

# Economic Focus

## Anchored by steady domestic demand

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### Research Analysts

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- **Healthy growth momentum to sustain in 2H25 amid gradually diminishing external uncertainties**
- **Strong underlying fundamentals cement position of strength for sustainable growth**
- **Cautiously optimistic of 2025 growth prospects and expect 4.3% GDP growth**

### Receding consternation with resilient global growth

Notwithstanding the challenging global environment arising from US trade protectionism and escalating geopolitical conflicts, global economic growth trajectory has remained resilient thus far. While moderation in global trade in 2H25 is expected given the reciprocal tariffs imposed on US imports, global equity indices have been scaling record highs amid global monetary easing cycle. The IMF has upgraded its 2025 global growth forecast to 3% in Jul 2025 from 2.8% in Apr 2025 after the less-than-initially-feared economic fallout from US tariffs and stable global financial conditions. On the domestic front, Malaysia's 2Q25 economy grew by 4.4% y-o-y (1H25 +4.4%) as strong domestic demand (+7% y-o-y) more than offset the weak external trade (-73% y-o-y) which contributed to a 2.6% growth drag. It is noteworthy that 2Q25 was affected by US baseline tariffs of 10% which took place in Apr 2025, and net export activities slowed down considerably during the quarter after the front-loading activities in 1Q25.

### Robust domestic demand

We believe the strong domestic demand will continue in 2H25 on sustained household spending, further realisation of investment projects and robust tourism activity. In addition, the 19% US tariff on Malaysian exports puts the country on par with the rates imposed on competing ASEAN peers which may help preserve Malaysia's competitive advantages in the US trade, though export-oriented businesses will still feel the brunt of higher cost. Evidently, Jul 2025 credit demand remained on a healthy growth trend at 5.4%, slightly higher than the 5.1% growth in Apr 2025 when the sweeping reciprocal tariffs were first announced. In addition, the first BNM interest rate cut of 25 bps to 2.75% in five years will serve as a catalyst to boost market sentiment, coupled with government's concerted efforts to alleviate cost of living for the people.

### 13<sup>th</sup> Malaysia Plan aligns with the Madani Economy Framework

The recently announced 13<sup>th</sup> Malaysia Plan (13MP) shares the guiding principles of Madani Economy Framework of achieving sustainable and inclusive growth as well as driving governance reforms. Broadly, the 13MP (2026-2030) aspires to grow annual GDP by 4.5%-5.5% while keeping fiscal deficit <3% and government debt <60% by 2030 which is in line with the Fiscal Responsibility Act. More importantly, Budget 2026, to be unveiled on 10 Oct, will lay the foundation for the 13MP. Continuous progress for reform initiatives including tax revenue expansion and subsidy retargeting can be expected while growth drivers such as digital adoption, renewable energy and industrial transformation will remain in focus. Meanwhile, Visit Malaysia 2026 will be a key catalyst for Malaysia's 2026 economic growth. We believe fiscal consolidation remains on track in 2026 with a lower fiscal deficit of ~3.5% (vs 3.8% in 2025, 4.1% in 2024).

### Well-positioned to navigate trade protectionism

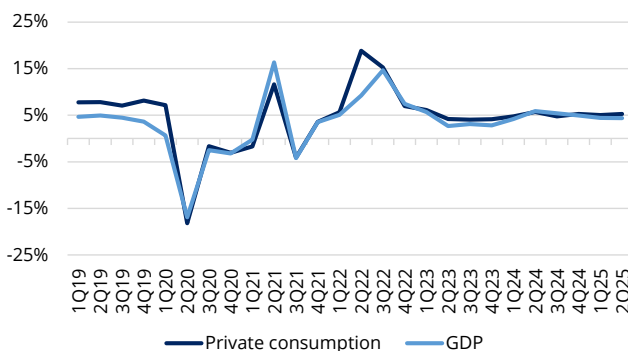
We are cautiously optimistic of Malaysia's economic outlook, and project 2025 GDP growth to come in at a relatively healthy pace of 4.3%. Malaysia is set to benefit from firm domestic demand, underpinned by robust labour market and strong economic activities. Meanwhile, our diversified export composition and non-aligned policy that prioritises economic cooperation and integration will stand it in good stead amid heightened trade conflicts. Key downside risks include slower-than-expected recovery in external demand and spillovers from geopolitical tensions.

### Malaysia's economy remains resilient

We expect Malaysia to register a relatively healthy GDP growth of 4.3% in 2025 which is in line with the government's revised forecast of 4.0%-4.8% to account for the spillover impact from US protectionist measures. 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. This is set to be further boosted in 2H25 by the disbursement of an additional RM2bn in one-off financial aid and a 25bps interest rate cut by Bank Negara Malaysia.

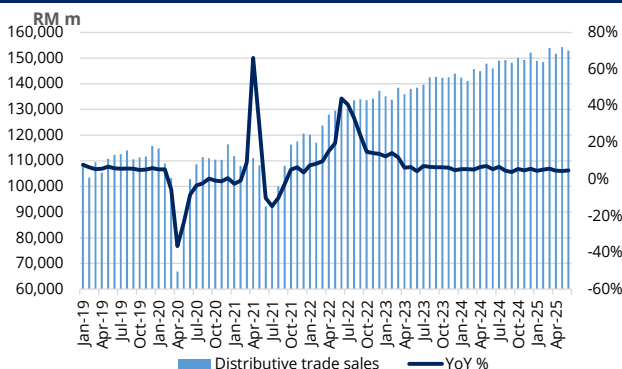
Meanwhile, private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. 2Q25 capital expenditure continued to sustain its growth momentum at 12.1% (1Q25: +9.7%), 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



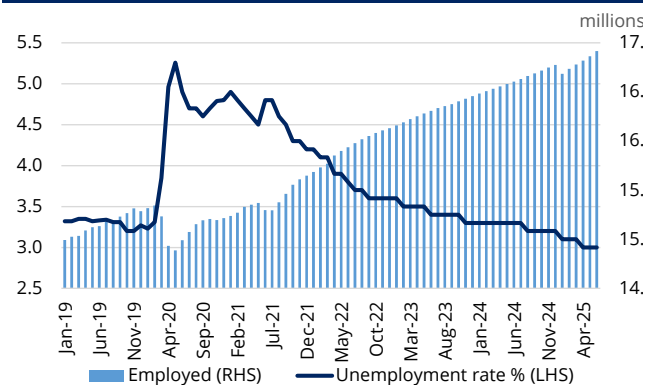
Source: AllianceDBS, CEIC

### 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 Jun 2025 came in at 3.0%, compared to 3.3% in Jun 2024. Notably, we are encouraged by the continuous growth in the labour participation rate to a record high of 70.8% in Jun 2025. This will certainly bode well for the economic outlook in 2025 given that domestic demand forms the bulk of our economy.

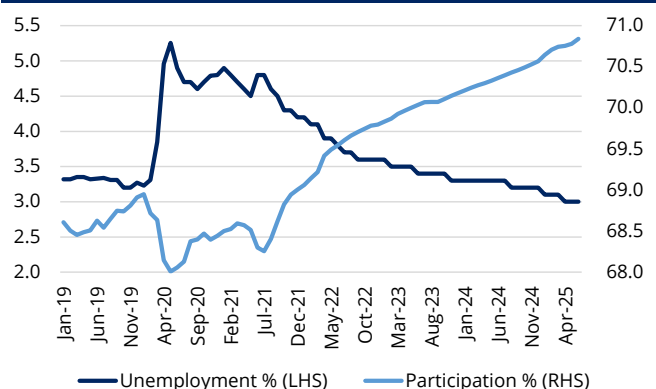
The robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia's unemployment rate will continue to stay low as more jobs are created with the realization of various investment activities.

### Strong labour market



Source: AllianceDBS, CEIC

### Favourable labour market dynamics

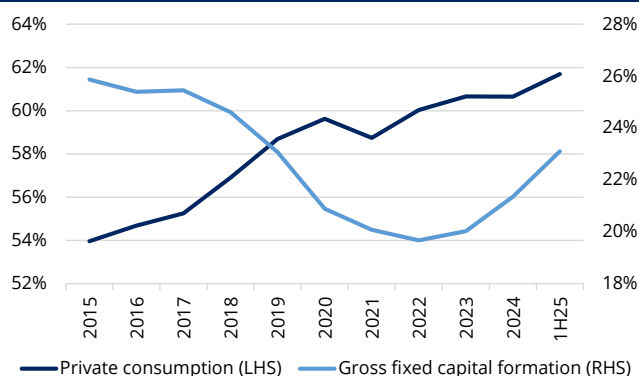


Source: AllianceDBS, CEIC

### 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

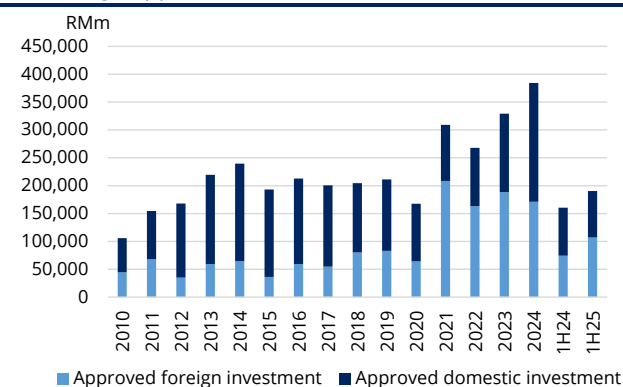
The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia's manufacturing industry, leveraging on the global trend of industrial value chain diversification.

After achieving record high approved investments in 2021-2024, the winning streak has continued unabated in 2025 with the figures rising 19% y-o-y to RM190bn in 1H25. This signifies the strong confidence that foreign investors have in Malaysia, a traditionally non-aligned country, 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 Mutiara Line 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

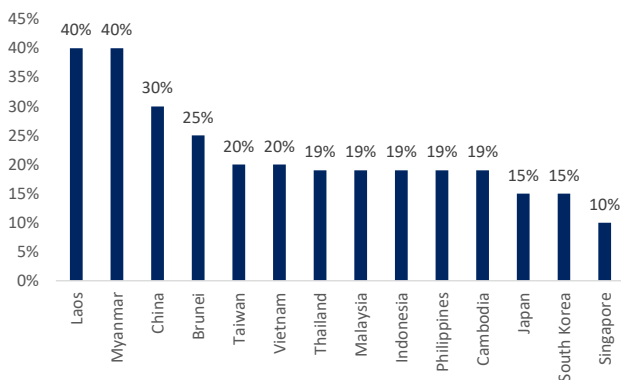
Source: AllianceDBS, MoF

### Well-positioned for challenges in external trade

There are signs that uncertainties arising from US' trade protectionism have been easing, going by the flurry of trade deals and negotiations over the past few months. So far, global economic growth trajectory has remained resilient, resulting in IMF's latest upgrade for 2025 global economic growth to 3% in Jul 2025 from 2.8% in Apr 2025 after the less-than-initially-feared economic fallout from US tariffs and stable global financial conditions

Admittedly, Malaysia is a small, open 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. In addition, the 19% US tariff on Malaysian exports puts the country on par with the rates imposed on other competing ASEAN peers which may help preserve Malaysia's competitive advantages in the US trade, though export-oriented businesses will still feel the brunt of higher cost.

### US' reciprocal tariffs on selected Asian countries



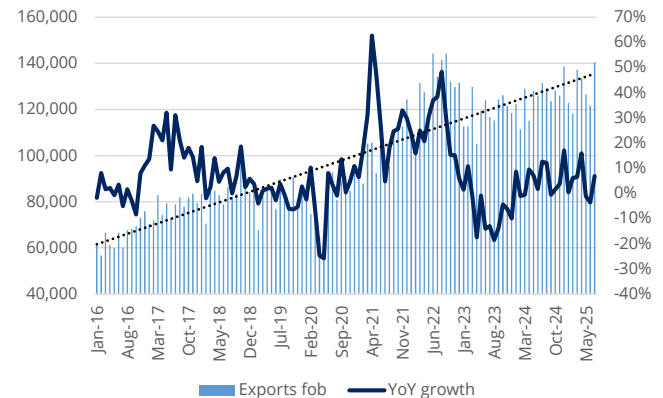
Source: AllianceDBS, CEIC

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 tourist arrivals for 2025 are 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.

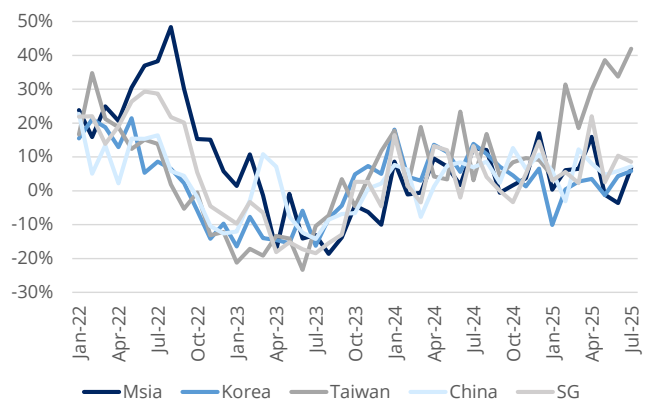
As the ASEAN chair in 2025, Malaysia is poised to seize the opportunity to wield its influence to strengthen the ASEAN economic bloc with better regional integration to enhance overall economic resilience amidst rising trade protectionism and external uncertainties.

### Malaysia's monthly exports



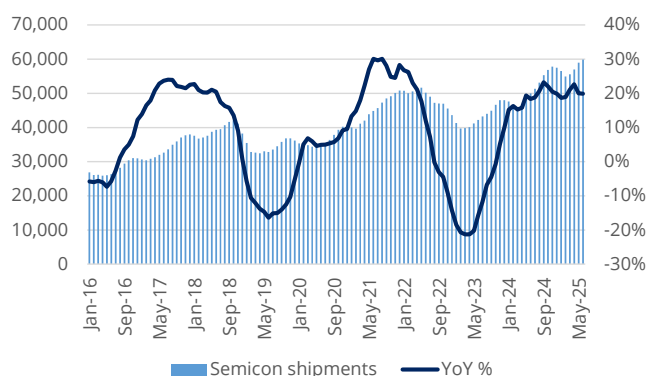
Source: AllianceDBS, CEIC

### Positive exports growth for key Asian exporters



Source: AllianceDBS, CEIC

### Global semiconductor shipments

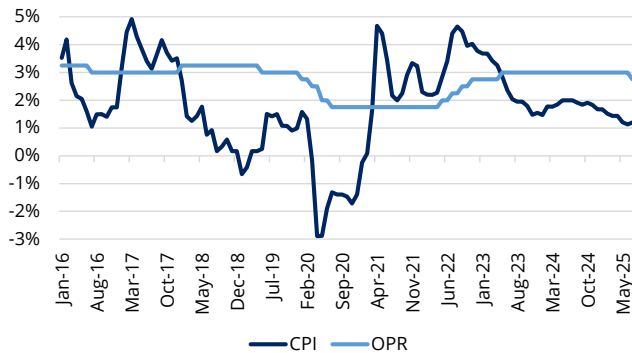


Source: AllianceDBS, SIA, CEIC

## Steady loans growth momentum

In Jul 2025, Bank Negara Malaysia (BNM) has cut its benchmark OPR rate by 25bps to 3% which marked the first interest rate cut in five years. It was highlighted by BNM that the OPR reduction was a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects. Therefore, the accommodative move is likely to further stimulate Malaysia's economy in 2H25.

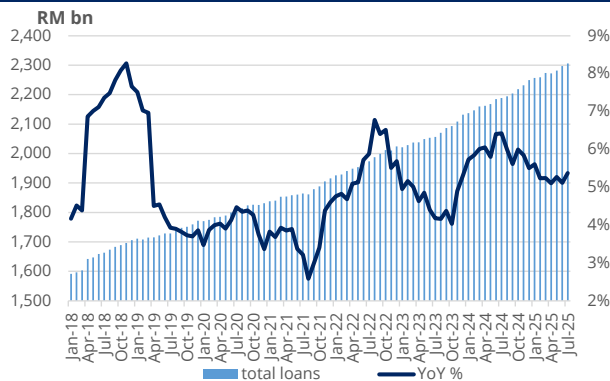
## Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

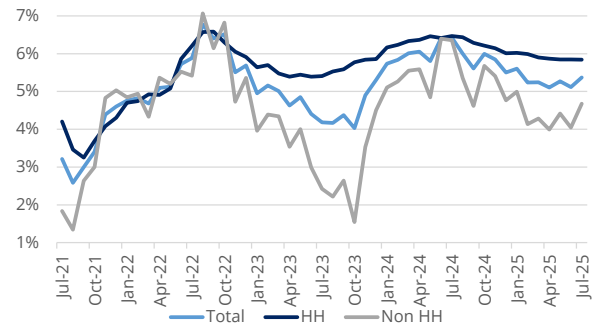
Our headline inflation has been moderating over the past 12 months, in tandem with the moderating trend of commodity prices due to demand concerns from major economies. Therefore, the positive real rates are likely to continue in the near term, barring any major supply shocks. Going forward, the outlook 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

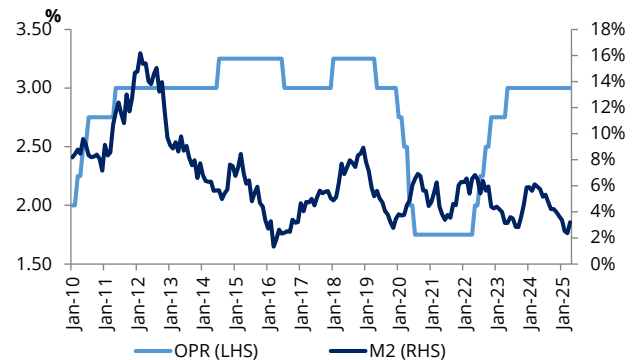
## Loans growth remain at healthy levels



Source: AllianceDBS, BNM

Malaysia's banking system has been seeing steady credit demand with Jul 2025 loans growth coming in at 5.4% (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 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 improved to 3.9% in Jul 2025 (3.7% in Dec 2024), the highest so far in 2025 which could be attributable to the latest interest rate cut. We believe 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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