From the Desk of the
Chief Economist

BANK ISLAM

Economic Research

23 June 2025 / 26 Zulhijjah 1446H

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2H2025 ECONOMIC OUTLOOK: COMFORTABLY UNCOMFORTABLE

Table 1: IMF's Growth Projections by Region (% y-o-y)

	2024	2025f	2026f
Global	3.3	2.8	3.0
Advance Economies	1.8	1.4	1.5
US	2.8	1.8	1.7
Euro	0.9	0.8	1.2
Japan	0.1	0.6	0.6
Emerging & Developing Asia	**5.3**	**4.5**	**4.6**
China	5	4	4

Sources: International Monetary Fund (IMF), Bank Islam

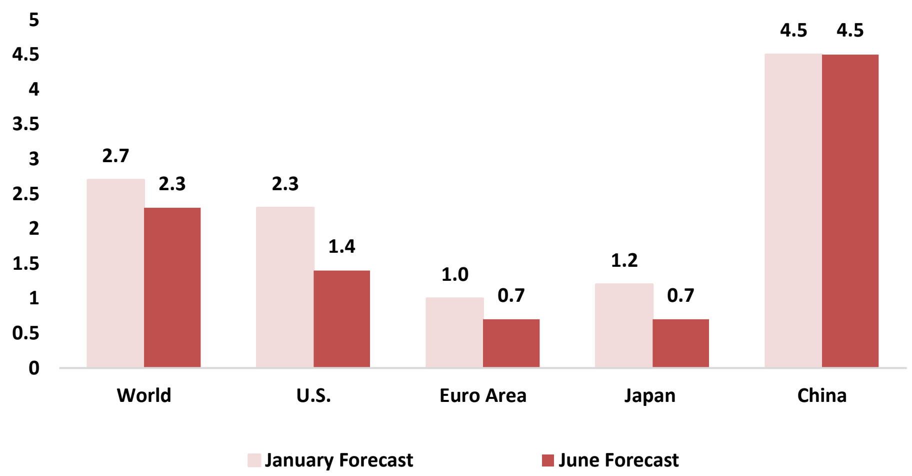
- Economic fundamentals appear solid for now, although we do expect the global economy to soften in the short term due to tariff policy. Of course, recession risks are higher than they were at the beginning of the year. In that context, we note that central banks, especially outside the United States, maintain an easing bias and could lower rates more aggressively to offset the damage from a sharp drop in global trade and consumption.

- In its April 2025 World Economic Outlook (WEO) update, the International Monetary Fund (IMF) noted a significant shift in the global economic landscape following the introduction of sweeping new U.S. tariffs and retaliatory measures by its key trading partners. The near-universal tariffs imposed by the U.S. on April 2 have pushed effective global tariff rates to levels not seen in over a century, delivering a substantial negative shock to global growth. Compounding the problem is the uncertainty surrounding how these measures are being introduced and enforced, which has further dampened business sentiment and clouded the near-term outlook. In response to these developments**, the IMF revised down its global growth forecasts, projecting world GDP to expand by just 2.8% in 2025** and **3.0% in 2026**, down from 3.3% previously estimated in the January 2025 WEO update. Growth in advanced economies is now expected to moderate to 1.4% in 2025, with the U.S. economy slowing to 1.8% amid heightened policy uncertainty, escalating trade tensions, and weaker demand dynamics. The Euro area is projected to grow by only 0.8% in 2025. Meanwhile, emerging market and developing economies are also seeing downward revisions, with growth expected to slow to 3.7%, particularly in countries heavily impacted by the trade measures, most notably China.

- According to the OECD's latest economic outlook, which was published on June 3, global economic prospects are weakening, with substantial barriers to trade, tighter financial conditions, diminishing confidence and heightened policy uncertainty projected to have adverse impacts on growth. The outlook projects global growth slowing from 3.3% in 2024 to 2.9% in both 2025 and 2026. The slowdown is expected to be most concentrated in the United States, Canada, Mexico and China, with smaller downward adjustments in other economies. GDP growth in the United States is projected to decline from 2.8% in 2024 to 1.6% in 2025 and 1.5% in 2026. In the euro area, growth is projected to strengthen modestly from 0.8% in 2024 to 1.0% in 2025 and 1.2% in 2026. China's growth is projected to moderate from 5.0% in 2024 to 4.7% in 2025 and 4.3% in 2026.

- Meanwhile, the **World Bank has recently revised its global growth forecast downward to 2.3% from the 2.7% projected in January** amid rising trade tensions and policy uncertainty following the reimposition of tariffs by President Trump. This marks the latest in a series of downgrades by major international institutions. In its June Global Economic Prospects (GEP) report released on June 10, the World Bank slashed its growth projection for almost 70% of all economies including the US, Japan and Europe. The global output is now expected to expand at its slowest pace in 17 years, excluding periods of outright global recession, reflecting the growing impact of policy uncertainty and the fragmentation of global trade. The bank lowered the U.S. GDP growth forecast sharply to 1.4% from 2.3% in its January projection. Growth projections for the Euro area and Japan were also reduced by 0.3 and 0.5 percentage points respectively, with both economies now expected to grow at just 0.7%. Nevertheless, the bank maintained its growth forecast for China at 4.5%.

Chart 1: IMF's GDP Growth Forecast (y-o-y, %)



Sources: World Bank, Bank Islam

- Besides the trade war, the recent escalation in geopolitical tensions between Iran and Israel also presents a growing downside risk to global growth if the conflict spill over into regional countries. While direct economic exposure may be limited for most economies, the broader implications, particularly on energy market especially oil prices are quite significant. The potential major disruptions in oil supply routes like Strait of Hormuz that handles around 20% of global oil flows could drive oil prices higher, leading to increased input costs and renewed inflationary pressures worldwide. This would be particularly challenging for the oil importing countries with a likelihood of dampening consumption and business activity. With this inflationary pressure impact, central banks may respond cautiously, delaying rate cuts should inflation risks persist.

PART ONE: OUTLOOK ACROSS THE ADVANCED ECONOMIES

The United States: Sub-trend Growth, Inflation RIsks but No 2025 Recession

- The U.S. economy began 2025 on a weaker footing, with GDP contracting by 0.2% q-o-q saar in 1Q25, an improvement from the earlier advance estimate of -0.3%, but still marking the first quarterly contraction since the pandemic recovery. The primary drag came from net exports, reflecting the impact of new trade restrictions and weakening global demand. Government spending also declined modestly, compounding the weakness. These effects more than offset a positive but sharply slower pace of private consumption growth, which moderated to 1.2% in 1Q25 from 4.0% in 4Q24, as consumers turned more cautious amid rising prices and policy uncertainty. On a more positive note, fixed investment rebounded strongly, rising by 7.8%, supported by robust gains in equipment and intellectual property spending. A sharp buildup in private inventories also helped to cushion the downturn. On a year-on-year basis, GDP grew by 2.1%, a deceleration from 2.5% in 4Q24, signaling a clear loss of momentum.

- While the U.S. labor market remains broadly resilient, signs of gradual softening are becoming increasingly evident. Unemployment continues to hover near historical lows, but momentum is clearly moderating. Job growth has decelerated, and wage pressures, once a key pillar of consumer spending, are beginning to ease, suggesting a loosening in labor market tightness. Labor force participation remains elevated, which has helped expand the supply of workers, but underlying indicators point to a cooling trend. The April Job Openings and Labor Turnover Survey (JOLTS) offered a mixed picture. Job openings rose modestly to 7.4 million from an upwardly revised March figure, but are still down around 8% from their recent peak in November 2024. More importantly, the ratio of job openings to unemployed workers, closely monitored by the Federal Reserve as a barometer of labor market slack, was little changed in April and remains near its lowest level during an expansionary period since early 2018. This suggests that the gap between labor demand and supply is narrowing, reducing upward pressure on wages. Other forward-looking indicators echo this trend. Soft data from employment PMIs, the NFIB's small business hiring plans, and consumer sentiment surveys on job availability have all shown further weakening. Initial jobless claims have edged higher, and anecdotal evidence points to increased corporate caution in hiring, particularly in interest rate-sensitive sectors such as real estate, finance, and manufacturing.

- Against this backdrop, inflationary dynamics remain complex. Headline inflation is projected to rise over the second half of 2025 as newly imposed tariffs feed through to consumer prices. The International Monetary Fund (IMF) expects inflation to accelerate to 2.9% by year-end, while the OECD sees a sharper rise to 3.9%. Much of the upward pressure is expected to come from imported goods, particularly those affected by the sweeping U.S. tariff measures enacted in April, which are likely to ripple through supply chains and increase costs for producers and consumers alike. The easing in wage growth may help contain domestic inflationary pressures to some extent, but the external price shock from tariffs presents a significant risk to purchasing power and consumer sentiment. As inflation creeps higher and real wage growth flattens, the burden on households may intensify, especially those in lower-income brackets. This could translate into weaker consumption growth, a key driver of U.S. GDP, and a more cautious tone from businesses and investors alike.

- In the external sector, both exports and imports are expected to decelerate as tighter trade policies and subdued global demand take hold. However, the contraction in imports is likely to outpace that of exports, given the asymmetrical tariff increases, leading to a modest narrowing of the current account deficit.

- Looking ahead, U.S. GDP growth is expected to moderate significantly over the remainder of 2025, with the IMF forecasting 1.8%, while the OECD projecting a slower 1.6% expansion and the World Bank estimates 1.4% growth. The drag from sharply higher tariffs, following the near-universal implementation of new trade measures in April, and the resulting uncertainty around trade and fiscal policy are expected to weigh heavily on household consumption and business investment. As the tariff burden is increasingly passed on to end consumers, inflation is expected to accelerate, with the IMF projecting headline inflation to rise to 2.9% by year-end, while the OECD expects an even steeper increase to 3.9%, driven by higher import costs and second-round effects across the services sector.

- Overall, the risks to the U.S. economic outlook in the second half of 2025 remain tilted to the downside. Chief among these are the potential for a sharper-than-anticipated slowdown in household consumption, renewed financial market volatility driven by heightened political and policy uncertainty, and a possible retrenchment in corporate investment amid deteriorating business sentiment. The evolving global trade environment, particularly if tariffs are further escalated or met with broader retaliatory actions, poses an additional layer of risk that could undermine both confidence and growth.

- The U.S. labor market is transitioning into a phase of gradual normalization. While it remains historically strong, signs of softening are becoming more apparent, with slower job creation, easing wage growth, and a decline in job openings. These developments point to a moderation in household income growth, potentially dampening consumer spending, which has been a key engine of economic activity. Inflation dynamics are also becoming more complex. Although domestic inflationary pressures are easing alongside softer labor market conditions, the recent surge in import tariffs is expected to push headline inflation higher in the coming months. As a result, inflation momentum is increasingly being shaped by external cost shocks rather than internal demand pressures.

- This evolving backdrop will be central to the Federal Reserve's policy decisions in the second half of the year. With inflation risks rising due to trade-driven price effects and growth momentum slowing, the Fed faces a challenging balancing act between supporting economic activity and containing inflation. The interplay between trade policy, labor market normalization, and inflation trajectories will define the contours of the U.S. economic outlook through the remainder of 2025.

Eurozone: GDP Growth Will Be Sluggish In 2025

- The second estimate of Eurozone GDP for 1Q25 held steady at 1.2% y-o-y and 0.3% q-o-q (seasonally adjusted), broadly in line with the previous quarter's performance. While some recent indicators pointed to a modest recovery, underlying momentum remains fragile. The May composite Purchasing Managers' Index (PMI) slipped, reflecting a weakening in services activity and only marginal improvement in manufacturing, underscoring the uneven nature of the recovery. Inflation dynamics in the Eurozone are showing encouraging signs of moderation. Headline CPI eased to 1.9% y-o-y in May, down from 2.2% in April, returning close to the European Central Bank's (ECB) 2.0% target. Core inflation also declined, falling to 2.3% from 2.7%, driven in part by a notable drop in services inflation from 4.0% to 3.2%. These trends reflect the combined impact of falling commodity prices and the lagged effects of the ECB's earlier monetary tightening. Concurrently, the labor market remains resilient, with the unemployment rate dipping to 6.2% in April from 6.3% the previous month, near historic lows.

- Looking ahead, growth prospects for the euro area remain subdued. The IMF expects GDP growth to decelerate slightly to 0.8% in 2025, while the OECD projects a mild recovery to 1.0%. The World Bank, in its latest World Economic Outlook, projects that economic growth in the euro area will slow to 0.7% in 2025. Heightened uncertainty, particularly surrounding global trade policy, continues to weigh on sentiment. The U.S. has signalled potential tariff hikes on European goods, but the full extent of these measures remains unclear as negotiations continue during a 90-day window announced by President Trump. The outcome of these talks will have material implications for Europe's export performance. However, elevated trade-related uncertainty is likely to act as a drag on business investment, and any further escalation in tariff measures could not only dampen external demand but also trigger trade diversion effects that may distort intra-EU trade flows.

- Risks to the outlook are skewed to the downside. A breakdown in trade negotiations and the imposition of additional reciprocal tariffs by the U.S., coupled with retaliatory measures by the EU, could reignite inflationary pressures while undermining growth prospects. In this context, the ECB is expected to proceed cautiously with any policy shifts, maintaining a delicate balance between supporting growth and ensuring inflation remains anchored near its target.

China: Trump's return clouds China's outlook for 2025

- China's economy maintained solid momentum in 1Q25, growing by 5.4% y-o-y and 1.2% q-o-q sa. Resilience persisted into April despite the implementation of reciprocal tariffs by the U.S., with frontloading activity in alternative export markets helping to cushion the impact. Manufacturing and infrastructure investment remained stable, bolstered by sustained industrial output, while the expansion of the "trade-in" subsidy program, now extended to include smartphones alongside household electronics, continued to support consumer spending. Nevertheless, domestic demand remains uneven. While exports have provided a strong tailwind, largely due to frontloading ahead of anticipated tariff escalations, private consumption has yet to regain full traction, and business investment remains subdued amid ongoing trade uncertainty. The real estate sector continues to drag on overall growth, with April data showing further declines in home prices, property investment, and residential sales. Policymakers remain focused on containing the fallout from the housing correction.

- Deflationary pressures persist with the Consumer Price Index (CPI) declined by 0.1% y-o-y in April, marking the third consecutive month of deflation, while cumulative headline and core inflation for January–April averaged -0.1% and 0.4%, respectively. Producer prices remain deep in negative territory, averaging -2.4% over the same period. The May PMI data reaffirmed ongoing price weakness in manufacturing, as heightened competition and tariff-related cost pressures continue to squeeze profit margins.

- On the trade front, a temporary breakthrough was achieved on 12 May when the U.S. agreed to lower tariffs on Chinese goods to 30%, including a 20% levy on fentanyl-related products, from a previous peak of 145%. This 90-day truce has helped sustain near-term sentiment and stabilize the growth outlook. However, tensions have resurfaced just weeks into the agreement, underscoring the fragility of the détente. Still, the establishment of a negotiation mechanism provides a platform for further dialogue and may reduce the risk of a complete breakdown.

- Looking ahead, China's growth is expected to moderate in the second half of 2025 as structural headwinds and external pressures mount. In its April 2025 World Economic Outlook update, the IMF revised China's GDP growth forecast downward to 4.0%, from 4.6% previously. Meanwhile, the OECD projects a slightly more optimistic growth rate of 4.7%, while the World Bank maintained its forecast at 4.5%. The lingering effects of the pandemic, including elevated precautionary savings and weak consumer confidence, continue to constrain household spending. Meanwhile, real estate investment is projected to contract further, though business investment may benefit from targeted industrial support measures, including an enterprise-focused expansion of the trade-in program. Infrastructure investment is likely to remain steady. Trade will continue to be a drag on growth. While frontloading provided a temporary boost, higher U.S. tariffs will curb export momentum in the latter half of the year. Import demand is also expected to weaken due to ongoing efforts to localize supply chains and reduce external dependencies. Inflationary pressures will remain subdued, with consumer prices staying low and producer prices likely to remain in deflationary territory through year-end.

- Risks to China's economic outlook are tilted firmly to the downside. A further escalation of global trade tensions or a pronounced slowdown in external demand, particularly from advanced economies, would negatively affect exports and industrial activity. Conversely, a durable easing of trade restrictions with the U.S. could bolster confidence and provide some uplift, but uncertainty around policy direction, particularly in the context of an unpredictable U.S. administration, will continue to complicate forward planning for both businesses and policymakers.

PART TWO: ASEAN - STEADY GROWTH AMID EXTERNAL PRESSURES

- The ASEAN region is anticipated to maintain steady growth, with projections around 4.5% to 5.0% in 2025, driven by domestic consumption, infrastructure development, and digital economy expansion. However, the region faces external pressures:
  - Exposure to global supply chain disruptions due to U.S.-China trade tensions.
  - Potential impacts from U.S. tariffs on exports from ASEAN countries.

- Despite these challenges, ASEAN's diversified economies and ongoing regional integration efforts provide a buffer against global economic headwinds. Furthering diversification of export markets and regional integration could help insulate economies from global shocks, even in a region where trade is more durable than in the rest of the world. We see significant scope for more intra-regional trade in ASEAN, based on greater integration in the trade and financial spheres.

Table 2: ASEAN-5 Growth Projections (% y-o-y)

Country	2Q24	3Q24	4Q24	1Q25	Official 2025 Forecast	IMF 2025 Forecast
Malaysia	5.9	5.4	4.9	4.4	4.5-5.5	4.1
Indonesia	5.05	4.95	5.02	4.87	4.7-5.5	4.7
Philippines	6.5	5.2	5.3	5.4	6.0-8.0	5.5
Singapore	3.4	5.7	5.0	3.9	0-2.0	2.0
Thailand	2.3	3.0	3.3	3.1	1.3-2.3	1.8

Sources: Department of Statistic Malaysia (DOSM), Bank Islam

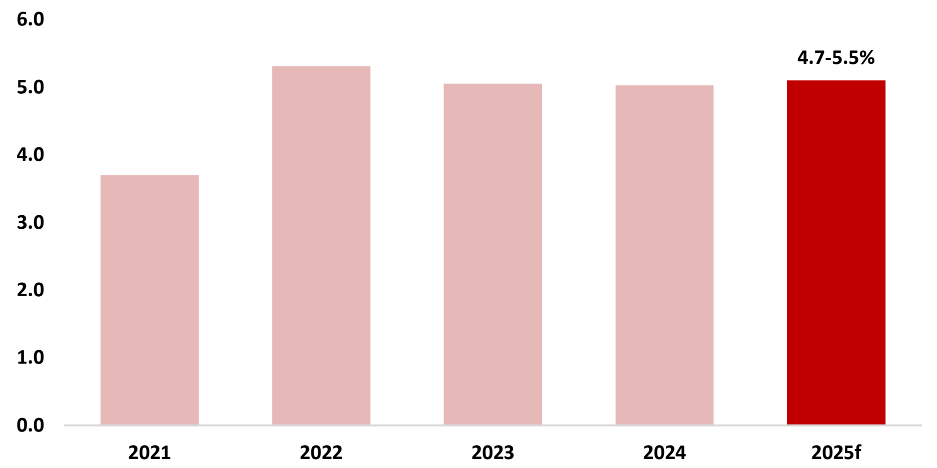
- In a display of the region's remarkable resilience, the Indonesian economy expanded by 4.87% y-o-y in 1Q25, albeit at a slower pace than 5.05% y-o-y in 4Q24, driven by solid household consumption (1Q25: 4.89%, 4Q24: 4.98%) to offset the drags from the contraction in government expenditure (1Q25: -1.38%, 4Q24: 4.17%) and a notable moderation in investment momentum (1Q25: 2.12%, 4Q24: 5.03%). While uncertainties ramped up on the external front, household spending prevailed as a key driver to growth against a backdrop of low inflation and favorable financial conditions. Latest figures show that headline inflation eased to 1.60% in May (Apr: 1.95%) amid a sharp moderation of food inflation (May: 1.03%, Apr: 2.17%) whilst core inflation marked a four-month low of 2.40%. Evidently, both measures of consumer prices are within the central bank's target range of 1.5-3.5%. In anticipating growth headwinds and the emerging cracks of cautious sentiments weighing on consumer spending, Bank Indonesia (BI) reduced key interest rate by 25 bp to 5.50% in May whilst revising the official growth forecast down to 4.6-5.4% from 4.7-5.5% previously.

- On the trade front, Indonesia was one of the countries hit with the U.S. Liberation Day tariffs, targeted with one of the highest rates among the region at 32%. Despite the 90-day window for bilateral negotiations to take place, factory activity is already feeling the brunt with the Manufacturing PMI trending in the negative for the second month (May: 47.4 points, Apr: 46.7 points). Looking closer, new orders marked the steepest decline since August 2021 while foreign sales, particularly to the U.S., shrank. Reflecting muted sentiments, business owners also reported falling buying levels and inventories. With the fast approaching deadline in early July, markets remain cautious of the outcome as failure to strike a satisfactory deal will likely result with the U.S. extending the deadline, further prolonging the trade-related uncertainties.

- Moving forward, the sustained inflation trend and supportive monetary policy is anticipated to spur on economic activity by enhancing consumer confidence and subsequently support their spending. Furthermore, the Indonesian government had recently announced a USD1.5 billion stimulus package, including transportation discounts, toll subsidies, increased social aid allocation and discounts on unemployment insurance premiums.

- Beyond domestic demand, government measures also aim to drive the tourism sector by attracting foreign tourists due to the competitive pricing, improving aviation infrastructure as well as enhancing the upkeep and maintenance of key destinations. As of April 2025, the number of international tourist arrivals has reached 9.15 million, on track to surpass the target of 14-16 million arrivals in 2025.

Chart 2: Indonesia's Real GDP Growth (y-o-y, %)



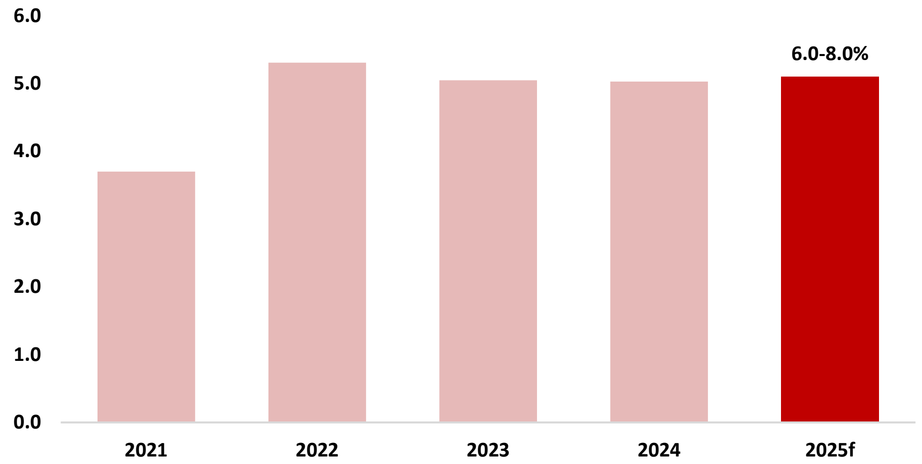
Sources: Statistics Indonesia, Bank Islam

- Slightly diverging from its peers, the Philippine economy accelerated by 5.4% y-o-y in 1Q25, faster than the 5.3% growth in 4Q24. Such performance was driven by the surge in government spending (1Q25: +18.7%, 4Q24: +9.0%) ahead of the 2025 midterm general election. Additionally, household spending accelerated by 5.3% y-o-y (4Q24: 4.7%) alongside the sustained robust investment momentum (1Q25: 5.9%, 4Q24: 5.0%). The solid domestic demand was a boon to the economy, backed by a landscape of cooling inflation with its headline figure slowing to the weakest level since November 2019 and easing financial conditions. However, such growth is at risk of slowing as external headwinds intensify.

- According to the Bangko Sentral ng Pilipinas (BSP), Philippines' manufacturing PMI displayed the weakest performance in a year as external demand weakened amid the volatile global trade environment and ongoing supply chain disruptions. Based on the data docket, exports grew at a slower pace of 7.0% y-o-y in Apr (Mar: 8.7%) with exports to the U.S. whittling down to 5.9% from 12.8% in the previous month. Furthermore, imports contracted sharply by 7.2% y-o-y (Mar: 17.8%) as business purchases decline, signaling a lower volume of new orders. As U.S. trade partners rush to diversify and divert their operations to minimize the fallout of steeper tariffs, Philippines seemingly emerged as a dispensable link within the global supply chain.

- Looking ahead, Philippines' outlook heavily relies on its domestic consumption picking up the slack from the downbeat external demand. Thus far, it appears that the economy may still achieve an anchored growth, stemming from the dovish signals by BSP. The disinflation trend provides ample room for the central bank to further ease its monetary settings to bolster economic activity, especially in light of the rising unemployment rate (Apr: 4.1%, Mar: 3.9%) and potentially weaker spending due to lower consumer confidence. In its June meeting, the central bank had reduced its benchmark interest rate by 25 bp to 5.25% from 5.50% previously. As such, should the negotiations on the trade front prove fruitful, the economy may still achieve the official growth target of 6.0-8.0%, albeit at the lower end of the scale. Of note, the IMF projects the Philippine economy to grow at 5.5% in 2025, slightly slower than 5.6% in 2024.

Chart 3: Philippines' Real GDP Growth (y-o-y, %)



Sources: Philippines Statistics Authority, Bank Islam

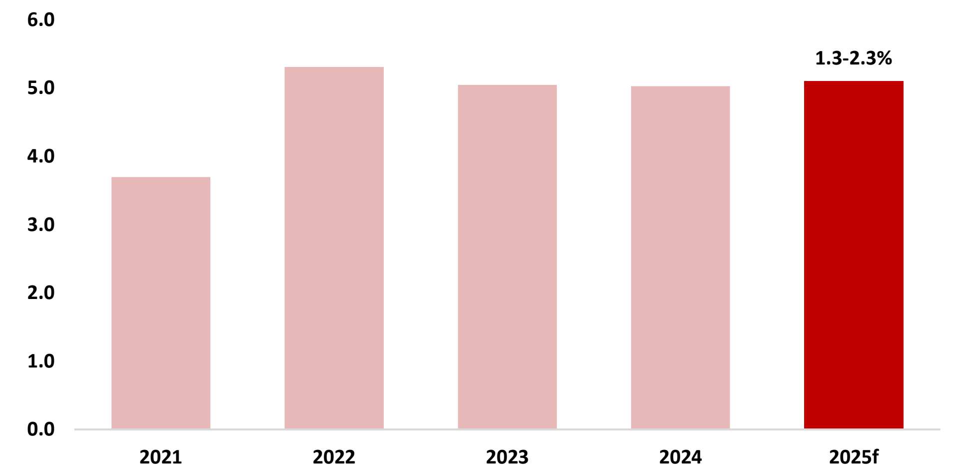
- The Thai economy surpassed estimates to accelerate by 3.1% y-o-y in 1Q25, albeit slowing slightly from a nine-quarter high of 3.3% y-o-y in 4Q24. Such performance was propelled by a surge in exports (1Q25: +12.3%, 4Q24: +11.5%) as businesses rushed ahead of anticipated supply chain disruptions and rising U.S. tariffs. This had limited drags from moderations in private consumption (1Q25: +2.6%, 4Q24: +3.4%), government spending (1Q25: +3.4%, 4Q24: +5.4%) and fixed investment (1Q25: +4.7%, 4Q24: +5.1%). Looking closer, its exports trend was a pleasant surprise, maintaining a double-digit growth throughout the first five months of 2025 and marking the steepest rise since March 2022 in May (+18.4% y-o-y, Apr: 10.2% y-o-y). While concerns shortly intensified following Trump's announcement of 36% tariffs on imports from Thailand, they were tempered when the U.S. extended the implementation deadline on a conditional basis. From then, its businesses displayed a similar trend of rapid frontloading activities as seen in its peers, making the most of the 90-day negotiation window while bilateral talks are conducted. This had lifted its industrial production growth to a twelve-month high in April, beating expectations of a 3% contraction.

- Beyond trade figures, external demand for Thailand's services sector remained solid with international tourist arrivals reaching 9.5 million persons in 1Q25, marking the highest arrivals in more than five years (4Q19: 10.0 million). On the domestic front, a mix of substantially low inflation, tight labour market and supportive government measures through allocations of social aid and digital wallet handouts had bolstered household spending. Of note, ore price pressures ticked up slightly to 1.1% in May from 1.0% in April whereas headline inflation declined by 0.6% in the same month (Apr: -0.2%) while unemployment rate had sustained below the 1.0% since August 2024. These drivers culminated in retail sales soaring by 31.9% in March from 25.2% in February, marking the fastest pace since August 2022.

- Nonetheless, the deflationary trend had significantly strayed from Bank of Thailand (BOT)'s target range of 1-3%, heightening market bets of rate cuts on the central bank's one-day repurchase rate, which currently stands at 1.75%. Furthermore, while there are seemingly no hitches in tariff talks with the U.S., it is crucial to maintain an air of cautiousness in charting Thailand's economic outlook. With Trump's unpredictability and the apparent snags in negotiations among the advanced economies which would then spill over to the vulnerable smaller countries, markets are also calling for further monetary easing to stimulate the economy and buffer it from a potential slowdown should the global trade situation deteriorate.

- As such, the National Economic and Social Development Council had revised the official growth projections down to 1.3-2.3% in 2025 from 2.3-3.3% previously while its 2025 exports growth forecast was slashed to 1.8% from 3.5%.

Chart 4: Thailand's Real GDP Growth (y-o-y, %)



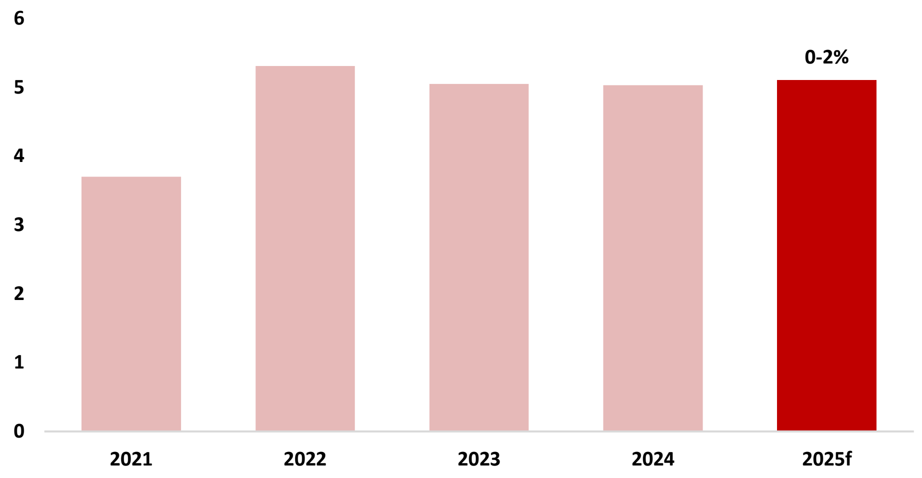
Sources: National Economic and Social Development Council, Bank Islam

- Singapore's economy grew faster than expected by 3.9% y-o-y (Est: 3.6% y-o-y) in 1Q25, albeit slowing from 5.0% in the previous quarter, underpinned by expansions in private consumption (1Q25: +3.4% y-o-y, 4Q24: +2.2% y-o-y) and private investments (1Q25: +6.6% y-o-y, 4Q24: +3.6% y-o-y). On the flip side, public investments (1Q25: +5.1% y-o-y, 4Q24: +10.8% y-o-y) displayed easing momentum while government spending contracted by 8.3% from 16.2% in 4Q24. Domestically, household spending remained robust against a backdrop of low inflation and solid labour market conditions, with the unemployment rate plateauing at 2.0% for four consecutive months while gross income trended upwards. Furthermore, Singapore's headline inflation steadied at the lowest rate since February 2021 for three straight months (Apr: 0.9%) while core price pressures edged up to 0.7% in April from 0.5% in March. Nonetheless, global uncertainties may have started to bleed over into consumer sentiments, resulting in a more muted spending pattern as retail sales grew softer at 0.3% in April from 1.3% in March.

- On the factory front, Singapore's manufacturing production increased by 5.9% in April (Mar: +6.8%) as volume of new orders slowed amid weakening external demand. As an export-oriented economy, Singapore was dealt a heavy blow by the imposition of the U.S.' Liberation Day tariffs. While frontloading activities buoyed its exports in April, its non-oil exports then declined by 3.5% in May and notably, shipments to the U.S. plummeted by a whopping 20.6%.

- Moving forward, Singapore's outlook largely hinges on the outcome of trade talks with the U.S. with the scales currently balanced towards the downside. Thus far, firms have reported declining volumes of new orders and output, which would weaken further if negotiations are extended past the early July deadline. Furthermore, prolonged uncertainties will weigh on business sentiments, spilling over into the labour market and subsequently dampening consumer confidence. As of May, business confidence had plunged to a near five-year low which led to shrinking employment levels, as reported by S&P Global. Considering that delicate discussions such as these will require no shortage time and compromise, risks to its growth are tilted to the downside. As such, the official growth forecast was revised downwards to 0-2% from 1-3% previously.

Chart 5: Singapore's Real GDP Growth (y-o-y, %)



Sources: Singapore Department of Statistics, Bank Islam

- **In summary, the global economic outlook for the second half of 2025 is marked by resilience, albeit with notable regional divergences.** The U.S. economy is expected to expand at a modest pace, supported by solid fundamentals, though renewed tariff-driven inflationary pressures are likely to keep the Federal Reserve on hold. In contrast, the Eurozone's recovery remains fragile; while easing inflation provides room for gradual rate cuts by the ECB, the region remains vulnerable to external shocks—particularly the risk of new U.S. tariffs on European exports. Meanwhile, China's growth momentum is projected to slow further, weighed down by persistent property sector weaknesses, deflationary pressures, and strained trade relations with the U.S. Trade policy uncertainty has emerged as a key downside risk across major economies, with rising protectionist measures threatening to disrupt global supply chains and dampen growth. Despite these headwinds, ASEAN economies are expected to sustain steady growth, underpinned by robust domestic demand and strengthened regional cooperation

PART THREE: MALAYSIA 2H 2025 ECONOMIC OUTLOOK

Table 3: GDP Growth Forecast

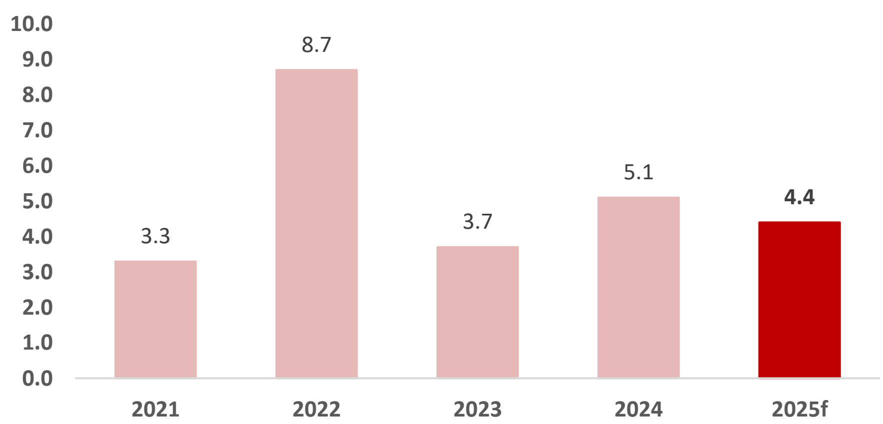
	2024	1Q25	2025F
GDP (y-o-y, %)	**5.1**	**4.4**	**4.4**
Agriculture	3.1	0.6	**1.5**
Mining	0.9	-2.7	**1.1**
Manufacturing	4.2	4.1	**3.4**
Construction	17.5	14.2	**10.2**
Services	5.3	5.0	**5.0**
Domestic Demand	5.0	**4.9**	**5.1**
Public Consumption	4.7	4.3	**4.0**
Private Consumption	5.1	5.0	**5.3**
Gross Fixed Capital Formation	12.0	**9.7**	**6.7**
Public Investment	11.1	11.6	**4.0**
Private Investment	12.3	9.2	**7.5**
Net Exports	9.2	**19.6**	**-14.0**
Exports of Goods & Services	8.3	4.1	**3.7**
Exports of Goods	5.3	1.6	**3.5**
Exports of Services	25.5	16.9	**4.4**
Imports of Goods & Services	8.2	3.1	**4.8**
Imports of Goods	8.9	1.8	**4.8**
Imports of Services	5.7	8.7	**5.0**

Sources: DOSM, Bank Islam

Growth Momentum Moderating amid Global Uncertainty

- Malaysia's economy began 2025 on a softer footing, with GDP growth easing to 4.4% y-o-y in 1Q25, down from 4.9% in 4Q24. This marks the slowest pace in a year, reflecting a broad-based moderation in both domestic demand and external trade, even before the full impact of US tariff measures in April. As we enter the second half of the year, the growth trajectory is expected to remain moderate, with full-year GDP growth forecast at 4.4% for 2025, a step down from 5.1% in 2024.

Chart 6: Malaysia's GDP Growth (y-o-y, %)



Sources: DOSM, Bank Islam

- The deceleration in growth reflects several structural and cyclical factors: waning post-pandemic recovery momentum, uncertainties stemming from tariff frictions with the US, and a fragile global trade environment. While downside risks remain, we do not anticipate a recession. Growth will be underpinned by resilient domestic demand, targeted fiscal support, and ongoing investment flows, particularly in strategic sectors like semiconductors, renewable energy, and logistics under the Johor-Singapore Special Economic Zone (JS-SEZ).

- Malaysia's proactive policy stance, including negotiations with US officials to ease reciprocal tariffs and the delayed implementation of fuel subsidy rationalisation, demonstrates a balancing act between preserving growth momentum and maintaining its medium-term fiscal reform agenda.

Supply Side: Broad-Based Growth, Led by Services and Construction

- On the production side, the economic expansion in 2025 is expected to be supported by a diversified mix of sectors, albeit with varying dynamics.

    - Services, the largest contributor to GDP, remains robust with an expected 5.0% growth in 2025. Tourism-related activities, finance, ICT, and professional services are expected to benefit from improved consumer sentiment and policy support. Distributive trade growth is forecast at 6.0%, supported by retail trade (+6.6%) and motor vehicle sales (+7.4%), both recovering from earlier soft patches. Nevertheless, the recent announcement on expansion of the service tax scope from 6% to 8% effective July 2025 on selected services namely leasing, construction, finance, private healthcare, education and beauty may slightly dampen sentiment in these sub-sectors, particularly in the short-term with more cautious spending by businesses and consumers. Positively, essential and exempted services such as food and beverages, accommodation, logistics and healthcare for citizens remain unaffected, assisting to cushion the overall impact.

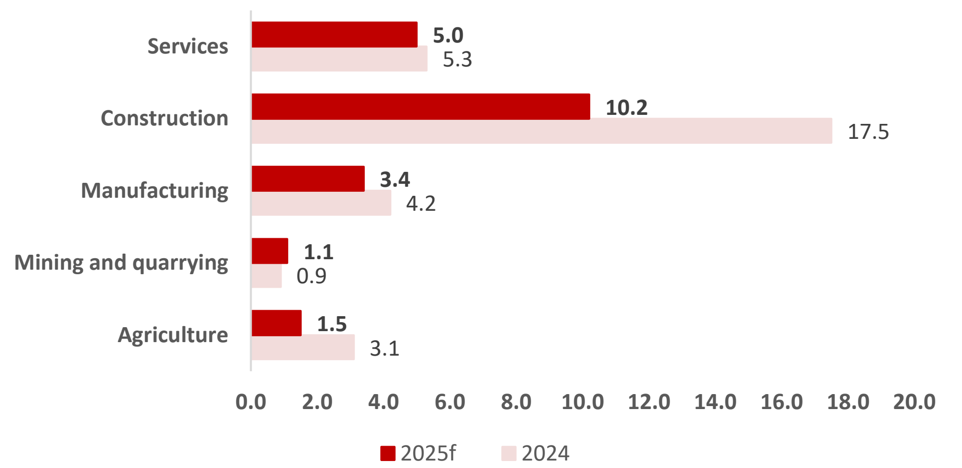
    - Construction is projected to grow by 10.2%, a standout sector, driven by the acceleration of public infrastructure projects, civil works related to industrial parks and the JS-SEZ, and improved housing starts. The development of data centers will also support the construction sector in 2H2025, alongside the scaling up of industrial and commercial construction as the country's position itself as a regional hub for high-value industries. Additionally, water infrastructure and flood mitigation projects are expected to further spur growth in the construction sector.

    - Manufacturing growth is forecast at 3.4%. While front-loading of exports to the US supports output in the short term, the potential for renewed tariffs, global inventory adjustments, and weaker electronics demand could weigh on the sector in 2H25. The ongoing tensions in the Middle East are also adding friction to global trade as the increase in global oil prices would lead to higher input costs, alongside the disrupted supply chains and shipping delays that would weigh on production. An export-oriented manufacturing segment is expected to be under pressure.

    - Mining is expected to recover modestly with 1.1% growth after contracting for three consecutive quarters. This reflects stabilisation in crude oil and gas output, alongside ongoing upstream maintenance easing in the latter half of the year.

- Agriculture is projected to expand by 1.5%, supported by favourable palm oil production trends and better weather conditions. Oil palm, the key driver of the sector – contributing nearly 32% to agriculture GDP - is expected to see higher production in 2H2025 amid improved labor availability and favorable rainfall patterns earlier in the year. Nevertheless, CPO prices are likely to remain soft due to ample global supply, expectation of weak demand from major buyers like China and India and competition from cheaper soybean oil. Increase in production, however, may offset price weakness in terms of value added.

Chart 7: Malaysian Economy – By Supply Side (y-o-y, %)



Sources: DOSM, Bank Islam

Industrial Production to Grow at a Slower Pace

- In light of the escalating global trade war, we have revised our 2025 Industrial Production Index (IPI) growth forecast downward to 2.9% from 3.5%. This revision reflects a more tempered rebound in manufacturing output that corresponds with ongoing weakness in both external and domestic demand. Despite signs of a tentative recovery, manufacturing remains under strain, as evidenced by the continued contraction in the Purchasing Managers' Index (PMI), which has lingered below the 50-point threshold throughout the year, signaling ongoing pessimism among producers.

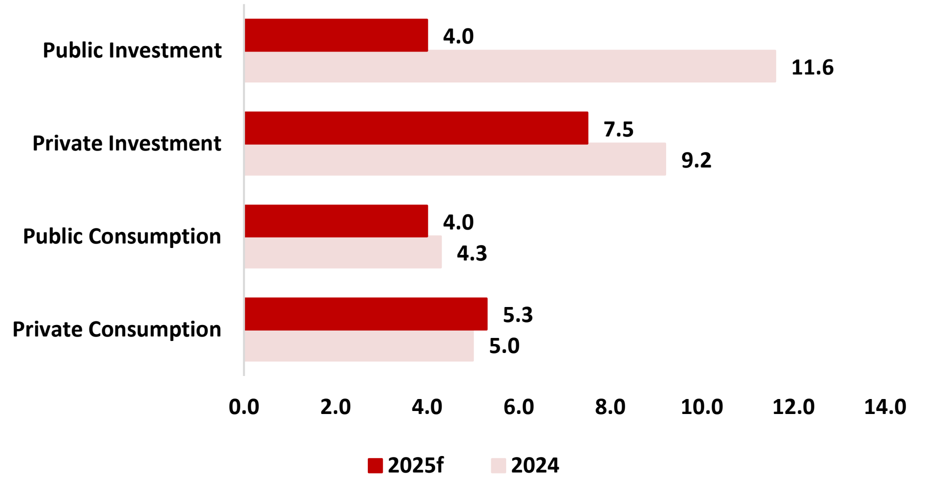
- Export-oriented manufacturing sub-sectors remain highly vulnerable to the volatility in global trade flows. The unpredictable trajectory of U.S. trade policy, marked by abrupt tariff hikes and temporary truces, has introduced considerable uncertainty into global supply chains, leading to delayed investment decisions and disrupted production planning. The prolonged 90-day truce between the U.S. and China offers only short-term reprieve; beyond that, the risk of renewed escalation could weigh heavily on Malaysia's export engine, given the country's deep integration into the regional electronics and semiconductor value chain. Any further tariffs targeting electronics, smartphones, or intermediate goods could reduce external orders, thereby dampening industrial output in Malaysia's key export hubs. Meanwhile, domestically oriented sub-sectors are expected to see a more stable, albeit modest, recovery, supported by fiscal stimulus, higher civil servant wages, and public infrastructure spending. However, these gains may be insufficient to fully offset the drag from weaker exports, particularly as consumer sentiment remains cautious amid cost-of-living pressures and global economic uncertainty.

- The confluence of soft external demand, high input costs, and weak business confidence will likely keep overall industrial momentum subdued. Even if the trade war begins to ease in the second half of 2025, the lagged impact on export orders and production activity may stretch well into early 2026, given the time needed to rebuild inventories and realign supply chains. Therefore, while domestic policy support offers some buffer, Malaysia's manufacturing outlook in 2025 will remain heavily shaped by external headwinds. Until clearer signs of a durable recovery in global trade emerge and unless domestic industrial capacity is further diversified, the IPI recovery will likely be modest and uneven across sectors.

Demand Side: Domestic Demand Anchoring Growth Despite Tariff Headwinds

- Domestic demand remains the cornerstone of Malaysia's growth story in 2025, with overall domestic demand projected to grow by 5.1%.

Chart 8: Malaysian Economy – By Demand Side (y-o-y, %)



Sources: DOSM, Bank Islam

- Private consumption, the main growth engine, is forecast to expand by 5.3% for the year, supported by low unemployment, wage adjustments in the public sector, and seasonal tourism-linked spending. Fiscal support via subsidies and aid programs, especially for the B40 and M40 income groups, should help cushion the impact of higher living costs.

- Public consumption is expected to moderate slightly to 4.0%, reflecting a more prudent fiscal stance as the government balances growth-supportive spending with consolidation goals.

- Investment momentum remains firm, though it is expected to moderate as tariff-related uncertainties weigh on business sentiment. Gross fixed capital formation is forecast to rise by 6.7%, led by a 7.5% increase in private investment, while public investment is expected to slow to 4.0%.

Table 4: Forecast of Selected Indicators

Growth (y-o-y)	2024	YTD	2025F
GDP	**3.1**	**4.4**	**4.4**
IPI	3.7	2.3	2.9
Exports	5.7	7.3	3.7
Domestic Exports	9.3	5.8	3.5
Re-Exports	-6.9	13.3	4.5
Imports	13.2	7.0	5.0
Distributive Trade	5.5	5.2	6.0
Motor Vehicles	6.5	-1.7	7.4
Wholesale Trade	4.7	5.5	5.0
Retail Trade	6.1	6.8	6.6
Headline Inflation	1.8	1.5	2.7
USDMYR, Average	4.58	4.44	4.33
MGS-10, % year-end	3.82	3.54	3.73
Brent Crude Oil, USD	80.7	73.7	68.0
CPO, RM per tonne	4,218.0	4,630.0	4,100.0

Sources: Bank Negara Malaysia (BNM), DOSM, Bank Islam

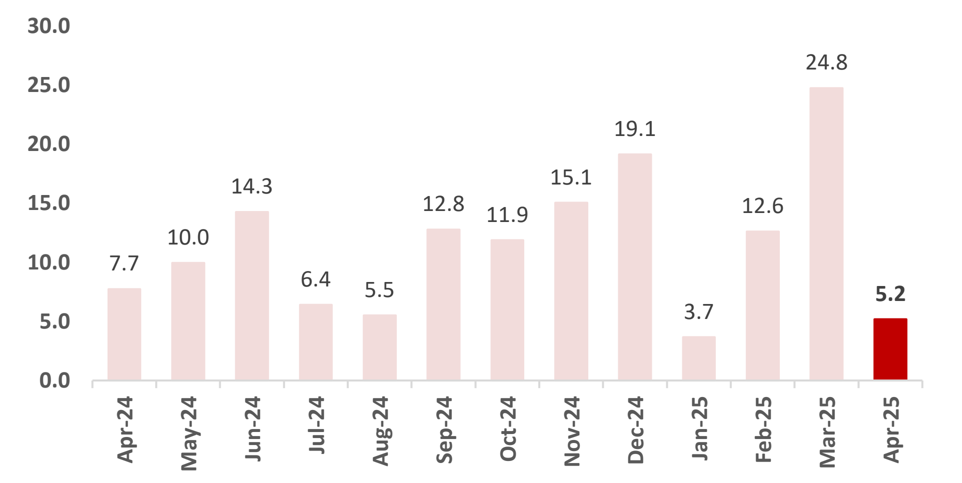
External Sector: Trade Outlook Softens, Volatility Ahead

- Malaysia's trade performance is expected to weaken in the second half of 2025. Exports showed early signs of normalisation in May, slipping by 1.1% y-o-y after a strong 16.4% surge in April. The growth in re-exports also moderated to 16.1% y-o-y, following a sharp 46% jump in the previous month. Meanwhile, domestic exports contracted by 4.7% y-o-y, reversing the 9.0% gain in April. This moderation suggests a slowdown in front-loading activity ahead of the expiry of the 90-day truce on U.S. reciprocal tariffs, set to lapse on July 9 for other economies and August 12 for China. The data aligns with Bank Negara Malaysia (BNM) Governor's remarks in May, noting that front-loading is expected to normalise as inventories are drawn down and trade flows stabilize. However, the persistent weakness in non-E&E exports, particularly in other manufactured goods and the mining sector, points to broader signs of softening external demand. Imports, while still expanding, also slowed to 6.6% y-o-y in May from 20.0% in April, contributing to a significantly narrower trade surplus of MYR0.77 billion (April: MYR5.13 billion). Overall, these trends indicate that the momentum from earlier front-loading is fading, and the outlook remains uncertain, especially if the tariff pause is extended.

- For 2025, exports of goods and services are expected to grow by 3.7%, with goods exports expanding by 3.5% and services exports by 4.4%, the latter supported by continued recovery in travel and logistics. Imports, meanwhile, are projected to rise by 4.8%, with services imports (+5.0%) outpacing goods (+4.8%). Volatility in the trade balance is likely to persist in 2H25 as the effects of front-loading subside and tariff-related uncertainties linger.

- Despite risks, Malaysia remains attractive for foreign direct investment (FDI), with net inflows of MYR15.6bn in 1Q25. The government's focus on high-value sectors and strategic bilateral economic zones offers a medium-term buffer against cyclical global headwinds.

Chart 9: Malaysian Trade Balance (RM billion)

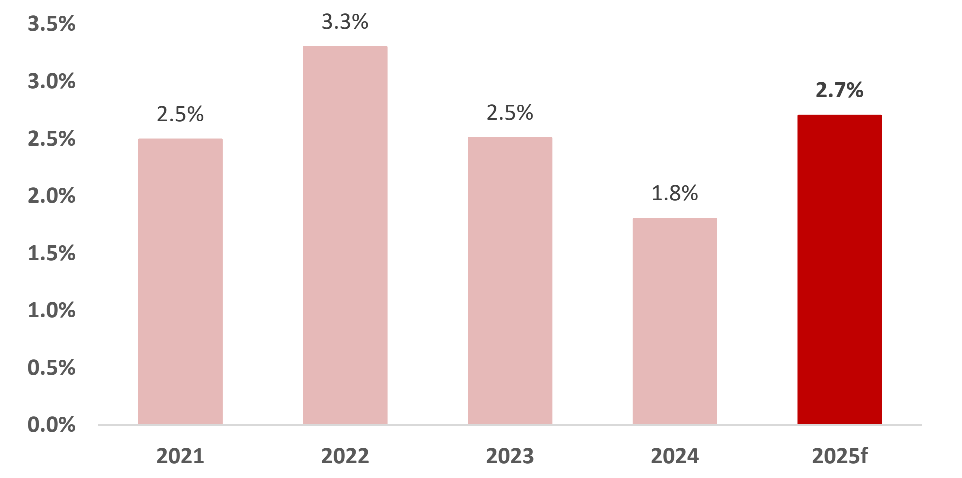


Sources: DOSM, CEIC Data

Inflation: Mild but Rising, Fuel Rationalisation Pushed Back

- Inflationary pressures remain manageable, though risks are tilted to the upside in 2H25. Headline inflation is projected to rise to 2.7% in 2025, up from 1.5% in 1Q25, driven by potential price adjustments from subsidy rationalisation, rising global commodity prices, imported inflation due to the weaker ringgit, as well as the broadened Sales and Services Tax (SST) that will commence in July 2025.

Chart 10: Malaysia's Headline Inflation



Sources: DOSM, CEIC Data

- However, the timeline for RON95 subsidy rationalisation, originally expected in mid-2025, has been shifted to 2H25, providing temporary relief. This development presents downside risks to our CPI forecast, particularly if the price hike is smaller or delayed further. Our initial expectation of an increase in RON95 pump prices starting in June has not materialised. Additionally, the spike in global oil prices, fuelled by escalating tensions between Iran and Israel is expected to translate into higher RON95 fuel prices once subsidies are removed for the super-rich income category and foreigners. However, as the subsidy removal is targeted, the impact on headline inflation is expected to be minimal.

- Meanwhile, the expansion of SST implementation is anticipated to have a limited direct impact on overall CPI, given its exclusion of essential items and services, which helps minimize price shocks for basic household needs. The broadened SST is more targeted, focusing mainly on higher-end services, thereby lessening its direct impact on the average consumer.

- Core inflation is likely to remain relatively stable, underpinned by moderate domestic demand and contained wage pressures. That said, continued fiscal support and higher food prices due to El Nino risks may keep inflation mildly elevated in the coming months.

BNM Likely to Hold Steady in the Near Term Amid Stable Fundamentals

- Although we have revised our 2025 real GDP growth forecast for Malaysia to 4.4% (from 4.7%), reflecting rising external headwinds, particularly from the evolving global trade environment. Despite the downgrade, the growth outlook still affords Bank Negara Malaysia (BNM) sufficient room to keep the Overnight Policy Rate (OPR) on hold at 3.00%. The primary source of uncertainty in the near term lies in the trajectory of global trade policy, specifically, the clarity and timing of tariff measures and their downstream effects on both growth and inflation. Until these external risks become more predictable, BNM is likely to prioritize financial and macroeconomic stability, taking a wait-and-see approach rather than pre-emptively easing. Although market consensus is gradually tilting toward rate cuts in 2H25, we believe BNM will remain cautious. Core inflation has remained above its long-run average of 1.8% for the past three months, indicating stable domestic demand conditions even as headline inflation trends lower. Meanwhile, GDP growth moderated to 4.4% in 1Q25 (from 4.9% in 4Q24), but March's stronger-than-expected 6.0% y-o-y print underscores some resilience in underlying activity.

- Looking ahead, we retain a cautiously optimistic view for 2H25, with recent signs of U.S.–China trade de-escalation potentially limiting downside risks. However, Malaysia's heavy trade exposure means global uncertainties remain a key vulnerability. Should growth soften further, particularly if real GDP trends below 4.0%, BNM may shift its tone and begin more actively considering the case for policy easing.

Soft Landing in Sight, But External Risks Loom Large

- Malaysia's economy is expected to chart a moderate but resilient path in 2H25. Domestic demand will continue to act as a key growth anchor, backed by targeted policy support and robust investment pipelines. However, uncertainties stemming from the global trade environment, particularly US tariff actions, pose downside risks to both exports and overall sentiment.

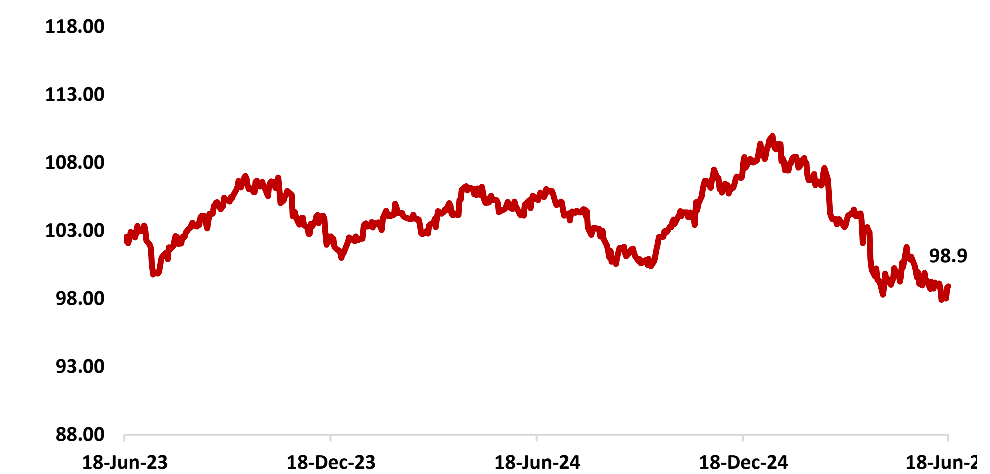
- Navigating this complex terrain will require a careful policy mix: maintaining investor confidence, shielding vulnerable households from inflation, and preserving the momentum of structural reforms. While short-term volatility is likely, Malaysia's medium-term prospects remain intact, anchored by diversification, high-value investments, and strategic regional partnerships such as the JS-SEZ.

Foreign Exchange

- The U.S. dollar (USD) came under significant pressure in 2Q25 as President Trump's erratic and unpredictable trade policies triggered a broad reallocation away from USD-denominated assets. The USD traded in a volatile range through May, caught between episodes of tariff de-escalation, following a temporary 90-day truce with China, and renewed escalation, as the U.S. threatened a 50% tariff on the European Union and a 25% levy on smartphone manufacturers that do not shift production to the U.S. These policy swings weighed heavily on sentiment, pushing the DXY to its worst monthly performance since November 2022, plunging by 8.4% YTD in May and hitting a three-year low just below 99. Its downtrend persisted, shortly dropping to the 97-level mid-June, amid apparent complications in talks with China although it recovered following a positive conclusion to their dispute. Nonetheless, this highlighted the high volatility of the situation where any signs of truce derailing will cause jitters throughout global markets, causing shocks to currency movements.

- Although the global trade war appeared to enter a temporary lull during the truce period, mounting concerns over U.S. fiscal sustainability added further pressure to the USD. The Congressional Budget Office (CBO) projects that recent fiscal measures will add USD3.8tn to the national debt, already at USD36.2tn, over the next decade, with the federal deficit expected to widen to around 7% of GDP in the coming years. While such fiscal stimulus may support short-term growth, it also raises alarm over medium-term debt dynamics, sovereign credit risk, and long-term investor confidence in U.S. assets. Trump's on-again, off-again tariff threats contributed to persistent outflows from U.S. markets in 2Q25. However, any further de-escalation of trade tensions could slow this capital flight. The third quarter will be pivotal, as the 90-day truce with China and other trading partners expires on July 9 and August 13, respectively. While the policy path beyond these dates remains highly uncertain, ranging from a return to April's punitive tariff levels, to fixed tariff schedules, or further extensions, the political and economic costs of escalating back to peak tariff levels are likely to be high. If trade tensions continue to abate, investor focus is likely to shift back toward monetary policy. We maintain our call for two 25bpos rate cuts by the Federal Reserve in the second half of the year. As the Fed resumes its easing cycle after a nine-month pause, while most G10 central banks are concluding theirs, narrowing interest rate differentials could add further downward pressure on the USD.

Chart 11: USD Index (DXY)



Sources: CEIC Data, Bank Islam

MYR Appreciation Bias Can Continue

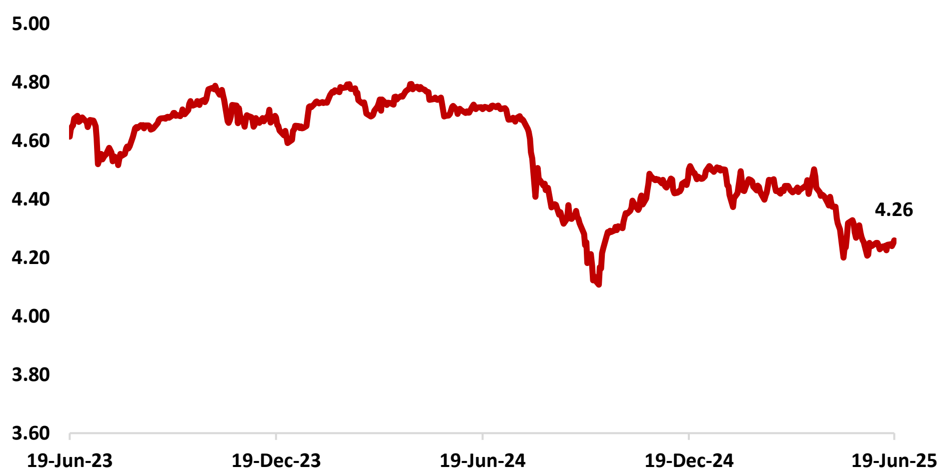
- The ringgit (MYR) strengthened gaining over 4.1% quarter-to-date (YTD: +4.9%) as of the time of writing and outperforming regional peers. This was supported by improving risk appetite and sustained foreign portfolio inflows. We expect some consolidation in the ringgit as markets await further clarity on global trade dynamics. Supporting the MYR is the narrowing interest rate differential with the U.S., particularly as Bank Negara

Malaysia (BNM) is expected to hold its Overnight Policy Rate (OPR) steady at 3.00%, while the Fed begins to cut rates. While the Fed's latest dot plot projections signal a 50bps reduction in 2025, Fed Chair Powell's tone was more hawkish, remarking that the central bank is "well positioned to wait" before further shifting its FFR. As such, there is a possibility that instead of two separate 25bps rate cuts in 2H 2025, the Federal Reserve may opt for a single, larger 50bps "jumbo cut" in December. This move could serve as a final push to support the Ringgit before year-end. Based on the Fed's jumbo cut in September 2024, the Ringgit rose by over 3.5% from the policy decision date to month-end before U.S. election-related sentiments clouded over the currency pair, a trend that could potentially be mirrored this time around.

- Nonetheless, should Malaysia's domestic growth undershoot expectations, it could prompt a reassessment of BNM's policy stance, adding downside risk to the currency. Domestically, consumer confidence is at risk of slipping amidst the rollout of several policy reforms, namely the Sales and Services Tax (SST) revision, electricity tariff hike and RON95 subsidy rationalisation, of which officials had reaffirmed will be implemented in 2H2025. While these reforms are crucial to enhance the country's fiscal position, households hold a more focused view on their daily expenses, which are already weighed on by the current cost-of-living crisis. Thus, increasing prices at this current juncture could potentially curb household spending and present as a drag to growth. It is thus pertinent for the rollout of these policies to be timely and orderly as well as well-communicated to mitigate their impact, especially to low- and middle-income households.

- In addition, persistent global risk aversion and risk-off flows could divert capital away from emerging markets, including Malaysia. Additionally, the Fed had recently revised its inflation projections upwards, foreseeing the inflammatory impact from tariffs to drive prices higher for longer. Of note, headline PCE inflation is now expected to average 3.0% in 2025 from 2.7% previously while the core PCE inflation projection was raised 3.1% from 2.8% previously. Furthermore, intensifying geopolitical tensions in the Middle East further increases the volume of flight to safety, diminishing the local note's appeal. Nevertheless, as prolonged trade- and policy-related uncertainties weighed on the USD, it had lost its safe-haven draw which thus limited its gains from the recent conflict. Based on the culmination of catalysts, we remain optimistic that the Ringgit's positive momentum will prevail, underpinned by Malaysia's strong economic fundamentals. Overall, we maintain our USD/MYR forecast of 4.25 by end-2025, with the pair averaging around 4.33 for the year.

Chart 12: USDMYR



Sources: CEIC Data, Bank Islam

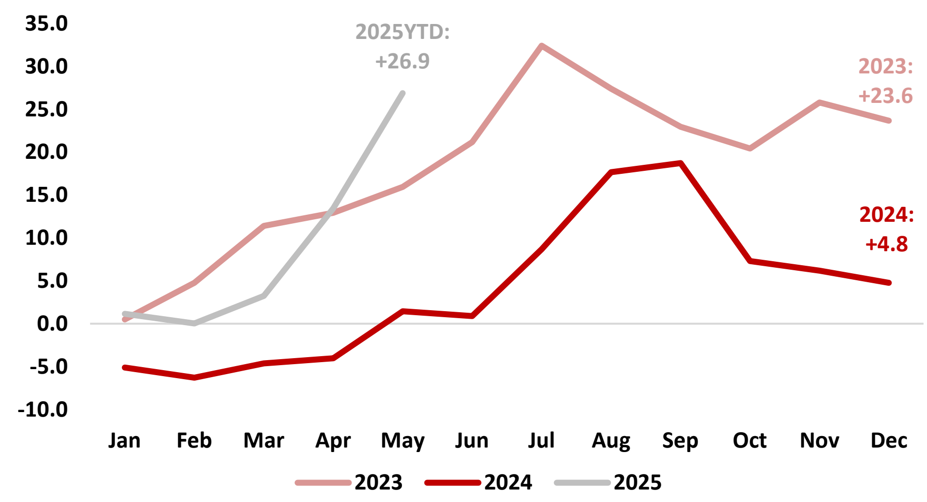
Fixed Income

- Since Liberation Day on April 2, global investors have been grappling with two interrelated and increasingly significant concerns in the markets. The first is the sharp rise in long-term government bond yields, and the second is the growing focus on sovereign debt sustainability amid weakening global growth prospects. Notably, since that date, the yield on 10-year U.S. Treasuries has climbed from 4.20% to 4.4%, while the 30-year yield surged from 4.4% to near the psychologically sensitive 5% threshold. The catalyst appears to be growing concern over the global economic outlook, exacerbated by the United States' decision to impose broad-based trade tariffs on all major trading partners. This has heightened fears of a global trade and growth slowdown, redirecting investor focus toward rising debt levels and deteriorating fiscal positions in major economies. The recent Moody's downgrade of the U.S. sovereign outlook has further underscored these concerns. While markets expect two 25bps interest rate cuts this year, likely in September and December, we think a September cut is premature. The Federal Reserve might not have enough evidence by then that inflation is truly under control. A 50 bps cut in December seems more probable, particularly if the job market weakens and economic growth slows, mirroring the Fed's decisive pivot in September 2024 with a 50 bps cut, followed by smaller adjustments in November and December. This dynamic is contributing to a steepening of the U.S. Treasury yield curve, a trend that may persist in the face of mounting macroeconomic risk and volatility. Importantly, the risk now is that long-end U.S. Treasury yields may remain "sticky on the upside", particularly as concerns over stagflation begin to gain traction among market participants.

Ringgit Bonds Remained Well Bid With Market Sentiment Still Modestly Bullish

- Concerns over global trade environment saw flight-to-safety demand into Malaysia's bond market. The local bond market recorded a cumulative net foreign inflow of RM26.9bn for the first five months of 2025 with the latest reading in May 2025, displayed a net foreign inflow of RM13.4bn, the highest since May 2014.

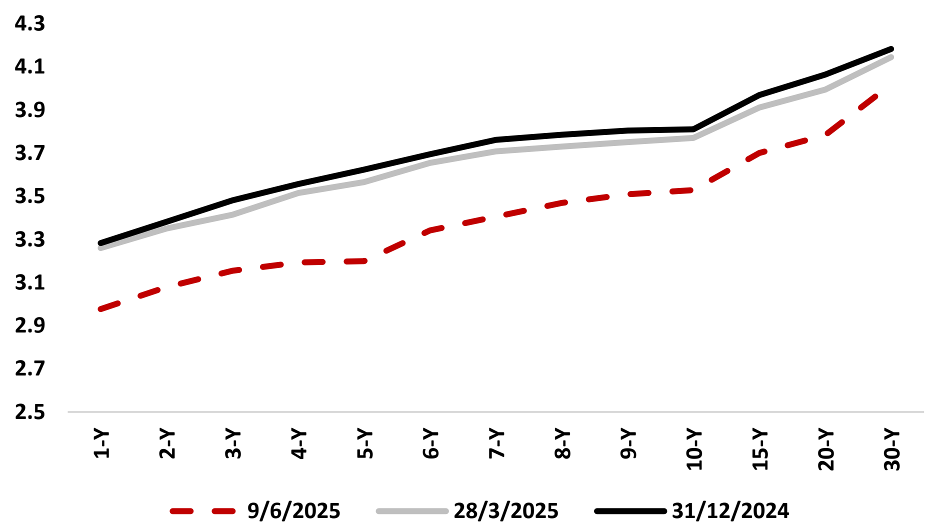
Chart 13: Cumulative Net Foreign Flows in Local Bonds, RM'bn



Sources: BNM, Bank Islam

- The lingering global trade uncertainties and geopolitical risks put MGS yields movement in a volatile environment. Israel's recent strike on Iran's nuclear facilities is expected to keep Middle East geopolitical tensions high, increasing fears of a wider regional conflict and driving demand for safe-haven assets, which will likely push yields lower. The existing market uncertainties, already fuelled by tariff policies and US fiscal concerns, are now further compounded by the escalating situation in Iran. Given the 90-day tariff pause by Trump and safe-haven demand, MGS yields are likely to be hovering at a lower level. Domestically, Malaysia's strong economy and the upcoming Sales and Services Tax (SST) implementation on July 1st are expected to bolster the nation's fiscal health, which could slightly improve its sovereign credit rating. However, concerns about the SST's impact on inflation trajectory will persist. YTD, the demand for government debt remained robust with an average bid-to-cover ratio (BTC) of 2.6x for MGS and 3.1x for GII.

Chart 14: MGS Yield Curves, %

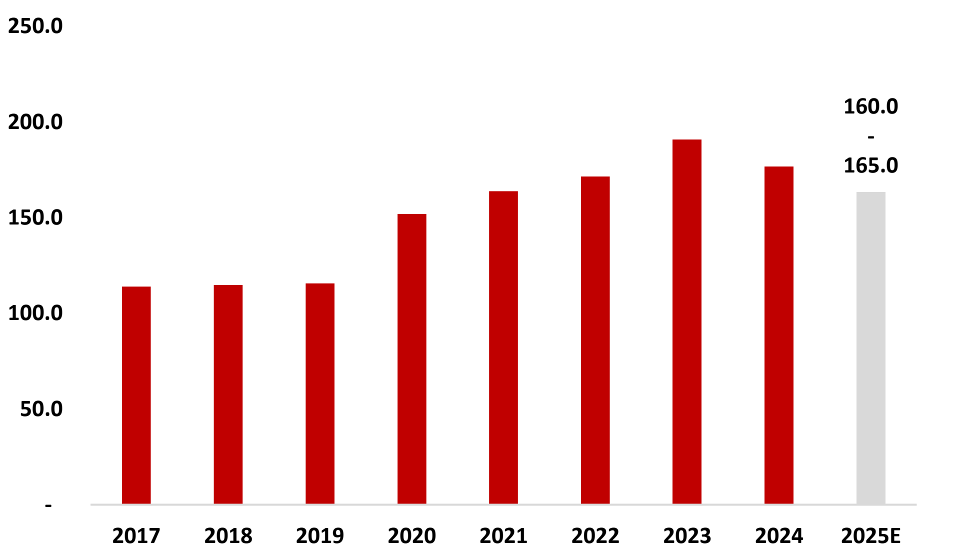


Sources: BNM, Bank Islam

Lower bond issuances trajectory amid fiscal consolidation

- Total gross issuances of Malaysian Government Securities (MGS) and Government Investment Issues (GII) reduced by 10.4% in 5M2025 to RM72.0 billion (MGS: RM33.0 billion, GII: RM39.0 billion) compared to RM79.5 billion raised in the corresponding period in the previous year. Of the total, RM61.0 billion were raised through 15 public offerings while the remaining RM11.0 billion were raised via private placements. Based on the 2025 auction calendar, there are 21 remaining public auctions scheduled from June 2025 till the end of this year, consisting of 11 that will be issued via MGS, while the rest will be from GII issuances. Public offerings for local government bonds continued to garner vigorous demand during the first half of the year with all papers oversubscribed. As of 5M2025, on average, investors recorded a robust bid-to-cover (BTC) ratio of 2.6x for MGS (5M2024: 2.2x). Similarly, GII also saw healthy demand with a BTC of 3.1x (5M2024: 3.0x). Overall, the average BTC ratio stood at 2.9x in 5M2025, higher relative to 2.6x in 5M2024. The BTC values above 2.0x reflect strong demand from local institutional investors. For 2025, we maintain our forecast that the gross MGS/GII issuance will amount in the range of RM160.0 billion to RM165.0 billion (2024: RM175.0 billion) amid lower fiscal deficit expected by the government to reach RM80.0 billion in 2025 (2024: RM79.2 billion), the upcoming MGS/GII maturities of RM66.8 billion in 2H2025 and matured amount of RM16.7 billion in 1H2024.

Chart 15: Gross MGS/GII Issuances, RM Billion



Sources: BNM, Bank Islam