GDP growth to hit upper end of forecast following 5.2% expansion in 3Q

BY ESTHER LEE

Malaysia's economic growth in 2025 is projected at the upper range of the official 4% to 4.8% forecast after coming in at 5.2% in the third quarter (3Q), Bank Negara Malaysia Governor Datuk Seri Abdul Rasheed Ghaffour said last Friday at the release of quarterly statistics.

The 5.2% year-on-year (y-o-y) growth in gross domestic product (GDP) matched advance estimates announced for the quarter, and put expansion for the first nine months of the year at 4.7%.

Abdul Rasheed said the domestic economy would continue to support growth going into 2026.

"Consumption continues to be resilient, supported by wage growth and employment. Our unemployment rate is at 3%, which is very low. So that will continue to support consumption. Second, the government will continue cash transfers, which will also support consumption. Investment activities will be sustained amid progress of infrastructure projects, realisation of approved investments and implementation of national master plans.

"For exports, even though the situation remains uncertain, with the deal that we have with the US [reciprocal tariff rate] at 19%, that has given more certainty and we have seen exports growing strong. It is expected to moderate [going forward], but will continue to be resilient."

The central bank governor said engagements with corporates in electrical and electronics (E&E) operating in the country reveal that they have steady order books over the next couple of months, while tourism is turning into a growth engine.

"We have had strong tourist arrivals and also spending. In fact, if you look at the data points, the travel receipts for the first three quarters of 2025 is the same amount as what we saw for the full year of 2024. So, with Visit Malaysia 2026 happening next year, hopefully we will get more tourists," he said.

Nonetheless, the economy is expected to expand at a more moderate range of 4% to 4.5% in 2026, according to official forecasts, reflecting the full impact of tariffs.

The growth in 2026 is subject to both upside and downside risks.

"Downside risks include a further slowdown in trade as a result of higher tariffs, weaker sentiment from uncertainty affecting spending and investment, as well as lower-than-expected commodity production," Abdul Rasheed said. "On the other hand, growth could be higher with more pro-growth policies in major economies, favourable outcomes from remaining US trade negotiations, higher demand for E&E goods, as well as more robust tourism activity."

In 3Q, economic growth was supported by sustained household spending, steady investment activities and continued export growth, driven by the E&E sector, robust tourism activity and strong recovery in mining-related exports.

On the demand side, public consumption grew 7.1% y-o-y against 6.4% in 2Q2025. Growth in 3Q was supported by a bigger expansion in emoluments as well as supplies and services spending.

Net exports registered a turnaround, staging a y-o-y growth of 17.7% compared to the 72.6% contraction in the previous quarter, backed by continued export growth and lower import growth.

LOW YEN YEING/THE EDGE

Abdul Rasheed: Consumption continues to be resilient, supported by wage growth and employment

Private consumption expanded 5% y-o-y in 3Q against 5.3% in 2Q; private investment moderated from the previous quarter as well, from 11.8% y-o-y growth in 2Q to 7.3% in 3Q. Public investment expanded 7.4% y-o-y in 3Q but was markedly lower than the 13.6% growth in 2Q.

On the supply side, expansion was registered across all five sectors, with a growth turnaround in mining (9.7% in 3Q from -5.2% in 2Q). The construction sector held on to its double-digit growth in 3Q of 11.8%, slightly lower than 2Q's 12.1% growth.

The manufacturing sector expanded 4.1% y-o-y in 3Q while services grew 5% over the same period. Agriculture expanded slightly by 0.4% y-o-y during the 3Q.

UOB Global Economics and Market Research team says in its report last Friday that it is maintaining its full-year GDP growth forecast of 4.6% for now, despite the stronger average growth of 4.7% for the first three quarters.

Its outlook reflects persistent external uncertainties, including sector-specific tariffs under the Trump administration and elevated valuations in global financial markets.

The research house also says the upside risk to its full-year growth forecast towards the upper end of the official target at 4.8% may materialise from a stronger-than-expected boost driven by the RM100 cash assistance programme announced in July, a more gradual RON95 petrol subsidy rationalisation implemented at the end of September, as well as the improving market sentiment following the signing of the Agreement on Reciprocal Trade with the US in October and the one-year trade truce between the US and China. "Given the strong GDP performance, improved tariff clarity and moderate inflation pressures, we expect the overnight policy rate (OPR) to remain at 2.75% in 2026."

Current account surplus rebounded in 3Q2025

The current account of the balance of payment recorded a surplus of RM12.2 billion, equivalent to 2.4% of GDP in 3Q, compared with RM300 million reported in 2Q2025.

The increase was attributed to the higher goods account surplus, as manufacturing and mining-related exports improved, amid lower capital and intermediate imports.

Notably, the services account turned into a surplus for the first time since 3Q2011, on higher travel receipts and construction-related services.

Meanwhile, foreign direct investment (FDI) recorded an inflow of RM8.5 billion in 3Q compared with RM1.6 billion in 2Q, mainly due to larger equity injections. The FDIs were channelled mainly into the services sector, predominantly into information and communication technology (ICT) and financial services subsectors. The FDIs were primarily from Singapore, China and Japan.

Tailwinds to continue supporting ringgit

The ringgit appreciated 0.8% on a nominal effective exchange rate (NEER) basis against the currencies of Malaysia's major trading partners, Abdul Rasheed said, adding that it has also remained stable against the US dollar in 3Q.

On a year-to-date basis, as at Nov 12, the ringgit had appreciated 5.3% on a NEER basis and 8.2% against the US dollar.

"The ringgit's movement was driven by both external and domestic factors. Externally, the US Federal Reserve's monetary policy easing in September, coupled with expectations of further rate cuts amid growing concerns over the US economy's outlook, helped support the ringgit. Additionally, a reduction in tariff-related uncertainties, although they remain elevated, provided further support to the ringgit during the quarter," the governor said.

Domestically, the country's strong fundamentals, coupled with the government's commitment to structural reforms and fiscal sustainability further helped to support the ringgit, and Abdul Rasheed asserted that these factors would continue to provide medium-term support to the ringgit.

When asked if the appreciating ringgit against other currencies would be disadvantageous for an export-oriented economy like Malaysia's, the governor said: "We have never used ringgit to gain export advantages."

He pointed out that notwithstanding the strong ringgit in 3Q this year, the country still registered higher gross export growth of about 6.7%, compared with the average of 5.3% between 2011 and 2019.

The governor emphasised that the central bank's function is to ensure the orderly functioning of the domestic foreign exchange market and that there is no excessive volatility in terms of the movement and rate.

"We don't set a limit, nor do we set a standard [for the ringgit]. We are there to make sure that there is order."

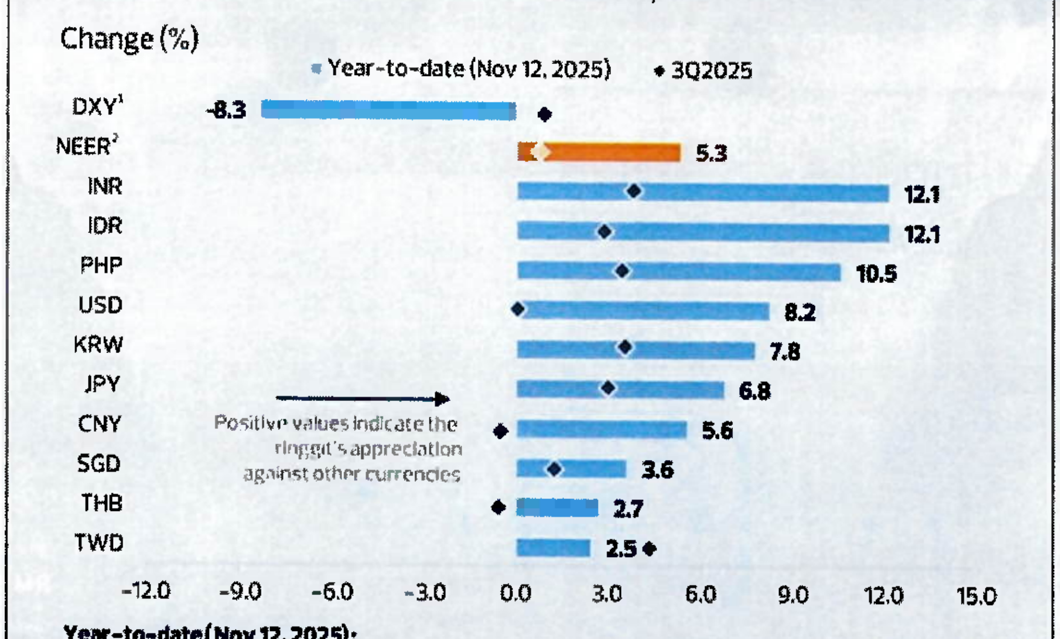
He pointed out that the Qualified Resident Investor (QRI) programme, which was rolled out in July 2025, had yielded encouraging results. As at 3Q2025, more than US$2 billion of inflows have been recorded under the programme.

The QRI programme provides foreign exchange policy flexibility to encourage resident corporates to repatriate foreign currency investment income and to convert them into ringgit.

At the time of writing, the ringgit was trading at 4.13 against the greenback.

BANK NEGARA MALAYSIA AND BLOOMBERG

Ringgit movements against selected currencies



Year-to-date (Nov 12, 2025): The ringgit appreciated by 5.3% on an NEER basis and by 8.2% against the US dollar.

¹ The US Dollar Index (DXY) measures the value of the US dollar against a basket of major foreign currencies: EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%) and CHF (3.6%).

² Refers to the ringgit nominal effective exchange rate, which measures the ringgit's performance against a basket of currencies of Malaysia's major trading partners.

DEPARTMENT OF STATISTICS MALAYSIA, BANK NEGARA MALAYSIA

Malaysia's gross domestic product growth