Malaysia

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1Q25 GDP growth at 4.4% YoY; bringing forward BNM rate cuts

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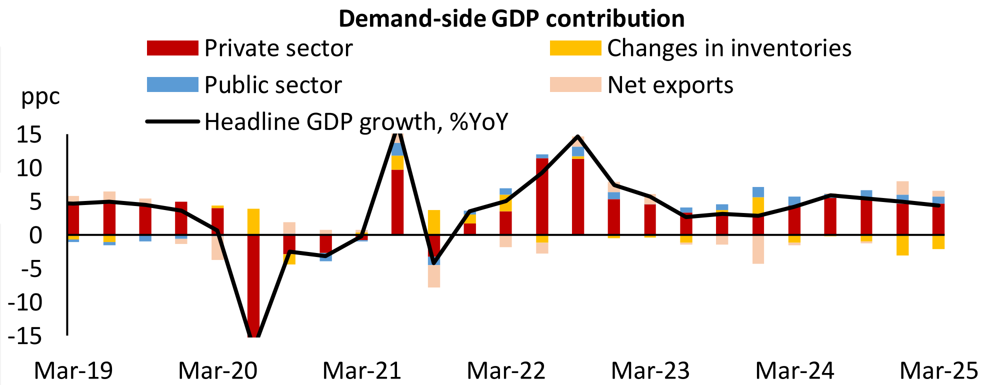
- 1Q25 GDP growth at 4.4% YoY was unchanged versus the advance estimates. The details that a broader growth slowdown is likely in the subsequent quarters.
- We bring forward the timing our cumulative 50bp in rate cuts from Bank Negara Malaysia (BNM) to 2H25 from 1H26.
- The exact timing of the rate cuts will be determined by incoming data and tariff negotiation outcomes with the US.

The final estimate of 1Q25 GDP growth was unchanged from the advance estimate at 4.4% YoY (Consensus: 4.5%; OCBC: 4.4%) and slower compared to the downwardly revised growth of 4.9% in 4Q24. The details that a broader growth slowdown is likely in the subsequent quarters.

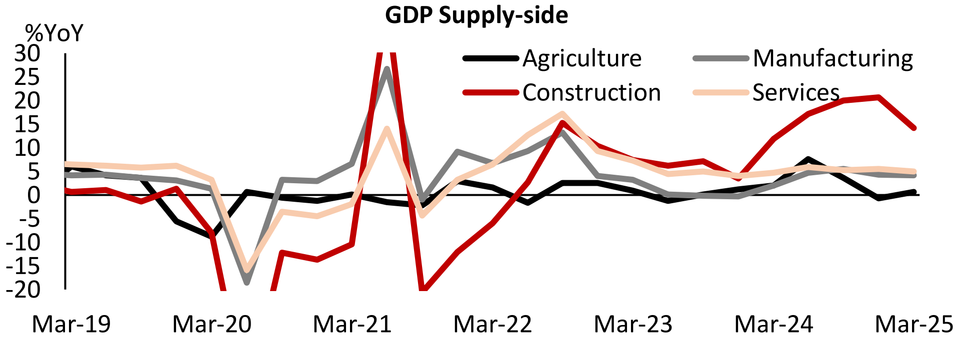
The contribution of domestic final demand narrowed to 5.7 percentage points (pp) in 1Q25 from 6.0pp in 4Q24, reflecting slower growth in household spending (5.0% versus 5.3% in 4Q24) and investments (9.7% YoY versus 11.8% in 4Q24). Government spending improved modestly to 4.3% YoY compared to 4.0% in 4Q24. The public sector contribution to headline GDP growth remained broadly stable in 1Q25 while the public sector contribution was lower.

Meanwhile, the contribution of net exports was lower at 0.8pp versus 2.0pp in 4Q24, reflecting a sharper slowdown in goods and services exports to 4.1% ($Q24: 8.7%) compared to modestly slower imports (3.1%% versus 54.9% in 4Q24). Specifically, goods export growth slowed to 1.6% YoY versus 6.6% in 4Q24 while services export growth remained resilient at 16.9% YoY (4Q24: 19.5%) reflecting strong tourism inflows. Changes in inventories shaved off 2.2pp from headline GDP growth in 1Q25, reflecting continued inventory drawdowns for a fifth consecutive quarter.



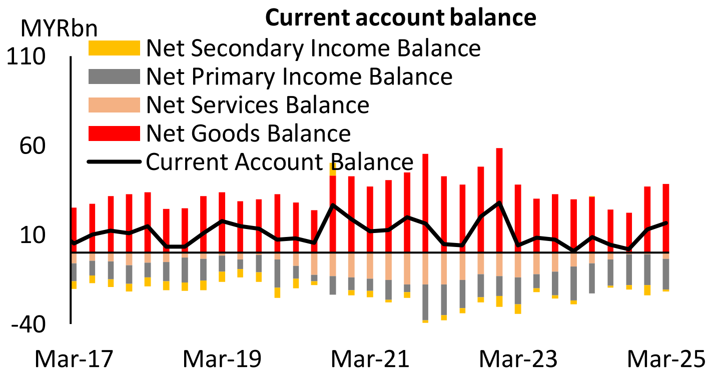
Source: CEIC, OCBC.

On the supply-side, the growth rates were revised down for manufacturing, construction and services compared to the advance estimate. Nonetheless, the broader trends of relatively resilient construction and services sector growth remained unchanged. The contraction in the mining & quarrying sector, however, was narrower in the final estimate at -2.7% YoY compared to -4.9% in advance estimate.

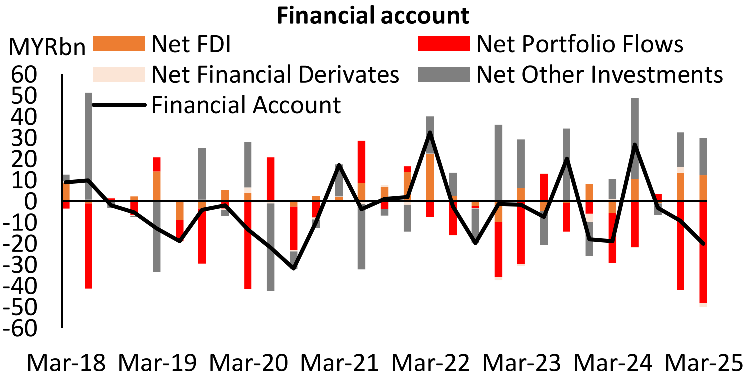


Source: CEIC, OCBC.

Separately, the current account surplus widened to MYR16.7bn (3.4% of GDP) in 1Q25 from MYR12.9bn (2.5% of GDP) in 4Q24. This was mainly driven by a wider goods surplus of MYR38.5bn (4Q24: MYR36.9bn) and narrower secondary income deficit (MYR1.2bn from MYR5.9bn in 4Q24). This more than offset the slightly wider services account deficit (MYR3.4bn from MYR1.0bn) while the primary income deficit remained unchanged at MR17.1bn in 1Q25 compared to 4Q24.



Source: CEIC, OCBC.



Source: CEIC, OCBC.

Meanwhile, the capital and financial account deficit widened to MYR20.2bn from MYR9.4bn in 4Q24, led by higher net portfolio outflows of MYR48.3bn (4Q24: MYR42bn) and reduced net FDI inflows of MYR12.1bn from MYR13.5bn in 4Q24. The net financial derivatives account recorded a deficit of MYR1.7bn from a surplus of MYR2.7bn in 4Q24 while the net other investment saw modestly higher inflows of MYR17.6bn from MYR16.5bn in 4Q24.

The underlying trends of slower export growth ahead of the imposition of tariffs, easing household and investment spending in 1Q25 point to a more modest growth trajectory in the coming quarters. Moreover, the extent to which Malaysian authorities can negotiate down reciprocal tariffs with the US and the outcome of US investigations related to sector specific tariffs on semiconductor and pharmaceuticals will be critical for the economic outlook. Businesses will likely prefer to be in wait-and-see mode through the ongoing uncertainties while households increase precautionary savings. We expect GDP growth to slow to 4.3% YoY in 2025 versus 5.1% in 2024, with the current account surplus likely to be 1.7% of GDP in 2025 versus 1.4% in 2024.

Under such circumstances, counter-cyclical policy measures will likely be adopted. These include potential shifts to the government's RON95 rationalisation agenda, targeted support for SMEs (already started) and targeted additional tax relief.

For its part, BNM sounded more dovish at its 8 May meeting highlighting the heightened uncertainties and downside risks to growth. It reduced the Statutory Liquidity Ratio (SRR) from 2% to 1%, effective 16 May, releasing MYR19bn of liquidity into the system. Governor Abdul Rasheed Ghaffour noted today that the BNM has "policy space to act if needed."

Further action from BNM boils down to how elevated levels of uncertainty feature in BNM's reaction function. We now bring forward our call for BNM to cut its policy rate by a cumulative 50bps in 2H25 from 1H26, allowing space for BNM to be pre-emptive. We will determine the exact timing of the rate cuts in terms of 9 July, 4 September and 6 November meetings based on incoming economic data and tariff negotiation outcomes with the US.

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