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KEY HIGHLIGHTS: BNM ANNUAL REPORT 2024

OUR GDP FORECAST FALLS WITHIN THE LOWER RANGE OF BNM'S PROJECTION

Table 1: Real GDP by expenditure components

Growth, y-o-y%	2023	2024	2025F Bank Islam	2025F BNM
Real GDP (by expenditure)	3.6	5.1	4.7	4.5 – 5.5
Private Consumption	4.7	5.1	5.3	5.6
Public Consumption	3.3	4.7	4.0	4.9
Private Investment	4.6	12.3	8.0	10.1
Public Investment	8.6	11.1	4.5	6.4
Exports of goods and services	-8.1	8.5	4.2	6.5
Imports of goods and services	-7.4	8.9	5.0	6.6

Sources: BNM, Bank Islam

- **Our 2025 economic forecast for Malaysia falls within the lower end of BNM's projected range.** Malaysia's GDP growth is expected to remain resilient in 2025, though moderating to 4.7% (BNM: 4.5-5.5%; 2024: 5.1%), as mounting global economic uncertainties tilt risks to the downside. Escalating trade tensions, particularly the tariffs imposed by Trump on U.S. trading partners, including Malaysia, threaten to weaken the country's trade performance. Retaliatory tariffs and disruptions to global supply chains could further dampen external demand amid rising protectionism. As a result, we anticipate a slowdown in both exports and imports of goods and services, with growth moderating to 4.2% and 5.0% (BNM: 6.5% & 6.6%), respectively. Nevertheless, robust domestic demand will continue to anchor economic growth. Private consumption—accounting for over half of GDP—is set to expand by 5.3%, slightly below BNM's 5.6%, driven by a strengthening labor market, accelerating wage growth, the minimum wage hike, and sustained government cash assistance.

- **Private investment is expected to remain strong in 2025, driven by the implementation of projects outlined in the national master plans and high realization rates.** We expect private investment to remain strong this year, driven by a mix of new and ongoing projects in the pipeline. The high realization rate of approved investments—amounting to RM378.5 billion in 2024 with a solid 14.9% y-o-y growth—will be a key catalyst, particularly in strategic sectors like Electronics & Electrical (E&E) and Information and Communication Technology (ICT), including data centers. The government's Public-Private Partnership Master Plan 2030 (PIKAS 2030) is also set to accelerate investment momentum. Additionally, national master plans such as the New Industrial Master Plan 2030 (NIMP 2030), the National Semiconductor Strategy (NSS), and the National Energy Transition Roadmap (NETR) will further stimulate investment activity. Notable projects, including PETRONAS's Kasawari Carbon Capture and Storage (CCS) project and Tenaga Nasional Berhad's Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project, highlight Malaysia's push towards high-value and sustainable investments. However, we forecast private investment growth at 8.0%, slightly lower than BNM's projection of 10.1%.

- **We concur with BNM's assessment that the growth outlook remains 'fairly balanced,' with downside risks stemming from external uncertainties and upside potential supported by Malaysia's strong macroeconomic fundamentals.** Key risks that could weigh on GDP growth include increasingly restrictive trade policies and escalating geopolitical tensions, which may heighten global uncertainties and trigger volatility in commodity prices. However, domestic strengths—such as rising income prospects, a recovering labor market, an ongoing investment upcycle, and a robust rebound in tourism—could provide the necessary uplift to offset external headwinds and support economic expansion.

Table 2: Real GDP by industry components

Growth, y-o-y%	2023	2024	2025F	
			Bank Islam	BNM
Real GDP (by industry)	3.6	5.1	4.7	4.5-5.5
Agriculture	0.7	3.1	1.5	2.2
Mining & Quarrying	0.5	0.9	1.1	-0.8
Manufacturing	0.7	4.2	4.0	3.9
Construction	6.1	17.5	10.2	11.0
Services	5.1	5.4	5.4	5.7

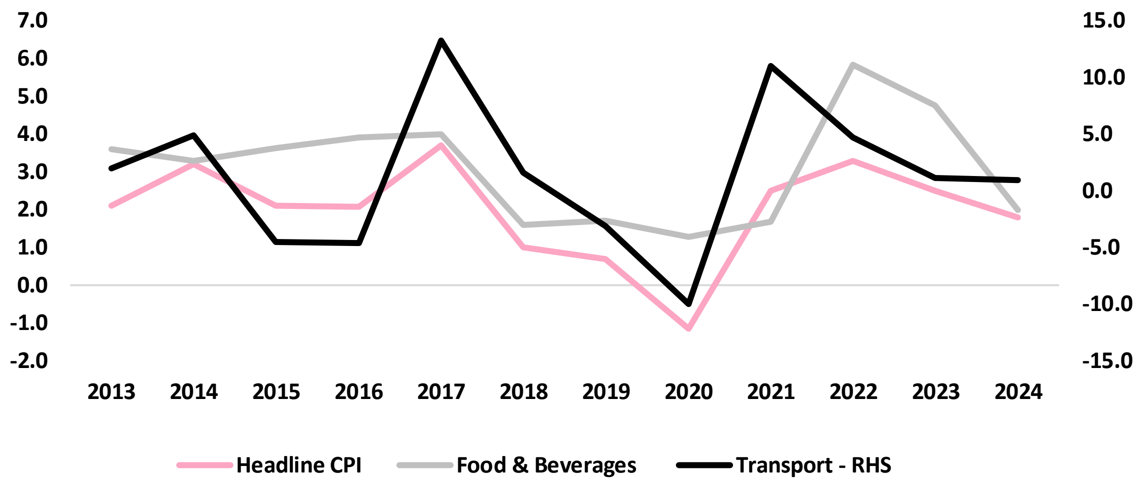
Sources: BNM, Bank Islam

- **Broad-based modest growth is expected across all economic sectors, except the services sector.** BNM anticipates the services sector as the key catalyst of growth to increase by 5.7% in 2025, slightly higher than last year's growth and marginally above our forecast of 5.4%, which matches last year's performance. The services sector is foreseen to be mainly driven by transport and storage subsector, supported by sustained growth in air passenger traffic, the launch of new and upgraded highways, the operationalization of LRT 3, and steady growth in logistics and storage activities. Tourism-related industries are also anticipated to benefit from improving inbound tourism and travel receipt, bolstered by visa-free access for Chinese and Indian tourists, ASEAN chairmanship and the Visit Malaysia 2026 campaign. Meanwhile, BNM forecasts the manufacturing sector to grow at 3.9%, slightly below our 4.0% projection, as the strong growth in E&E and consumer-related industries is partially offset by slower performance in primary and construction-related industries. The E&E sector, however, is expected to benefit from the global tech upcycle, with growth anticipated across all semiconductor segments. For the construction sector, BNM expects sustained double-digit growth to continue this year with a 11.0% growth versus our forecast of 10.2%, driven by activities in non-residential, special trade and residential subsectors. The special trade subsector will benefit from small-scale Budget 2025 projects and the completion of large infrastructure works while the residential subsector will see growth from new affordable housing projects and government incentives. As for mining & quarrying, BNM foresees the sector to contract by 0.8% (Bank Islam: +1.1%) due to maintenance of key oil and gas facilities that may impact the production level, while growth in the agricultural sector is forecast to soften to 2.2% (Bank Islam: 1.5%).

HIGHER HEADLINE INFLATION EXPECTATION WITH SUBSIDY RATIONALISATION

- **We anticipate headline inflation to average 2.7% in 2025**. Our inflation falls within the BNM's forecast range between 2.0% and 3.5%. This projection considers the implementation of the targeted RON95 subsidy by mid-2025, assuming the average price of Brent crude oil is USD 75/barrel. Additional factors include broader coverage of the Sales & Services Tax (SST) and the increase in minimum wage, which is likely to raise operating costs, leading businesses to pass these costs to consumers. Other potential upside risks include a hike in electricity tariff, which is expected to be raised by 2H2025, with the new rates to be determined after a revision. BNM stated that the impact of policy measures on inflation depends on the specifics of their implementation, with the effect expected to be transitory and manageable.

Chart 1: Consumer Price Index (CPI) with key components



Sources: BNM, Bank Islam

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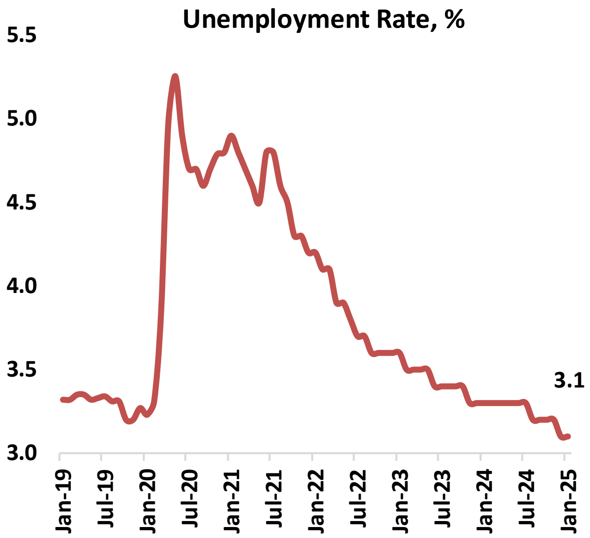
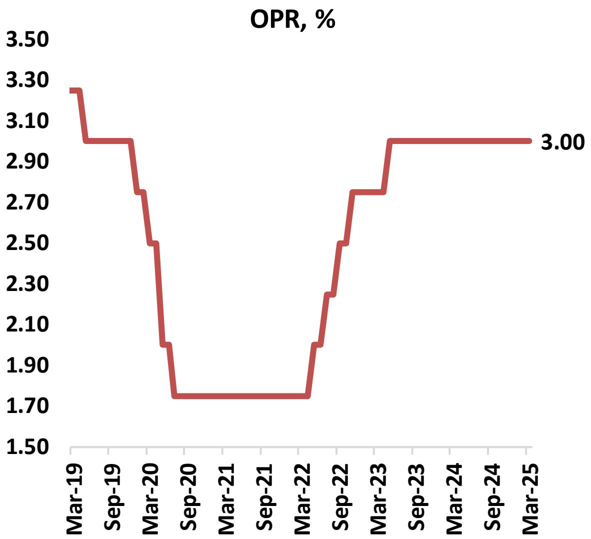
Chart 2: Unemployment Rate and Overnight Policy Rate (OPR)





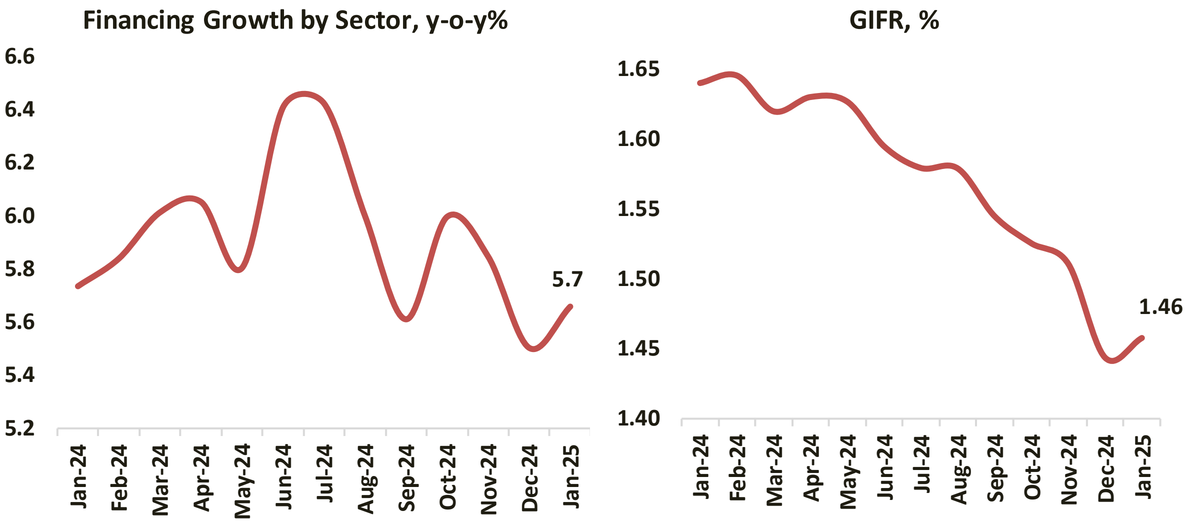
Sources: BNM, Bank Islam

- **We believe that Malaysia's labour market will remain healthy in 2025.** BNM believe the unemployment rate to decline to 3.1% this year, slightly optimist than our forecast of 3.2% amidst continued employment growth. Income growth is expected to improve, driven by higher labor utilization and supportive government policies, including the implementation of an elevated minimum wage and salary adjustments for civil servants under the Public Service Remuneration System (SSPA).

- **BNM could keep OPR unchanged at 3.00% until the year-end.** BNM maintained the OPR at 3.0% for the eleventh consecutive Monetary Policy Committee (MPC) meeting during its second meeting of the year. This interest rate pause, which began in July 2023, matches the longest period of rate stability previously recorded between September 2014 and May 2016 (11 meetings). The decision was in line with expectations, reflecting BNM's assessment that the current rate level is consistent with its inflation and growth projections. In its latest Monetary Policy Statement (MPS), BNM expressed a cautiously optimistic outlook on the global economy, citing factors such as favorable labor market conditions, easing inflation, more accommodative monetary policies, and the ongoing tech upcycle. The central bank also noted its focus on evaluating the potential impact of supply shocks arising from both external factors, such as global supply chain disruptions, and domestic policy reforms and MPC carefully considered the short-term and long-term effects of these shocks.

FINANCING GROWTH IN 2025 TO BE SUPPORTED BY RESILIENT DOMESTIC DEMAND

Chart 3: Financing Growth and Gross Impaired Financing Ratio (GIFR)



Sources: BNM, Bank Islam

- **Total financing activities has improved to 5.7% in 2024 (2023: 5.3%) amid resilient economic recovery, and we expected this trend to persist this year, supported by stable economic momentum, sturdy labour market conditions, and improved households' income.** Asset quality is also predicted to remain resilient, with GIFR likely remain stable at around 1.5%.