From the Desk of the
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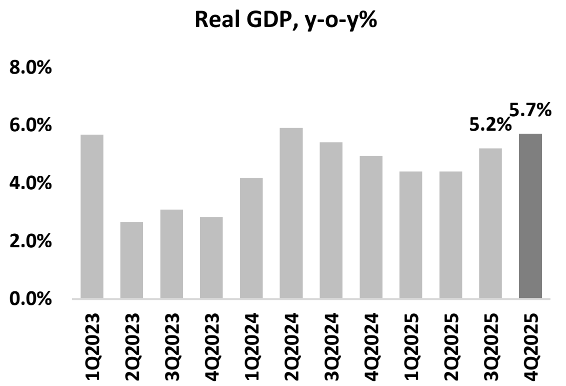
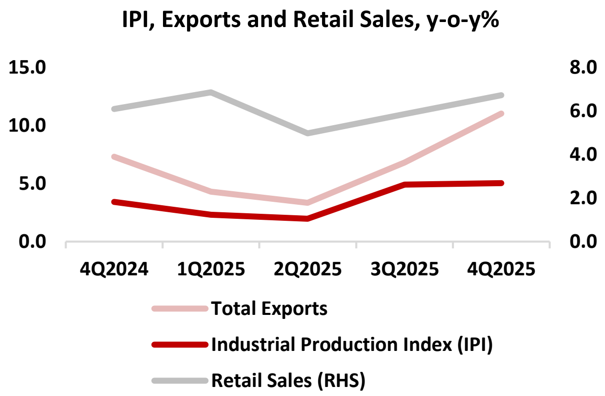
4Q2025 GDP PREVIEW: DOMESTIC DEMAND AND TRADE DRIVE STRONG FINISH TO 2025, MATCHING ADVANCE ESTIMATE





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

- **Malaysia sustains momentum to match 5.7% DOSM's Advance Estimate**. Maintaining the momentum from the previous quarter, the Malaysian economy is set to hit a 5.7% expansion in the final quarter of 2025. While this matches official advance estimates, it represents a notable step up from the 5.2% recorded in 3Q2025. The primary engines behind this growth remain robust domestic demand and a thriving labor market, which continue to fuel consumer confidence and spending. Private consumption continued to anchor economic growth in 4Q2025, highlighted by a robust 6.7% y-o-y increase in retail sales (3Q2025: 5.9%). This momentum extended across the distributive trade sector, with wholesale trade accelerating 6.7% (3Q2025: 5.8%) and motor vehicle sales surging by 9.5% (2Q2025: 3.3%). This acceleration was fueled by government stimulus—specifically the Sumbangan Asas Rahmah (SARA) and Sumbangan Tunai Rahmah (STR) cash assistance programs—alongside a stable unemployment rate and a healthy influx of 6.83 million tourists in 4Q2025. Together, these factors created a strong environment for household spending throughout the quarter.

- **Exports rebound lifts industrial and manufacturing activity in the fourth quarter of 2025.** The Industrial Production Index (IPI) gained modest momentum in the fourth quarter, inching up to 5.0% in 4Q2025 from 4.9% in 3Q2025. Export growth accelerated sharply, rising 11.0% in 4Q2025 compared with 6.8% in the previous quarter, underpinned largely by stronger demand from the E.U. and the U.S.. Exports to the E.U. nearly doubled to 23.9% from 11.6%, while shipments to the U.S. rebounded strongly to 14.7% after a subdued 2.2% increase in 3Q2025. In contrast, export performance to China softened, with growth easing to 3.9% in 4Q2025 from 6.4% in the prior quarter. Meanwhile, manufacturing activity showed a marked improvement, edging closer to expansion territory as the Purchasing Managers' Index (PMI) rose to 49.9 in 4Q2025 from 49.8 in 3Q2025. Momentum carried into the new year, with the January 2026 reading climbing to a 20-year high of 50.2, decisively moving above the 50-point threshold that signals expansion.

- **Technology-intensive sectors, structural upgrades and renewable energy (RE) infrastructure are anticipated to drive investment momentum.** Malaysia's gross fixed capital formation (GFCF) remained firm as it increased by 7.4% y-o-y in 3Q2025 (2Q2025: 12.1%), supported by sustained growths across private (3Q2025: 7.4% vs. 2Q2025: 11.8%) and public invetsments (3Q2025: 7.4% vs. 2Q2025: 11.8%). The momentum is anticipated to extend through the final quarter, underpinned by strategic capital flows into various key sectors. The global digitilisation wave and rising Artificial Intelligence (AI) demand has channeled greater focus towards Malaysia's strengthening technology ecosystem and structural offerings, leading to significant interest into its data centres and cloud service infrastructure. Furthermore, private investment momentum will be supported by the drive to uplift the high-growth, high-value industries, amplifying capital flows into tech-intensive manufacturing sectors. Renewable energy has emerged as a new frontier of growth, anticipated to attract growing interest as the RE ecosystem matures. Tenaga Nasional Berhad (TNB)'s flagship projects, namely the Hybrid Hydro Floating Solar Project (HHFS), five 100MW RE zones and the Green Hydrogen Hub, should further underpin capital expansion. Meanwhile, public investment is also projected to remain solid amid ongoing progress across multi-year infrastructure developments. Major projects aimed at strengthening Malaysia's structural and economic landscape span key connectivity initiatives, such as the LRT Mutiara Line and the Pan-Borneo Highway, as well as broader growth catalysts including the Johor–Singapore Special Economic Zone (JS-SEZ) and the Kerian Integrated Green Industrial Park (KIGIP). This project pipeline is expected to underpin continued expansion in the construction sector, guided by the steady policy direction under the MADANI framework. Latest data showed that work done in the Construction sector rose by 10.3% y-o-y in 4Q2025 (3Q2025: 10.6%) amid accelerations in special trade activities (4Q2025: 21.1% vs. 3Q2025: 15.3%) and non-residential buildings (4Q2025: 18.6% vs. 3Q2025: 10.0%) while the residential buildings (4Q2025: 5.9% vs. 3Q2025: 11.6%) and civil engineering (4Q2025: 3.6% vs. 3Q2025: 8.9%) subsectors recorded slower growths.

- **We anticipate Malaysia's full-year GDP to expand by 4.9% y-o-y 2025, surpassing the official forecast range of 4.0% to 4.8%.** Robust expansion in distributive trade and manufacturing output in 4Q2025 is expected to underpin GDP growth of 5.7% in the quarter (3Q2025: 5.2%), lifting full-year growth to 4.9% (2024: 5.1%), although ongoing weakness in the mining sector may cap further upside. Looking ahead, Malaysia's growth outlook remains constructive, albeit with some moderation. Private consumption is anticipated to prevail as the key growth driver, supported by subdued inflation, a robust labour market, a firmer ringgit, and Bank Negara Malaysia (BNM)'s steady policy stance. Additional structural support to household spending will come from the full-year implementation of the BUDI95 subsidy rationalisation, the second phase of the civil servant salary adjustment, as well as one-off and recurring cash assistance under the SARA and STR programmes. Externally, the ongoing global technology upcycle and continued trade diversion are projected to bolster external demand, lending support to Malaysia's trade sector. Greater clarity on U.S. tariff policies affecting Malaysia, alongside broader global stabilisation, should further lift business confidence and underpin export performance in 2026. The tourism sector is also poised for another strong year, building on the Visit Malaysia 2026 campaign, with tourist arrivals already returning to pre-pandemic levels (2025: 26.6 million; 2019: 26.1 million). Investment activity is expected to remain firm, guided by key national strategies such as the National Industrial Master Plan 2030 (NIMP 2030), the National Semiconductor Strategy (NSS), and the Public-Private Partnership Master Plan 2030 (PIKAS 2030). Public investment will gain traction in the first year of implementation of the 13th Malaysia Plan (13MP), while private investment will continue to be driven by strategic priority sectors. The rollout of the New Investment Incentive Framework (NIIF), beginning in 1Q26 for manufacturing and 2Q26 for services, should further reinforce capital inflows into the economy. Downside risks remain, particularly from heightened volatility in

U.S. foreign policy, persistent global trade uncertainties, and ongoing geopolitical tensions, which could weigh on overall growth. On balance, we maintain our 2026 GDP growth forecast at 4.4%, with risks tilted modestly to the upside.