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2Q25 GDP Growth:	+4.4%
2025 GDP Growth Forecast:	+4.2%
6M25 Headline Inflation:	+1.4%
2025 Headline Inflation Forecast:	+1.9%
BNM OPR:	2.75%
End-2025 OPR Forecast:	2.75%

Malaysia 2Q25 GDP

Growth remains steady at +4.4% YoY

- Malaysia's GDP growth held steady at +4.4% YoY in 2Q25 (1Q25: +4.4%), slightly undershooting expectations as domestic strength was offset by slower external trade.
- The current account surplus narrowed sharply to 0.1% of GDP in 2Q25 (1Q25: 3.4%), mainly on a weaker goods surplus. We project the 2025 surplus to moderate to 1.3% of GDP (2024: 1.4%), as external conditions remain volatile.
- A key risk lies in sectoral tariffs on semiconductors, which could raise Malaysia's effective tariff to c.35%, above BNM's baseline assumptions underpinning its revised 2025 GDP growth range of 4.0–4.8%.
- Our base case assumes a 100% tariff on semiconductors with half of Malaysia's exports exempted, placing GDP growth at +4.0%, the lower bound of BNM's forecast. Sensitivity analysis suggests that every additional 25-ppt increase in tariffs could shave off c.0.1 ppts from GDP growth.
- While semiconductor tariffs could tilt BNM's policy bias more dovish, we see no urgency for another policy rate cut. We expect OPR to remain at 2.75% through 2025.
- Looking ahead, we remain watchful for external risks, including a potential slowdown in China and the evolving tariff landscape. For now, we maintain our 2025 GDP growth forecast of +4.2%, with semiconductor tariff impacts yet to be incorporated into our baseline projections.

GDP hold up well in 2Q25

Malaysia's GDP growth held steady at +4.4% YoY in 2Q25 (1Q25: +4.4%), coming in slightly below the advance estimate and Bloomberg consensus of +4.5%. On a seasonally adjusted basis, the economy expanded by +2.1% QoQ (1Q25: +0.7%), marking two consecutive quarters of growth following the contraction in 4Q24.

Domestic strength vs external weakness

On the expenditure side, private consumption expanded by +5.3% YoY (1Q25: +5.0%), supported by positive labour market conditions. The unemployment rate stood at 3.0% in June, a level broadly considered as full employment. Investment spending accelerated further to +12.1% (1Q25: +9.7%), driven by stronger capital goods demand, including data centre-related imports. In contrast, net exports weighed on growth as real exports slowed to +2.6% (1Q25: +4.1%) on waning front-loading activities, while real imports rose sharply to +6.6% (1Q25: +3.1%).

On a sectoral basis, growth performance was mixed. Services led the expansion, rising by +5.1% YoY (1Q25: +5.0%), underpinned by resilient wholesale trade and government services. Agriculture rose to +2.1% (1Q25: +0.7%) on stronger oil palm output. Construction sustained double-digit growth at +12.1% (1Q25: +14.2%), albeit at a slower pace. Manufacturing growth moderated to +3.7% (1Q25: +4.1%) due to disruptions in refined petroleum production. Meanwhile, mining contracted further by -5.2% (1Q25: -2.7%) as maintenance shutdowns continued to weigh on crude petroleum and natural gas output.

Current account surplus narrows sharply

The current account surplus narrowed to just +RM0.3bn in 2Q25 (1Q25: +RM16.7bn), equivalent to 0.1% of GDP (1Q25: 3.4% of GDP). The deterioration was primarily due to a weaker goods surplus, which fell to +RM17.0bn (1Q25: +RM38.5bn), alongside a larger deficit in secondary income (-RM4.6bn; 1Q25: -RM1.2bn). The services deficit was largely unchanged (-RM3.3bn; 1Q25: -RM3.4bn), while the primary income deficit narrowed (-RM8.9bn; 1Q25: -17.1bn).

The weaker goods surplus reflected both output disruptions in the oil and gas sector and higher capital goods imports linked to data centre investment. Bank Negara Malaysia (BNM) noted that these factors are transitory, with LNG production expected to recover and data centre services

ramping up in the months ahead. Nevertheless, given the volatility in global trade conditions, we project the **current account surplus to soften to 1.3% of GDP in 2025** (2024: 1.4%).

Impending sectoral tariffs heighten external risks

With the 19% country-level tariff on Malaysia now in place, the risks have now shifted to the sector-specific tariff measures, particularly on semiconductors. Trump has proposed a 100% tariff on chip imports (currently exempt under Section 232), with exemptions likely for firms producing in the US. He has recently raised the prospect of rates going as high as 300%, starting lower to give manufacturers time to re-shore. Given that semiconductors make up c.40% of Malaysia's US-bound exports, the looming tariff announcement in the coming weeks could have material implication on domestic growth.

BNM cut its 2025 GDP forecast to 4.0%-4.8% (from 4.5%-5.5%) in July, with its lower-end baseline built on an effective tariff rate of c.25%, presumably factoring in semiconductors (Figure 1). The actual 19% country tariff falls within that range, but the real risk now lies with sectoral measures. A 100% tariff on semiconductors, even with half exempted, would push Malaysia's effective tariff to c.35%, notably higher than BNM's 25% baseline. This highlights that the outcome of the semiconductor tariff could have material implications on BNM's bias toward another rate cut should trade shocks intensify.

Figure 1: BNM's tariff assumptions for revised growth forecast (July -25)

Assumption	Low tariff outcome	High tariff outcome
US ETR¹ on the World	13%	29%
Country tariff²	1. China: 30% ³ 2. Other countries: Tariff rates at the 'pause' rate of 10%	1. China: 50% ⁴ 2. Other countries: Tariff rates at their 2 Apr rates (e.g. TW: 32%) or trade deals (e.g. MY: 25%; VN: 20%)
Product tariff²	1. 50% on steel, aluminium and copper 2. 25% on auto 3. 0% on currently exempted items	1. 50% on steel, aluminium and copper 2. 25% on auto 3. 25% on currently exempted items

¹ Calculates revenue from US customs duties as a percentage of its imports.
² Additional tariff from 2024 levels.
³ Assumes tariff announced during the US-China 90-day truce is permanent.
⁴ Time-weighted rate assuming tariff rate reverts to 54% once the US-China 90-day truce lapses on 12 Aug.

Source: BNM

Sensitivity analysis

We conducted a stress-test scenario by applying the sectoral tariff not only to semiconductors but to the broader E&E sector (c.60% of Malaysia's exports to the US), which include semiconductor as well as final products such as electronic equipment. Assuming a 100% semiconductor tariff with half of exporters exempted, our model projects 2025 GDP growth at 4.0% (Figure 2). Every 25-ppt increase in tariffs could shave off approximately 0.1-ppt from GDP. Note that semiconductor tariff are yet to be incorporated into our GDP growth projections.

Figure 2: Projected Malaysia GDP Growth (%) Based on Tariff rate and shares of exemption

		E&E tariff rate				
		25%	50%	75%	100%	>100%
% Shares of exemption	0%	4.2%	4.0%	3.8%	3.6%	2.9%
	25%	4.2%	4.1%	3.9%	3.8%	3.3%
	50%	4.3%	4.2%	4.1%	4.0%	3.6%
	75%	4.3%	4.3%	4.2%	4.2%	4.0%

Source: Apex Securities

Scenario Analysis

Base case (100% tariff): Widely anticipated, impacts manageable. In our base case (60% probability), the US announces a 100% tariff on semiconductors, as first flagged in early August. We assume around half of Malaysia's semiconductor exports would be exempt, given the large presence of MNCs (c.65% of Malaysia's semiconductor shipments) that may qualify for exemption. The impact should be manageable, with GDP growth estimated at 4.0%, the lower end of BNM's revised forecast.

Worst case (>100% tariff): Extremely high tariffs put growth at risk. We assign a 10% probability to this low-likelihood scenario where the US imposes tariffs significantly above 100%, potentially reaching 200–300% as recently flagged by President Trump. If tariffs rise significantly above 100%, Malaysia's GDP growth could slip towards 3.6% in 2025, warranting further policy support.

Best case (<100% tariff rate): Positive surprise. We assign a 30% probability to tariffs coming in below 100%, as the US may opt for a phased approach to support its reshoring agenda. Near-term impact on Malaysia would be limited, with GDP growth holding at 4.1–4.3%, while the drag would only be felt over the longer term.

Figure 3: Scenario Analysis (Based on 50% exemption for tariffs on E&E)

	Scenario (Probability)	Tariff Rate	Real GDP	Remarks
Bullish	Best (30%)	<100%	4.1-4.3%	Lower-than-expected tariff rate
	Base (60%)	100%	4.0%	Widely anticipated, impacts manageable
Bearish	Worst (10%)	>100%	<4.0%	Extremely high tariffs put growth at risk

Source: Apex Securities

Sectoral Tariff Risks Keep BNM on Dovish Watch

BNM has already lowered its 2025 growth forecast to 4.0–4.8% and delivered a pre-emptive 25-bp cut in July. With semiconductor tariffs potentially falling outside BNM's baseline assumptions, and our analysis suggesting growth could slip towards 4.0%, the lower end of BNM's forecast range, the policy bias is tilted dovish. That said, we see no immediate urgency for another rate cut. BNM is likely to assess the pass-through from July's easing into early 2025, and only cut again should semiconductor tariffs weaken growth momentum. **We maintain our projection for OPR to stay at 2.75% through 2025.**

Keep GDP forecast unchanged for now

Domestic demand is set to cushion the economy against softer global conditions. Continued government cash aids, including a one-off RM100 transfer to all Malaysians in August, will support consumer spending. Private investment momentum remains firm, supported by multi-year infrastructure and data centre expansion. BNM's pre-emptive 25-bp rate cut in July also provides policy tailwinds.

That said, we remain watchful for external risks. A potential slowdown in China and weaker demand in major economies could weigh on exports, while uncertainty over sectoral tariffs on semiconductors poses further downside risk. A sharper slowdown to export-oriented sectors could spill into the labour market, though we anticipate relatively solid employment conditions. Following a steady +4.4% growth in 1H25, growth is expected to ease to +4.0% in 2H25 amid a softer global trade backdrop, implying **full-year 2025 GDP growth projection of +4.2%**, with semiconductor tariff impacts yet to be incorporated into our baseline projections.

Figure 4: GDP by Sector Approach

	% share 2024	% YoY							ppts contribution to GDP						
		2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25	2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25
GDP	100	3.5	5.1	5.9	5.4	4.9	4.4	4.4	3.5	5.1	5.9	5.4	4.9	4.4	4.4
Agriculture	6.3	0.2	3.1	7.6	3.6	-0.7	0.7	2.1	0.02	0.2	0.5	0.3	-0.04	0.04	0.1
Mining	6.0	0.5	0.9	2.7	-2.8	-0.7	-2.7	-5.2	0.04	0.1	0.2	-0.2	-0.04	-0.2	-0.3
Manufacturing	23.1	0.7	4.2	4.7	5.6	4.2	4.1	3.7	0.2	1.0	1.1	1.3	1.0	1.0	0.9
Construction	4.0	6.0	17.5	17.2	20.0	20.7	14.2	12.1	0.2	0.6	0.6	0.7	0.7	0.6	0.5
Services	59.4	5.1	5.3	5.9	5.2	5.5	5.0	5.1	3.0	3.2	3.5	3.1	3.3	3.0	3.0
Import duties	1.2	9.6	7.1	2.7	17.1	4.7	5.0	16.9	0.1	0.1	0.03	0.2	0.1	0.1	0.2

Source: Macrobond, Apex Securities

Figure 5: GDP by Demand Approach

	% share 2024	% YoY							ppts contribution to GDP						
		2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25	2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25
GDP	100	3.5	5.1	5.9	5.4	4.9	4.4	4.4	3.5	5.1	5.9	5.4	4.9	4.4	4.4
Domestic demand	95.2	4.6	6.5	6.5	7.1	6.4	6.0	7.0	4.3	6.1	6.1	6.7	6.0	5.7	6.6
Private consumption	60.7	4.6	5.1	5.7	4.7	5.3	5.0	5.3	2.8	3.1	3.5	2.9	3.1	3.1	3.2
Public consumption	13.2	3.4	4.7	1.8	6.0	4.0	4.3	6.4	0.5	0.6	0.2	0.8	0.6	0.5	0.8
Private investment	16.5	4.5	12.3	12.0	15.6	12.7	9.2	11.8	0.7	1.9	2.1	2.4	1.6	1.6	2.2
Public investment	4.8	8.5	11.1	9.1	14.4	10.0	11.6	13.6	0.4	0.5	0.3	0.6	0.7	0.5	0.5
Change in inventories	0.6	28.1	-69.8	-9.6	-67.0	-103.9	-1237.4	17.2	0.5	-1.4	-0.2	-1.0	-3.1	-2.1	0.3
Net Exports	4.2	-22.2	9.2	0.3	-5.3	63.6	19.6	-72.6	-1.2	0.4	0.01	-0.2	2.0	0.8	-2.6
Exports	68.1	-7.9	8.3	8.5	11.7	8.7	4.1	2.6	-5.9	5.5	5.7	7.7	5.7	2.8	1.7
Imports	63.9	-6.8	8.2	9.0	13.0	5.9	3.1	6.6	-4.7	5.1	5.7	7.9	3.6	1.9	4.3

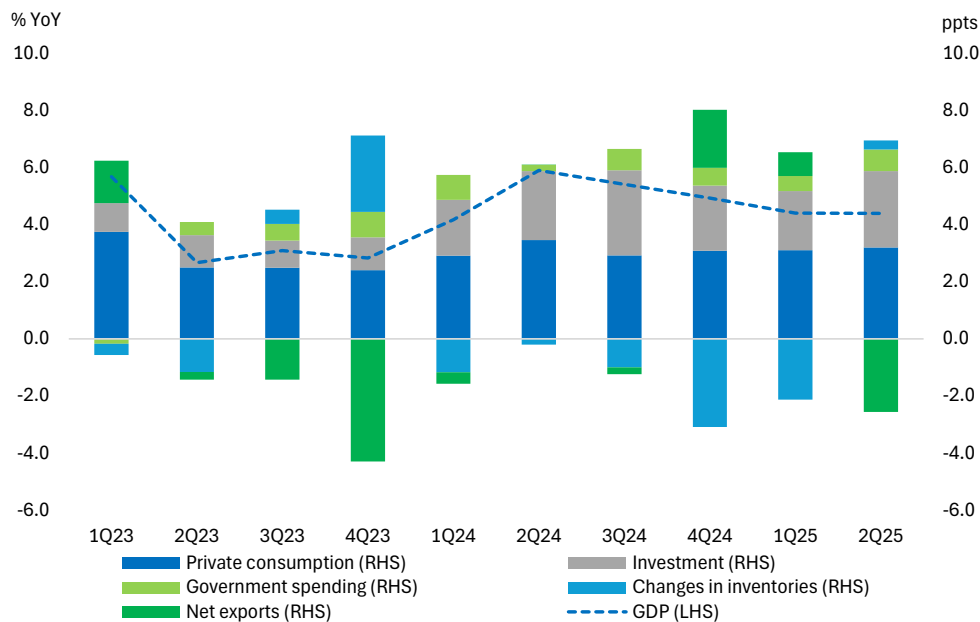
Source: Macrobond, Apex Securities

Figure 6: Current Account Breakdown

	RM bn							% of GDP						
	2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25	2023	2024	2Q24	3Q24	4Q24	1Q25	2Q25
Current account	20.0	27.7	4.3	1.8	12.9	16.7	0.3	1.1	1.4	0.9	0.4	2.6	3.4	0.1
Goods	130.9	114.5	24.0	22.4	36.9	38.5	17.0	7.2	5.9	5.1	4.6	7.4	7.9	3.5
Services	-44.0	-11.7	-3.7	-0.8	-1.0	-3.4	-3.3	-2.4	-0.6	-0.8	-0.2	-0.2	-0.7	-0.7
Primary income	-55.7	-66.1	-14.8	-17.4	-17.1	-17.1	-8.9	-3.1	-3.4	-3.1	-3.6	-3.4	-3.5	-1.8
Secondary income	-11.2	-9.0	-1.2	-2.4	-5.9	-1.2	-4.6	-0.6	-0.5	-0.2	-0.5	-1.2	-0.3	-0.9

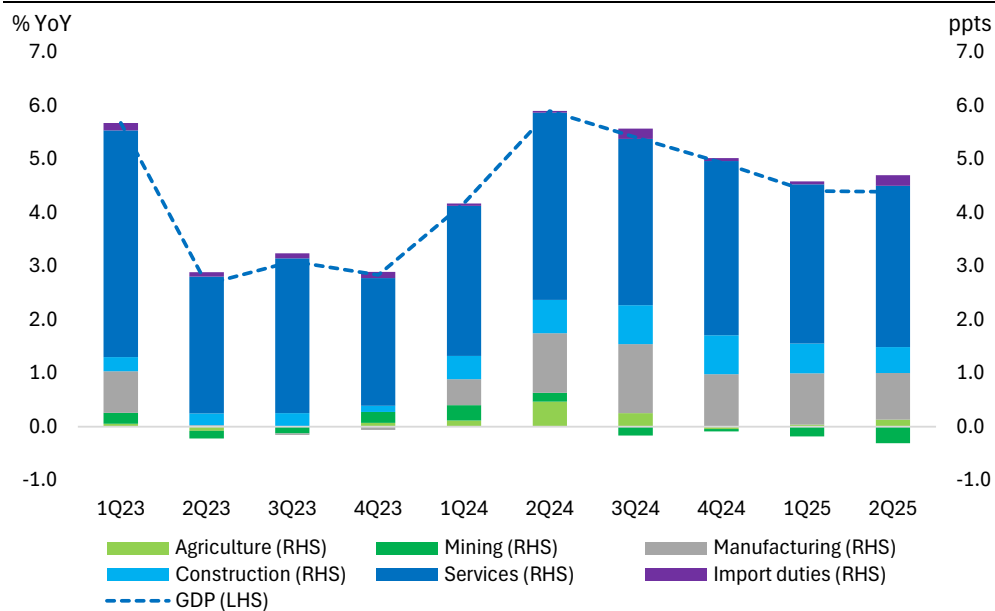
Source: Macrobond, Apex Securities

Figure 7: Malaysia's GDP growth supported by domestic demand in 2Q25



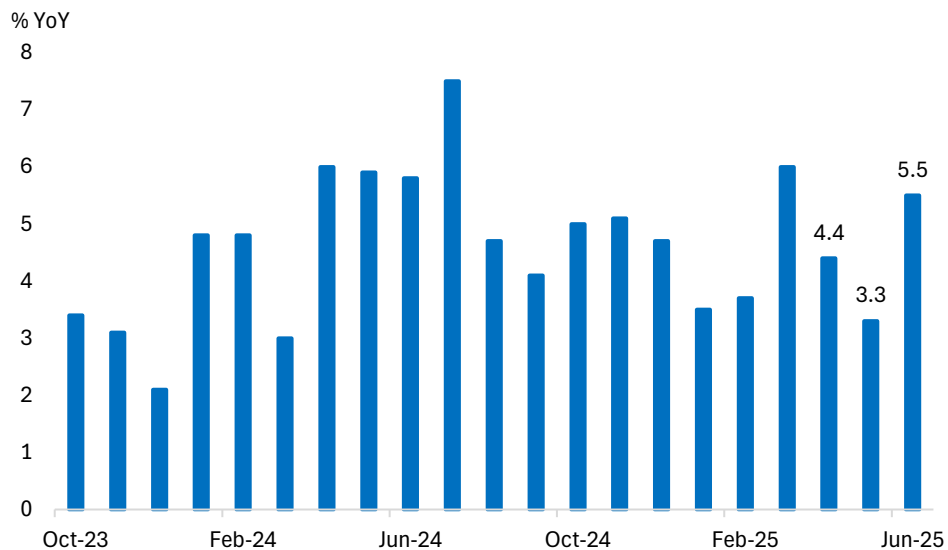
Source: Macrobond, Apex Securities

Figure 8: Malaysia's GDP growth underpinned by steady services



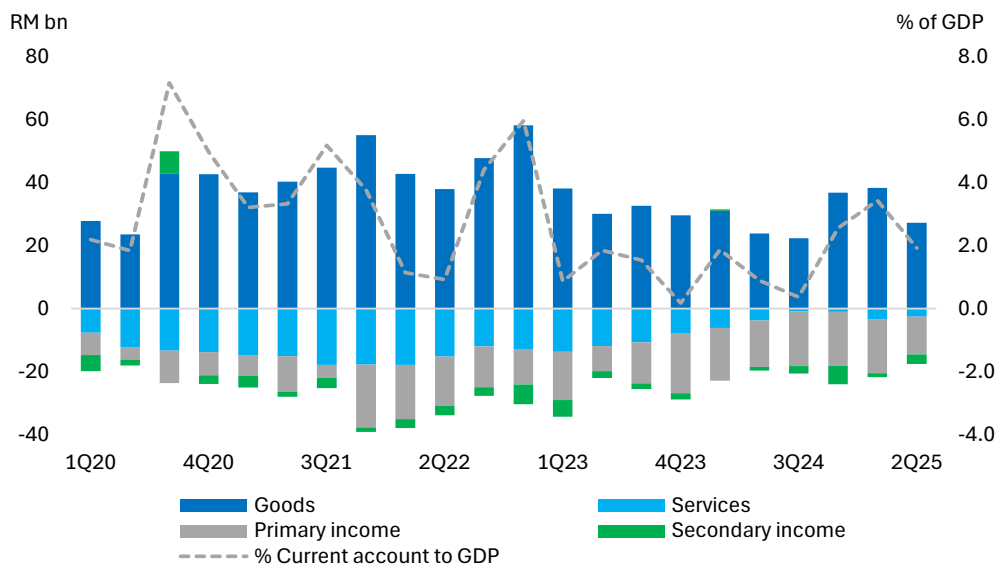
Source: Macrobond, Apex Securities

Figure 9: Monthly GDP growth strengthened to 5.5% YoY in June



Source: Macrobond, Apex Securities

Figure 10: Current account surplus narrowed due mainly to lower surplus in goods account



Source: Macrobond, Apex Securities

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
