

MALAYSIA

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MALAYSIA: STRONG GROWTH, HIGH EXPOSURE TO THE SEMICONDUCTOR SECTOR

Malaysia's economic growth continues to be robust and is projected to remain resilient over the next two years, underpinned by vigorous domestic demand and sustained global consumption of electronic goods. Unlike other ASEAN economies, however, Malaysia has derived little benefit from the decline in Chinese exports to the US market. Moreover, its imports of Chinese products have risen sharply, putting pressure on the manufacturing sector. Like its regional peers, Malaysia is actively expanding its trade and financial partnerships to diversify its exports and attract investment—critical steps to ascending the value chain in artificial intelligence (AI) components.

STRONG ECONOMIC GROWTH

In 2025, Malaysia's growth was strong, as in other ASEAN countries. It rebounded in Q4 2025 (+6.3% year-on-year compared to +4.6% in the first three quarters), driven by a sharp increase in manufacturing output (along with demand for electronic products, as illustrated in Chart 1), services and agriculture. Growth in production for export (+5.7%) outpaced that of the domestic market (+4.9%).

Over 2025 as a whole, economic growth reached 5.2%, slightly higher than in 2024 (5.1%) and over the period 2011–2024 (excluding the pandemic). By way of comparison, growth in Indonesia reached 5.1% in 2025, 8% in Vietnam and 2.4% in Thailand.

In 2026, Malaysian economic growth is expected to remain strong (4.8%), although below its potential (5%) and the pace expected in other ASEAN countries (excluding Thailand). Economic activity will be bolstered by increased government support for the most disadvantaged households (+15%), a buoyant labour market (the unemployment rate stabilised at just 3% at the end of 2025, an unprecedented level, and real wages rose by 2.4% year-on-year in Q3 2025), an increase in public investment, and a tourism sector that is expected to remain dynamic. In 2025, the number of tourists exceeded that of 2019 for the first time since the COVID-19 pandemic. Furthermore, demand in the electronics sector is expected to remain strong.

The main downside risks to growth are: i) a downturn in the electronics market (which constitutes 36.8% of Malaysia's total exports), ii) the implementation of new tariffs on electronic products by the US, iii) a significant slowdown in Chinese demand (Malaysia's third largest export partner, accounting for 12.4% of its exports), iv) a sharp downturn in the property market (sales fell by 1.8% y/y in the first three quarters of 2025 and house prices rose by only +0.1% in Q3 2025), v) an influx of low-cost Chinese products onto the domestic market.

CAUTIOUS MONETARY EASING

Despite the slowdown in inflation (from +1.8% in 2024 to +1.4% in 2025) driven by lower prices for household capital goods, the central bank (BNM) has adopted a very cautious approach to its monetary easing policy. Its key rates were reduced by only 25 basis points (bp) over the whole of 2025, whereas the central banks of Indonesia and Thailand reduced theirs by 125 bp and 100 bp respectively. The BNM's cautious stance can be attributed, on the one hand, to US trade policy, which has resulted in considerable instability in the financial markets, and, on the other hand, to the structurally high volatility of the ringgit. This currency is more exposed to capital outflows from foreign investors than other Asian currencies such as the Thai baht, due to a larger stock of foreign portfolio investments (35.5% of GDP in Malaysia compared to 23.5% of GDP in Thailand). In 2026, the BNM is expected to maintain its policy rates unchanged.

FORECASTS

	2023	2024	2025	2026e	2027e
Real GDP growth, %	3.5	5.1	5.2	4.8	4.4
Inflation, CPI, year average, %	2.5	1.8	1.4	1.5	1.9
General gov. balance / GDP, %	-6.7	-4.1	-3.8	-3.5	-3.2
General gov. debt / GDP, %	64.3	63.9	63.4	63.3	62.9
Current account balance / GDP, %	1.1	1.4	1.9	1.9	1.9
External debt / GDP, %	69.3	69.9	69.4	69.1	68.8
Forex reserves, USD bn	101	103	111	115	118
Forex reserves, in months of imports	4.6	4.8	4.6	4.7	4.7

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MALAYSIA: ECONOMIC GROWTH BOOSTED BY STRONG DEMAND OF ELECTRONIC GOODS

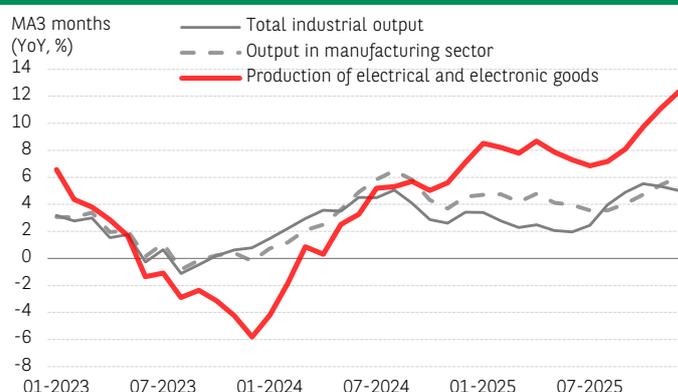


CHART 1

SOURCE: BNM, CEIC

ROBUST EXTERNAL ACCOUNTS

In 2025, external accounts remained solid. The country maintained a stable and very moderate net debtor position (-0.5% of GDP). The current account surplus increased by 0.2 percentage points (pp) to 1.6% of GDP, compared to 0.1% of GDP in Indonesia, 4% in Thailand and 6.7% in Vietnam. This figure is below its long-term average of 2.8% over the last ten years. This increase was the result of higher tourism revenues. The trade surplus experienced a slight decline, as the contraction in imports was more than offset by that in exports. Dividends paid to foreign companies remained high (2.9% of GDP).


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Malaysia’s exports of goods saw only a modest increase in comparison with other Southeast Asian countries (+6.5% in 2025 compared to +12.9% in Thailand and +16.7% in Vietnam) and, relative to GDP, even fell by 1.3 points. This is not simply a price effect, as export volumes slowed significantly. However, exports of electrical and electronic products increased by 18.4% over the year as a whole.

Singapore remains Malaysia’s leading export partner (15.8% of total exports), ahead of the United States (14.1%) and China (11.7%), but the Malaysian government is striving to diversify its export markets. In 2025, its trade surplus with the United States increased by 45.3%, while its deficit with China widened further (+62%, as illustrated in Chart 2). Malaysia is the Southeast Asian country with the largest increase in its trade deficit with China, after Indonesia. Furthermore, Malaysia is one of the Southeast Asian countries that has benefited least from China’s loss of market share in the US market, despite having a lower effective tariff rate than other Southeast Asian countries (excluding Singapore). In 2025, its market share in the United States increased by just 0.1 pp, representing just 1.7% of total US imports (compared to +1.5 pp and +0.7 pp for Vietnam and Thailand respectively, whose market shares stood at 5.7% and 2.7% respectively). Malaysia, on the other hand, was severely affected by competition from Chinese products on its domestic market. Its imports from China increased by 26%, with the sharpest increases occurring in computers (+147%) and vehicles (+40.6%), leading to a decline in domestic vehicle production (-5.9%).

In 2025, net FDI flows increased by 1.6 pp to 2.3% of GDP, a level never before reached in the last ten years (0.9% of GDP on average over the period 2020-2024), reflecting the country’s strategy of openness. Investments from Singapore increased by nearly 20%, following the establishment of a partnership between the two countries in the Johor Special Economic Zone in January 2025. In contrast, European investments declined (-5.1%), while those from the United States remained stable. FDI from Singapore accounts for 27% of Malaysia’s FDI stock compared to 10.3% for US FDI. By sector, foreign investment accelerated significantly in services, particularly IT services (+41.5% y/y). Nearly 55% of foreign investment is concentrated in services, compared to 38.3% in manufacturing.

Despite a cautious monetary policy, Malaysia has not been immune to the capital outflows that have affected Asian countries. However, unlike India and Indonesia, foreign investment inflows picked up in Q4 2025. Thus, unlike the Indian and Indonesian currencies, in 2025 as a whole, the Malaysian ringgit appreciated by 9% against the USD and by 5.7% in nominal effective terms, while foreign exchange reserves increased by USD 7 billion to USD 111 billion (4.6 months of imports of goods and services).

AI: WELL POSITIONED BUT NEEDS TO ASCEND THE VALUE CHAIN

Malaysia is the twelfth largest exporter of products used by the artificial intelligence sector, as defined by the WTO (including raw materials), with a 2.8% share of the global market, ahead of Thailand but trailing behind Vietnam. It is recognised as one of the countries with a strong presence in the assembly, packaging and testing (OSAT) sector. Malaysia mainly exports integrated electronic circuits, which have seen a market share increase of 2 percentage points over the last five years (7.3% of global exports in 2024). Its sales are concentrated in Asia (78.7% of its exports), particularly Singapore, Hong Kong and China.

MALAYSIA: THE BILATERAL TRADE DEFICIT WITH CHINA HAS WIDENED

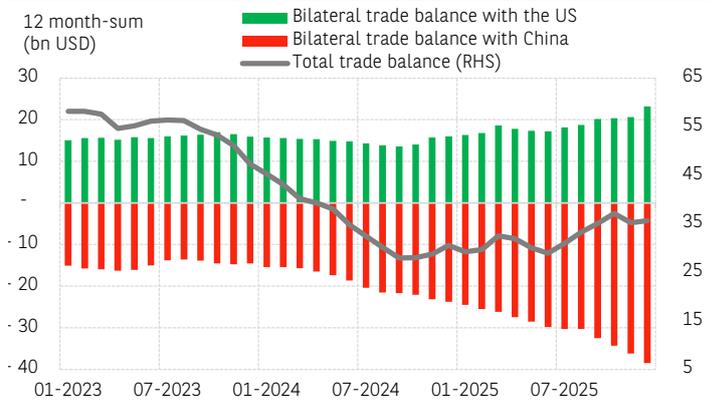


CHART 2 SOURCE: BNM, CEIC

In the first eleven months of 2025, Malaysia benefited from strong growth in demand for semiconductors. Its exports of components used by the AI sector (integrated electronic circuits, printed circuits and components for semiconductor manufacturing) increased by 54.7% y/y, now accounting for 37.1% of its total exports. Exports to the United States increased the most (+41.8% to reach 13.1% of total exports).

However, given Malaysia’s position in the value chain (OSAT activities), the value added generated by the electronics sector remains modest (4.8% of GDP in 2024) and the share of employment in the sector is limited (4% of total employment according to UNCTAD). Malaysia aims to ascend the value chain and, in particular, to become a strategic player in the production of silicon wafers on which integrated electronic circuits are engraved. However, this activity, dominated by Taiwan and South Korea, requires attracting FDI and increasing the level of skills for workers. However, FDI are currently declining in favour of services.

Nevertheless, the signing of a free trade agreement with South Korea in October 2025 could stimulate Korean investment in the country. In terms of AI use, Malaysia stands out as the Southeast Asian country (excluding Singapore) with the most advanced human and logistical capabilities for leveraging this technology. According to the IMF’s AI preparedness index, it ranks 20th out of 173 countries in the human capital and labour policies sub-component, and 45th for the quality of its digital infrastructure, ahead of other Southeast Asian countries.

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