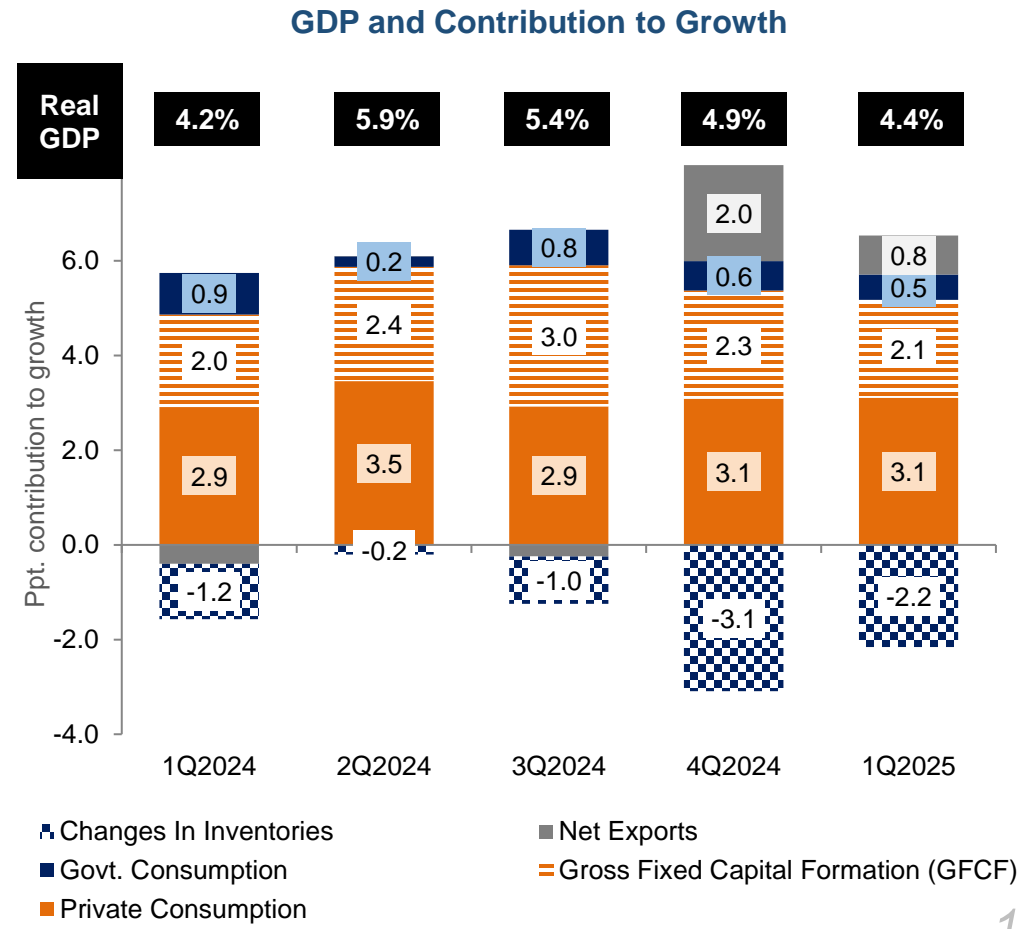


# 1Q 2025 GDP: Growth Eases, Domestic Demand Remains the Anchor

Malaysia's GDP expanded by 4.4% y-o-y in 1Q2025, unchanged from the advance estimate and broadly in line with our expectation. Growth was anchored by **sustained domestic demand**, led by **private consumption (+5.0%)**, which remained supported by positive labour market conditions and ongoing policy measures, although slightly softer than 4Q2024's 5.3%. **Investment activity stayed firm**, with **private investment expanding 9.2%** and **public investment growing 11.6%**, reflecting continued capital outlays in structures and machinery by both corporates and public entities. On the external front, **exports continued to expand**, underpinned by strong E&E shipments and recovering tourism, though overall **net exports slowed to 19.6%** (from 63.6% in 4Q2024) due to weaker mining exports.

From the supply side, growth was **driven primarily by the services sector**, which expanded **5.0% y-o-y**, supported by higher activity in government services and retail trade, though tempered by a decline in motor vehicle sales. The **construction sector posted a double-digit 14.2% growth**, lifted by continued momentum in non-residential and infrastructure projects. Meanwhile, **manufacturing expanded 4.1%**, reflecting resilience in export-oriented segments, although weighed down by contractions in automotive output. **Agriculture growth turned mildly positive at 0.6%**, with stronger performance in fisheries and other agricultural subsectors offsetting weakness in palm oil. In contrast, **mining output contracted by 2.7%**, dragged by lower crude oil and natural gas production, reinforcing the broader narrative of sectoral divergence in 1Q2025.



Source: Department of Statistics Malaysia, CEIC, BMMB Economics

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# Growth Outlook: Cautious Path Ahead, but Domestic Drivers Intact

The economic outlook for the rest of 2025 is **shaped by elevated external risks and policy-related uncertainties**. The escalation in US tariff actions and retaliations has begun to manifest in softer global growth expectations. Malaysia is not insulated, given its trade openness and reliance on global demand.

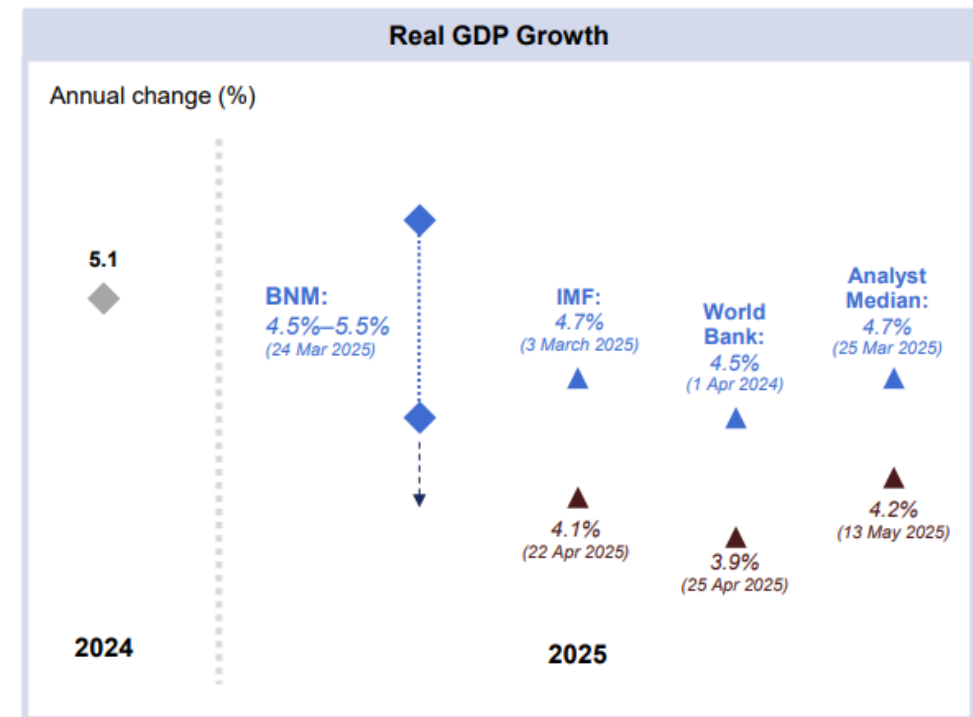
BNM flagged several downside risks:

- **Trade tensions** could weigh further on global and regional trade flows, delaying investment and weakening export performance;
- **Volatile commodity production**, especially oil and gas, poses risks to the resource-based sectors;
- **Geopolitical uncertainty**, particularly in major economies, could trigger global financial market volatility.

That said, several buffers remain intact:

- **E&E exports**, a critical driver, are expected to remain resilient amid structural global tech demand;
- **Tourism and services activity** could pick up pace, providing further support.
- **Domestic demand** will continue to underpin growth, aided by stable labour market conditions, wage support, and ongoing public sector expenditure.
- **Inflation is expected to remain moderate** (2.0–3.5%), despite potential pressures from subsidy rationalisation in 2H2025. Core inflation is contained due to limited demand-side pressures, giving policymakers room to remain accommodative if needed.

BNM's estimate points to growth to be slightly lower than earlier forecast of 4.5%–5.5%



Source: Department of Statistics, Malaysia, International Monetary Fund, World Bank, Bloomberg, BNM 1Q25 GDP Press Conference

# Our take: Reaffirming 2025 Growth Forecast at 4.1%

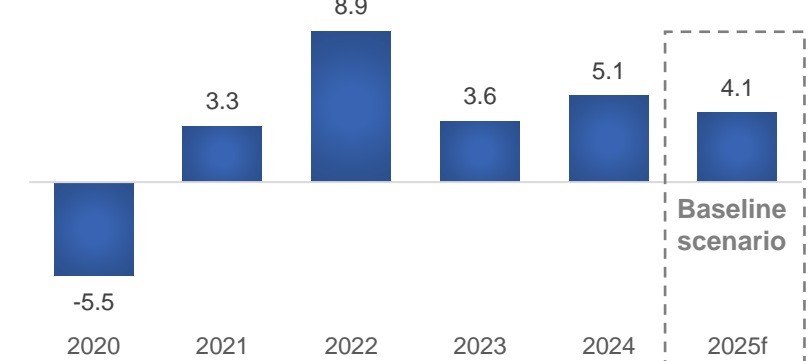
The 1Q2025 GDP performance is largely in line with our expectations. The team had the opportunity to attend the GDP release briefing conducted by BNM, where the central bank reiterated that the recent SRR cut was in response to tighter liquidity conditions — a departure from the surplus environment seen previously — and to ensure **sufficient policy buffer for future interventions**.

On the growth outlook, we **do not rule out the possibility of a stronger performance in 2Q2025**, driven by **frontloaded export and investment activities ahead of reciprocal tariff implementation**. However, the true impact of the US-China tariff escalation will likely surface more clearly in 2H2025, once supply chains and trade flows adjust to the new tariff landscape. We are closely monitoring:

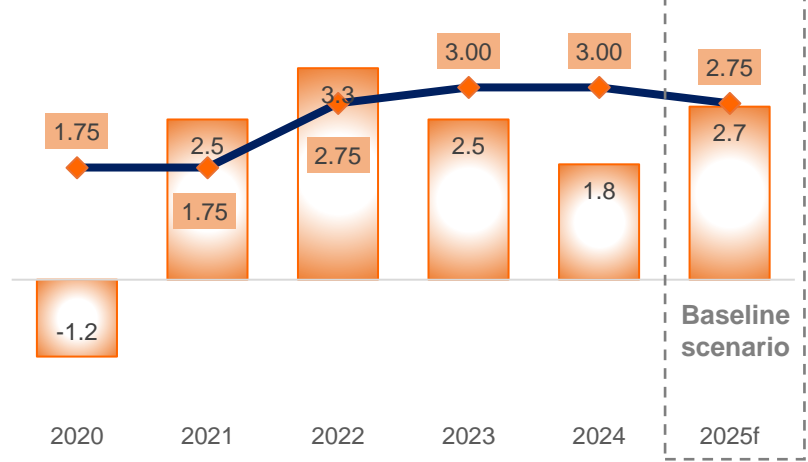
- **Malaysia's bilateral trade negotiations**, including ongoing discussions with the US and regional partners.
- **US-China policy shifts**, particularly around technology restrictions and retaliatory measures.

Encouragingly, **a significant share (83%) of Malaysia's exports to the US consists of relatively price-inelastic products**, which should help cushion the impact of softer global trade. While consumption growth has softened and remains below its long-run average, it is still anchored by steady job creation, improving wages, and targeted government support. It is essential for BNM and the Government to continue providing a stable policy environment to sustain household spending momentum and confidence. In view of these developments, we maintain our 2025 GDP growth forecast at **4.1%**, with the **balance of risks tilted to the downside** but buffered by resilient domestic drivers and selective external demand.

Malaysia's GDP Growth (% yoy)

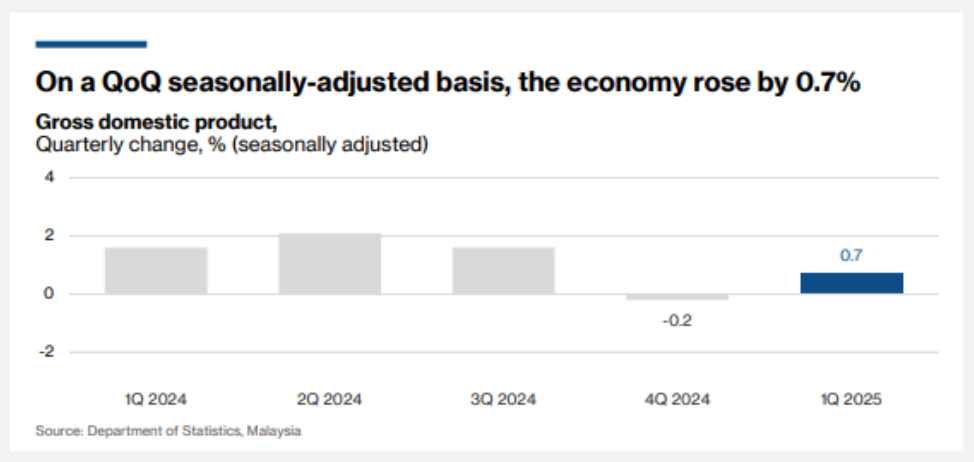
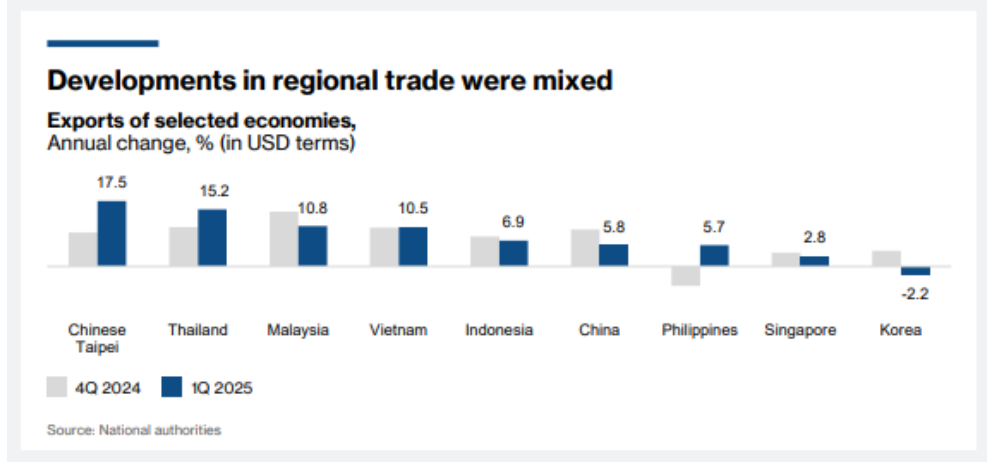
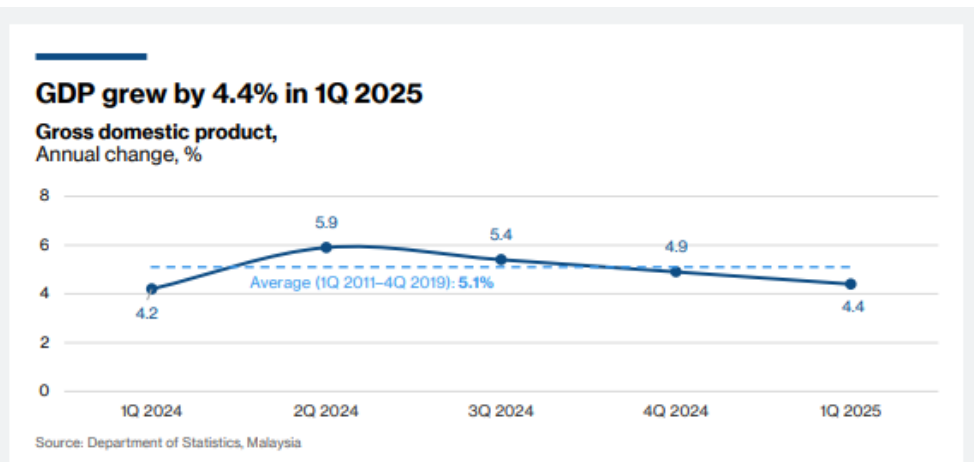
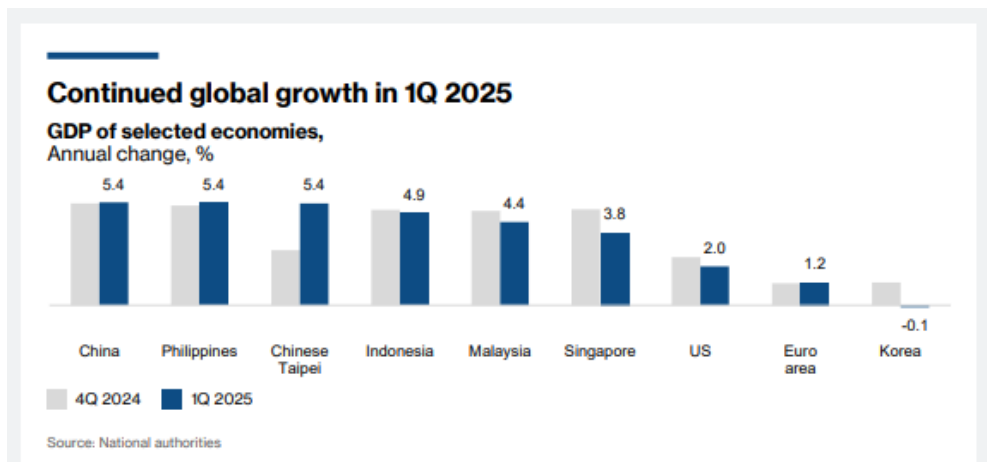


Inflation (% yoy) vs OPR (end-period)



Sources: CEIC, BMMB Economics

# Appendix: Global and Domestic Growth Performance



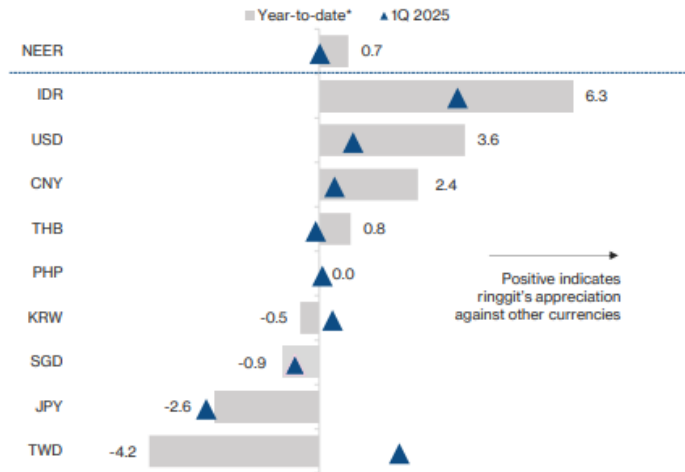
Extracted from Bank Negara Malaysia's Quarterly Bulletin for 1Q2025

# Appendix: Financial Markets and Exchange Rate

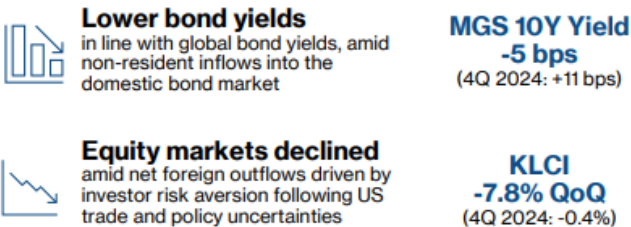
## The ringgit remained broadly stable against currencies of major trade partners in the first quarter

Ringgit appreciated against the US dollar, as growing US trade policy uncertainties led to expectations of more subdued US economic growth.

### Performance of the ringgit against selected major and regional currencies % year-to-date and quarter-on-quarter



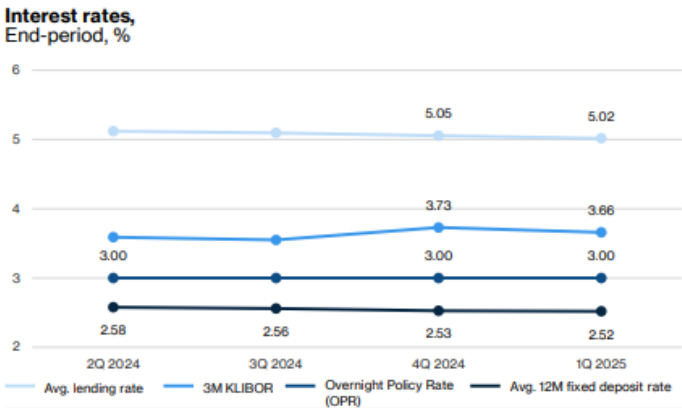
## Domestic financial market developments were driven mainly by external factors



## Key factors driving investor risk aversion



## Interbank rates and average lending rates declined during the quarter



- The 3M KLIBOR declined** during the quarter amid gradual easing in interbank funding conditions as seasonal year-end deposit competition in 2024 subsided.
- Retail board fixed deposit (FD) rates remained broadly stable** across tenures of 1 to 12 months during the quarter.
- Average lending rate (ALR) on outstanding loans decreased slightly** during the quarter, mainly for business loans following the maturity of fixed-rate loans with higher rates.

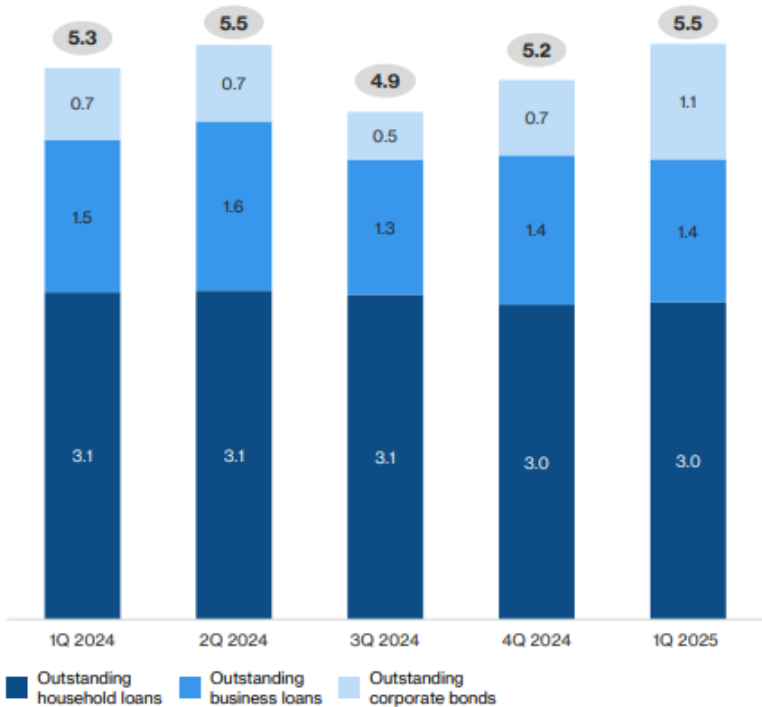
Extracted from Bank Negara Malaysia's Quarterly Bulletin for 1Q2025



# Appendix: Credit Conditions

## Credit growth increased, amid higher growth in outstanding corporate bonds

Credit to the Private Non-Financial Sector,  
Contribution to growth, ppt



Source: Bank Negara Malaysia

## Key developments

Credit to the Private,  
Non-Financial Sector<sup>1</sup>

5.5%  
4Q 2024: 5.2%

- Growth in outstanding loans<sup>2</sup> was steady at 5.6% (4Q 2024: 5.6%) amid sustained growth in business and household loans.
- Outstanding corporate bonds grew at a faster pace of 5.3% (4Q 2024: 3.4%), following sustained growth in bond issuances.

Business  
Loans

4.8%  
4Q 2024: 5.1%

- Outstanding business loans expanded by 4.8% amid, higher growth in working capital loans.
- Demand for financing remained forthcoming, especially among SMEs, with sustained level of applications across loan purposes.

Household  
Loans

6%  
4Q 2024: 5.9%

- Household loans grew by 6% amid broadly steady growth across most loan purposes.
- Demand for household loans also continued to be forthcoming, with sustained level of loan applications.

<sup>1</sup> All numbers quoted are in terms of annual change.

<sup>2</sup> Refers to loans from banking system and development financial institutions (DFIs).  
Source: Bank Negara Malaysia

Extracted from Bank Negara Malaysia's Quarterly Bulletin for 1Q2025

# Appendix: Loan Indicators

	2024		2025	2024		2025
	1Q	4Q	1Q	1Q	4Q	1Q
	During the period, RM billion			Annual change, %		
<b>Total Private Non-Financial Sector<sup>2</sup></b>						
Loan applications	358.0	411.1	383.9	0.7	2.6	7.2
Loan approvals	174.5	222.8	191.0	1.3	-1.1	9.4
Loan disbursements	540.9	596.2	551.3	2.3	2.8	1.9
Loan repayments	534.2	575.6	539.7	-0.7	3.2	1.0
<b>Of which:</b>						
<b>Businesses<sup>3</sup></b>						
Loan applications	136.0	173.7	153.4	1.1	8.1	12.8
Loan approvals	78.1	114.6	86.6	3.4	1.7	10.8
Loan disbursements	402.2	451.4	406.7	-0.3	2.3	1.1
Loan repayments	397.9	438.0	396.8	-2.5	2.2	-0.3
<b>SMEs</b>						
Loan applications	80.6	94.8	86.0	7.0	14.8	6.6
Loan approvals	40.0	53.9	38.0	14.7	0.0	-4.8
Loan disbursements	137.4	162.1	150.8	9.7	14.5	9.7
Loan repayments	133.0	154.0	142.5	8.8	15.7	7.2
<b>Non-SMEs</b>						
Loan applications	55.3	78.9	67.4	-3.0	1.1	21.8
Loan approvals	38.1	60.7	48.5	-3.9	3.2	27.2
Loan disbursements	262.8	287.6	254.5	-5.2	-3.4	-3.2
Loan repayments	263.7	282.5	253.4	-7.5	-3.8	-3.9
<b>Households</b>						
Loan applications	222.0	237.4	230.5	0.4	-1.1	3.8
Loan approvals	96.4	108.2	104.4	-0.4	-3.9	8.3
Loan disbursements	138.7	144.8	144.6	10.7	4.2	4.2
Loan repayments	136.3	137.6	142.8	4.9	6.5	4.8

<sup>1</sup> Loans for all segments include data from banking system and development financial institutions (DFIs).

<sup>2</sup> Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.

<sup>3</sup> Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.

Note: Figures may not add up due to rounding.

Extracted from Bank Negara Malaysia’s Quarterly Bulletin for 1Q2025