

09 September 2025

Malaysia 4Q25 Economic Outlook

Round two ahead: bracing for full impact on tariffs and policy shifts

SUMMARY

- **Global Economy:** The global economy is expected to face increased downside risks in late 2025, driven by higher US tariffs, and ongoing geopolitical tensions. However, policy easing by major central banks may soften the impact and support growth.
- **Risks:** Risks to global growth stem from Trump's policy uncertainty, renewed trade tensions between the US and China, as well as China's fragile economic recovery. These may cap any upside to global growth. However, stronger-than-expected performance in other emerging markets (EMs) could provide some support.
- **Inflation Outlook:** Tariffs and geopolitics are clouding the global inflation outlook. Consumer pass-through has been modest so far, but supply-side pressures could intensify if trade frictions widen.
- **Monetary Policy:** Major central banks are recalibrating cautiously. The Fed is expected to resume cuts in September, while the ECB and BoE engage in a balancing act between growth and inflation. Japan and China stay on watch. In ASEAN, subdued inflation in Indonesia, Philippines and Thailand allows room to ease. Central banks may tolerate tariff-driven price spikes, prioritising recession risks over temporary inflation shocks.
- **US Treasury (UST):** US Treasury (UST) yields remain elevated as fiscal deficits and heavy issuance steepen the curve, despite Fed cuts on the horizon. Long-end pressures from inflation risks and rising term premia persist, though dovish policy expectations anchor 10-year yield near 4.50% by year-end.
- **Malaysia's Economy:** We reaffirmed our 2025 GDP growth projection at 4.3% in 2025 (2024: 5.1%), with slower growth expected in 4Q25. Growth will remain anchored by domestic demand, with continued expansion in services, construction, and domestic-oriented manufacturing. However, external trade remains a drag due to weak commodity exports and global uncertainties. For 2026, we project modest GDP growth between 4.0% - 4.5%.
- **Inflation in Malaysia:** Likely to edge higher in 4Q25, driven mainly by structural reforms and subsidy rationalisation rather than demand pressure. While targeted measures help limit broad price pressures, risks remain tilted upward from tariff spillovers and geopolitics.
- **BNM Policy Direction:** Bank Negara Malaysia (BNM) is expected to maintain the Overnight Policy Rate (OPR) at 2.75% through 2025. Stable growth and emerging inflation risk due to lag effect of SST expansion, fuel subsidy reforms and wage adjustments support a cautious policy stance. The current rate remains supportive, further easing is unnecessary unless domestic demand weakens significantly.
- **Ringgit Outlook:** The ringgit remains undervalued and supported by resilient macro fundamentals, and expectations of USD weakness. Foreign inflows and repatriated corporate earnings may provide additional lift, though near-term volatility in the USD remains a headwind. We maintained our end-2025 USDMYR forecast at 4.08.
- **Malaysian Bonds:** Yields are set to drift lower, underpinned by growth resilience, strong foreign inflows, and credible fiscal measures. A firmer ringgit and steady demand for MGS offset fragile global sentiment. We forecast 10-year yield to settle at 3.30% by end-3Q25 and 3.43% by end-4Q25.

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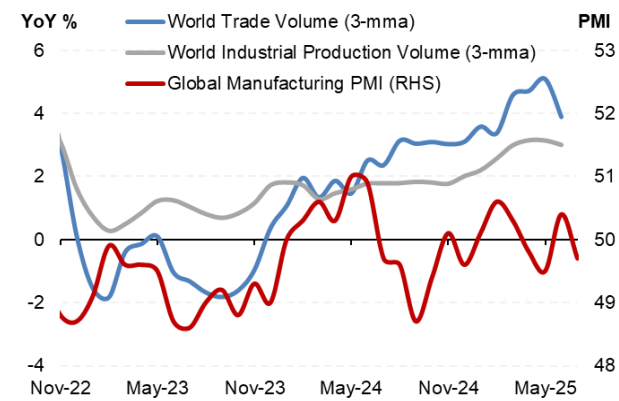
Global Macro Outlook – 4Q25

- The global economy continues to face downside risks in the remaining months of 2025. Uncertainty surrounding higher US tariffs, ongoing geopolitical tensions, and the fragile health of advanced economies are weighing on sentiment. However, policy easing by major central banks may help cushion the slowdown and support growth.

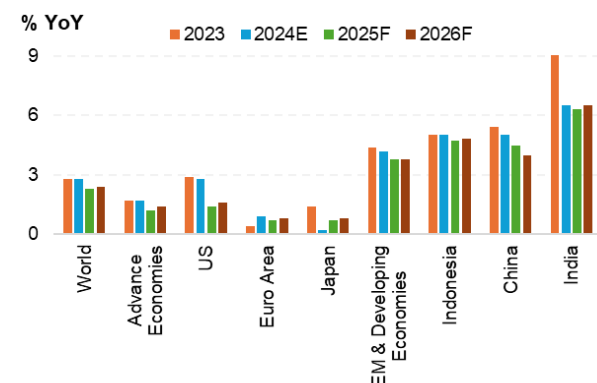
– Growth Trajectory: Tariff impact may hit from 4Q25 due to lags

- Global Growth:** The World Bank in its June Economic Outlook, downgraded its global growth forecast for 2025 to 2.3% (2024: 2.8%) from 2.7%, citing higher tariffs and rising uncertainty as major headwinds. In contrast, the IMF's July World Economic Outlook raised its 2025 global forecast to 3.0% (2024: 3.2%) from 2.8% in April, supported by front-loading activity ahead of tariff deadlines, lower effective US tariff rates, better financial conditions, and fiscal expansion in some countries. **Despite the divergence in views, we adopt a conservative stance, as external headwinds are expected to drag global growth from 4Q25 onward.**

Graph 1: Global Indicators



Graph 2: World Bank Global Economic Outlook (Jun-25)



- United States:** The IMF projects US growth at 1.9% (2024: 2.9%) in July, slightly above April's estimates of 1.8%. It also lifts 2026 growth to 2.0% (April's estimates: 1.7%). Recent data show resilience, though 1H25 GDP growth slowed to 1.9% (2H24: 2.7%). S&P Global US PMI Composite Output Index hit an eight-month high in August (55.4; Jul: 55.1), led by a robust expansion in services. Output has expanded for 31 consecutive months, with the last two months marking the strongest back-to-back gains since spring 2022. Notably, firms passed higher tariffs onto consumers following Trump's measures. Signs of labour-market weakness are emerging. August added just 22.0k jobs (July revised: +79.0k), and the unemployment rate rose to 4.3% (Jul: 4.2%). This may complicate Fed's upcoming rate decision.
- China:** China's economy grew by 5.3% in 1H25 (2H25: 5.0%), well above Beijing's annual target of around 5.0% and higher than 5.0% growth recorded in the same period of last year. However, early indicators point to a weak start. Retail sales slowed to 3.7% in July (Jun: 4.8%), and industrial production to 6.0% (Jun: 6.8%), partly on flood-related disruptions that continued into August, which hit several regions. Manufacturing PMI contracted for the fifth straight month in August (49.4; Jul: 49.3). Although the 90-day extension of the tariff truce between China and US until 10 November may offer temporary relief, uncertainty over final tariff outcomes could dampen sentiment and weigh on growth from 4Q25 onward.
- India:** Growth remains robust and one of the fastest-growing major economies, with 2Q25 GDP rose 7.8% (1Q25: 7.4%), beating market expectations, taking 1H25 growth to 7.6% (2H24: 6.0%), led by manufacturing, construction, and service sectors. The IMF (July) raised India's economic growth to 6.4% for 2025 and 2026, from 6.2% it had projected in April, reflecting just a slight moderation from 6.7% in 2024. However, new US tariffs on Indian imports of up to 50.0% tied to Russian oil trade may cloud the outlook from 4Q25. Even so, strong 1H25 suggests full-year outperformance versus 2024.
- Downside Risks:** Risks remain skewed to the downside, chiefly from Trump-era tariffs and geopolitics. Nonetheless, the global shift toward monetary easing is expected to provide a buffer, mitigating the risk of a sharp slowdown.

– Inflation: Tariffs, tariffs, tariffs and geopolitics

- Tariff risks: Shifted but not vanished.
 - While several countries have already struck deals with Washington, attention has turned to US–India trade tensions. On August 27, tariffs on most Indian imports doubled to as high as 50.0%, up from 25.0% earlier in the month. The hike threatens to disrupt global trade flows and feed into inflation.
 - Meanwhile, more consequential tariffs on Chinese imports have been delayed again. On August 11, Washington extended the deadline by 90 days, giving Beijing until November 10 to strike a compromise before the “liberation day tariffs” take effect.
 - Semiconductors face further uncertainty. President Trump has threatened a 100.0% tariff on chips manufactured outside the US, which, if realised, could upend global supply chains. Even without implementation, the threat is prompting precautionary delays and pricing adjustments.
 - These protectionist shifts come just as US inflation was easing. Early data suggest limited consumer pass-through so far, with firms absorbing some cost. Price pressures may persist in certain segments, especially if tariffs broaden.
- Geopolitical risks have cooled somewhat but remain unresolved. Energy markets are a key risk. Contained disruptions would have limited macro spillovers, but a protracted oil shock would hit real activity.
- **Real incomes are softening, and household spending shows signs of fatigue. If fully implemented, the current tariff regime would be far more disruptive than assumed earlier this year. Firms absorbing higher costs may eventually cut jobs to protect margins, exacerbating labour market fragility.**

Table 1: Monetary Policy: Normalisation Amid Uncertainty

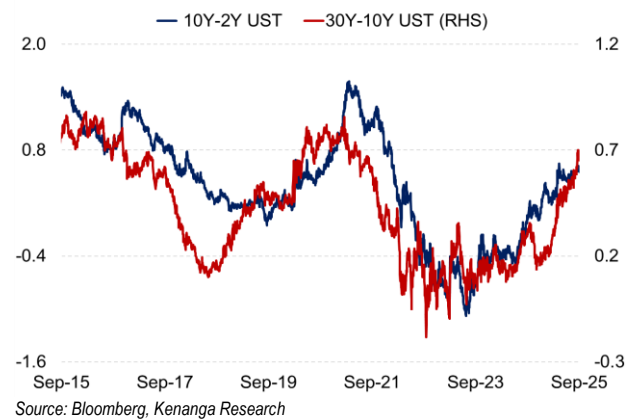
Central Bank	View	Commentary
Federal Reserve (Fed)	25 basis points (bps) cuts likely at each of the three remaining meetings this year. (FFR: 3.50% ↓)	Slowing spending momentum and a softer labour market support a resumption of easing after a year-long pause. While hotter-than-expected inflation clouds what looked like a sure-fire cut, markets now fully price a September move (90.0% for a 25 bps cut, 10.0% for 50 bps), aligned with our baseline.
European Central Bank (ECB)	To pause in September but may consider one additional 25 bps cut in 4Q25. (Key Deposit Facility Rate: 1.75% ↓)	Policy is now squarely in the ECB's estimated neutral zone. A re-escalation in trade tensions or a sharper external slowdown tilt toward more easing. A proposed German fiscal stimulus in 2026 could reduce the burden on monetary policy.
Bank of England (BoE)	May cut by another 25 bps in 4Q25. (Bank rate: 3.75% ↓)	After August's narrow 5-4 vote to cut by 25 bps, stubborn inflation may limit further easing despite soft growth. Moderating wage gains could ease services inflation in the coming months and justify another 25 bps cut.
Bank of Japan (BoJ)	Cautious, but may hike again in October. (OCR: 0.75% ↑)	Firms keep passing costs to consumers, and inflation expectations are near 2.0%. Another hike is likely if inflation is demand-driven and politics remain steady, though external risks argue for a measured pace.
People's Bank of China (PBoC)	Gradual and targeted easing likely to continue.	Export headwinds and property-market stress weigh on growth. Rather than large-scale stimulus, incremental loosening via liquidity and credit support is likely.
Bank Indonesia (BI)	Another 25 bps cut is expected. Timing subject to rupiah's stability. (BI rate: 4.75% ↓)	BI has delivered four cuts (100 bps) year-to-date despite a fragile rupiah. Further easing is likely as expected Fed cuts support the rupiah, though recent domestic protest and the removal of Sri Mulyani as Finance Minister risking turmoil may limit easing.
Bangko Sentral ng Pilipinas (BSP)	Likely continue policy easing, potentially cut by another 25 bps by year end. (RRP: 4.75% ↓)	Stable inflation and the need to boost growth amid higher US tariff risks call for more accommodative policy. However, higher 2026 inflation outlook may cap the easing cycle.
Bank of Thailand (BoT)	One more 25 bps rate cut is expected in 4Q25 to bolster growth. (Repo Rate: 1.25% ↓)	The BoT is expected to deliver one more rate cut in 4Q25 to support growth, as inflation stays low and domestic demand softens amid rising global and trade-related uncertainties.

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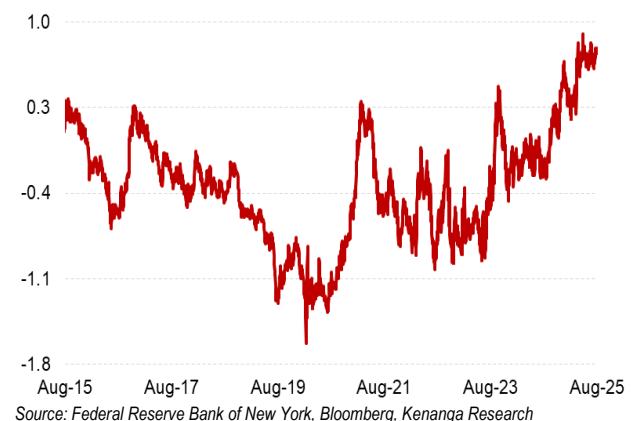
– UST yield outlook: Fiscal strains to keep Treasury yields elevated

- **Yield Curve Trend:** The UST yield curve has steepened noticeably, not only in the 2s10s segment but also in the 10s30s spread, reflecting deeper structural forces. In August, the 30Y–10Y spread averaged 61 bps (July: 54). The front end eased on the Fed's dovish pivot, as weaker activity and a softer labour market lifted cut expectations. The long end rose as markets reprice inflation risks tied to tariffs and expansive fiscal policy. Investors increasingly believe a dovish Fed will tolerate higher inflation. Rising debt and widening deficits, coupled with larger issuance, are exerting further upward pressure to long yields.
- **Yield Outlook:** Even with three 25 bps Fed cuts in our base case, Treasury yields are likely to remain elevated. Market volatility driven by trade frictions, geopolitical risks and persistent fiscal imbalances limits scope for a sharp rally. Trump's "One Big Beautiful Bill" would swell the federal deficit over the next decade, requiring more issuance. Greater supply implies higher clearing yields, especially amid doubts on fiscal sustainability. We keep our year-end 10-year UST forecast at 4.50%, underpinned by rising term premia and unresolved budget risks, though a dovish Fed should cap the upside.

Graph 3: 10-2 Year and 30-10 Year Treasury Spreads



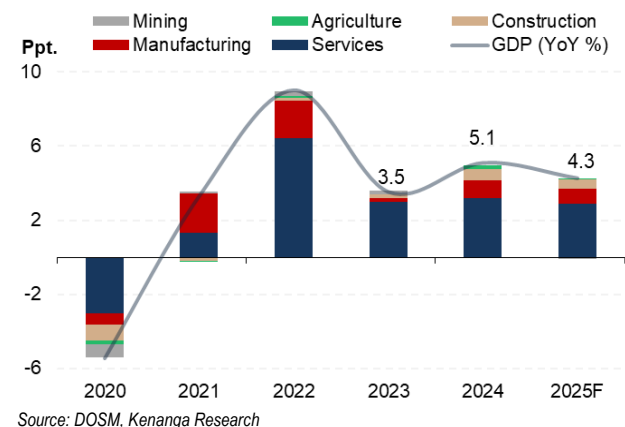
Graph 4: 10-Year UST Term Premium



Domestic Macro Outlook – 4Q25

- Rising external uncertainties poses challenges heading into the final quarter of 2025. Even so, stable domestic demand, a supportive policy rate, and continued targeted government support help mitigate the impact of external headwinds and keep growth trajectory on track.
- **GDP: 2025 growth forecast maintain at 4.3% (2024: 5.1%) anchored by domestic demand, sustained expansion in the services sector and a gradual recovery in the mining sector**
 - **4Q25 & 2H25 Outlook:** We expect growth to moderate slightly to 4.0% in 4Q25 (3Q25F: 4.3%) bringing 2H25 growth at 4.2%, reflecting a cautious outlook amid rising external uncertainties brought by the impact of higher US tariffs. Nonetheless, domestic-oriented sectors such as services, construction and manufacturing sub-sectors continue to expand steadily, supporting overall growth.
 - **Tourism Boost:** Tourist arrivals so far rose by 10.6% YoY in Jan-May to 10.5m. If momentum holds, arrivals could reach 28.0m in 2025 (2024: 25.0m), backed by promotion ahead of Visit Malaysia 2026. This exceeds the pre-pandemic level of 26.1m in 2019 but falls short of our earlier 31.0m target and Tourism Malaysia's 31.4m goal, partly due to strong regional competition, especially from Vietnam (surged 22.5% YoY surge in Jan-Jul). In contrast, Thailand and the Philippines saw declines up to mid-August and April, respectively.

Graph 5: GDP Growth Trend (Supply side)

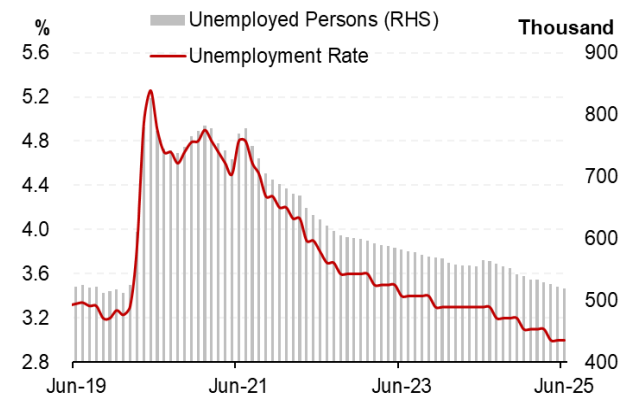


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- **Distributive Trade Sales:** We lower distributive trade sales growth forecast to 5.0% for 2025 (2024: 5.5%) from 5.7% as YTD sales growth slowed to 4.9% in 1H25. The revision also reflecting a high base effect from last year and normalising economic activity. Despite this revision, sales should stay supported by domestic demand, backed by improving household incomes from higher minimum wages, increased investment, government salary hikes, record-high cash transfer, and continued rise in tourist arrivals and spending.

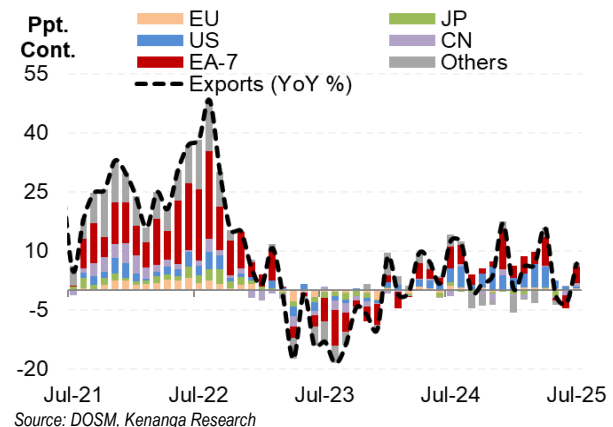
- **Unemployment Rate:** Labour market is expected to remain stable, supported by higher minimum wages and job creation in services and from realising approved investment. We project unemployment rate to average 3.0% (2024: 3.3%), slightly below our earlier forecast of 3.1% as June held at 3.0% for the third straight month. However, structural issues in the labour market remains concerning. Youth unemployment stood at 10.2% in June (May: 10.2%) or about 297.5k individuals. SOCSO's Labour Market Information (LMX) data shows 3.8% of job vacancies offer salaries below RM3,000 highlighting the challenge of creating higher income jobs.

Graph 6: Unemployment Rate



- **External Trade:** Exports rose 4.3% in the first seven months of 2025 (Jan-Jun: 3.8%), down from 5.7% in 2024. July saw a sharp rebound (6.8%; Jun: -3.6%), but overall momentum is moderate on weak mining exports, supply disruptions, and lower commodity prices. A stronger ringgit also pose downside risk on this sector making it less competitive in the region. As a result, mining exports fell 17.7% YoY in the first seven months of this year, while manufacturing and agriculture rose 5.8% and 8.1% respectively. Another reason of moderate export growth so far have been primarily due to weak exports to

Graph 7: Exports by Destination



China, which fell by 2.7% % YTD given its weak economic recovery. However, shipment to US and Singapore remained positive, growing by 24.2% and 7.4% respectively, helped by front-loading ahead of Trump's tariff deadline in August and the tech upcycle. That said, we expect export growth to remain volatile in the remaining months of 2025, bringing overall export growth forecast to reach 3.1% (2024: 5.7%). This projection also reflect our conservative view on trade outlook amid heightened global economic and trade uncertainties brought by the impact of higher US tariff and China's fragile recovery.

- **Risks:** While domestic risks appear limited, external factors remain a significant downside risk to Malaysia's growth outlook going forward. The delayed impact of higher US tariffs may increasingly affect consumer demand and global trade from 4Q25 onward. However, global monetary easing could help support demand and mitigate some of the downside pressure. That said, **we anticipate a modest growth projection in 2026 between 4.0% - 4.5%.**

Table 2: Malaysia GDP Growth (constant 2015 prices)

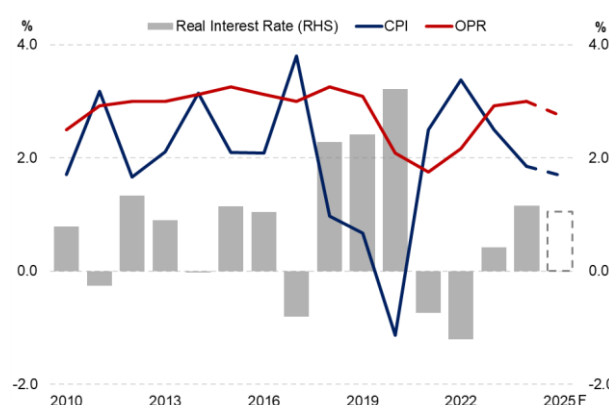
	Kenanga												
YoY %	2023	3Q24	4Q24	1H24	2H24	2024	1Q25	2Q25	3Q25F	4Q25F	1H25	2H25F	2025F
By Sector													
Agriculture	0.2	3.6	-0.7	4.8	1.6	3.1	0.7	2.1	0.1	0.3	1.4	0.2	0.8
Mining	0.5	-2.8	-0.7	3.6	-1.7	0.9	-2.7	-5.2	0.8	0.5	-3.9	0.6	-1.7
Manufacturing	0.7	5.6	4.2	3.4	4.9	4.2	4.1	3.7	3.4	3.0	3.9	3.2	3.5
Construction	6.0	20.0	20.7	14.5	20.3	17.5	14.2	12.1	11.3	10.8	13.1	11.0	12.0
Services	5.1	5.2	5.5	5.3	5.4	5.3	5.0	5.1	4.8	4.6	5.0	4.7	4.9
Real GDP	3.5	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3	4.0	4.4	4.2	4.3
By Expenditure													
Consumption	4.4	4.9	5.0	5.1	5.0	5.0	4.9	5.5	5.9	6.2	5.2	6.0	5.6
Public	3.4	6.0	4.0	4.5	4.8	4.7	4.3	6.4	3.7	5.1	5.3	4.5	4.9
Private	4.6	4.7	5.3	5.2	5.0	5.1	5.0	5.3	6.3	6.5	5.2	6.4	5.8
Investment	5.4	15.3	11.8	10.6	13.5	12.0	9.7	12.1	8.1	6.9	10.9	7.5	9.2
Public	8.5	14.4	10.0	10.4	11.6	11.1	11.6	13.6	3.9	3.5	12.6	3.6	7.2
Private	4.5	15.6	12.7	10.6	14.2	12.3	9.2	11.8	9.1	8.7	10.6	8.9	9.8
Public Spending	4.7	8.0	5.8	5.9	6.7	6.3	6.2	8.1	3.8	4.6	7.1	4.2	5.5
Private Spending	4.6	6.9	6.6	6.4	6.7	6.6	5.9	6.8	6.9	6.9	6.4	6.9	6.6
Aggregate Demand	4.6	7.1	6.4	6.3	6.7	6.5	6.0	7.0	6.3	6.4	6.5	6.4	6.4
Exports	-7.9	11.7	8.7	6.4	10.2	8.3	4.1	2.6	4.1	3.5	3.3	3.8	3.6
Imports	-6.8	13.0	5.9	7.1	9.3	8.2	3.1	6.6	3.9	3.5	4.9	3.7	4.3
	-												
Net Exports	22.2	-5.3	63.6	-4.6	23.2	9.2	19.6	-72.6	7.2	3.5	-22.5	5.2	-7.1
Real GDP	3.5	5.4	4.9	5.0	5.2	5.1	4.4	4.4	4.3	4.0	4.4	4.2	4.3

Source: DoSM, BNM, MoF, Kenanga Research

– Inflation: Driven by structural reforms, not demand pressures.

- **Price Dynamics:** Headline inflation averaged 1.4% YoY in the first seven months of 2025, below the ten-year average of 1.9%. This benign headline masks creeping cost pressures from structural reforms. We expect inflation to edge higher in the coming months, lifted by a RM200 monthly minimum-wage hike and delayed Sales and Service Tax (SST) costs pass-through. **We keep our full-year forecast at 1.7% for now, with a downside risk to 1.5% if pressures stay muted. Core inflation should hold near 1.8%, reflecting resilient domestic demand and a tight labour market.**

Graph 8: Real Interest Rate, Inflation Rate and OPR



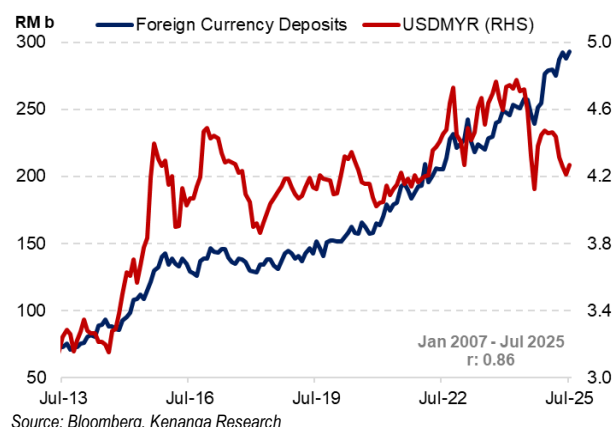
Source: Bloomberg, Kenanga Research

- **Subsidy Rationalisation:** The key shift is due in October or November, when the government is set to press ahead with targeted cuts to RON95 fuel subsidies, a politically fraught reform more than a year in the making.
 - The plan is designed to blunt backlash. Instead of scrapping subsidies wholesale, the government will exclude only the top 5–10% of earners, deemed able to absorb market prices, while shielding lower- and middle-income households, who may even benefit from cheaper fuel.
 - To execute this, RON95 will float at market prices, with eligible recipients identified through the Central Database Hub (Padu) and an expanded IC-linked system first deployed in diesel rationalisation. Subsidised purchases will be capped by income level and vehicle type to reduce both leakages and long-standing targeting errors.
 - The government has chosen a politically calibrated compromise. Our view: a market-based fuel pricing mechanism, paired with targeted cash transfers, would probably work better. With RON95 currently trading near RM2.50 a litre, authorities could instead raise the subsidised price by RM0.10 per quarter. This would gradually align subsidies with fiscal capacity while shielding vulnerable households from oil shocks.

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- Safeguarding fiscal space will also require new revenue streams. One option is to extend SST to premium fuels such as RON97, offsetting subsidy costs and freeing resources for higher-impact investments that could lift productivity and, in time, Malaysia's credit standing.
 - **Risks:** The recent policy-rate cut may add marginally to demand-pull inflation, but cost-push drivers dominate: tax adjustments, subsidy reforms and external shocks. **Risks to the outlook lean firmly upward. Escalating global trade frictions or a major oil supply shock would amplify imported inflation.** Even so, the government's reform path offers reassurance that Malaysia remains on a disciplined trajectory.
- **Monetary Policy: Stable domestic growth and emerging inflation risk support a steady policy stance, allowing BNM to preserve its policy space for future shocks**
- **Growth Outlook:** While external uncertainties continue to pose downside risks to growth, Malaysia's domestic demand remains stable. A potential recovery in the mining sector and sustained expansion in services are likely to cushion the economy. This stability gives BNM room to keep its policy tools unchanged and hold off any premature adjustments.
 - **Inflation Pressures:** Despite muted inflationary pressure in the first seven months of this year, several factors could introduce upside risks in the coming months, which include lagged SST effects, fuel subsidy rationalisation, higher minimum wages and a mandatory 2.0% EPF contribution to non-Malaysian employees, with employers contributing another 2.0%. These pressures should be contained by the absence of excess demand, improve supply capacity as well as continued targeted government support.
 - **Policy Implications:** With stable growth trajectory and manageable inflation, BNM is likely to stay cautious, sustaining growth while ensuring price stability. The current policy rate remains supportive, cuts are unnecessary as long as domestic demand holds up.
- **Ringgit: Supported by USD weakness, reforms, global rotation and FX repatriation**

- **Global Rotation:** Despite July's rate cut, narrowing the real yield gap and slightly denting domestic bond's appeal, Malaysia should still attract selective inflows. The broader case holds: the ringgit remains undervalued, macro fundamentals are steady, and reforms are progressing. Global demand for safe duration also supports inflows, as swelling US fiscal risks lift Treasury term premia.

Graph 9: Foreign Currency Deposits and USDMYR

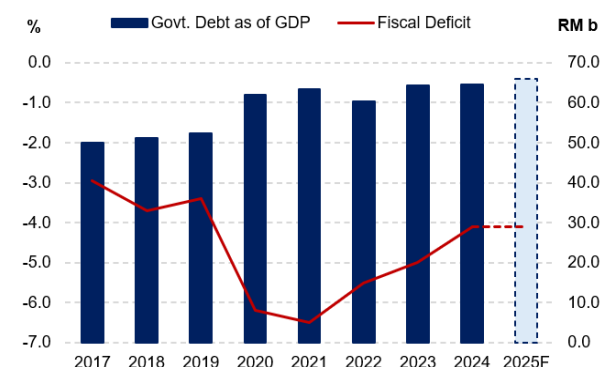
- **USD Dynamics:** Over a 9–12 month horizon, the USD looks set to weaken on fiscal concerns and Fed easing. Near term, however, the USD appears oversold and could rebound, offering an entry point for diversification into EMs assets, particularly reform-oriented markets like Malaysia.
- **Ringgit Outlook: We keep end-2025 USDMYR forecast at 4.08**, one of the more bullish street calls. The recent BNM rate cut may have reduced the case for policy-driven inflows, but investor rotation out of US assets and **a search for yield through FX exposure continue to support Malaysian bonds and the ringgit.** Another catalyst is **corporates repatriating and converting foreign earnings.** Foreign-currency deposits hit a record RM292.8b in July 2025. With BNM's Qualified Resident Investor programme in full effect since July, corporates have stronger incentives to convert FX holdings, especially as consensus builds for a weaker USD.

– **Bond Market: Local yields to extend their downtrend**

- **Yield Outlook:** Malaysian Government Securities (MGS) yields should continue to edge lower, even as global sentiment remains fragile amid Trump's tariff manoeuvres and doubts over US fiscal sustainability. These risks may spur rotation out of US assets into higher-quality EMs debt. Malaysia offers compelling real yields, anchored by sound macro fundamentals, credible policymaking, and fiscal measures (cash transfers, fuel subsidies and wage increases) that supports household demand and curb capital flight. A firmer ringgit also lifts investor appetite. BNM's recent OPR cut to 2.75% has introduced a mild bull-steepening bias, with markets leaning towards another cut in November. We now forecast 3Q25 yields at 3.30% (from 3.35%) while keeping our 4Q25 projection at 3.43%, reflecting expectations of policy stability (BNM status quo).

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- **Domestic Resilience:** Demand for MGS and Malaysian Government Investment Issues (MGII) has strengthened, with the year-to-date average bid-to-cover ratio at 2.76x, up from 2.37x in 2024. Solid 2Q25 GDP growth of 4.4% highlights the economy's resilience, with domestic demand supported by healthy labour markets, rising wages and a robust investment pipeline. Inflation remains moderate and the ringgit's gains further reinforce investor confidence in local debt. On the supply side, gross issuance has been revised slightly higher to RM166.5b, in line with the fiscal deficit target of 4.1% of GDP. Still, rollover pressures should ease as maturities decline, and issuance is likely to moderate in 2H25 after RM91.0b was front-loaded in the first half.

Graph 10: Govt Debt as of GDP and Fiscal Deficit

Source: Bloomberg, Kenanga Research

Note: The Govt Debt as of GDP in absolute terms (RM bil) and the scale is inverted on the right vertical axis

- **Government Debt Headroom:** As of August 2025, Federal Government debt stood at RM1,327.3b, leaving a fiscal buffer estimated at RM29.7b. Statutory debt, which includes Malaysia Government Securities, GII, and Malaysia Islamic Treasury Bills, is at 64.2% of GDP, leaving a margin of 0.8% before reaching the statutory debt ceiling of 65.0%. Malaysia Treasury Bills are manageable at RM3.0b, well below the RM10.0b cap, while offshore borrowings are at RM27.9b, staying within the RM35.0b limit.

Table 3: Federal Government Debt Headroom

		latest	RM bil limit	balance
Offshore borrowing	1Q25	27.9	35.0	7.1
Malaysia Treasury Bills (MTB)	Aug-25	3.0	10.0	7.0
Statutory (MGS, MGII, MITB)	Aug-25	1,296.4	1,312.0	15.6
Statutory (% of GDP)	Aug-25	64.2%	65.0%	0.8%
Total:		1,327.3	1,357.0	29.7

Source: BNM, Macrobond, Kenanga Research

- **Government debt** however is projected to rise to RM1,330.6b or 65.9% of GDP in 2025, up from the previous forecast of 64.7% and 64.6% in 2024, reflecting slower growth expected in 2H25. The upward revision also aligns with our fiscal deficit forecast of 4.1% of GDP, unchanged from 2024, and based on GDP growth projection of 4.3%. Based on latest statistics, government's overall balance stood at a deficit of RM40.5b in the 1H25 and is expected to sustain in the 2H25. Higher financing needs tied to ongoing fiscal support and development spending have contributed to the increased deficit projection. Nonetheless, revenue enhancement via SST expansion, e-invoicing, continued investor confidence, supported by a stable domestic bond market and a more constructive ringgit outlook, will be key to managing debt sustainability over the medium term.

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

Nurul Hanees Hairulkama
Economist
nurulhanees@kenanga.com.my

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Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my