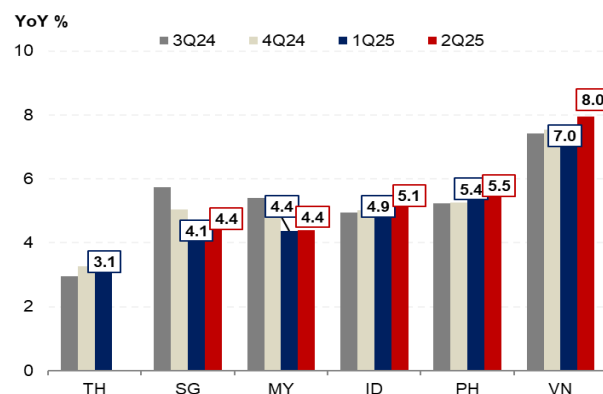


Malaysia 2Q25 GDP

Growth held steady at 4.4% in 2Q25, full-year forecast maintains at 4.3%

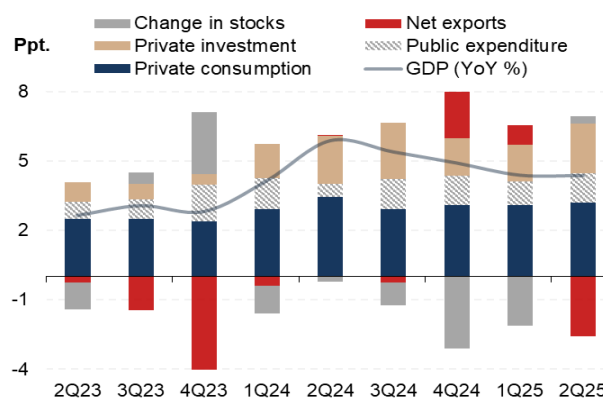
- GDP growth held steady at 4.4% YoY in 2Q25 (1Q25: 4.4%), slightly below expectations (KIBB: 4.5%; Bloomberg consensus: 4.5%; Department of Statistics' (DOSM) advance estimate: 4.5%)**
 - Growth was driven by resilient domestic demand and continued expansion in the services sector. However, weak net exports and a deeper mining contraction capped overall momentum.
 - Meanwhile, **seasonally adjusted QoQ** picked up to 2.1% (1Q25: 0.7%), reflecting firmer sequential performance.
 - Within ASEAN-5 (+VN, excluding TH), Malaysia tied with Singapore for fourth place in 2Q25 GDP growth, behind Vietnam (8.0%), Philippines (5.5%), and Indonesia (5.1%).
- Strong domestic demand offset weakness in net exports**
 - Domestic demand** (7.0%; 1Q25: 6.0%) expanded on robust private and public sector spending. It contributed 6.6 percentage points (ppts) to growth (1Q25: 5.7 ppts), the highest in three-quarter high.
 - Public spending** (8.1%; 1Q25: 6.2%) rose on higher public consumption (6.4%; 1Q25: 4.3%) and investment (13.6%; 1Q25: 11.6%). Its contribution to GDP growth increased to 1.3 ppts (1Q25: 1.0 ppts).
 - Private spending** (6.8%; 1Q25: 5.9%) rose sharply, bolstered by strong private investment (11.8%; 1Q25: 9.2%) and private consumption (5.3%; 1Q25: 5.0%). Contribution to overall GDP growth surged to 5.4 ppts (1Q25: 4.7%), a four-quarter high.
 - Net exports** (-72.6%; 1Q25: 19.6%) plunged, dragged by strong imports and slower exports, subtracting 2.6 ppts (1Q25: 0.8% ppts) from GDP growth.
 - Exports** (2.6%; 1Q25: 4.1%) slowed, due to a sharp deceleration in value-added services exports (8.0%; 1Q25: 16.9%), as well as a slight moderation in goods exports (1.4%; 1Q25: 1.6%).
 - Imports** (6.6%; 1Q25: 3.1%) rose sharply, boosted by a sharp increase in goods imports (7.2%; 1Q25: 1.8%), indicative of a resilient domestic demand, but partially offset by slower services imports (4.2%; 1Q25: 8.7%).
- Sectoral growth: Solid services and agriculture offset mining drag and softer manufacturing and construction**
 - Services** (5.1%; 1Q25: 5.0%) expanded in line with our forecast (5.1%) but slightly below DOSM's advance estimate (5.3%). Growth remained supported by wholesale and retail trade (4.3%; 1Q25: 4.3%) and boosted by food & beverage and accommodation (9.0%; 1Q25: 7.8%), though partially capped by slower transportation & storage (8.6%; 1Q25: 9.5%). Contribution to overall GDP remained steady at 3.0 ppts (1Q25: 3.0 ppts).
 - Manufacturing** (3.7%; 1Q25: 4.1%) slowed, missing house (4.0%) and DOSM's (3.8%) estimates. Mainly due to slower output in electrical, electronic and optical products (7.3%; 1Q25: 7.8%) defying expectations of frontloading activities ahead of Trump's tariff deadline. However, growth expansion in vegetable and animal oils & fats and food processing (11.8%; 1Q25: 9.2%) and non-metallic mineral products, basic metal & fabricated metal products (3.8%; 1Q25: 3.6%) partially supported the sector's growth. Manufacturing's contribution to GDP growth edged down slightly to 0.9 ppts (1Q25: 1.0 ppts).

Graph 1: ASEAN-5 (+VN) GDP Growth Performance



Source: DoSM, Macrobond, Kenanga Research

Graph 2: GDP by Expenditure Performance (Percentage Point Contribution to Growth)



Source: DoSM, Macrobond, Kenanga Research

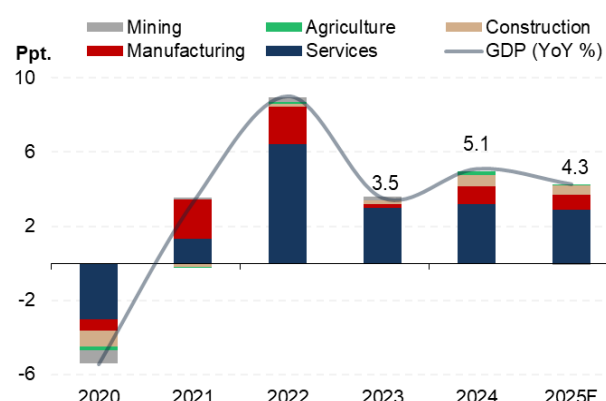
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- **Agriculture** (2.1%; 1Q25: 0.7%) expanded, beating house (-0.1%) and DOSM's (0.7%) forecasts. A rebound in output of oil palm sub-sector (5.3%; 1Q25: -3.1%) offsetting moderate growth in other agriculture (2.0%; 1Q25: 2.2%) and livestock (1.5%; 1Q25: 2.5%). Contribution to GDP growth expanded to 0.1 ppts (1Q25: 0.0 ppt).
- **Construction** (12.1%; 1Q25: 14.2%) moderated, slightly below our forecast (12.4%) but exceed DOSM's advance estimate (11.0%). Moderate growth in residential building (12.2%; 1Q25: 16.6%), non-residential buildings (17.0%; 1Q25: 21.4%) and specialised construction activities (10.6%; 1Q25: 17.2%) albeit remained at double-digit growth. Contribution to the overall GDP growth slipped slightly to 0.5 ppts (1Q25: 0.6 ppts).
- **Mining** (-5.2%; 1Q25: -2.7%) contracted further, weaker than our forecast (-1.9%) but better than DOSM's advance estimate (-7.4%). Declines in natural gas output (-8.1%; 1Q25: -2.2%) and other mining and supporting services (-2.9%; 1Q25: 1.5%) were partially offset by improved crude oil and condensate output (-1.6%; 1Q25: -4.6%). Mining subtracted 0.3 ppts (1Q25: 0.2 ppts) from GDP growth.

● **2025 GDP growth forecast maintained at 4.3% amid rising external risks in 2H25**

- **Outlook:** Despite steady 2Q25 performance, external risk persist from US tariff escalation to geopolitical tensions. Still, Malaysia's final tariff rate at 19.0% remains regionally competitive, helping ease exporter concerns. Mining output, particularly in natural gas and crude oil, is expected to improve post plant maintenance, potentially supporting 2H25 GDP growth.
- **Growth drivers:** Domestic demand remains the key growth anchor, as demonstrated by solid private and public sectors spending in 1H25. For 2H25, growth will be further bolstered by stable unemployment rate (June: 3.0%), rising minimum wage, strong realisation of approved investments which, in turn, is expected to provide higher income prospects. Tourist arrivals expected to gather pace in 2H25 ahead of Visit Malaysia 2026 (VM2026) given the robust activities and promotion efforts which also contributed to the services and related sub-sector expansion. Ongoing transformative policy execution under the New Industrial Master Plan 2030 (NIMP2030), National Energy Transition Roadmap (NETR), National Semiconductor Strategy (NSS) and the latest AI Nation Framework alongside 13th Malaysia Plan (13MP) also provides policy clarity and likely continue to support investment momentum.
- **Risks:** While Malaysia's tariff uncertainty and risk has partially receded, global tensions remains elevated. China's extended trade truce deadline (to 10 November 2025), and Trump's tariff threats on India, and sanction or secondary tariff if Trump-Putin peace talks fail add further uncertainty. Any 4Q25 fallout due to impact of higher US tariff could pressure global supply chains and external demand. Given that risk and uncertainty could prolong, we believe risk to growth remains elevated over the medium term (6 to 12 months). Hence, we project 2026 GDP growth to range between 4.0% to 4.5%, below our previous forecast of 4.7%.

Graph 3: Growth Outlook by Sector (KIBB forecast)



Source: DoSM, Macrobond, Kenanga Research

● **BNM policy outlook: OPR likely to remain status quo through 2025 and 2026, barring external shocks**

- Following the surprise rate cut in July, which BNM cited as a pre-emptive cut, the overnight policy rate (OPR) is now better aligned with the external risk backdrop and supportive of domestic demand amid ongoing reforms by the Madani government.
- While some expect a further 25 bps cut if growth weakens in the coming months, we hold a constructive view as economic growth should hold above 4.0% backed by the latest Manufacturing PMI which expanded to 49.7 in July (Jun: 49.3), while inflation is expected to anchor near 2.0%. Besides, we believe BNM will remain data dependent and preserving policy flexibility for future needs.
- Against these backdrops, BNM is expected to hold both the OPR and SRR steady through 2025, and possibly extending into 2026, to support macro stability and structural reform momentum under the Madani agenda.

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Table 1: Malaysia GDP Growth (constant 2015 prices) and Contribution to Growth by Sector (Supply) and Expenditure (Demand)

YoY %	2023	2Q24	3Q24	4Q24	1H24	2H24	2024	1Q25	2Q25	2025F
By Sector										
Agriculture	0.2	7.6	3.6	-0.7	4.8	1.6	3.1	0.7	2.1	0.8
Mining	0.5	2.7	-2.8	-0.7	3.6	-1.7	0.9	-2.7	-5.2	-1.7
Manufacturing	0.7	4.7	5.6	4.2	3.4	4.9	4.2	4.1	3.7	3.5
Construction	6.0	17.2	20.0	20.7	14.5	20.3	17.5	14.2	12.1	12.0
Services	5.1	5.9	5.2	5.5	5.3	5.4	5.3	5.0	5.1	4.9
Real GDP	3.5	5.9	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3
Ppt. Contribution										
Agriculture	0.0	0.5	0.3	0.0	0.3	0.1	0.2	0.0	0.1	0.0
Mining	0.2	0.0	0.0	0.3	0.2	-0.2	0.0	-0.2	-0.3	-0.1
Manufacturing	0.2	1.1	1.3	1.0	0.8	1.1	1.0	1.0	0.9	0.8
Construction	0.2	0.6	0.7	0.7	0.5	0.7	0.6	0.6	0.5	0.5
Services	3.0	3.5	3.1	3.3	3.2	3.2	3.2	3.0	3.0	2.9
Real GDP	3.5	5.9	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3
By Expenditure										
Consumption	4.4	5.0	4.9	5.0	5.1	5.0	5.0	4.9	5.5	5.6
Public	3.4	1.8	6.0	4.0	4.5	4.8	4.7	4.3	6.4	4.9
Private	4.6	5.7	4.7	5.3	5.2	5.0	5.1	5.0	5.3	5.8
Investment	5.4	11.5	15.3	11.8	10.6	13.5	12.0	9.7	12.1	9.2
Public	8.5	9.1	14.4	10.0	10.4	11.6	11.1	11.6	13.6	7.2
Private	4.5	12.0	15.6	12.7	10.6	14.2	12.3	9.2	11.8	9.8
Public Spending	4.7	3.4	8.0	5.8	5.9	6.7	6.3	6.2	8.1	5.5
Private Spending	4.6	7.1	6.9	6.6	6.4	6.7	6.6	5.9	6.8	6.6
Domestic Demand	4.6	6.5	7.1	6.4	6.3	6.7	6.5	6.0	7.0	6.4
Exports	-7.9	8.5	11.7	8.7	6.4	10.2	8.3	4.1	2.6	3.6
Imports	-6.8	9.0	13.0	5.9	7.1	9.3	8.2	3.1	6.6	4.3
Net exports	-22.2	0.3	-5.3	63.6	-4.6	23.2	9.2	19.6	-72.6	-7.1
Real GDP	3.5	5.9	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3
Ppt. Contribution										
Consumption	3.2	3.7	3.7	3.7	3.7	3.7	3.7	3.6	4.0	4.2
Public	0.5	0.2	0.8	0.6	0.6	0.7	0.6	0.5	0.8	0.6
Private	2.8	3.5	2.9	3.1	3.2	3.0	3.1	3.1	3.2	3.5
Investment	1.1	2.4	3.0	2.3	2.2	2.6	2.4	2.1	2.7	2.0
Public	0.4	0.3	0.6	0.7	0.4	0.6	0.5	0.5	0.5	0.3
Private	0.7	2.1	2.4	1.6	1.8	2.0	1.9	1.6	2.2	1.6
Public Spending	0.8	0.5	1.3	1.3	0.9	1.3	1.1	1.0	1.3	1.0
Private Spending	3.5	5.5	5.3	4.7	5.0	5.0	5.0	4.7	5.4	5.1
Domestic Demand	4.3	6.1	6.7	6.0	5.9	6.3	6.1	5.7	6.6	6.1
Exports	-5.9	5.7	7.7	5.7	4.3	6.6	5.5	2.8	1.7	2.4
Imports	-4.7	5.7	7.9	3.6	4.5	5.7	5.1	1.9	4.3	2.7
Net exports	-1.2	0.0	-0.2	2.0	-0.2	0.9	0.4	0.8	-2.6	-0.3
Real GDP	3.5	5.9	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3

Source: DoSM, BNM, Kenanga Research
F: forecast, PPT: percentage point

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