



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Economic and Monetary Review **2025**



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Key Highlights

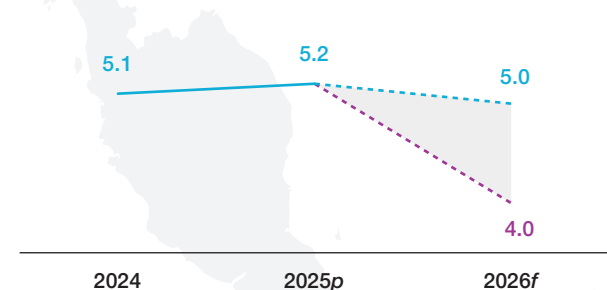
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Key Highlights on Economic Development and Outlook

Malaysia's economy to grow between 4% and 5% in 2026

Malaysia's Real GDP Growth (Annual change, %)



p Preliminary
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

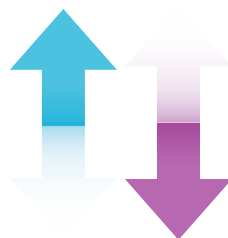
Factors driving growth outlook

- Steady household spending**
Firm labour market conditions amid supportive policy measures
- Strong investment activity**
Realisation of approved projects as well as continued roll-out of projects under national masterplans
- Continued exports**
Higher global demand for semiconductors and steady inbound tourism

Growth prospects remain subject to both upside and downside risks

Upside

- Stronger global demand for E&E and robust tourism** boosting export growth
- Higher external demand** amid better-than-expected global growth

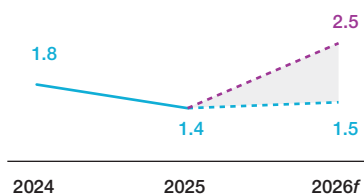


Downside

- Prolonged Middle East conflict** affecting global inflation, economy and trade
- Disruption in domestic commodity production**

Headline inflation to average between 1.5% and 2.5% in 2026

Headline Inflation (Annual change, %)



Upside

- Further escalation in Middle East conflict** leading to highly elevated global commodity prices

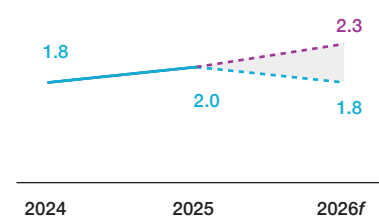
- Higher input costs from **trade policy uncertainty and weather disruptions**

Downside

- Weaker global demand** weighing on domestic activity

- Softer global commodity prices and stronger ringgit** that could ease import costs

Core Inflation (Annual change, %)



f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

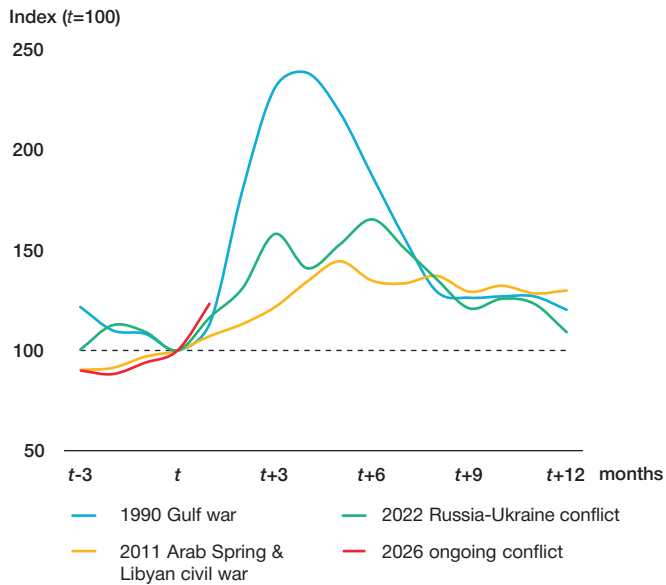
Key Highlights on Special Issue

Oil price shocks from the Middle East conflict could affect Malaysia's growth and inflation

The overall impact on Malaysia will depend on the duration and severity of the conflict and how far it affects global energy production and prices

The Middle East conflict has materially disrupted global oil supply, pushing prices sharply higher

Monthly Average Brent Price Trajectory Following Military Conflict



Note: Time t denotes the month of the disruption events.

Source: Bloomberg, CEIC, newsflow, Bank Negara Malaysia estimates

Malaysia is exposed mainly through energy prices, external demand, and financial markets



Global oil price shock may lead to...

- Higher energy prices, raising import and production costs
- Weaker global demand as higher energy costs slow economic activity
- Volatile financial markets amid heightened uncertainties



However, impact partly cushioned by...

- Net energy exports revenue mainly driven by exports of Liquefied Natural Gas (LNG)
- BUDI95 fuel subsidies limit the passthrough from global oil prices to domestic fuel prices

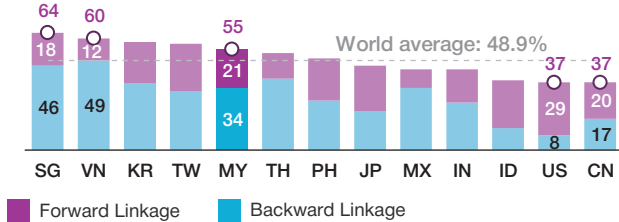
Key Highlights on Box Articles

Disentangling Malaysia's Value Chains in the Age of Turbulence

To thrive in a geopolitically fragmented environment, Malaysia must position itself as a reliable, high-value node within global value chains (GVCs)

Malaysia's GVC participation is above global average

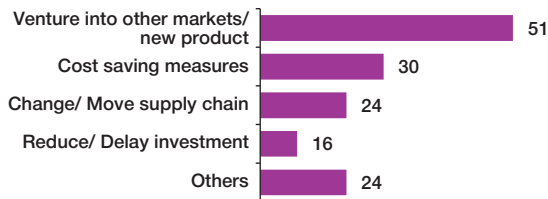
Forward and Backward GVC Linkages by Country
Share of gross exports in 2022 (%)



Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

Export resilience underpinned by firms' ability to adapt in the new tariff environment

Strategies to mitigate negative impacts from US tariffs
Share of survey respondents (%)



Note: Percentage shares do not sum to 100% as respondents could mitigate challenges using more than one strategy.

Source: Bank Negara Malaysia

Cementing Malaysia's position as the 'indispensable middle' within GVCs is key



Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

Sustaining private consumption requires addressing pressures on household income and living costs

Shifts in structural factors, income & composition of employment and household balance sheet...



Diminishing sociodemographic dividends



Slower wage growth worsening cost-of-living pressures



Greater role of **the gig economy and government cash transfers** to support spending



Gradual decline in household liquid buffers amid elevated debt levels

...necessitate policy initiatives to ensure sustainable consumption growth

Maintain Low and Stable Inflation

- ✓ **Countercyclical** monetary and fiscal policies
- ✓ **Targeted subsidies and supply side policies** to contain the rise in cost of living

Raise Income

- ✓ Create more **high-paying jobs** and raise quality of workforce
- ✓ Strengthen **wage institutions**

Harness the 'second demographic dividend'

- ✓ Broaden **social protection coverage**
- ✓ Increase **productive investments** to boost capital income

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Executive Summary |

Executive Summary

Economic, Monetary and Financial Developments in 2025

Despite facing considerable external uncertainties, global economic activity was stronger than expected in 2025: Global growth remained steady at 3.4% (2024: 3.3%) even as rising trade barriers and heightened policy uncertainty posed risks to the outlook. Growth in the US was supported by steady domestic demand, while the euro area continued its growth recovery amid moderating inflation and accommodative monetary conditions. In China, frontloading of exports due to tariff concerns and targeted policy support helped to sustain growth, ensuring that authorities' 2025 growth targets were met, despite ongoing weakness in the property sector and subdued consumer sentiment. Notably, global trade outperformed expectations as successful negotiations, product-specific exemptions and frontloading of shipments helped ease the impact of initial tariff developments. Strong technology-related demand, particularly the boom in artificial intelligence (AI)-related investments, lifted trade activity even as the earlier support from frontloading waned.

Global headline inflation eased in 2025: Global headline inflation moderated in 2025, supported by improving commodity supply conditions, the absence of excessive demand pressures and lower imported inflation as many currencies strengthened against the US dollar. Disinflation became more pronounced towards the second half of 2025 across most economies, reinforcing the downward global inflation trend. In the US, however, earlier disinflation proved short-lived, as tariff pass-through effects became gradually more evident as the year progressed, particularly for durable goods.

Global financial conditions loosened further amid continued global monetary policy easing in the face of tariff-induced volatility: Global financial conditions eased in 2025, supported by more accommodative monetary policy across major central banks, despite

episodic volatility arising from uncertainty over US trade measures and shifting expectations about the global monetary policy rate path. Financial market sentiments weakened early in the year following sweeping US tariff announcements. This triggered a broad sell-off in risk assets, a weaker US dollar, and portfolio rebalancing towards alternative safe-haven assets. The subsequent tariff pause and progress in trade negotiations helped stabilise markets, prompting a rebound in risk-taking activity. Towards the later part of the year, synchronous monetary policy easing by major central banks reinforced the global shift towards more accommodative financial conditions. Against this backdrop, emerging markets experienced portfolio inflows alongside currency appreciation.

The shift in global market sentiment and broad-based US dollar weakening, together with positive domestic growth prospects, contributed to a stronger ringgit and net non-resident inflows into the Government and corporate bond markets: Malaysia's financial market developments were largely influenced by shifts in global capital flows, as investors diversified away from US assets amid trade-related uncertainties and monetary policy easing in most advanced economies. Amidst these external developments and further supported by sound domestic macroeconomic fundamentals and favourable growth prospects, Malaysia continued to attract foreign inflows into the bond market. The domestic bond market benefitted from global portfolio rebalancing, with net non-resident inflows rising to RM36.5 billion (2024: RM0.5 billion), partly contributing to broad declines in domestic bond yields. Meanwhile, the equity market rebounded from the second quarter onwards amid improved global risk sentiment and strong domestic corporate earnings. In the foreign exchange market, the ringgit recorded the strongest appreciation against the US dollar in the region. Initially, this was driven by increased investor interest in emerging market assets and later reinforced by policy rate cuts by major central banks and positive sentiment surrounding Malaysia's economic outlook.

The Malaysian economy expanded by 5.2% in 2025, anchored by resilient domestic demand:

The Malaysian economy grew by 5.2% (2024: 5.1%), supported by resilient domestic demand that helped cushion the effects of a highly challenging global environment. Household spending remained firm, supported by positive labour market conditions and more targeted policy measures. Investment activity increased solidly, driven by continued progress in multi-year projects and strong investment approvals, particularly in high-technology services and advanced manufacturing.

The external sector demonstrated resilience despite shifting global trade dynamics and significant uncertainties. The current account of the balance of payments registered a higher surplus of RM31.8 billion, or 1.6% of GDP (2024: RM27.7 billion, or 1.4% of GDP). This was contributed by a continued surplus in the goods account and a turnaround in the services account into a surplus. The surplus in the goods account was underpinned by sustained electrical and electronics (E&E) exports. Malaysia's diversified export structure also provided continued resilience. While growth in intermediate imports moderated, capital imports, especially for data centre and information technology (IT) equipment, remained robust due to ongoing investment activity. The turnaround in the services account was supported by the increase in information and communications technology-related services exports and higher travel receipts. Meanwhile, the financial account recorded a higher net acquisition of foreign assets of RM21.4 billion (2024: net acquisition of RM4.9 billion) amid net portfolio outflows. This was partly offset by strong net foreign direct investment (FDI) inflows.

Headline inflation moderated further in 2025, while core inflation increased marginally:

In 2025, headline inflation moderated to 1.4% (2024: 1.8%), reflecting continued improvements in global supply conditions and the disinflationary effects of selected domestic policy measures. Softer global commodity and energy prices reduced production costs while the stronger ringgit helped contain import costs. The impact of domestic policy adjustments was also milder than expected, owing to the design of measures such as electricity tariff restructuring and the phased BUDI95 rollout, which helped cushion household cost burdens. Core inflation edged up to 2% (2024: 1.8%), driven mainly by higher-weighted services components, in line with firm domestic

demand. Nonetheless, price pressures remained contained, with inflation pervasiveness trending below historical averages.

Monetary policy remained supportive of the economy amid price stability:

The Overnight Policy Rate (OPR) was reduced by 25 basis points to 2.75% in July 2025 as a pre-emptive measure to safeguard Malaysia's growth momentum while maintaining price stability. While domestic economic conditions remained resilient, the Monetary Policy Committee (MPC) assessed that heightened uncertainties from tariff measures and geopolitical developments posed additional downside risks to the growth outlook. The benign inflation environment provided the policy space to act early. Overall, the monetary policy stance was deemed appropriate and supportive of the economy. Following the OPR reduction, banks' overall cost of funds declined in line with lower interbank and deposit rates. This, together with effective transmission to reference rates, led to lower lending rates on new and existing loans, supporting credit flows to households and businesses. Liquidity conditions in the domestic banking system also remained supportive of financial intermediation, aided by the reduction in the Statutory Reserve Requirement (SRR) ratio from 2% to 1% in May 2025.

Continued expansion of credit to the private non-financial sector:

Credit to the private non-financial sector expanded by 5.4% in 2025 (2024: 5.2%), supported by resilient domestic economic conditions and lower borrowing costs following the OPR reduction. Outstanding loans grew by 5% (2024: 5.7%). Households remained the major contributor to loan growth, supported by favourable labour market conditions, income-related policy measures and lower lending rates. For businesses, loan growth moderated following slower growth in working capital loans among non-SMEs. Nonetheless, loan growth for investment-related purposes remained above pre-pandemic levels, indicating continued strong investment momentum. Outstanding corporate bonds expanded by 6.9% (2024: 3.4%), reflecting several large issuances for capital expenditure amid lower bond yields and flexible financing structures. Overall, credit conditions remained supportive of financing needs, underpinned by banks' healthy capital and liquidity buffers. Repayment assistance continued to be available for borrowers facing debt-servicing challenges while financing facilities and credit guarantees continued to offer targeted support for SME financing.

Outlook and Policy in 2026

Global growth is expected to expand at a more moderate pace in 2026: Growth will be supported by resilient domestic demand and robust investment in technology, particularly AI. However, global trade growth is projected to slow as the temporary boost from frontloaded shipments fades and the impact of tariffs materialises. Even so, demand for E&E, machinery and equipment, AI-related exports and steady tourism activity will provide support to trade growth. Nevertheless, global growth and trade will continue to face headwinds from the uncertainties surrounding the ongoing conflict in the Middle East and higher tariffs. The prevailing disinflationary trend in global inflation now faces greater uncertainty as the Middle East conflict disrupts energy markets and supply chains, raising risks of higher inflation in 2026. Global financial conditions are projected to remain broadly accommodative, underpinned by generally supportive monetary policy. Nonetheless, central banks are expected to maintain a cautious stance amid the prospect for higher inflation arising from the Middle East conflict. Financial market sentiments will remain subject to shifts in monetary policy expectations, evolving trade and geopolitical dynamics and potential market corrections. Overall, risks to the global growth outlook are tilted to the downside. Higher tariffs could weigh on global trade flows while prolonged and more destructive conflict in the Middle East and continued supply disruptions could further push commodity prices higher, affecting financial markets, global inflation and growth. Conversely, stronger-than-expected technology spending, a milder tariff impact on growth and greater policy support in major economies present upside risks to growth.

The Malaysian economy is projected to grow between 4%–5% in 2026: Domestic demand is forecast to remain the main driver of growth in 2026 amid steady private sector spending. Household spending will continue to be underpinned by firm labour market conditions and ongoing fiscal support. Investment activity will continue to expand, albeit at a more moderate pace. While intensified competition from China's production surpluses will continue to weigh on non-E&E exports, the E&E sector will benefit from strong semiconductor demand and the ongoing realisation of data centre investments. Tourism activity is also expected to remain steady, aided by promotional efforts in conjunction with Visit Malaysia 2026 and visa exemptions for visitors from China and India. Nevertheless, the conflict in the Middle East may weigh down exports and tourism activities.

Malaysia's growth outlook remains subject to uncertainties: Overall, external downside risks could arise from weaker global trade amid the conflict in the Middle East and tariffs. The global AI momentum also remains sensitive to shifts in global financial markets, which could spill over to production and trade. Domestically, lower-than-expected commodity output may weigh on growth. On the upside, better-than-expected global growth outlook, stronger E&E demand and more robust tourism activity could provide further lift to Malaysia's growth prospects.

Headline and core inflation are expected to average between 1.5%–2.5% and 1.8%–2.3%, respectively in 2026: Inflation is expected to remain moderate and close to its long-term average. While global commodity prices are likely to be volatile amid the conflict in the Middle East, the stronger exchange rate could provide some support in containing imported costs. Domestic policy measures will also help mitigate the pass-through of global cost pressures to domestic prices. Overall, the inflation outlook will be largely influenced by external factors. Upside risks could arise from prolonged supply disruptions, trade policy uncertainty and elevated commodity prices, potentially amplified by the conflict in the Middle East and adverse weather conditions. Conversely, downside risks to inflation mainly stem from weaker global demand and softer commodity prices.

Domestic monetary and financial conditions to remain supportive of financing needs amid continued economic expansion: Credit demand will be driven by positive domestic growth and income prospects. Credit supply is likewise expected to remain forthcoming, aided by conducive funding conditions and banks' healthy liquidity and capital positions. Overall, domestic financial conditions are expected to remain broadly favourable, supported by generally accommodative global financial conditions and Malaysia's strong economic fundamentals. These factors are also expected to sustain positive investor sentiment towards domestic financial markets. External factors such as unexpected shifts in expectations around the path of US monetary policy, adjustments in valuations of AI-linked equities and heightened geopolitical uncertainties could, however, lead to periods of heightened market volatility. Even so, any spillovers to domestic financial conditions will continue to be manageable given Malaysia's strong economic fundamentals, deep domestic institutional investor base and well-capitalised banking system. BNM will continue to ensure adequate banking system liquidity to support financial intermediation and maintain orderly market conditions.

Monetary policy will continue to support sustainable economic growth, while maintaining an environment of price stability:

Monetary policy in 2026 will continue to be guided by the evolving balance of risks to Malaysia's inflation and growth outlook. The Middle East conflict is a significant development, with implications to financial markets, global inflation and growth. The overall impact on Malaysia will depend on the duration and intensity of the conflict, as well as the degree to which it

disrupts global energy production and logistics. It is important to note that Malaysia is facing the conflict from a position of strength, characterised by robust domestic demand, moderate inflation, a sound financial sector and a resilient external position. Malaysia's position as a net energy exporter also provides some buffer against external headwinds. Nevertheless, the MPC remains vigilant to developments in this conflict, to ensure that monetary policy continues to support sustainable economic growth while preserving price stability.

Economic, Monetary and Financial Developments in 2025

Economic, Monetary and Financial Developments in 2025

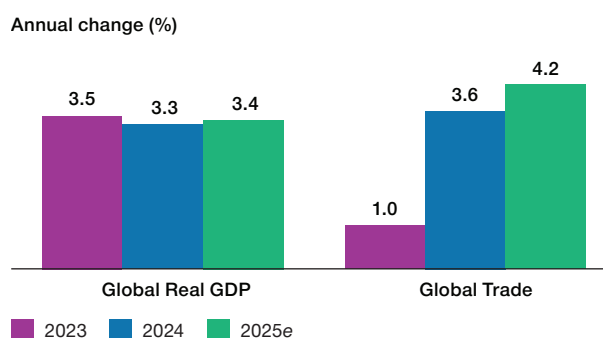
2025: Malaysian economy recorded a stronger growth, driven by resilient domestic demand

Better-than-expected global growth in 2025 despite external uncertainties

Global economic growth turned out better-than-expected in 2025. This occurred despite earlier concerns that higher trade barriers and heightened policy uncertainty would trigger a more pronounced slowdown (Chart 1.1). Although the United States (US) announced substantial import tariffs early in the year, the actual US effective tariff rate (ETR) was lower than initially expected and eased gradually by year-end.¹ This helped to limit the negative impact on global trade activity. Global trade held firm in the first half of the year, aided partly by the frontloading of shipments ahead of tariff increases. As the boost from frontloading began to fade, a temporary pause in tariff implementation also supported trade activity toward year-end. Stronger-than-expected technology-related demand, driven by growing investments in artificial intelligence (AI) also lifted trade activity especially in the second half of the year. Resilient domestic demand in major economies played a role too. Continued real income growth as well as supportive fiscal and monetary policies helped bolster consumption and investment. Global inflation moderated as commodity prices eased amid improving supply conditions. Collectively, these factors helped cushion the impact of tariff-related uncertainties and geopolitical tensions, supporting global economic resilience and contributing to higher-than-expected global GDP and trade growth in 2025.

¹ Between February and April 2025, the US announced major tariff measures on trading partners (Chart 1.2). However, based on World Trade Organization estimates, the actual US ETR, which takes into account reciprocal tariff rate, product tariff rate and tariff exemptions, eased to around 17.4% towards the end of the year.

Chart 1.1: Global Real GDP and Trade Growth



e Estimate

Note: Global real GDP is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.

Source: International Monetary Fund (IMF) January 2026 World Economic Outlook (WEO)

Growth in advanced economies moderated slightly in 2025. In the US, private consumption held broadly steady, underpinned by strong labour markets and healthy household balance sheets. Although employment growth weakened in the second half of the year, household spending remained firm. This was contributed by sustained wage growth, drawdown of household savings and positive equity wealth effects. Moreover, strong investments in information processing equipment and software also supported growth. The euro area continued its recovery as inflation moderated and monetary policy remained accommodative, although fiscal constraints and political uncertainties weighed on the pace of expansion.

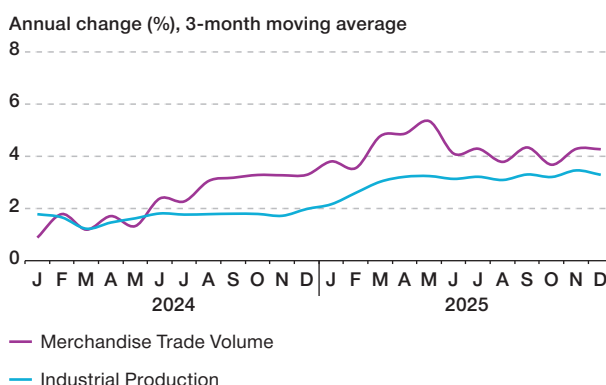
Regional economies showed resilience despite global trade challenges. In China, production and demand were supported by strong frontloading activity early in the year and the government's trade-in programme for household durables. However, growth remained modest compared to the previous year due to ongoing weakness in the property sector and subdued consumer confidence. In several Asian economies, easier financial conditions and targeted fiscal measures supported domestic demand. Meanwhile, supply-chain

diversification and trade rerouting strategies helped mitigate the impact of tariffs on external demand.

Similarly, global trade performed better-than-expected as actual tariff outcomes were lower than earlier projections. This partly reflected the temporary pause in tariff implementation during specific periods and exemptions for certain products. Successful trade negotiations also helped to reduce ETR (Chart 1.2) and uncertainty. For example, the initial US tariff rates on China of 145% on 9 April declined to 20% on 10 November. Firms also adapted quickly by frontloading shipments, substituting from high-tariff to low-tariff items and utilising bonded warehouses to defer tariff payments. Of significance, technology-related demand also exceeded initial expectations and saw a steady increase as the year progressed. The global semiconductor market sales for 2025 expanded by 25.6% in 2025 (2024: 19.7%),² driven by stronger sales of AI-related chips and data centre hardware. These combined factors supported trade activity even as the initial boost from frontloading gradually faded toward year-end (Chart 1.3).

Global headline inflation eased in 2025, reflecting improved commodity supply conditions, the

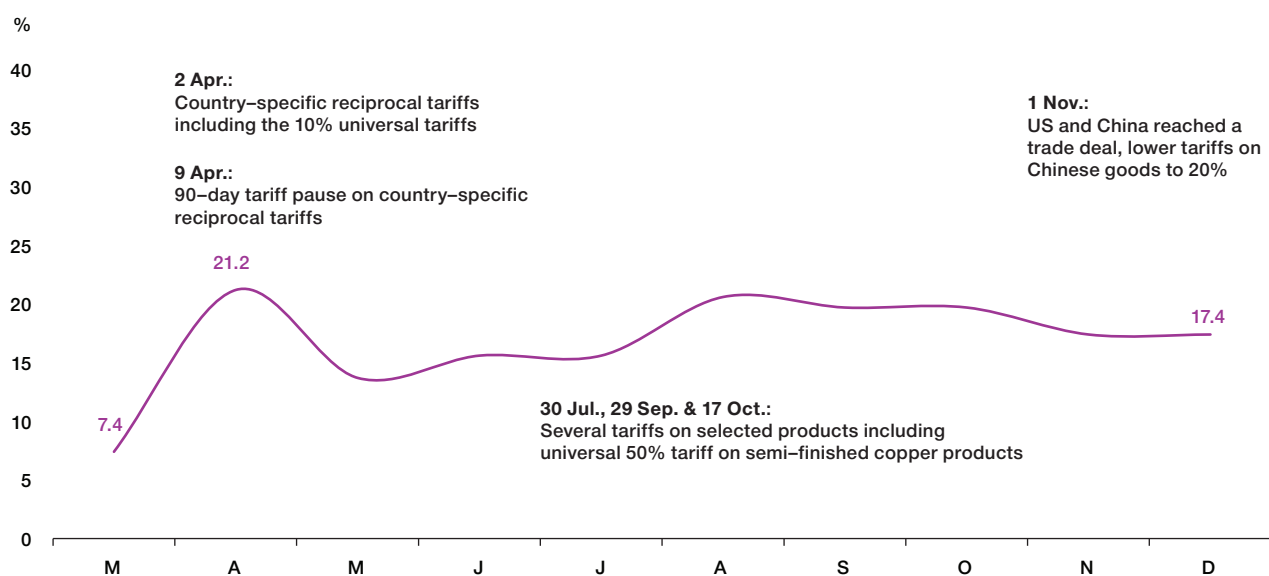
Chart 1.3: Global Merchandise Trade Volume and Industrial Production Growth



Source: CPB Netherlands Bureau for Economic Policy Analysis

absence of excess demand and lower imported costs following the broad weakness of the US dollar (Chart 1.4). Most economies experienced more pronounced disinflation throughout the year, reinforcing the downward trend in global inflation. In the US, however, early-year disinflation was short-lived.³ There were signs that tariffs were being passed through to consumers gradually, particularly in durable goods categories such as vehicles, electronics and furniture.⁴

Chart 1.2: Trade-Weighted Average Tariff Rate on US Imports in 2025



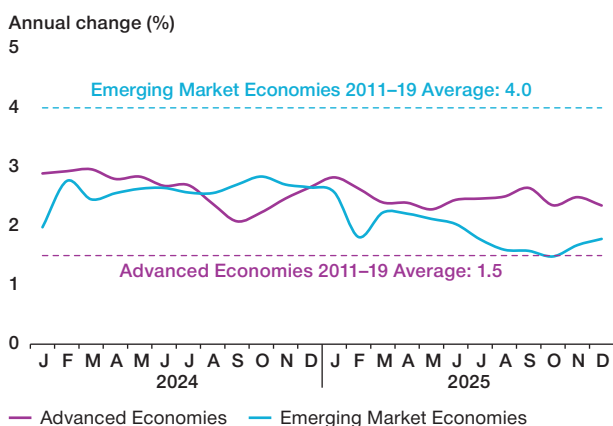
Source: World Trade Organization (WTO), The White House and Peterson Institute for International Economics

² Based on Semiconductor Industry Association (SIA) and World Semiconductor Trade Statistics (WSTS) Autumn 2025 report.

³ US headline Consumer Price Index (CPI) inflation accelerated to 2.8% in the second half of the year, higher than the 2.6% recorded in the first half and long-term average (2011–2019: 1.8%).

⁴ Based on 'How Tariffs Are Affecting Prices in 2025', Federal Reserve Bank of St. Louis (2025).

Chart 1.4: Global Headline Inflation



Note: October 2025 estimate excludes the US amid limited data availability due to the government shutdown.

Source: National authorities and Bank Negara Malaysia estimates

Global financial conditions eased further in 2025 amid continued global monetary policy easing in the face of tariff-induced volatility

In 2025, global financial conditions eased, supported by monetary policy accommodation from major central banks. This broad easing trend occurred against a backdrop of episodic volatility stemming largely from uncertainty over US trade measures and evolving expectations on the path of global monetary policy. Amid these factors, EMEs experienced portfolio inflows and currency appreciation, especially in the first half of the year.

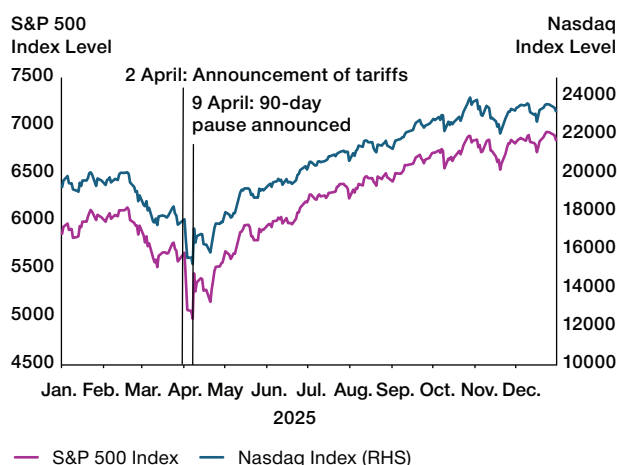
The year began with expectations that global financial conditions would continue easing – in line with the trend seen towards the end of 2024 – driven by more accommodative monetary policy in major economies. However, this easing trend saw a reversal early in 2025 given the challenging external environment as uncertainty surrounding US trade policy weighed negatively on sentiment. This created uncertainties on the path of global monetary policy, especially the Federal Funds Rate (FFR). Financial market uncertainty then peaked in the second quarter when the US administration announced sweeping tariffs on nearly all trading partners, and signalled the likelihood of further measures.

The announcement led to a broad sell-off in risk assets. This was most pronounced in the equity market, with the S&P 500 and Nasdaq recording their steepest declines since the pandemic (Chart 1.5). The US dollar also weakened substantially, with concerns over US fiscal policy sustainability worsening its decline.

Investors rebalanced their portfolios towards alternative safe-haven assets such as the Swiss franc (CHF) and gold, while some emerging market economies (EMEs) also attracted inflows as investors diversified away from US dollar-denominated assets (Chart 1.6).

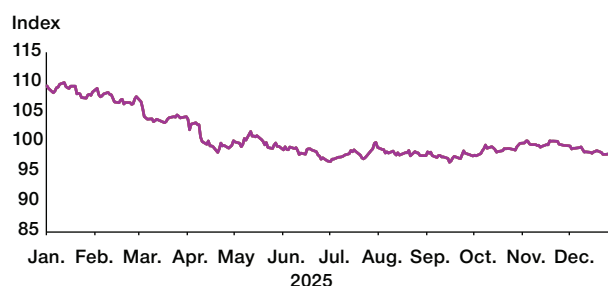
The 90-day tariff pause, announced just one week after the initial announcement of tariffs, alongside subsequent announcements of trade deals with selected countries offered reprieve, reducing uncertainties and improving sentiment. Risk assets rebounded from the earlier sell-off, demonstrated by US equities rallying sharply following the announcement. The rebound was followed by a sustained increase in the S&P 500, in part driven by high valuations of AI-related stocks.

Chart 1.5: S&P 500 and Nasdaq Index



Source: Bloomberg

Chart 1.6: US Dollar Index (DXY)



Note: The US dollar Index (DXY) is an index of the value of the US dollar against a basket of foreign currencies, namely EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), and CHF (3.6%).

Source: Bloomberg

Global financial conditions subsequently eased, with this trend persisting towards the end of 2025. This was supported by synchronous easing of monetary policies by major central banks including the Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE). The ECB

was the first to cut rates in April following the announcement of tariffs, with other advanced economy central banks following suit, including the BoE and the Reserve Bank of Australia (RBA). The Fed continued its path of gradual easing in September, followed by further cuts in October and December, reinforcing the global trend toward accommodative monetary conditions.

The ensuing shift in international capital flows and positive domestic economic prospects led to strong ringgit appreciation and inflows into the domestic bond market

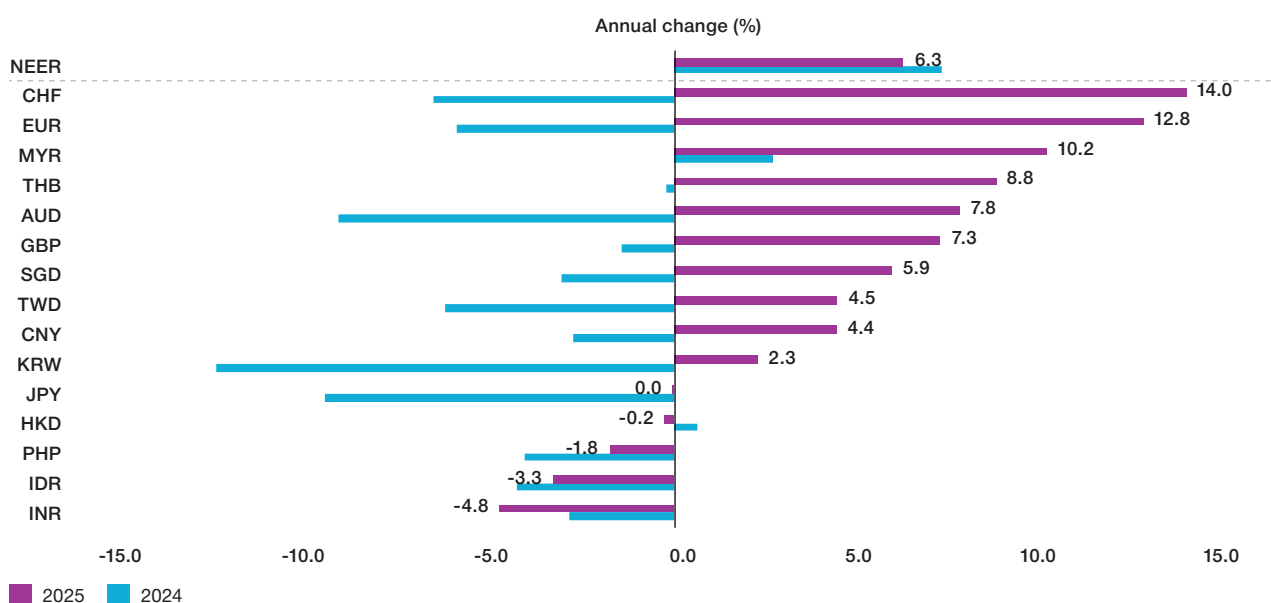
Domestic financial markets were heavily influenced by the shifts in capital flows in 2025, as investors moved away from US assets amid trade-related uncertainties and global monetary policy easing. Amid this challenging global environment, Malaysia emerged as an attractive investment destination in 2025. In particular, Malaysia’s sound macroeconomic fundamentals and favourable economic growth prospects, anchored by domestic demand and steady momentum in investment activities, contributed to positive investor sentiment and helped attract portfolio inflows. Structural reforms, ongoing infrastructure projects, political stability and credibility also reinforced confidence in the country’s medium-

term outlook. Further, Bank Negara Malaysia (BNM)’s ongoing coordinated efforts with the Government and corporates have also continued to balance two-way flows into the domestic financial market, including through the Qualified Resident Investor (QRI) programme.

In the foreign exchange market, the ringgit recorded the largest appreciation among regional currencies, having appreciated against the US dollar, and other regional currencies such as the Singaporean dollar, Korean won and the Indonesian rupiah (Chart 1.7). In the first half of 2025, the ringgit’s appreciation was driven by global investor interest in EME assets amid trade-related uncertainties. This trend continued into the second half of 2025, supported by the dovish stance and rate cuts by central banks of advanced economies, including the US Fed which resumed monetary easing in September. The ringgit’s overall performance was also supported by positive sentiment regarding Malaysia’s economic prospects, particularly as domestic reform efforts continued to gain traction. By year-end, the ringgit appreciated against the US dollar by 10.2% (2024: 2.7%). It also recorded a 6.3% gain on a nominal effective exchange rate (NEER) basis (2024: 7.5%) (Chart 1.7).

The domestic bond market also benefitted from global portfolio rebalancing. Net non-resident inflows into debt securities reached RM36.5 billion (2024: RM0.5 billion). Malaysian Government Securities (MGS) yields declined in

Chart 1.7: Performance of Major and Regional Currencies against the US Dollar and Ringgit Nominal Effective Exchange Rate (NEER)

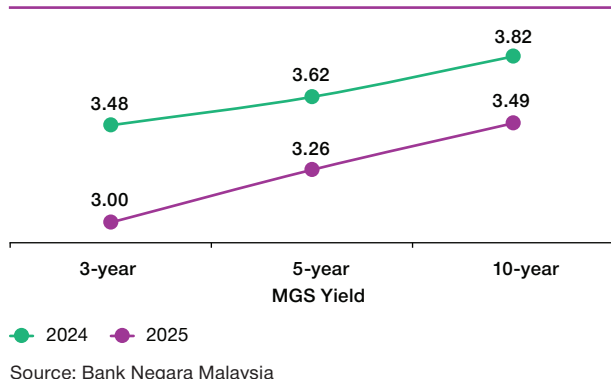


Note: (+) indicates an appreciation of currencies against the US dollar. NEER shows the value of the ringgit against a trade-weighted basket of Malaysia’s major trading partners’ currencies.

Source: Bank Negara Malaysia

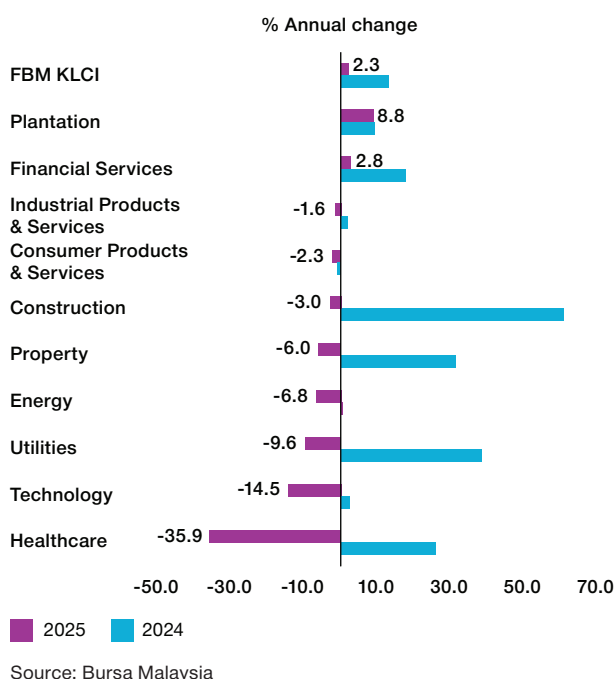
the first half of 2025, in line with other regional peers. This was followed by a further decline as markets anticipated and adjusted to the OPR cut in July. Continued inflows in the second half of 2025 reinforced this trend. For 2025 as a whole, the 3-year, 5-year and 10-year MGS yields decreased by 48, 36 and 33 basis points respectively (Chart 1.8).

Chart 1.8: Malaysian Government Securities (MGS) Yield Curve (%)



Following a strong 2024 performance, the domestic equity market experienced a modest pullback amid shifts in global risk aversion and non-resident outflows. In the first quarter of 2025, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) declined as heightened global uncertainty weighed on investor sentiments. Conditions improved from the second quarter onwards, in line with the recovery in global equity markets as trade tensions eased. This was also

Chart 1.9: Performance of FBM KLCI and Sectoral Stock Indices

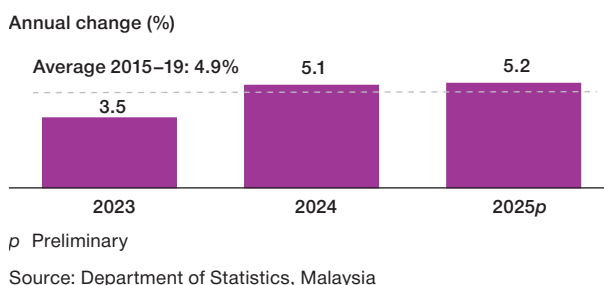


supported by strong domestic corporate earnings, especially in the plantation and financial services sectors. Overall, the KLCI increased by 2.3% (2024: 12.9%) to close at 1680.1 points (Chart 1.9).

The Malaysian economy expanded by 5.2% anchored by resilient domestic demand

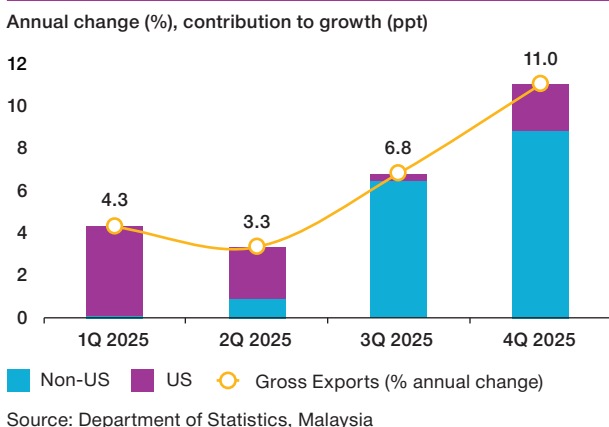
In 2025, Malaysia navigated a highly challenging global landscape marked by significant uncertainties and changing global trade dynamics. These developments affected exports performance and investment decisions. Despite these headwinds, the external sector remained resilient, supported mainly by E&E exports and inbound tourism. Domestic demand continued to anchor growth and cushioned the economy from external pressures. This was underpinned by positive labour market conditions, sustained household spending and steady investment momentum. The culmination of these factors enabled the economy to expand by 5.2% in 2025, above its long-term average of 4.9% (Chart 1.10). Developments in Malaysia’s external sector

Chart 1.10: Malaysia's Real GDP Growth



partly reflected ongoing uncertainties and policy shifts surrounding US tariff measures. Following the US move to raise tariff on selected products and imposed a 24% reciprocal tariff on Malaysia, frontloading activity by US importers intensified. This boosted exports in the first half of 2025. As support from frontloading tapered off in the second half of 2025, the conclusion of negotiations to reduce reciprocal tariffs from 24% to 19% and to secure additional exemptions helped reduce uncertainties and restore confidence. Malaysia’s diversified exports structure provided continued resilience as weaker exports to the US were cushioned by higher exports to other markets (Chart 1.11).

Chart 1.11: Gross Exports by Country

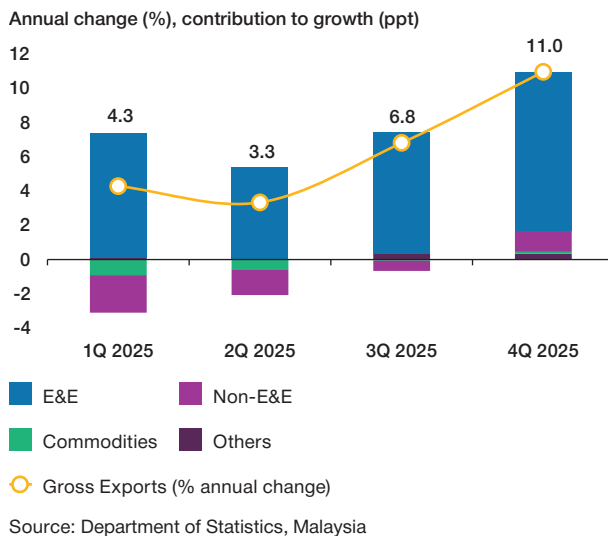


Throughout 2025, Malaysia’s gross exports were supported by resilient performance in the E&E segment, driven by rising global technology demand and the rapid proliferation of AI-related applications. This contributed to higher demand and growth for exports of semiconductor, computer as well as machinery equipment and parts. This strength partly offset the drag from non-E&E segment, particularly for petroleum and chemical products, amid global excess capacity. Notably, China’s production has rapidly outpaced its domestic demand, while its exports are redirected to other markets given higher tariff environment. This has exerted downward pressure on prices, putting additional competition to Malaysia’s export performance.

Domestic supply shock from major planned maintenance activities, particularly at the Malaysia Liquefied Natural Gas (MLNG) facility during the second quarter of 2025, temporarily affected mining-related production and exports. Nevertheless, production recovered more quickly than in previous maintenance cycles, supporting exports performance towards year-end (Chart 1.12). Beyond goods, services exports also expanded, buoyed by thriving inbound tourism and tourists spending, contributed in part by higher-spending visitors from China and India. International tourist arrivals reached 26.6 million persons in 2025, exceeding the pre-pandemic level of 26.1 million persons in 2019. This was supported by improved air connectivity, visa exemption for selected countries and promotional efforts ahead of Visit Malaysia Year 2026. Higher information and communication technology (ICT) services exports amid continued data centre expansion also contributed to services export growth in 2025.

Meanwhile, gross imports growth was underpinned by the continued strength in capital

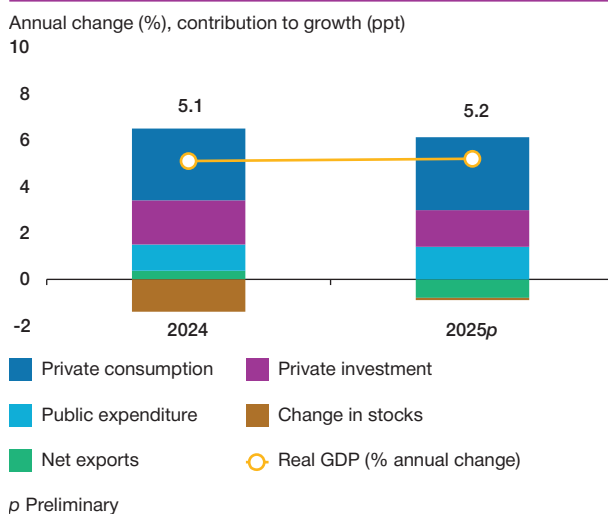
Chart 1.12: Gross Exports by Products



imports, particularly for data centre and IT-related equipment. These imports supported investment activities in cloud services, ICT infrastructure and advanced manufacturing in E&E. On the other hand, growth in intermediate imports slowed partly reflecting base effect as well as lower demand for inputs amid weaker non-E&E and commodity exports. Nonetheless, overall nominal imports grew faster than nominal exports, leading to slightly lower goods surplus in 2025. Meanwhile, the services account recorded a surplus for the first time on an annual basis since 2011, following strong inbound tourism and exports from data centre companies. Together, these developments led to a higher current account surplus of 1.6% of GDP in 2025 (2024: 1.4%).

Domestic demand remained as the anchor of growth (Chart 1.13). Household spending was

Chart 1.13: Real GDP by Expenditure



driven by higher employment and wage growth, especially in domestic-oriented sectors. Wage growth in services and domestic-oriented manufacturing⁵ increased by 4.5% and 2.9% respectively in 2025, supporting overall income growth. The civil servant salary adjustment, increase in minimum wage and policy support through the disbursement of cash transfers provided additional impetus to private consumption.

Domestic demand was further lifted by robust investment activities, which expanded well above its long-term average⁶ in 2025. Early in the year, global policy uncertainty led some firms to take a more cautious stance. Export oriented firms took the opportunity to reassess their investment plans, especially in the consumer-related, non-semiconductor E&E and steel industries. Some considered adjusting the timing of their machinery and equipment imports or cancelling investment plans.⁷ As tariff-related uncertainties eased later in the year, sentiments broadly improved and firms resumed their investment activity.

Overall, investment growth was supported by the steady progress of multi-year projects across both the private and public sectors, alongside ongoing rollout of initiatives under the national

master plans. Investment momentum was further boosted by strong investment approvals recorded during the year. This reflected confidence in Malaysia's investment landscape, particularly in high-technology services and advanced manufacturing sub-sectors. Investment approvals from previous years continued to translate into real activities in 2025, as indicated by robust construction activities and capacity expansion by firms. Notably, 84.9% of manufacturing investment projects approved by MIDA between 2021 and 2025 have progressed to various stages of implementation. Meanwhile, sustained government spending and strategic capital investments by public corporations continued to underpin public investment growth during the year.

Despite steady progress in multi-year projects across both the private and public sectors, investment growth moderated in the year. The easing momentum reflects the near completion of several major public projects. The Government also prioritised essential infrastructure to enhance public services and support industrial activities, rather than introducing new mega projects. While these public sector initiatives are generally smaller in scale, they continue to support overall economic activity.

⁵ Include wages in manufacturing of (i) non-metallic mineral products, basic metal and fabricated metal products; (ii) food, beverages and tobacco; and (iii) transport equipment and other manufactures.

⁶ Gross fixed capital formation expanded by 9.6%, higher than long-term average of 6.8% (2011–19).

⁷ Based on engagements with 109 firms by BNM's Regional Economic and Industry Surveillance team between March and October 2025.

Table 1.1

Malaysia - Key Economic Indicators

	2023	2024	2025 ^p	2026 ^f
Employment (million persons)	16.2	16.4	16.9	17.3
Unemployment (as % of labour force)	3.4	3.2	3.0	2.9
NATIONAL PRODUCT (% change)				
Real GDP at constant 2015 prices	3.5	5.1	5.2	4.0–5.0
(RM billion)	1,570.1	1,650.3	1,735.6	1,813.1
Agriculture	0.2	3.1	2.2	-1.0
Mining and quarrying	0.5	0.9	0.7	-1.2
Manufacturing	0.7	4.2	4.5	4.3
Construction	6.0	17.5	12.2	9.1
Services	5.1	5.3	5.5	5.2
Real aggregate domestic demand ¹	4.6	6.5	6.3	5.5
Private expenditure	4.6	6.6	6.1	5.5
Consumption	4.6	5.1	5.2	5.0
Investment	4.5	12.3	9.4	7.5
Public expenditure	4.7	6.3	7.6	5.6
Consumption	3.4	4.7	6.6	4.9
Investment	8.5	11.1	10.3	7.3
BALANCE OF PAYMENTS (RM billion)				
Goods balance	130.9	114.5	110.9	128.1
Exports	1,057.7	1,135.7	1,163.6	1,226.8
Imports	926.8	1,021.2	1,052.7	1,098.6
Services balance	-44.0	-11.7	1.2	5.0
Primary income, net	-55.7	-66.1	-69.5	-74.2
Secondary income, net	-11.2	-9.0	-10.8	-13.2
Current account balance	20.0	27.7	31.8	45.6
(as % of GDP)	1.1	1.4	1.6	1.5–2.5
Bank Negara Malaysia international reserves, net ²	520.8	520.1	509.7	-
(in months of imports of goods and services) ³	5.4	4.9	4.6	-
(in months of retained imports)	7.0	5.8	5.6	-
PRICES (% change)				
Consumer Price Index (2010=100)	2.5	1.8	1.4	1.5–2.5
Producer Price Index (2010=100)	-1.9	0.3	-2.0	-

¹ Exclude stocks.

² All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank Negara Malaysia's audited accounts.

³ For further details, please refer to 'Expansion of the Measure on Reserves Coverage of Imports – from Retained Imports to Imports of Goods and Services' article in BNM's Fourth Quarter of 2021 Quarterly Bulletin.

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Table 1.2

Malaysia - Financial and Monetary Indicators						
FEDERAL GOVERNMENT FINANCE (RM billion)	2023		2024		2025	
Revenue	315.0		324.6		336.1	
Operating expenditure	311.3		321.5		330.8	
Net development expenditure	95.1		82.3		80.6	
Overall balance	-91.4		-79.2		-75.3	
Overall balance (% of GDP)	-5.0		-4.1		-3.7	
Public sector net development expenditure	175.9		185.1		180.2	
Public sector overall balance (% of GDP)	-5.5		-6.4		-7.5	
EXTERNAL DEBT						
Total debt (RM billion)	1,264.4		1,350.2		1,394.8	
Medium- and long-term debt	723.4		774.3		799.5	
Short-term debt	541.0		575.9		595.3	
Debt service ratio ¹ (% of exports of goods and services)						
Total debt	13.3		14.6		15.6	
Medium- and long-term debt	12.3		13.1		14.7	
	Change in 2023		Change in 2024		Change in 2025	
MONEY AND BANKING	RM billion	%	RM billion	%	RM billion	%
Money supply M1	35.5	5.9	28.0	4.4	59.9	9.0
M3	136.4	6.0	86.4	3.6	102.9	4.1
Banking system deposits	132.1	5.6	75.3	3.0	87.3	3.4
Banking system loans ²	107.4	5.3	117.4	5.5	108.5	4.8
Loan to fund ratio (% of end of year) ^{3,4}	81.7		83.2		82.3	
Loan to fund and equity ratio (% of end of year) ^{3,4,5}	71.4		72.6		72.0	
INTEREST RATES (% AS AT END-YEAR)						
	2023		2024		2025	
Overnight Policy Rate (OPR)	3.00		3.00		2.75	
Interbank rates (1-month)	3.34		3.26		2.95	
Commercial banks						
Fixed deposit 3-month	2.72		2.61		2.22	
12-month	2.83		2.74		2.30	
Savings deposit	0.94		0.89		0.71	
Weighted average base rate (BR)	3.67		3.66		3.40	
Base lending rate (BLR)	6.68		6.68		6.43	
Treasury Bill (3-month) ⁶	3.18		3.14		2.82	
Malaysian Government Securities (1-year) ⁶	3.30		3.28		2.86	
Malaysian Government Securities (5-year) ⁶	3.57		3.62		3.25	
EXCHANGE RATES (AS AT END-YEAR)						
	2023		2024		2025	
Movement of Ringgit (%)						
Change against SDR	-5.0		5.8		5.1	
Change against USD	-3.9		2.7		10.2	

¹ Includes prepayment of medium- and long-term debt.

² Includes loans sold to Cagamas with recourse. Data from 2021 onwards are based on the new set of loan data reflecting the latest requirements and cannot be directly compared to previous years' data.

³ Loans exclude loans sold to Cagamas and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment accounts.

⁴ Funds comprise deposits (excluding deposits accepted from banking institutions and Bank Negara Malaysia) and all debt instruments (including subordinated debt, debt certificates/sukuk issued, commercial paper and structured notes).

⁵ Equities comprise ordinary and preferred shares, share premium and retained earnings.

⁶ Refers to data from Fully Automated System for Issuing/Tendering (FAST), Bank Negara Malaysia.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Domestic demand was the anchor for growth in 2025 as net exports declined

Despite the challenging global environment, the Malaysian economy expanded by 5.2% in 2025 (2024: 5.1%). Growth was anchored by resilient domestic demand, driven by continued household spending and investment activity. Meanwhile, net exports contracted as real import growth outpaced real export growth.

Table 1

Real GDP by Expenditure (2015=100)

	2025 ^p	2024	2025 ^p	2024	2025 ^p
	% of GDP	Annual change (%)		Contribution to growth (ppt)	
Domestic Demand*	96.3	6.5	6.3	6.1	6.0
Private Sector Expenditure	77.8	6.6	6.1	5.0	4.7
Consumption	60.6	5.1	5.2	3.1	3.1
Investment	17.2	12.3	9.4	1.9	1.6
Public Sector Expenditure	18.4	6.3	7.6	1.1	1.4
Consumption	13.4	4.7	6.6	0.6	0.9
Investment	5.1	11.1	10.3	0.5	0.5
Gross Fixed Capital Formation	22.2	12.0	9.6	2.4	2.1
Change in Stocks	0.5			-1.4	-0.1
Net Exports of Goods and Services	3.3	9.2	-19.3	0.4	-0.8
Exports	66.8	8.3	3.1	5.5	2.1
Imports	63.5	8.2	4.6	5.1	2.9
Real Gross Domestic Product (GDP)	100.0	5.1	5.2	5.1	5.2

* Excluding stocks

^p Preliminary

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Private consumption grew steadily by 5.2% in 2025 (2024: 5.1%) supported by positive labour market conditions. Overall employment rose by 3.1% as more resilient domestic-oriented sectors helped to cushion the moderate growth in export-oriented sectors. Aggregate nominal wages expanded by 3.6% and 7.8% in the private and public sectors respectively. This also reflects support from income-related policies through the increase in minimum wage and civil servant salary adjustments under Phase 1 of Public Service Remuneration System (*Sistem Saraan Perkhidmatan Awam*, SSPA). In addition, household spending benefitted from higher policy assistance, particularly with the expansion of cash transfer schemes such as *Sumbangan Tunai Rahmah* (STR) and *Sumbangan Asas Rahmah* (SARA). Necessities expenditure remained the key driver of private consumption, rising by 5.6%, with higher spending on transport, food and non-alcoholic beverages, as well as communication. Meanwhile, discretionary expenditure grew by 6.7%, underpinned by higher spending on restaurants and hotels.

Gross fixed capital formation (GFCF) grew by 9.6% in 2025 (2024: 12%), driven by strong growth across both structures (11.1%; 2024: 15.3%) and machinery and equipment (M&E) (8.9%; 2024: 9.3%). Investment activities remained robust amid the ongoing investment upcycle in 2025.

Despite the heightened global uncertainty following the implementation of US tariffs, private investment expanded by 9.4% in 2025 (2024: 12.3%). Growth was driven by ongoing multi-year projects and investment activities in high-technology services and manufacturing sub-sectors such as data centre and cloud services under information and communications technology (ICT), and electrical and electronics (E&E). This was reflected in robust private sector construction work done (2025: 15.7%; 2024: 23%) and capacity expansion through the acquisition of new M&E, which resulted in continued growth in capital imports (2025: 29%; 2024: 29%).

Public investment grew by 10.3% in 2025 (2024: 11.1%), following robust capital expenditure by both the Government and public corporations. While some projects were nearing completion, growth continued to be driven by progress of ongoing infrastructure projects. This includes East Coast Rail Link (ECRL), Pan Borneo Highway Sabah, Johor Bahru–Singapore Rapid Transit System (RTS) Link and the Sarawak–Sabah Link Road (SSLR). In addition, growth was also supported by public corporations' renewable energy and sustainability initiatives, such as large-scale solar and hydropower projects, and Hybrid Hydro-Floating Solar (HHFS) Photovoltaic systems.

Public consumption expanded by 6.6% in 2025 (2024: 4.7%), underpinned by higher spending on emoluments as well as supplies and services. Higher emoluments spending by the Federal Government was attributable to salary adjustments for civil servants under Phase 1 of the SSPA. Meanwhile, expansion in supplies and services spending was driven by higher expenditures on professional and administrative & support services, particularly in conjunction with ASEAN–Malaysia Chairmanship 2025.

Growth was driven by services and manufacturing sectors

Economic activity continued to expand in 2025, supported by sustained strength in services and manufacturing sectors amid resilient domestic demand, positive labour market conditions and continued recovery in tourism activity ahead of Visit Malaysia 2026.

Table 2

Real GDP by Kind of Economic Activity (2015=100)

	2025p	2024	2025p	2024	2025p
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.6	5.3	5.5	3.2	3.3
Manufacturing	23.0	4.2	4.5	1.0	1.0
Agriculture	6.1	3.1	2.2	0.2	0.1
Mining and quarrying	5.7	0.9	0.7	0.1	0.0
Construction	4.3	17.5	12.2	0.6	0.5
Real Gross Domestic Product (GDP)	100.0*	5.1	5.2	5.1	5.2

* Figures may not necessarily add up due to rounding and exclusion of import duties component.

p Preliminary

Source: Department of Statistics, Malaysia

The services sector grew by 5.5% (2024: 5.3%), driven mainly by stronger consumer-related subsector. This was attributed to positive labour market conditions, policy to raise income through higher minimum wage and civil servant salary increment under Phase 1 of SSPA, as well as cash transfer schemes such as STR and SARA. The subsector also benefitted from higher tourist arrivals, arising from promotional activities leading up to Visit Malaysia Year 2026 and expanded flight connectivity. In addition, Government-related services provided further support to growth following higher emoluments for civil servants under Phase 1 of the SSPA. On the other hand, business-related subsectors moderated during the year. Growth was weighed down by a moderation in the finance and insurance subsector due mainly to lower net interest income.

The manufacturing sector expanded by 4.5% (2024: 4.2%), underpinned by steady growth in both export- and domestic-oriented industries. Growth in the export-oriented segment was driven by strong E&E performance as demand for data centre and AI-related components continued to strengthen, alongside higher semiconductor investment. However, these gains were partly offset by moderation in the petrochemicals industry amid softer regional exports. Domestic-oriented industries also expanded, due to resilient household spending, stronger tourism-related demand for food and beverages as well as transportation segments, and higher output of construction-related materials in line with ongoing construction activity.

The agriculture sector grew by 2.2% in 2025 (2024: 3.1%), supported by sustained performance in most major subsectors. Growth in the oil palm subsector moderated, but remained positive despite adverse weather conditions in the first quarter of 2025. Conditions have since improved, supported by higher fresh fruit bunch yields, amid favourable weather and labour conditions. Other agriculture, livestock and fishing subsectors continued to grow, following higher output in paddy, fruits, vegetables, aquaculture and cattle. Growth was also lifted by ongoing efforts to strengthen the food supply chain and improve resilience in the agrofood industry. In contrast, the rubber as well as forestry and logging subsectors declined due to weaker production.

The mining sector expanded by 0.7% (2024: 0.9%), due to a strong recovery in oil and gas production, particularly in the second half of 2025 following maintenance activities in the second quarter of 2025. Natural gas production recorded higher growth, supported by the continued ramp-up in gas fields in Sarawak, while oil production also grew at a faster pace, driven by increased output from Sabah and Sarawak.

The construction sector continued to record a double-digit growth of 12.2% (2024: 17.5%), underpinned by the non-residential and special trade subsectors. Stronger expansion in the non-residential subsector was driven by industrial and commercial projects including the construction of data centres. Continued strong growth in the special trade subsector was supported by solar projects under the National Energy Transition Roadmap (NETR), small scale projects under Budget 2025 and large infrastructure projects that were nearing completion. Meanwhile, the civil engineering subsector continued to expand, but at a more moderate pace, as multi-year infrastructure projects particularly in the transportation segment approached completion.

Resilient labour market conditions in 2025

In 2025, positive labour market conditions provided robust support to economic growth, underpinned by continued gains in employment and income. Headline indicators pointed to broadly favourable conditions, alongside a further decline in the unemployment rate. Meanwhile, persistent structural frictions such as job matching and labour market segmentation continued to exert a drag on wage outcomes across worker groups.

Employment⁸ grew by 3.1% (+504,700 persons; 2024: 2.6%, +423,800 persons) while the labour force participation rate (LFPR) rose further to 70.8% in 2025 (2024: 70.5%) driven by individuals aged 55 to 64 years. The unemployment rate continued to trend down to 3%, remaining below its pre-pandemic levels (2024: 3.2%; 2019: 3.3%). By sector, the strongest employment gains were recorded in Services (2.5%; 2024: 1.7%), led by the wholesale and retail trade, and food & beverages and accommodation subsectors. Employment growth in Manufacturing improved slightly to 1.1% (2024: 1%), driven mainly by the electrical and electronic (E&E) products and food, beverage and tobacco sub-sectors.

By employment status, employees, which constitute the largest share of total employment (76%), grew by 2.4% (2024: 2.5%). This reflects continued labour demand in line with expansion in economic activity, alongside rising labour force participation.

Meanwhile, own-account workers recorded stronger employment growth (6.4%; 2024: 3.5%). A contributing factor is the role of own-account work as a partial safety net for employment such as part-time, gig or informal work. It serves to absorb excess labour supply from standard employment, consistent with the growth of the labour force (2.8%) and working age population (2.5%) expanding faster than standard employment (2.4%). The surge could also be attributed to a shift in worker preference with the rise in popularity of flexible work arrangements and autonomy, especially for the younger segment of the workforce. The gig economy also plays an important role as a source of supplemental income for workers seeking a second job. The Gig Workers Bill passed in Parliament in 2025 is expected to broaden social protection coverage for gig workers through the introduction of service agreements for any work conducted in the gig economy. The Bill is estimated to benefit around 1.2 million workers (7% of employed persons).

⁸ The employment data series from the Labour Force Survey (LFS) underwent a rebasing exercise (incorporation of revised population benchmarks to the growth rate of the labour force and working-age population) beginning from January 2025 which was retrospectively applied to the 2024 data. This aligns the LFS with the latest Population and Housing Census of Malaysia 2020.

In 2025, the Social Security Organisation (SOCSO) reported average monthly vacancies of 119,095 (2024: 127,177) and average monthly job placements of 17,383 (2024: 17,068). Despite the unemployment rate trending downwards, a concurrent decline in reported vacancies suggests that labour market slack remains.⁹ This is consistent with ongoing frictions in matching employment demand with labour supply.

Overall wage growth strengthened in 2025, with aggregate nominal wages rising by 5.1%, driven by the public sector (7.8%; 2024: 4.9%) alongside private sector wages (3.6%; 2024: 2.9%). Several income-related policy measures were implemented during the year: the Civil Servant Salary Revision (CSSR) Phase 1 which led to an 8% increment for civil servants, the increase in minimum wage from RM1,500 to RM1,700 in February 2025, and the introduction of mandatory Employees Provident Fund (EPF) contributions for foreign workers at a rate of 2% for employers.

Within the private sector, wages in Services rose by 4.5% (2024: 3.6%), driven by wholesale and retail trade, while wage growth in Manufacturing improved to 2% (2024: 1.5%), supported mainly by the E&E products subsector.

Labour productivity growth, measured by value-added per worker, increased further in 2025 (3.4%; 2024: 2.4%). The improvement was broad-based across sectors, with notable gains in both Services (3.1%; 2024: 1.8%) and Manufacturing (3.7%; 2024: 2.6%). Labour productivity growth in construction moderated from the strong performance in 2024 to 11.2% (2024: 16.4%). Nevertheless, the momentum in productivity growth has yet to translate into matching wage gains. Cumulatively since 2019, productivity has grown 9%, but private sector real wage per worker has declined within the same period by 1.7%.

Table 3

Selected Labour Market Indicators

	2020	2021	2022	2023	2024	2025 ^p
Employment ('000 persons)	15,096	15,290	15,762	16,201	16,400	16,905
Annual change (%)	-0.2	1.3	3.1	2.8	2.6	3.1
Unemployment rate (% of labour force)	4.5	4.7	3.8	3.4	3.2	3.0
Labour force participation rate (% of working age population)	68.5	68.5	69.3	70.0	70.6	70.8
Jobless claims (persons)	107,024	61,360	34,388	49,982	57,794	74,841
Jobless claims (% of total EIS contributors)	-	1.0	0.5	0.7	0.8	1.0
Non-Malaysian citizens employment ('000 persons)	2,214	2,149	2,136	2,200	2,360	2,433

^p Preliminary

Note: 1. The employment, unemployment, labour force participation rates and non-Malaysian citizens employment are estimated based on quarterly averages from the Labour Force Survey.

2. Jobless claims refer to claims by insured persons under the Employment Insurance System (EIS) who have lost their employment, and exclude voluntary resignations and retrenchments due to misconduct.

Source: Department of Statistics, Malaysia, Social Security Organisation (SOCSO) and Bank Negara Malaysia estimates

⁹ A decline in the unemployment rate would typically be associated with tighter conditions due to higher utilisation of the workforce. Conversely, a reduction in vacancies means an easing of demand in the labour market. A simultaneous reduction in vacancies relative to unemployed persons suggests that labour market slack persists.

Current and financial accounts of the balance of payments

External sector remained resilient in 2025

Malaysia's external position remained resilient despite challenges in the global environment. The current account balance registered a higher surplus of RM31.8 billion or 1.6% of GDP in 2025 (2024: RM27.7 billion, or 1.4% of GDP). This was supported by continued surplus in the goods account and a turnaround in the services account to a surplus. The primary and secondary income accounts continued to record deficits.

Table 4

Balance of Payments¹			
Item (Net)	2023	2024 ^r	2025 ^p
	RM billion		
Current account	20.0	27.7	31.8
Goods ²	130.9	114.5	110.9
Services	-44.0	-11.7	1.2
Primary income	-55.7	-66.1	-69.5
Secondary income	-11.2	-9.0	-10.8
Capital account	-0.3	0.0	0.0
Financial account	-7.2	-4.9	-21.4
Direct investment	8.5	17.7	46.0
Portfolio investment	-36.5	-84.1	-61.7
Financial derivatives	-3.9	2.8	0.2
Other investment	24.8	58.7	-5.9
Net errors and omissions³	-33.1	-7.0	-2.0
Overall balance	-20.5	15.8	8.4

¹ In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

² Adjusted for valuation and coverage of goods for processing, storage and distribution.

³ The net error and omissions (E&O) excludes reserves revaluation changes.

p Preliminary

r Revised

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The goods account registered a lower surplus of RM110.9 billion (2024: RM114.5 billion) as imports grew faster than exports. The growth in exports (2025: 2.5%; 2024: 7.4%) was mainly supported by robust performance of the electrical and electronics (E&E) segment amid the continued demand for artificial intelligence (AI)-related technology, as well as the frontloading of shipments ahead of anticipated US tariff adjustments. This strength partly offset the drag from the non-E&E segment, particularly petroleum and chemical product exports, which continued to face competitiveness pressure arising from China's excess capacity. Meanwhile, following strong growth in the previous year, imports growth moderated in 2025, partly due to a high base effect (3.1%; 2024: 10.2%). Nevertheless, import levels remained elevated. This was mainly driven by higher capital goods imports in line with the ongoing realisation of multi-year investment projects, particularly data centre investments.

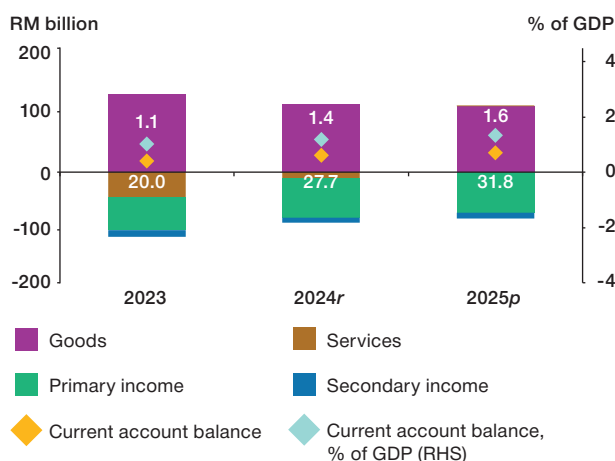
The services account turned around to record a surplus of RM1.2 billion in 2025 (2024: -RM11.7 billion), supported by higher travel receipts of RM110.6 billion (2024: RM95.3 billion) on account of higher tourist arrivals, which rose to 26.6 million persons (2024: 25 million persons). The increase in ICT-related services exports to RM27.1 billion (2024: RM21.3 billion), supported by the operationalisation of data centres also provided support to the services account.

In the income accounts, the primary income remained in deficit at RM69.5 billion (2024: -RM66.1 billion). This mainly reflected continued investment income accrued to foreign investors in Malaysia, as non-resident-controlled exporters reported strong export earnings. Meanwhile, the secondary income account recorded a larger deficit of RM10.8 billion (2024: -RM9 billion). This was mostly explained by sustained outward remittances by foreign workers, offsetting inward remittances by Malaysians working abroad.

The financial account registered a higher net acquisition of foreign assets of RM21.4 billion (2024: -RM4.9 billion), mainly reflecting a turnaround in the other investment account which recorded an outflow, alongside continued portfolio investment outflows. These outflows were partially offset by larger direct investment inflows.

The direct investment account registered a net inflow of RM46 billion (2024: RM17.7 billion). Of significance, foreign direct investment (FDI) recorded a net inflow of RM53.5 billion (2.6% of GDP; 2024: +RM51.5 billion, or 2.7% of GDP). The sustained net inflows mainly reflected the continued interest of foreign investors in expanding their production capacity in Malaysia via new equity injections as well as mergers and acquisitions. Net FDI inflows for the year were mainly channelled

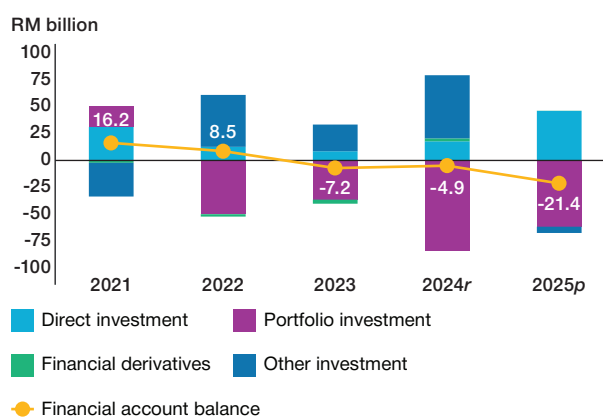
Chart 1: Current Account Balance



p Preliminary
r Revised

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 2: Financial Account Flows by Key Components



p Preliminary
r Revised

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

into the *services* sector (2025: +RM55.3 billion; 2024: +RM40.8 billion). Within the *services* sector, inflows into the ICT services subsector rose (2025: +RM29.2 billion; 2024: +RM21 billion), amid capital spending on data centres. This is fuelled by global demand for data centre services given the growth of AI, expansion of cloud computing and digital transformation. Following a marked rise from 36.9% in 2023 to 51% in 2024, the share of data centre inflows in total net FDI remained stable in 2025 (RM27.3 billion, 51% of total net FDI inflows).¹⁰ Meanwhile, FDI flows into the financial and insurance activities subsector also improved (2025: +RM25.7 billion; 2024: +RM11.6 billion) mainly driven by higher equity injections into foreign investment holding companies.

Direct investment abroad (DIA) outflows were lower at RM7.4 billion (-0.4% of GDP; 2024: -RM33.9 billion, or -1.8% of GDP). The lower outflows were mainly driven by the settlement of short- and long-term loans as well as suppliers' credits by foreign subsidiaries of resident MNCs. From a sectoral perspective, DIA in 2025 was mainly directed towards the *services* sector (2025: -RM10.9 billion; 2024: -RM28.9 billion) particularly the financial and insurance activities subsector (2025: -RM9 billion; 2024: -RM15 billion).

The portfolio investment account recorded a lower outflow of RM61.7 billion (2024: -RM84.1 billion) amid smaller investments abroad by residents (-RM86.4 billion; 2024: -RM107.3 billion). These investments were largely channelled into foreign equity securities (-RM78.5 billion; 2024: -RM62.9 billion), reflecting resident institutional investors' asset diversification strategies. Meanwhile, net acquisition of domestic securities by non-resident investors was largely sustained (RM24.6 billion; 2024: RM23.2 billion), driven by higher non-resident acquisition of domestic debt securities (RM36.5 billion; 2024: RM0.5 billion), as foreign investors increased their exposures to emerging market bonds. These debt securities inflows were partially offset by a net liquidation of domestic equity securities (-RM11.9 billion; 2024: RM22.7 billion) amid heightened uncertainties arising from increasing trade tensions.

The other investment account turned around to record a net outflow of RM5.9 billion (2024: +RM58.7 billion). This is mainly attributable to higher interbank lending by Labuan offshore banks, as part of their 'out-out' financing activities.¹¹ These outflows were partially offset by inflows in the form of higher borrowings of intercompany loans from non-related entities.

¹⁰ For more details on the economics of data centres, kindly refer to BNM's Third Quarter of 2025 Quarterly Bulletin box article entitled 'From Bytes to Bucks: The Economics of Data Centres in Malaysia'.

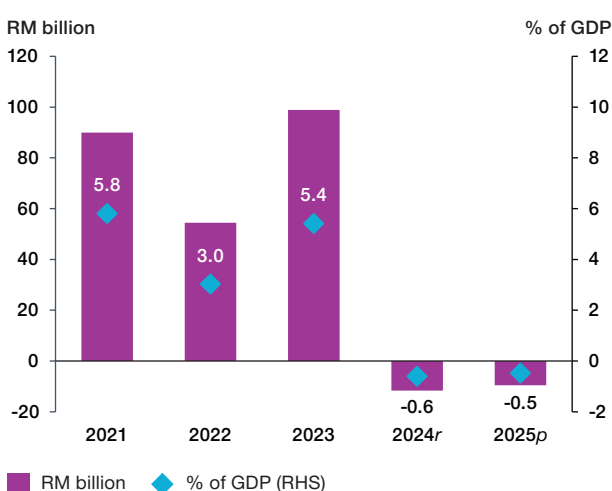
¹¹ 'Out-out' refers to the placement of externally sourced funds with external counterparties.

Improvement in Malaysia's net international investment position

As at end-2025, Malaysia's net international investment position (IIP) recorded a lower net external liability position of RM9.6 billion, equivalent to -0.5% of GDP (end-2024: -RM11.7 billion, equivalent to -0.6% of GDP). This was driven by the increase in external assets of RM85.2 billion arising mainly from residents' purchases of foreign equity securities following institutional investors' asset diversification strategies, as well as positive price valuation effects after higher portfolio equity security prices. This was offset by the increase in external liabilities of RM83.1 billion, primarily driven by non-resident investors' equity injection into the services sector, notably the ICT as well as financial and insurance services.

The net foreign currency (FCY) external asset position¹² stood at RM1,314.6 billion, or 0.6% of GDP as at end-2025 (2024: RM1,261.4 billion, or 0.7% of GDP). The increase in net FCY external asset position was driven mainly by larger acquisition of portfolio equity securities abroad. This was partially offset by exchange rate valuation effects amid ringgit appreciation.

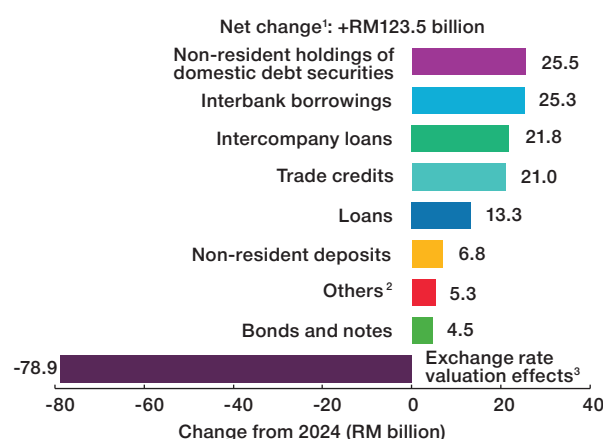
Chart 3: Net International Investment Position (IIP)



p Preliminary
r Revised

Source: Department of Statistics, Malaysia

Chart 4: Changes in External Debt



¹ Changes in individual debt instruments exclude exchange rate valuation effects. Positive indicates net borrowing or issuance of debt securities.

² Comprises IMF allocation of Special Drawing Rights (SDRs) and other debt liabilities such as insurance claims yet to be disbursed and interest payables on bonds and notes.

³ Negative (positive) exchange rate valuation effects reflect valuation gains (loss) for external debt during appreciation (depreciation) periods.

Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia, Department of Statistics, Malaysia and Ministry of Finance, Malaysia

Malaysia's external debt amounted to RM1,394.8 billion as at end-2025, or 68.9% of GDP (2024: RM1,350.2 billion, or 69.9% of GDP). The increase in the level of external debt was due mainly to acquisition of domestic debt securities by NR investors, primarily in Malaysian Government Securities (MGS) as well as increased interbank borrowing that largely reflect the inflows by Labuan International Business and Financial Centre (LIBFC). This underscores LIBFC's role as Malaysia's offshore financial hub facilitating subsequent lending through 'out-out'¹³ transactions. In addition, the increase in external debt was partly due to higher intercompany loans by firms in the ICT services industry, mainly to finance data centre investments, reflecting continued momentum in Malaysia's digital-economy expansion. However, these flows were partially offset by exchange rate valuation effects following the appreciation of the ringgit against selected major currencies especially the US dollar, which reduced the ringgit-denominated value of FCY liabilities.

¹² As measured by external assets in FCY less external liabilities in FCY.

¹³ 'Out-out' refers to the placement of externally sourced funds with external counterparties.

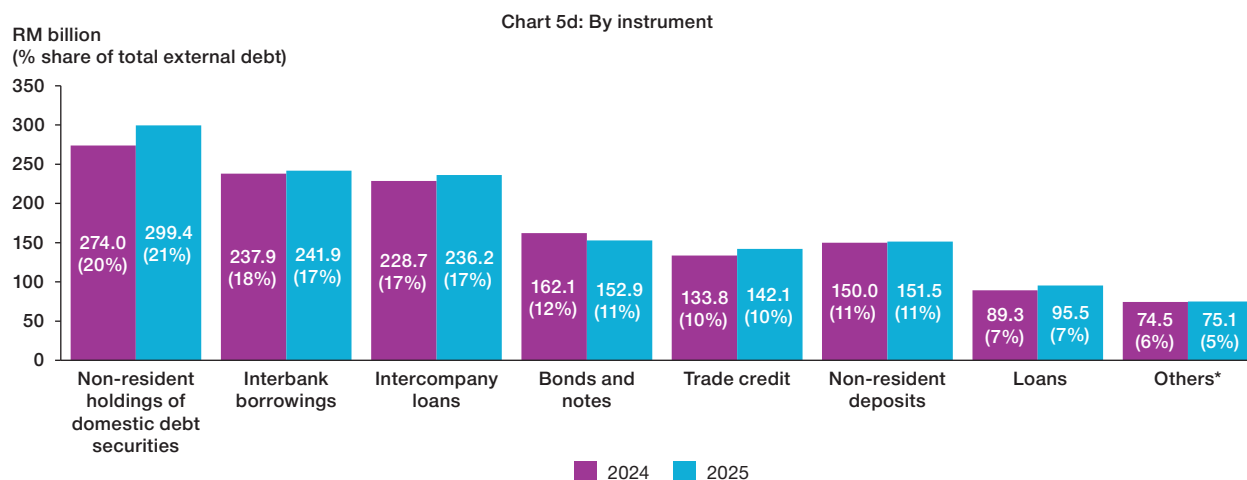
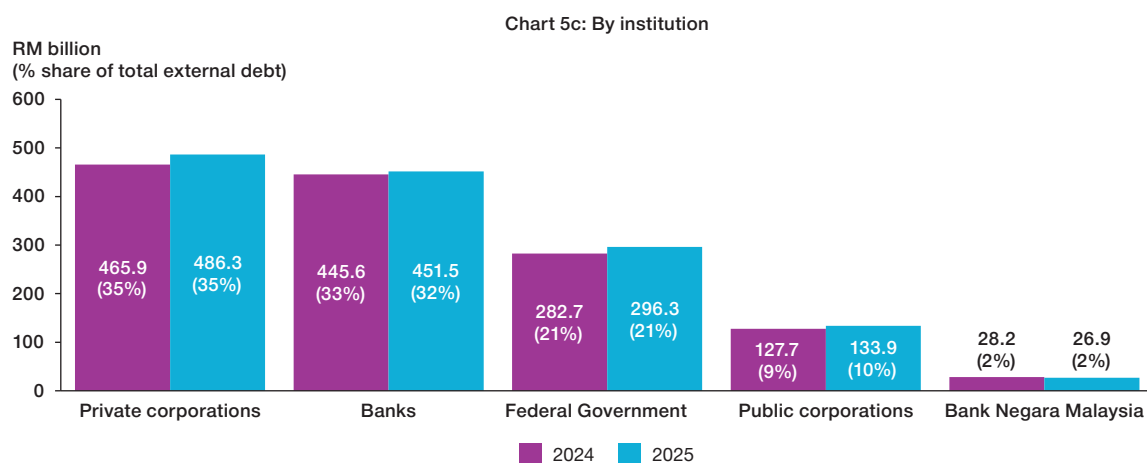
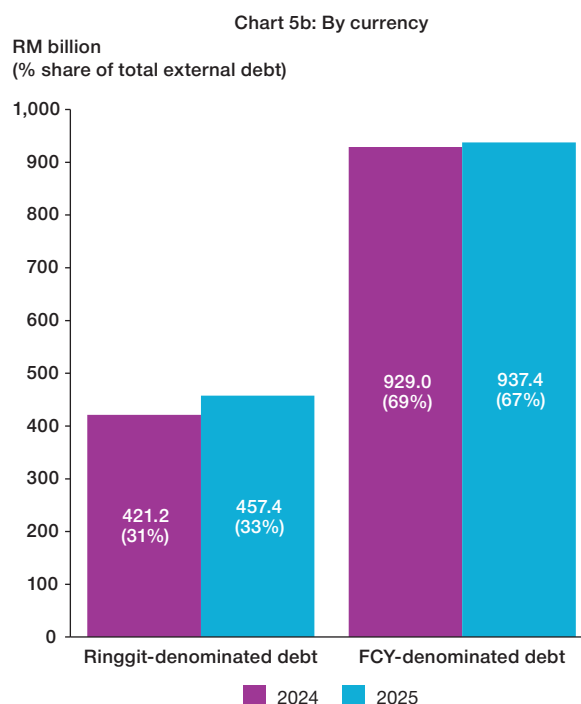
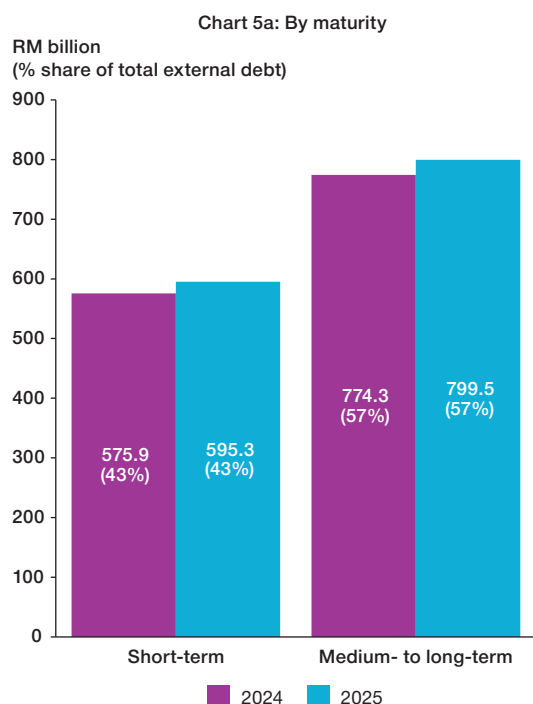
Risks surrounding Malaysia's external debt remained contained, premised upon the favourable maturity and currency profiles of the debt. First, a high share of medium- and long-term external debt (57.3%; 2024: 57.4%) reduces rollover risks (Chart 5a). Meanwhile, Malaysia's short-term external debt (42.7% of total external debt; 2024: 42.6%), primarily driven by the private sector, is backed by strong external buffers and are subject to strong prudential and regulatory frameworks.¹⁴ Second, about a third of external debt was denominated in ringgit (32.8%; 2024: 31.2%), and therefore not affected by fluctuations in the ringgit exchange rate (Chart 5b), while FCY exposures are prudently managed through hedging instruments. Notably, 59.6% of FCY denominated external debt is governed by a comprehensive regulatory framework and subject to macroprudential surveillance¹⁵ by BNM (2024: 60.5%). This ensures the banking sector remains resilient and corporate borrowings are adequately hedged, supported by sufficient earnings, and directed towards productive purposes. Moreover, intercompany loans accounted for 19.2% of FCY external debt, which are generally more stable and on concessionary terms (i.e. fixed rates and low risk of sudden changes in terms and conditions) and thus reduces refinancing and credit risks (2024: 18.7%). Around 14.3% of FCY-denominated external debt is backed by export earnings, providing a natural hedge against currency risk (2024: 13.7%). As at end-2025, the external debt-at-risk¹⁶ for banks and corporates amounted to RM87 billion and RM5.7 billion, respectively (2024: RM103 billion and RM7.8 billion, respectively).

¹⁴ Further details on the drivers of Malaysia's short-term external debt are available in the box article entitled 'Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers' in BNM's Third Quarter of 2025 Quarterly Bulletin.

¹⁵ For more details on Malaysia's external debt management, please refer to the 'Malaysia's Resilience in Managing External Debt Obligations and the Adequacy of International Reserves' box article in BNM's Annual Report 2018.

¹⁶ Corporates' external debt-at-risk refers to offshore loans raised and bonds issued by high-risk corporate borrowers. Banks' external debt-at-risk refers to external debt that is more susceptible to sudden withdrawal shocks, such as financial institutions' deposits, interbank borrowings and short-term loans from unrelated non-resident counterparties.

Chart 5: Profile of External Debt



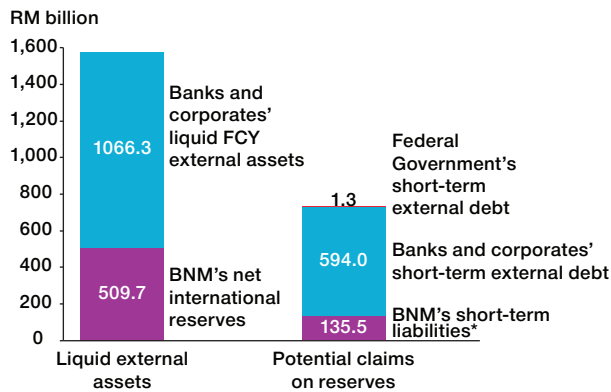
* Comprises IMF allocation of Special Drawing Rights (SDRs) and other debt liabilities, such as insurance claims yet to be disbursed and interest payables on bonds and notes.

Note: Figures may not necessarily add up due to rounding.

Source: Bank Negara Malaysia

BNM's international reserves amounted to USD125.5 billion (or RM509.8 billion) as at end-2025 (2024: USD116.2 billion, or RM520.1 billion). This was sufficient to finance 4.6 months of imports of goods and services and was 0.9 times the short-term external debt. Notwithstanding this, other means of meeting external obligations remained available and continued to be strengthened. The progressive liberalisation of Foreign Exchange Policy (FEP) has led to the accumulation of sizeable non-reserve external assets by the private sector. In particular, the accumulation of FCY external assets by banks and corporates, with the liquid portion amounting to RM1,066.3 billion,¹⁷ can be drawn upon to meet banks and corporates' short-term debt obligations of RM594 billion, without creating a claim on international reserves (Chart 6).

Chart 6: Liquid External Assets and Potential Claims on International Reserves



* Consist of FCY net short forward position (including the forward leg of currency swaps), maturing FCY loans, securities and deposits.

Source: Bank Negara Malaysia

¹⁷ Corporates and banks' liquid external assets, comprising portfolio investments as well as currency and deposits.

Headline inflation moderated further in 2025, while core inflation increased marginally

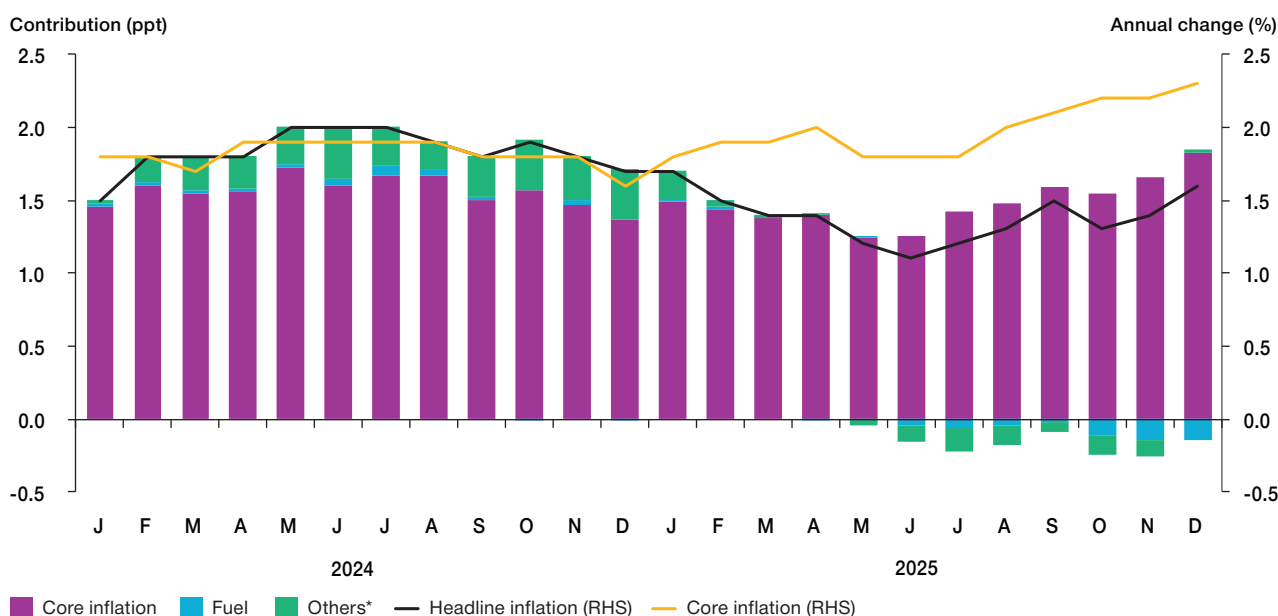
Headline inflation moderated further in 2025, averaging at 1.4% (2024: 1.8%), below its historical average (2011–19 average: 2.2%). This slowdown was largely driven by a continued improvement in global supply conditions and the disinflationary impact from selected domestic policy adjustments. Lower global commodity prices and easing energy costs led to a decline in domestic fresh food prices (2025: -4.4%; 2024: 2.5%) and slower growth in selected administered prices (fuel and utilities) (2025: 1.6%; 2024: 3%) (Chart 1.14). Easing global cost conditions also led to lower production costs. This was reflected in the 2% decrease in the Producer Price Index (2024: 0.3%). The decline was mainly attributed to global oil oversupply, which lowered fuel costs for producers. The relatively strong ringgit also helped contain import costs for raw materials.

While earlier expectations suggested that domestic policy adjustments could cause inflation to rise, their overall impact was much weaker than expected.¹⁸ This owed mostly to the design of policy measures such as the electricity tariff restructuring and the RON95

subsidy rationalisation, which correspond to the Government’s intent to cushion households from the impact of policy reforms. The electricity tariff restructuring brought electricity costs down for most households from lower domestic tariff rates and rebates for lower electricity usage under the Energy Efficiency Incentive.¹⁹ The phased rollout of the BUDI95 programme, particularly the introduction of a lower subsidised RON95 price of RM1.99 per litre for all eligible Malaysian citizens, contributed to lower fuel inflation during the year.

Underlying inflation, as measured by core inflation, registered a slight increase to 2% in 2025 (2024: 1.8%), converging to its long-term average. By component, the increase was driven by continued contributions from higher-weight services components, including food away from home (2025: 4.1%; 2024: 3.6%) and rental (2025: 2%; 2024: 1.7%). The moderate trend in core inflation reflected the continued strength of domestic demand, supported by positive labour market conditions and policies that boosted household purchasing power. Overall, price pressures were broadly contained. Inflation pervasiveness continued to trend below its long-term average. The share of CPI items recording monthly price increases trended lower for most of the year and below historical norms (2025: 42.1%; 2024: 43%; 2011–19 average: 45.6%) (Chart 1.15).

Chart 1.14: Contribution to Headline Inflation by Components



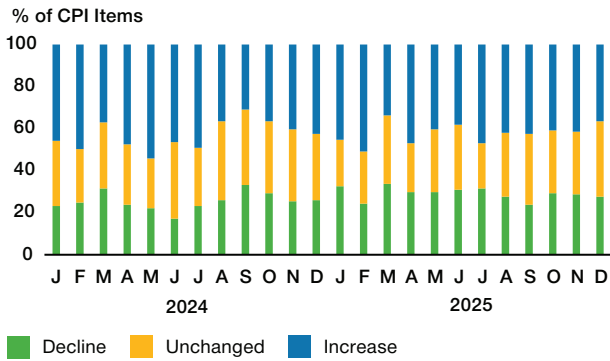
* Others include price-volatile items and other price-administered items (excluding fuel).

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

¹⁸ During the year, the Government implemented several policy reforms including the rationalisation of RON95 fuel subsidies, restructuring of electricity tariffs, adjustment of water tariff rates, expansion of the Sales and Service Tax (SST), and removal of egg subsidies.

¹⁹ Under the Energy Efficiency Incentive, domestic households that consume less than 1,000 kWh per month are eligible for a rebate of up to 25 sen per kWh.

Chart 1.15: Month-on-Month Price Changes of CPI Items*



* Based on the month-on-month inflation for 181 CPI items at the 5-digit level.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Monetary policy is supportive of the economy amid price stability

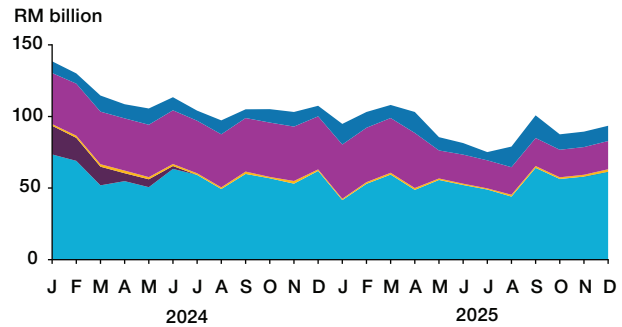
In 2025, the Overnight Policy Rate (OPR) was reduced by 25 basis points to 2.75% in July as a pre-emptive measure to preserve Malaysia’s steady growth path in a challenging external environment amid domestic price stability.

Throughout the year, the MPC closely monitored the volatile external environment and remained vigilant on the potential implications to Malaysia’s economic outlook. The domestic economy was assessed to be facing external headwinds from a position of strength, with growth supported by sustained domestic demand and resilient exports. While the domestic economy remained on a strong footing, the MPC assessed at its July 2025 meeting that uncertainties surrounding tariff measures and geopolitical developments posed considerable downside risks to growth prospects. The prevailing benign inflation environment provided the opportunity for the MPC to focus on ensuring domestic growth remained on a firm trajectory by reducing the OPR by 25 basis points. Over the rest of the year, Malaysia’s economy remained anchored by continued spending and robust investment activities, while inflation stayed moderate. Overall, the monetary policy stance was deemed appropriate and supportive of the economy.

Domestic monetary and financing conditions remained conducive to financial intermediation. At the system level, aggregate outstanding liquidity placed with BNM eased to RM93.5 billion (2024: RM107.5 billion) (Chart 1.16). The lower level of outstanding liquidity reflected banks reducing borrowings from BNM following the reduction in the Statutory Reserve Requirement

(SRR) ratio from 2% to 1%, effective 16 May 2025. The easing in SRR facilitated more effective liquidity management by banks. At the institutional level, most banks continued to maintain surplus overnight placements with BNM.

Chart 1.16: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



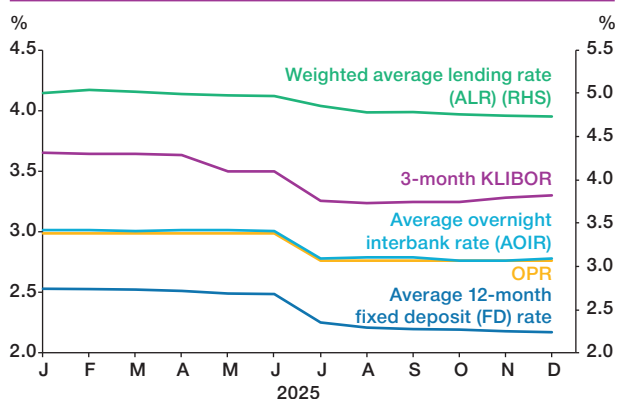
- Money Market Borrowings (excluding repos)
- Bank Negara Monetary Notes and Bank Negara Interbank Bills
- Repos
- Statutory Reserve Requirement (SRR)
- Others

Source: Bank Negara Malaysia

Interbank rates trended lower in the first half of 2025 from end-2024 levels as seasonal year-end deposit competition subsided and banks priced in expectations of a lower OPR. Thereafter, interbank rates continued to ease following the OPR reduction in July. The 3-month KLIBOR decreased by 24 basis points within one day of the OPR reduction and declined further until end-October 2025. Towards year-end, the 3M KLIBOR edged higher marginally. Nonetheless, the increase was more moderate than in previous years, following less intense seasonal deposit competition amid easier liquidity conditions and pre-emptive accumulation of deposits by banks.

Correspondingly, deposit rates also decreased following the OPR reduction, with retail board fixed deposit (FD) rates, declining by between 33 and 37 basis points across tenures of 1 to 12 months. As a result of lower interbank and deposit rates, banks’ overall cost of funds eased during the year. The strong transmission of the OPR reduction to interest rates was also reflected in reference rates such as the Standardised Base Rate (SBR), Base Rate (BR) and Base Lending Rate (BLR), which adjusted fully. Consequently, the weighted average lending rate (ALR) on outstanding loans decreased by 26 basis points (Chart 1.17), while lending rates for new loans also moderated, particularly for businesses.

Chart 1.17: Policy, Interbank, Fixed Deposit and Lending Rates (at end-period)



Source: Bank Negara Malaysia and Bloomberg

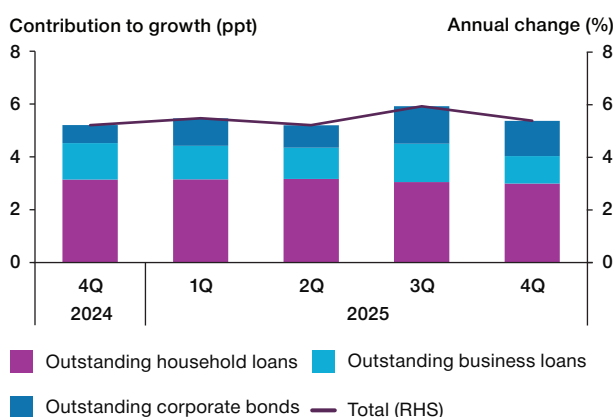
Continued expansion of credit to the private non-financial sector amid a resilient domestic economy and lower OPR

Credit to the private non-financial sector grew by 5.4% year-on-year in 2025 (2024: 5.2%), in line with the resilient domestic economy and lower borrowing costs following the reduction in the OPR. Outstanding loans²⁰ grew by 5% (2024: 5.7%), remaining as the largest contributor to overall credit growth (Chart 1.18). Meanwhile, growth in outstanding corporate bonds increased to 6.9% (2024: 3.4%), following several large issuances for capital expenditure across sectors. These issuances were supported by lower corporate bond yields and greater flexibility in structuring bonds to better align with issuers' financing needs.

Among borrower segments, households remained the primary contributor to loan growth during the year, with outstanding household loans growing by 5.6% (2024: 5.9%) (Chart 1.19). Notwithstanding the slight moderation, household credit demand remained firm, as reflected in higher loan applications, particularly for the purchases of houses and cars. This was supported by positive labour market conditions, income-related policy measures and lower lending rates. Higher household loan applications continued to be met by increased approvals.

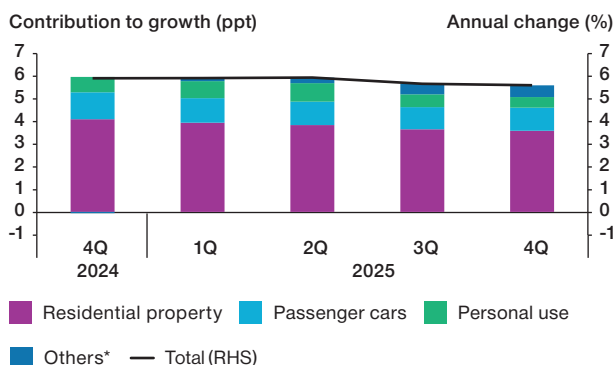
For businesses, growth in outstanding loans moderated to 3.9% (2024: 5.2%) (Chart 1.20). This is mainly following slower growth in working capital loans among non-SMEs,

Chart 1.18: Credit to the Private Non-Financial Sector



Source: Bank Negara Malaysia

Chart 1.19: Households – Outstanding Loans by Purpose



* Includes purchase of non-residential property, securities, credit card and others.

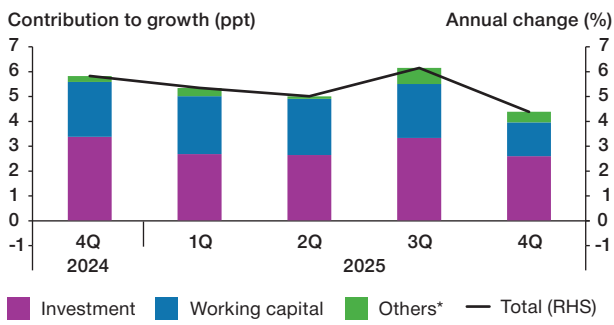
Source: Bank Negara Malaysia

particularly in the consumer goods and primary manufacturing sectors. Despite the softer loan growth, fund-raising activities in the corporate bond market remained sustained in these sectors. Meanwhile, working capital loan growth remained sustained among SMEs. Business loan growth for investment-related purposes²¹ also moderated, but remained above pre-pandemic levels. This reflected robust private investment activities, particularly in sectors such as electrical and electronic (E&E), real estate and construction. Ongoing implementation of public investment projects under the New Industrial Master Plan (NIMP) and the National Energy Transition Roadmap (NETR) also helped boost investment appetite.

²⁰ The figure on outstanding loans reported here under credit to the private non-financial sector also includes loans to households extended by major non-bank financial institutions (NBFIs). This is in addition to the sum of outstanding business and household loans extended by banks and development financial institutions (DFIs).

²¹ Comprises loans for the purchase of non-residential properties, residential properties for business use, fixed assets as well as for construction activities.

Chart 1.20: Businesses – Outstanding Loans by Purpose



* Includes purchase of securities, credit card and others.

Source: Bank Negara Malaysia

Overall, credit conditions remained supportive of household and business financing needs. Lending activities were underpinned by banks’ healthy capital and liquidity buffers, ensuring continuous access of credit to creditworthy borrowers. Banks continued to provide repayment assistance for existing borrowers facing difficulties in servicing their debt obligations. Various debt advisory and management arrangements, including those under Credit Counselling and Debt Management Agency (AKPK) also remained in place. Among SMEs, financing measures, including credit guarantees and Bank Negara Malaysia’s financing facilities remained available to offer targeted assistance.

Disentangling Malaysia's Value Chains in the Age of Turbulence

Introduction

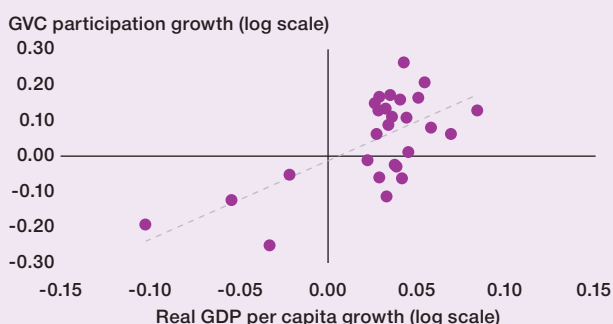
Malaysia is deeply integrated into global value chains (GVCs), with GVC-related activities accounting for more than half of the country's exports.¹ The high level of participation in GVCs has supported export growth and strengthened Malaysia's role as a key supplier within both regional and global production networks (ASEAN–Japan Centre, 2021). However, in recent years, major economies are turning inward and reconfiguring their own supply chains to enhance self-sufficiency amidst heightened geopolitical tensions. The greater use of industrial and protectionist measures reflects a shifting paradigm in GVCs, one in which resilience increasingly outweighs efficiency. For a small and open economy like Malaysia, this shift presents both challenges and opportunities.

Against this backdrop, the article examines how Malaysia's GVC participation has evolved, including changes in linkages and sectoral value-added structure. This sets the foundation for assessing GVC-related risks and vulnerabilities, while also identifying sources of resilience amid global trade volatility. The article concludes by outlining policy considerations aimed at strengthening Malaysia's position in GVCs.

Malaysia retains a strong foothold in global value chains

Strong participation in GVCs and high trade openness² have been a cornerstone of Malaysia's development strategy. Consistent with many prevailing literatures, Malaysia's GVC participation supported productivity gains and income growth through specialisation in specific areas (Chart 1). This was achieved via exposing domestic firms to global competition, economies of scale, technology transfer, and knowledge spillovers. Like many countries, Malaysia's GVC-intensive model is shaped by strong inward foreign direct investment (FDI) (Chart 2). Malaysia's ability in attracting capital has not only helped in positioning the country as a key node in global manufacturing networks but has also uplifted its level of GVC participation.

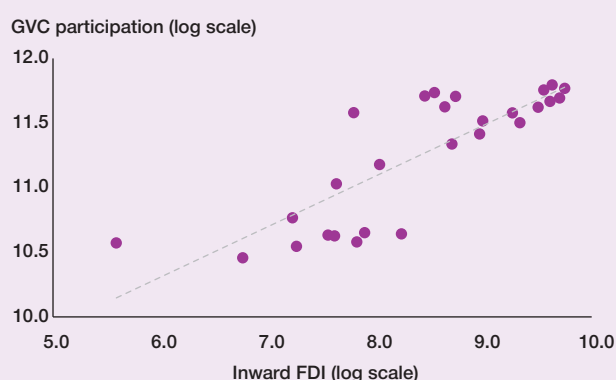
Chart 1: Positive Relationship between GVC Participation and Income Growth Rates in Malaysia, 1996 to 2022



Note: GVC participation is the sum of foreign value added in Malaysia's gross exports and Malaysia's value added in foreign gross exports (in USD millions). GVC participation growth is measured using yearly log-differences of the value, while GDP per capita growth is measured using yearly log-differences of its value in USD.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition and International Monetary Fund database

Chart 2: Positive Relationship between GVC Participation and Inward FDI in Malaysia, 1995 to 2022



Note: GVC participation is measured by the log of the sum of foreign value added in Malaysia's gross exports and Malaysia's value added in foreign gross exports (in USD millions), while for inward FDI stock, its log in USD millions is used.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition and UNCTAD database

¹ Estimated based on OECD Trade in Value-Added (TiVA) 2025. Refer to Chart 3.

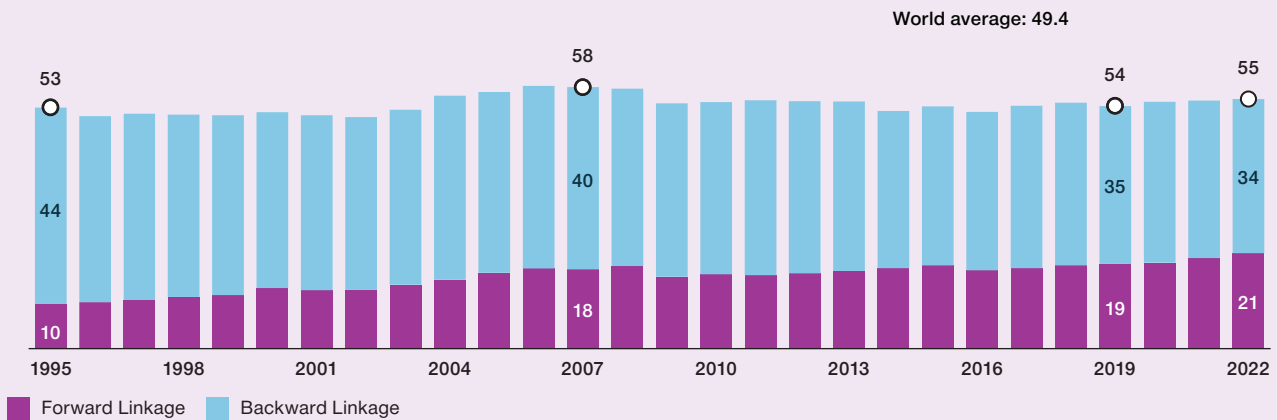
² Malaysia's total trade accounting for 136.4% of nominal GDP in 2025.

A country participates in GVCs through backward and forward linkages. Backward linkages are gauged by the share of foreign value added (FVA) in its exports, while forward linkages capture the share of domestic value added embodied in other countries' exports. In other words, in the context of GVCs, backward linkages reflect 'how much of our exports are built using imported inputs', while forward linkages indicate 'how much of our domestic inputs help other countries produce their exports'. Backward linkages account for around 34% of Malaysia's gross exports, making it the dominant component of the country's GVC participation (Chart 3). This reflects the substantial use of imported inputs in Malaysia's export production, which are then further processed domestically before being re-exported, either to undergo subsequent stages of production abroad or for final consumption. At the same time, forward linkages have increased steadily over the years, indicating a growing role for Malaysian value added in supporting production and exports in partner economies.

Together, these features place Malaysia among the more globally integrated economies. Malaysia's level of GVC participation is above global average and broadly aligned with other key manufacturing powerhouses in Asia (Chart 4). In contrast, larger economies such as the United States (US) and China exhibit lower participation rates, reflecting a greater concentration of value creation within domestic production systems (US BEA, 2025; Taguchi, 2018).

Chart 3: Malaysia's Participation in Global Value Chain (GVC)

Share of Gross Exports (%)

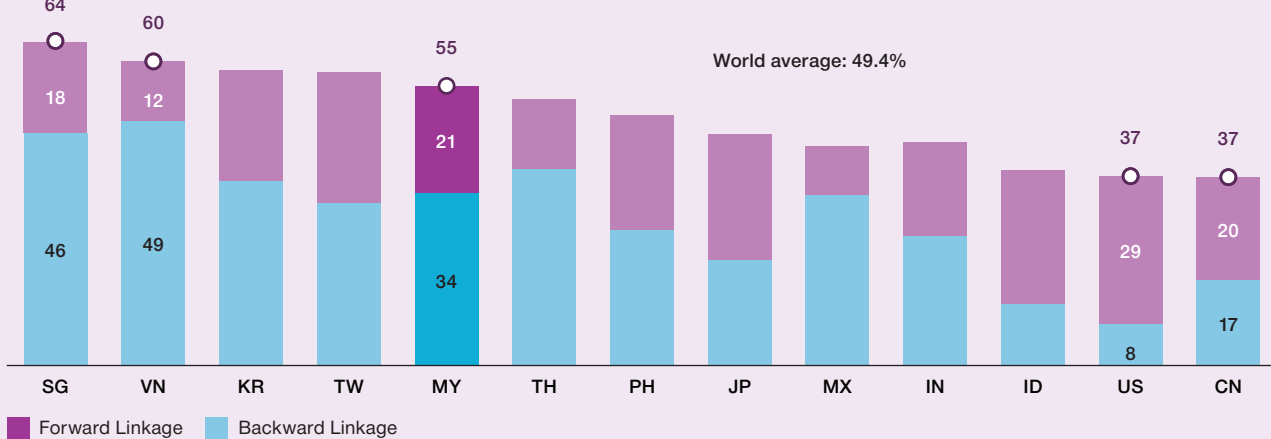


Note: 1. Forward linkages refer to domestic value added embodied in foreign exports; backward linkages refer to foreign value added embodied in Malaysia's exports.
 2. Estimates are based on OECD Trade in Value Added (TiVA) principal indicator shares.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

Chart 4: Forward and Backward Linkages in the GVC by Market

Share of Gross Exports (%)



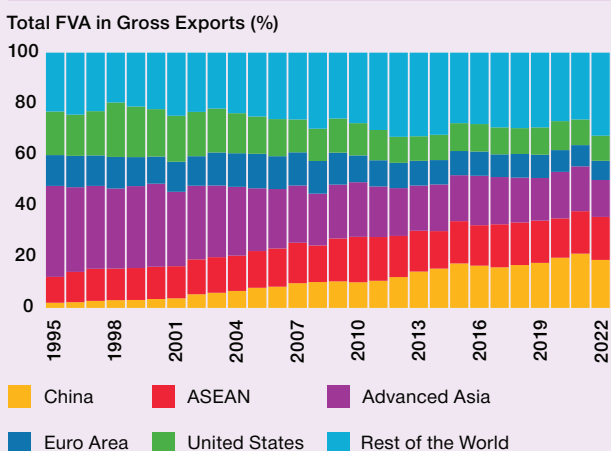
Note: CN = China, ID = Indonesia, IN = India, JP = Japan, KR = Korea, MX = Mexico, MY = Malaysia, PH = Philippines, SG = Singapore, TH = Thailand, TW = Chinese Taipei, US = United States, VN = Vietnam

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

Following the inputs: Foreign value added in Malaysia’s exports

Malaysia’s sourcing of foreign inputs has become increasingly regional. In 2022, more than half of its FVA was drawn from within the Asian region (Chart 5). While this reflects Malaysia’s deepening integration in regional production networks, it also points to a rising dependence on China as a major source of intermediate inputs. This underscores the pivotal role of regional manufacturing hubs in sustaining Malaysia’s export production. Malaysia’s backward linkages are heavily concentrated in manufacturing, particularly in the electrical and electronics (E&E) industries (Chart 6). E&E industries account for the largest share of FVA in Malaysia’s exports. This reflects the fragmentation of production processes where components, sub-assemblies and capital goods cross borders multiple times before reaching final demand. In other words, Malaysia’s role in GVC participation is best understood as part of an interconnected regional production network, rather than as a set of bilateral export relationships.

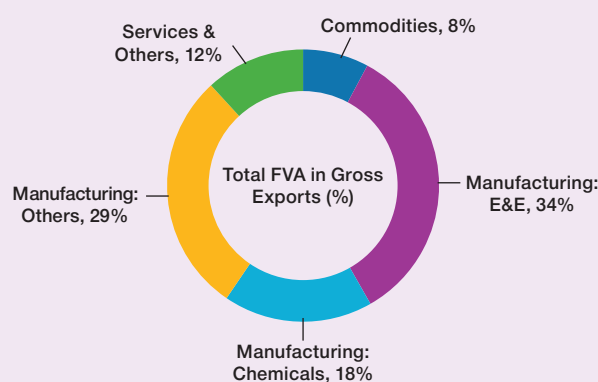
Chart 5: FVA in Malaysia’s Gross Exports by Market (2022)



Note: ASEAN refers to Indonesia, Philippines, Singapore, Thailand and Vietnam. Advanced Asia refers to Chinese Taipei, Hong Kong, Japan and Korea.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

Chart 6: FVA in Malaysia’s Gross Exports by Sector (2022)



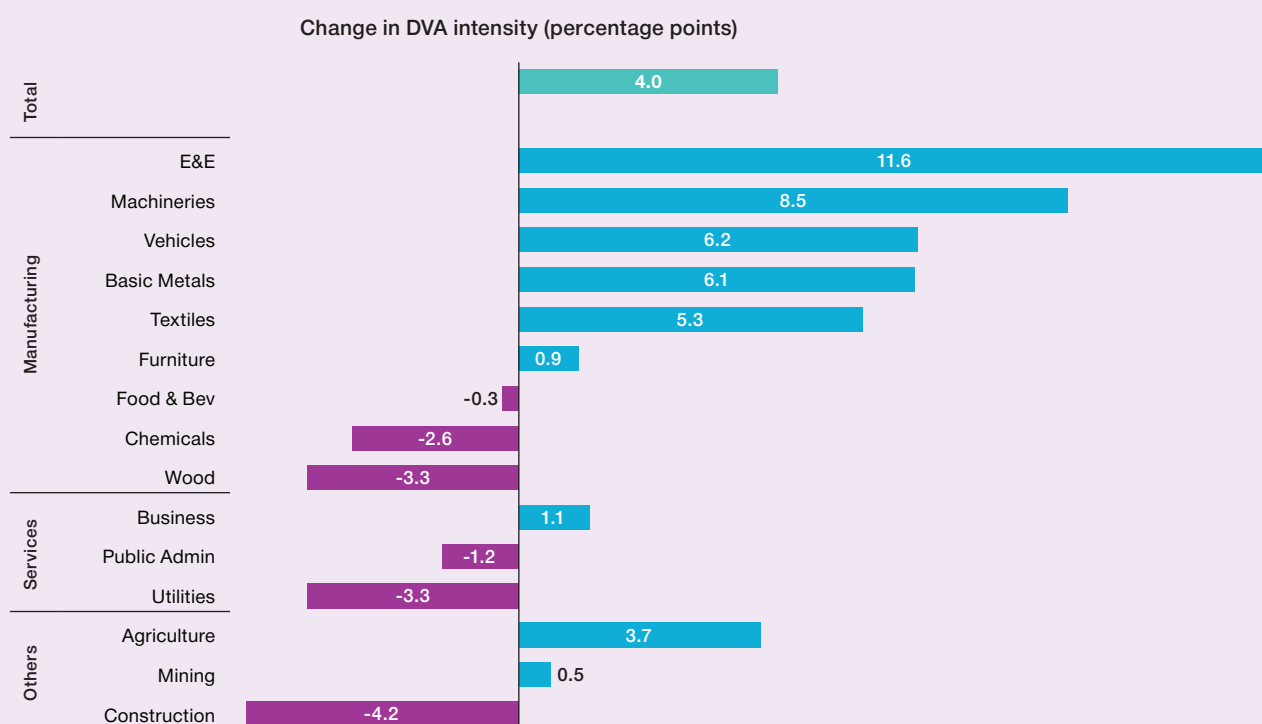
Note: Commodities refer to mining and agriculture.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

A better measure of value creation: Malaysia's domestic value added

Malaysia's reliance on foreign inputs reflects one dimension of GVC integration. Domestic value added (DVA)³ captures the portion of exports created in the country (i.e. the part of exports that contributes to GDP). DVA, or sometimes more informally known as 'local content', is a stronger channel through which exports translate into domestic incomes and jobs. This is of particular importance as export-oriented manufacturing sector employs about 1.3 million workers⁴ and generates a large share of labour income, contributing around 58% of total manufacturing wages. Malaysia's ability to create DVA within its exports has improved over time. DVA intensity⁵ has risen modestly across most sectors (Chart 7). The improvement in DVA intensity across manufacturing sectors between 2010 and 2022 is particularly important. It indicates meaningful upgrading within the manufacturing as firms progress into more complex activities or more advanced stages of production, enabling a larger share of value to be generated domestically.

Chart 7: Difference in DVA Intensity between 2010 and 2022



Note: DVA intensity refers to the share of domestic value added embodied in a country's gross exports.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TIVA) 2025 edition

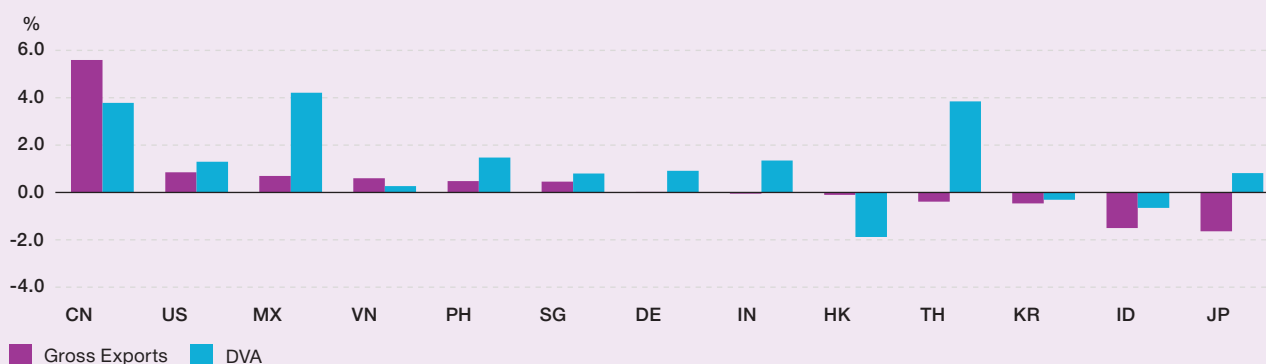
Of significance, increases in Malaysia's DVA have not always moved in tandem with changes in gross export shares across partner markets. In several destinations, DVA intensity has risen more rapidly than export shares, indicating improvements in value capture within existing trade relationships rather than expansion in export scale (Chart 8). Mexico exemplifies this pattern; despite only seeing modest growth in Malaysia's gross export share, higher DVA intensity points to upgrading within production activities and greater domestic retention of value.

³ Domestic value added (DVA) refers to all value created within Malaysia as defined by the OECD TIVA database. Only the share of DVA that is embedded in other countries' exports, known as domestic value added in foreign exports (DVX), is classified as forward linkage. If foreign value added (FVA) accounts for 34% of Malaysia's gross exports, the remaining 66% represents DVA. Of this, approximately 21 percentage points reflect forward linkage DVX, which captures Malaysian value added absorbed into foreign countries' exports (Chart 3). The remaining DVA is absorbed abroad in trade partners' final demand.

⁴ Computed using Department of Statistics, Malaysia's Monthly Manufacturing Statistics: paid employee data from Table 1.2a and wages & salaries from Table 1.3a (Jan–Dec 2025). Export-oriented sectors include: textiles, wearing apparel; wood, furniture; petroleum, chemicals, rubber & plastics; and electrical & electronics.

⁵ DVA intensity refers to the share of domestic value added embodied in a country's gross exports.

Chart 8: Reallocation of Malaysia’s Gross Exports and DVA Intensity by Market, 2015 to 2022



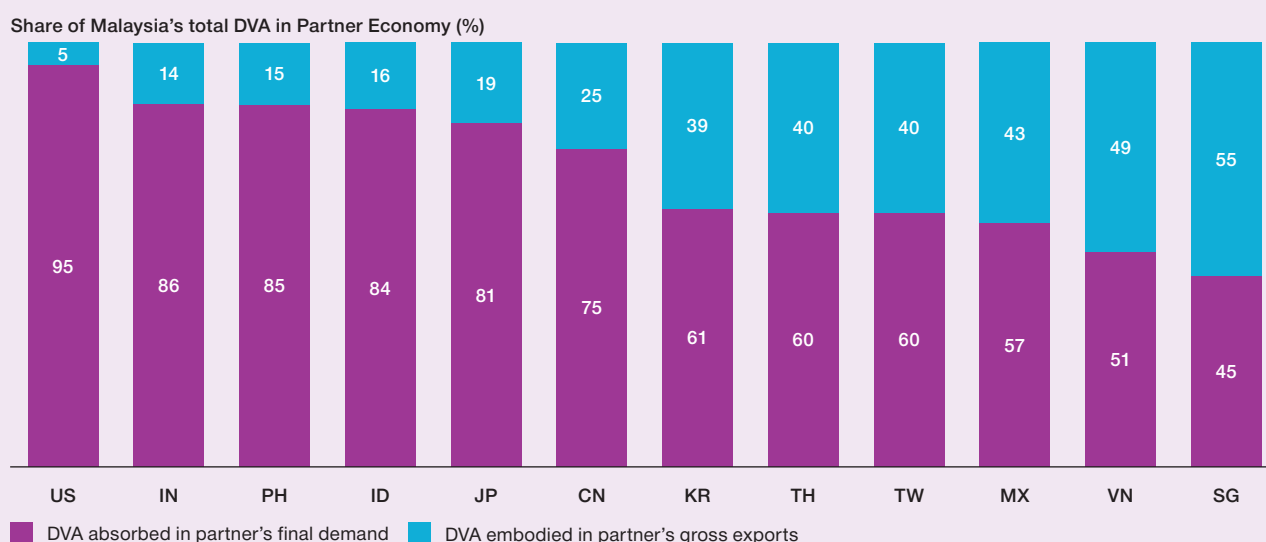
Note: 1. Change in gross export shares and DVA intensity by market.
 2. CN = China, DE = Germany, HK = Hong Kong, ID = Indonesia, IN = India, JP = Japan, KR = Korea, MX = Mexico, PH = Philippines, SG = Singapore, TH = Thailand, TW = Chinese Taipei, US = United States, VN = Vietnam

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

By contrast, markets such as Vietnam and China recorded strong growth in Malaysia’s export share, while the increase in DVA intensity was comparatively more gradual. This reflects the nature of Malaysia’s participation in regional production networks, where a portion of value added is embedded in intermediate goods rather than final-demand products.

Furthermore, the way this value added is absorbed abroad differs markedly across markets. In destinations such as India and the Philippines, Malaysia’s DVA is largely absorbed through final demand, linking Malaysia’s domestic value creation more directly to consumption and investment conditions in the partner economies (Chart 9). In these cases, demand shocks are expected to reach Malaysia more directly and often reflect specific developments in the individual market. In contrast, for markets such as Singapore, Vietnam and Mexico, a substantial share of Malaysia’s DVA enters as intermediate goods that are processed and are later exported as foreign country’s goods. This is the key condition for DVA to be classified as forward linkage. Here, the transmission of shocks is channelled through global supply chains. This means domestic outcomes are more sensitive to disruptions in intermediate trade flows and global manufacturing cycles (ECB, 2022).

Chart 9: Channels of Absorption for Malaysia’s DVA in Partner Economies



Note: 1. CN = China, ID = Indonesia, IN = India, JP = Japan, KR = Korea, MX = Mexico, PH = Philippines, SG = Singapore, TH = Thailand, TW = Chinese Taipei, US = United States, VN = Vietnam
 2. For each partner economy, Malaysia’s DVA reaching that market is computed as the sum of:
 (i) Malaysia’s DVA absorbed in partner’s final demand, and
 (ii) Malaysia’s DVA embodied in partner’s gross exports.
 Each component is shown as a share of the total DVA absorbed in that economy.
 3. This measure captures Malaysian value added that reaches partner economies both directly (via final consumption and investment abroad) and indirectly (via re-exports through multi-country production networks). Estimates are derived from TiVA’s origin of value added in final demand (FDVA) and origin of value added in gross exports (EXGRVA) indicators from the OECD.

Source: Bank Negara Malaysia estimates using data from OECD Trade in Value Added (TiVA) 2025 edition

Cyclical tariff headwinds: Malaysia's GVC resilience holds firm

Malaysia's exposure to rising trade tensions reflects both its position within GVCs and its reliance on final demand from key markets, particularly the US and China. At this point, although higher tariffs have raised trade costs, final demand conditions in the US remain supported by robust demand for technology products, keeping Malaysian exports resilient across multi-stage production networks. The diversification of demand and input sourcing inherent in GVCs allows firms to absorb trade shocks, including tariffs, while maintaining production continuity (Mancini et al., 2022). Malaysia's domestic exports⁶ to the US continued to register positive growth in 2025 despite higher tariffs (Chart 10).

Chart 10: Domestic Exports by Country

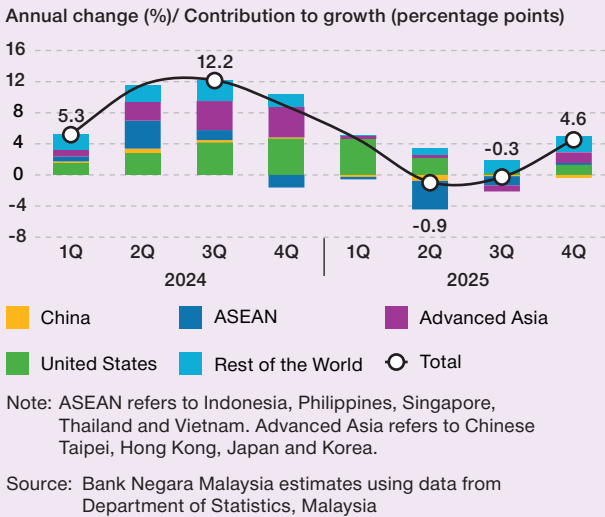
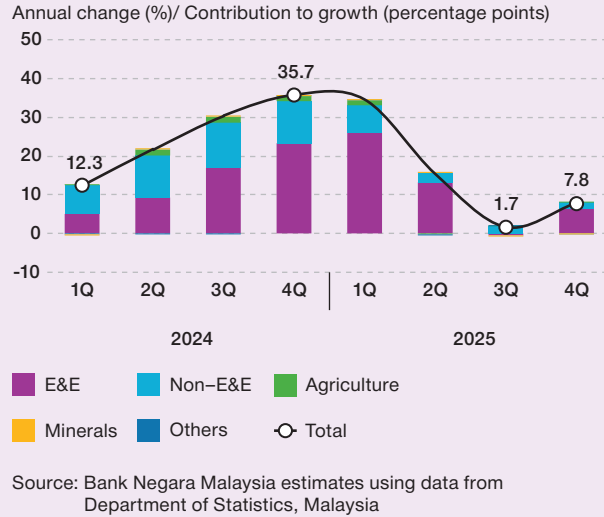


Chart 11: Domestic Exports to US by Product



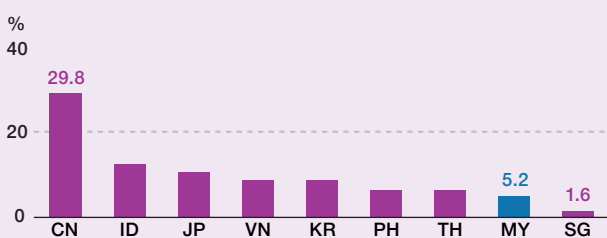
This growth was driven mainly by E&E products (Chart 11), which accounted for more than half of the increase in export receipts. In addition to being exempted from tariffs, the strong shipments of semiconductor devices and integrated circuits reflect Malaysia's integrated role in the global technology value chain, underpinned by its position as the world's ninth-largest E&E exporter⁷ and its durable supply chain relationships.

Additionally, Malaysia's resilience has also been supported in part by the composition of its export mix and the nature of the US tariffs introduced during this period. Although trade frictions between the US and China have intensified, spillovers to Malaysia remained modest. A key factor is that the effective tariff burden on Malaysia's exports to the US, which is calculated based on import duties collected on Malaysian products relative to the value of Malaysian exports to the US, was lower than that faced by several regional peers in 2025 (Chart 12). This is important because firms adjust to actual cost pressures rather than headline tariff rates. Based on the data by S&P Global, following the increase in US tariffs on China's goods, there was a marked decline in US imports from China alongside a corresponding rise in imports from regional countries (Chart 13).

⁶ Domestic exports are goods produced or significantly processed in the country and then sold abroad. They do not include re-exports, which are goods imported from another country and later exported again with little or no change.

⁷ For further details, please refer to the box article 'Malaysia's Position in Global E&E Value Chain and Prospects' in Bank Negara Malaysia's Economic and Monetary Review 2024.

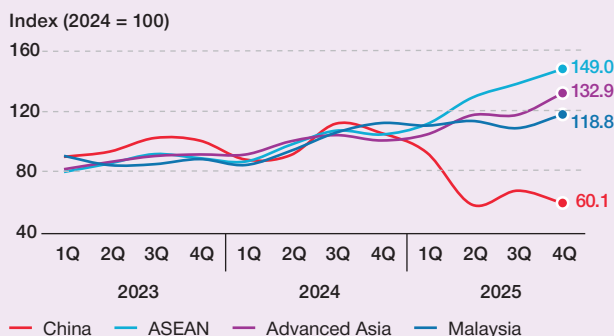
Chart 12: Effective Tariff Rate on US Imports in 2025 by Country



Note: 1. CN = China, ID = Indonesia, JP = Japan, VN = Vietnam, KR = Korea, PH = Philippines, TH = Thailand, MY = Malaysia, SG = Singapore
 2. The effective tariff rate is derived by taking the share of total import duties collected over the total value of US merchandise imports.

Source: Bank Negara Malaysia estimates using data from S&P Global

Chart 13: US Imports by Market



Note: ASEAN refers to Indonesia, Philippines, Singapore, Thailand and Vietnam. Advanced Asia comprises Hong Kong, Chinese Taipei, Japan and Korea.

Source: Bank Negara Malaysia estimates using data from S&P Global

From Uncertainty to Adjustment: Perspectives from Firms in Malaysia in Response to US Tariffs

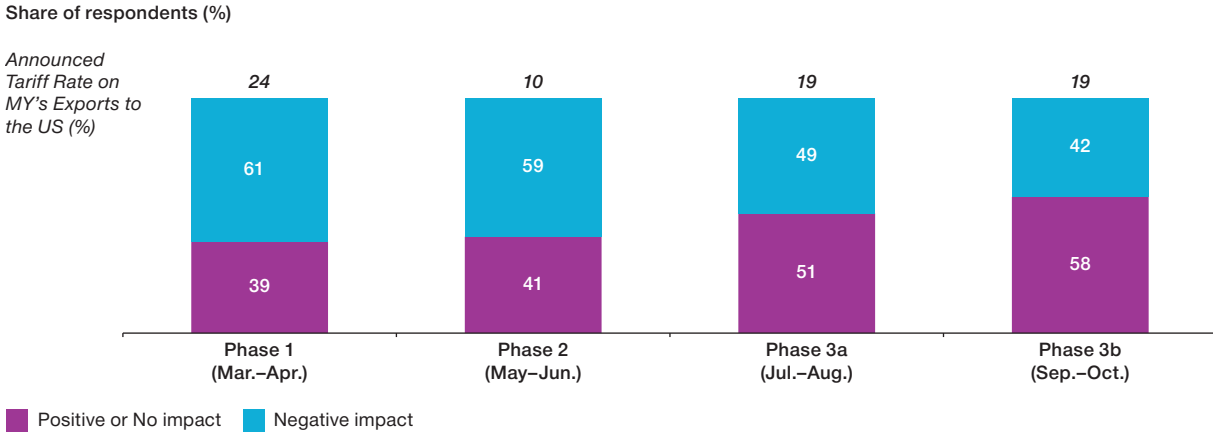
2025 was a year marked by increased uncertainties following the imposition of tariffs by the US. Given the volatile external environment, BNM conducted periodic industrial engagements with export-oriented firms in Malaysia to monitor the impact of US tariffs on Malaysia’s exports amid several tariff policy changes throughout 2025.

Firms reported less disruption as the year progressed due to greater policy clarity, but negative impact continued to weigh on the growth outlook

Despite the reduction in the tariff rate from 24% to 10% on 9 April 2025 for a 90-day consultation period (Phase 2), the share of firms expecting adverse impacts from US tariffs was largely unchanged (Chart A). This reflected the general uncertainty surrounding the outcome of trade negotiations between the US and Malaysia. Once the tariff rate for Malaysia’s goods exports to the US was finalised at 19%, fewer firms anticipated negative impacts (Phase 3a) amid greater policy clarity. Firms also expressed relief that the tariff rate was broadly similar to regional developing economies, providing a relatively level-playing field with competitors in Southeast Asia. As firms continued to adjust to the new tariff environment and completed the negotiation of new orders (Phase 3b), more US customers, who were initially hesitant, resumed orders. Moreover, some local exporters, especially in the E&E subsector, were positively impacted through transfer of orders or relocation of production lines into Malaysia. A notable share of firms remained unaffected by US tariffs as their products, such as semiconductors and generic pharmaceuticals, were exempted, or due to limited direct exposure to the US market.

However, the negative impact from US tariffs persisted. Firms in the primary-related industries were concerned about higher competition in non-US markets, exacerbated by the availability of cost-competitive goods due to excess industrial production capacity in China. Moreover, revenue for consumer-oriented exporters, such as those in the processed food, furniture and consumer electronics segments, was adversely affected by softer final demand from the US amid higher tariff-induced end-consumer prices. Consumer demand from the US was expected to gradually adapt to new price levels, which could take up to a year. The revenue growth outlook was also weighed by the inability to share tariff costs with customers in the US, particularly for players already operating at thin profit margins. This could potentially lead to a decline in orders if clients were unable to absorb the cost of tariffs.

Chart A: How will your revenue or orders be impacted in 2H 2025 by US tariffs?



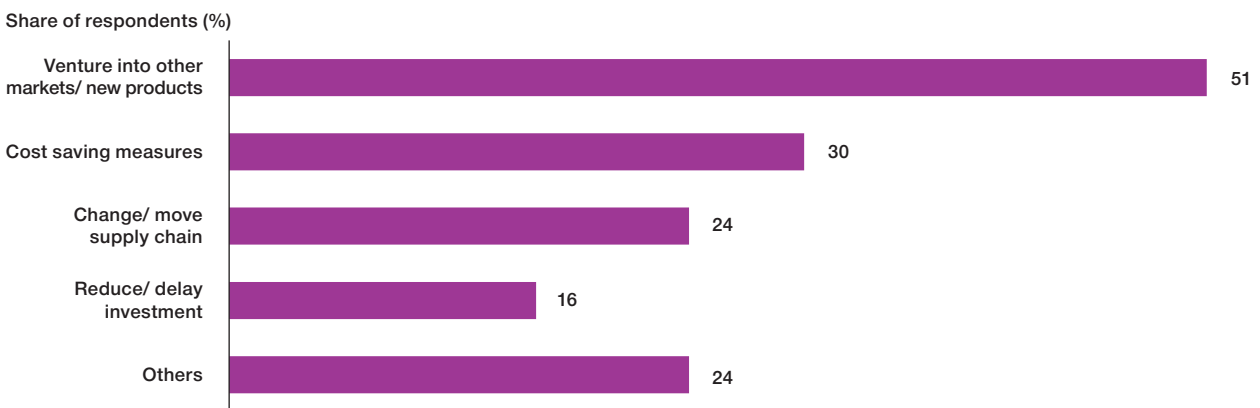
Note: 1. Phase 1 refers to the initial shock when the US announced tariffs on selected imported goods (e.g. steel, aluminium, automobile and automobile parts) in March 2025, followed by a 24% reciprocal tariff on goods imported from Malaysia on 2 April 2025.
 2. Phase 2 refers to the suspension of country-specific reciprocal tariffs and implementation of 10% universal tariffs for a 90-day consultation period, announced on 9 April 2025.
 3. Phase 3 refers to the announcement of the revised tariff rate on goods imported from Malaysia to 19%, announced on 31 July 2025, effective 1 August 2025.
 4. Responses were based on field interviews and industrial engagements with export-related firms conducted between March and October 2025 (n = 37, 37, 47, and 37, respectively).

Source: Bank Negara Malaysia

Firms affected by the new tariff environment planned to venture into alternative markets and diversify supply chains

To cope with the adverse impact of US tariffs, half of the firms considered venturing into a new market or pivoting to new product lines in niche segments with higher profit margins (Chart B). Nonetheless, these firms acknowledged the potential challenges to pivot in the immediate term, including difficulty in securing new, long-term non-US clients.

Chart B: If negatively affected by US tariffs, how do you plan to cope?



Note: 1. Percentage shares do not sum to 100% as respondents could mitigate challenges using more than one strategy.
 2. Responses were based on field interviews and industrial engagements with 37 export-related firms conducted between March and August 2025.
 3. Others include reducing headcount and shutting down production lines.

Source: Bank Negara Malaysia

Beyond tariff cycles: Malaysia faces broader economic risks amid seismic geoeconomic shifts

a) Between Two Giants: Malaysia’s Demand Exposure

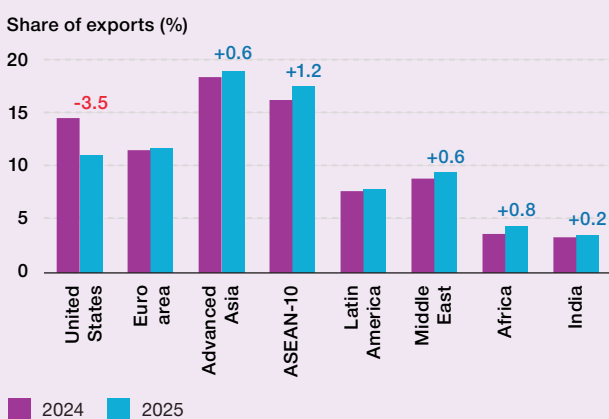
Deep GVC integration has helped cushion the Malaysian economy against recent tariff shocks. However, rising protectionism and global industrial policies, that operate along value-chain lines, are reshaping production networks rather than merely altering bilateral trade flows (IMF, 2023). At the same time, Malaysia’s exposure to external demand has increased: the share of DVA embodied in foreign final demand has risen from 20% in 1995 to 37% in 2022. This reflects the growing reliance on final demand from China and the US. Although this integration creates opportunities during periods of strong global growth, it also amplifies Malaysia’s sensitivity when geopolitical tensions escalate and external demand slows down, pointing to a structural vulnerability.

b) Shifting Tides in Global Supply

A further source of pressure arises from changes in global supply conditions. While China’s exports to the US have declined in 2025, its exports to other markets have increased significantly (Chart 14). For ASEAN, imports from China comprises both intermediate inputs that reinforce regional production networks and final goods that intensify competition with domestic producers.

For Malaysia, the effect is rather mixed at this juncture. Intermediate goods sourced from China remain vital for supporting domestic E&E and machinery production by strengthening backward linkages. However, the rising presence of competitively priced final goods heightens competitive pressures, particularly in sectors where global supply has expanded faster than demand and where China is capturing a growing share of world exports (Chart 15). Malaysia has maintained modest gains in global market share in recent years, but sustaining these gains will require continued upgrading to avoid being crowded out.

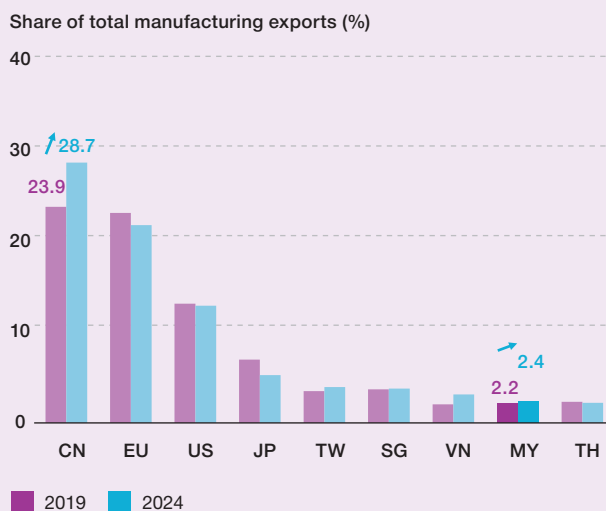
Chart 14: China’s Export Share by Market



Note: 1. Figures above each bar denote the percentage point change in China’s export share to the respective countries.
 2. Advanced Asia refers to Chinese Taipei, Hong Kong, Japan and Korea. Latin America, Middle East, and Africa follow IMF aggregate classifications. ASEAN-10 comprises Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

Source : Bank Negara Malaysia estimates using data from S&P Global

Chart 15: Share of Global Manufacturing Exports



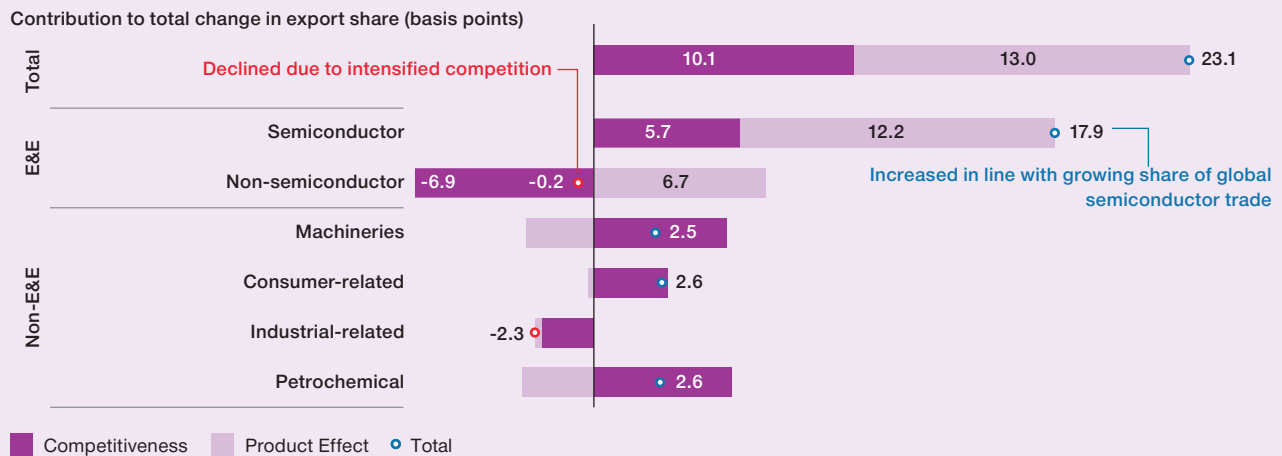
Note: CN = China, EU = European Union, US = United States of America, JP = Japan, TW = Chinese Taipei, SG = Singapore, VN = Vietnam, MY = Malaysia, TH = Thailand

Source: Bank Negara Malaysia estimates using data from S&P Global

c) Risks from Riding Cyclical Tailwinds

These external pressures intersect with Malaysia’s own structural realities. The strength in the recent export performance has been concentrated in sectors benefiting from strong global demand, particularly E&E. Analysis of export market-share changes reveals that the 0.23% gain by Malaysia between 2019 and 2024 reflects favourable product composition, particularly in semiconductors (Chart 16). Improvements in underlying competitiveness has been a factor, though by a lesser extent than demand factors. While specialisation in fast-growing technology segments has supported recent performance, reliance on these cyclical drivers exposes the export base to greater volatility when the tech cycle turns or when global competitors advance into the same product space.

Chart 16: Decomposition of Manufacturing Export Share in the Global Market from 2019 to 2024



Interpretation:
 Malaysia's total market share increased by 23.1 basis points (bps). Of this, 13.0 bps were attributed to the product effect, with 12.2 bps specifically driven by semiconductors. This was complemented by 10.1 bps of competitiveness gains.

Source: Bank Negara Malaysia estimates based on methodology from Bonanno (2016) Constant Market Share Analysis using data from S&P Global

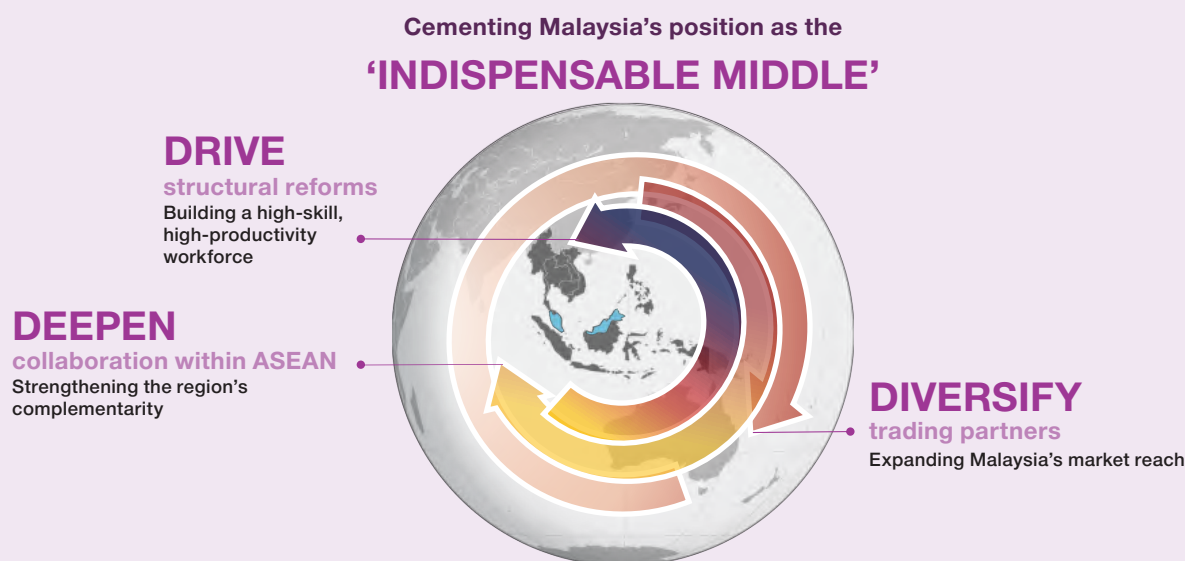
The strong do what they can, the weak adapt as they must:⁸ Cementing Malaysia’s position as the ‘indispensable middle’⁹

In a geoeconomically fragmented environment where production networks are constantly being reconfigured, the policy impetus is not to retreat from GVCs, but to strengthen Malaysia’s role within them. The strategic objective is to position Malaysia as an ‘indispensable middle’, a reliable, high-value node that global firms depend on for continuity, diversification, and risk management across fragmented production networks. To this end, the following three policy focus areas are proposed (Diagram 1).

⁸ Paraphrasing a famous line from Thucydides’ History of the Peloponnesian War, ‘The strong do what they can, the weak suffer what they must’. In the context of geoeconomics, the phrase is used to describe situations where larger or more powerful economies set the rules of engagement, while smaller economies must accommodate because they lack leverage.

⁹ The term ‘indispensable middle’ aligns with academic literature on mid-stream hubs in GVCs: countries that specialise in critical intermediate stages become essential connectors, gaining productivity spillovers and shaping how shocks propagate across economies. Alfaro and Chor (2023), for instance, documented how countries like Vietnam and Mexico have strengthened their roles as pivotal intermediaries as global firms re-route sourcing and production across multiple geographies amidst geopolitical tensions. In recent years, Liew Chin Tong, former Deputy Minister of Investment, Trade and Industry of Malaysia, has used the term to characterise Malaysia’s role in the global technology and semiconductor supply chain.

Diagram 1: Policy Considerations



Source: Bank Negara Malaysia

Focus 1: Diversify trading partners: Expanding Malaysia's market reach

The concentration of Malaysia's trade flows with the US and China introduces a material vulnerability to geopolitical and trade policy shocks. A sustained effort to broaden the geographic reach of Malaysia's exports is therefore warranted. This objective is not predicated upon a retreat from existing bilateral relationships, but rather upon the prudent imperative to ensure that no single corridor of trade accounts for a disproportionate share of exports.

This requires both institutional capacity and the pre-existing market relationships to execute such a rebalancing. For Malaysia, sizeable export opportunities remain untapped beyond the US and China (share of global value added in the US: 27%, China: 17.3%). These include the European Union (16% of global value added) as well as Middle East, Latin America, and Sub-Saharan Africa, where aggregate demand for manufactured goods and intermediate inputs is expected to rise in the coming years, driven by expanding industrial capacity and growing consumption (IMF, 2025; UNIDO, 2023; ISS African Futures, 2025). Malaysia is well-positioned to deepen its presence in these under-penetrated markets by leveraging existing agreements, including the EFTA¹⁰–Malaysia Economic Partnership Agreement, the Malaysia–UAE CEPA¹¹ and the CPTPP¹² (for Mexico, Chile and Peru). This can be complemented by new exploratory initiatives such as a prospective Malaysia–SACU¹³ engagement to anchor longer-term access into Southern Africa.

Beyond market diversification, Malaysia must also broaden the composition and origin of its imports, including critical minerals that underpin its electronics, renewable energy and advanced manufacturing sectors. This provides further opportunities to enhance supplier-manufacturer partnerships with mineral-rich economies across Latin America, Africa and Central Asia which could help Malaysia secure a more stable and diversified access to essential inputs, reinforcing both industrial resilience and competitiveness.

Market and product diversification is best pursued in tandem with measures to lower regulatory barriers. Existing and new trade agreements with trade partners provide a platform for this, which entails streamlining rules of origin, lowering tariffs and harmonising standards. This ensures that Malaysian firms can access new markets with fewer regulatory frictions while maintaining sufficient safeguards to protect their commercial interests.

¹⁰ European Free Trade Association comprises Iceland, Liechtenstein, Norway and Switzerland.

¹¹ Malaysia–United Arab Emirates Comprehensive Economic Partnership Agreement.

¹² Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

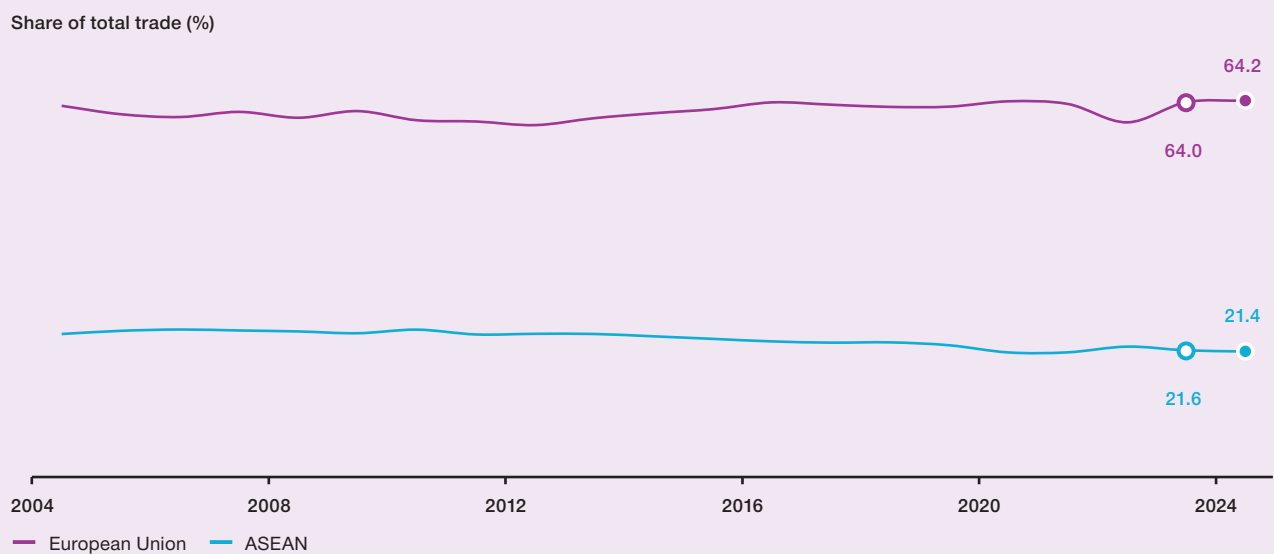
¹³ South Africa Customs Union comprises Botswana, Eswatini, Lesotho, Namibia and South Africa.

Focus 2: Deepen collaboration within ASEAN: Strengthening the region's complementarity

Malaysia's push to broaden the geographical reach of its trade must be matched by deeper economic integration. While diversification helps reduce market-concentration risks, it is the depth of such integration that determines how these relationships generate value. Collectively, stronger coordination within ASEAN enables member states to attract more FDIs and serves as a buffer against ongoing global supply chain risks.

Malaysia should continue to leverage on intra-ASEAN trade to fulfil growing demand from ASEAN consumers. ASEAN is the world's fifth-largest economy, with GDP set to exceed USD 5 trillion by 2030. It also boasts a young population of 670 million and is expected to add over 130 million new middle-class consumers this decade (World Economic Forum, 2020). This is an underutilised opportunity to capture a growing consumer base, yet intra-ASEAN trade has not risen materially since the early 2000s. As a reference point, the European Union (EU), a major trading bloc, has significantly higher intra-regional trade than the ASEAN region (Chart 17).

Chart 17: Intra-regional Trade Share of European Union and ASEAN



Note: ASEAN refers to Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. European Union comprises Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain and Sweden.

Source: Bank Negara Malaysia estimates using data from Eurostat and ASEANStats

Aside from serving as an additional source of demand, there is a structural impetus for greater regional integration too. A case in point, EU's high trade integration reflects its strong production complementarities and more synergistic export structures whereas ASEAN's lower integration reflects an export structure characterised by countries producing more similar goods (AMRO, 2025). Achieving greater synergistic export structure calls for higher intra-regional complementarity. To this end, intra-regional FDI is crucial to promote more targeted investments into ASEAN countries, allowing for the formation of more regionally-focused and complementary production ecosystems.

As of 2024, intra-regional FDI remains low, at 14% of total FDI stock, well below the levels observed in the EU at 51.6%.¹⁴ These limited investment links weaken the development of durable supplier networks and cross-border backward and forward linkages, preventing ASEAN from fully realising the potential of its collective industrial base. Enhancing these investment links is therefore essential for unlocking a more cohesive, regionally-focused production ecosystem. Notably, the growing footprint of leading semiconductor multinationals across multiple ASEAN economies reflects the region's complementary strengths. This demonstrates the ecosystem's latent potential that deeper intra-ASEAN investment could help unlock and scale.

¹⁴ Source: ASEANstats, Eurostat

ASEAN's growth demonstrated that the whole can be greater than the sum of its parts. Consequently, Malaysia can pursue its investment aspiration and contribute to the growth of ASEAN's production network simultaneously by positioning itself as part of a complementary network, rather than an isolated investment hub. This includes prioritising collaboration with its ASEAN counterparts to develop cohesive investment strategies which would enable Malaysia to harness its own distinctive capability to draw in more investments, and to also enrich the breadth and the depth of ASEAN's value chain. Special Economic Zones that combine targeted incentives aligned to the regional priorities with integrated talent development would help Malaysia to deepen its role in the specific segments of regional value chains where it has a competitive edge and build economic complexity.

Focus 3: Drive structural reforms: Building a high-skill, high-productivity workforce

The sustainability of Malaysia's GVC participation and the aspiration to become an 'indispensable middle' rest upon the capacity of the domestic economy to supply the human capital and productive capabilities required for higher-value integration. Across BNM's industry engagements, firms consistently cite high-skilled labour shortages¹⁵ as one of the binding constraints to production expansion. This challenge is primarily observed in E&E segments, where specialised competencies face stiff competition globally. At the same time, industry stakeholders acknowledge that resolving these shortages will also require more competitive compensation packages to retain talent and to also attract Malaysia's high-skilled diaspora to return.

Addressing this structural challenge necessitates a recalibration of the approach to skills development. This includes elevating technical and vocational education and training (TVET) to genuine parity with degree-based pathways. Recent reforms reflect meaningful progress, such as legislative amendments to strengthen accreditation and recognition, and the expansion of demand-driven training through industry partnerships. However, deeper alignment with employer needs and further institutional strengthening¹⁶ remain an important priority (Wan, C.D., 2025). Positioning TVET as a credible, high-return pathway would help attract more learners into programmes that directly match industry demand.

Beyond improving TVET, Malaysia must collaborate more closely with subject-matter experts to design and co-fund sector-aligned training. Public-private partnerships, where industry shapes curricula and contributes to training costs, will offer the most responsive model for building specialised capabilities. Existing national strategies, including the 13th Malaysia Plan, NIMP 2030 and the National Semiconductor Strategy, provide policy levers to operationalise this approach by linking incentives to expanding dual training,¹⁷ and scaling institutional capacity. Together, these reforms will lay down a well-rooted and strong human capital foundation to pave the way for Malaysia toward becoming an 'indispensable middle'.

Conclusion

The three policy focus areas, export market diversification, deeper trade relationships and domestic human-capital-focused structural reforms create a mutually reinforcing framework rather than standalone initiatives. Market diversification strengthens resilience to external shocks, strategic, complexity-enhancing FDI supports upgrading along the value chain and a skilled domestic workforce ensures that the benefits of GVC participation are broad-based and sustainable over time.

Taken in aggregate, these strategies position Malaysia to consolidate and extend its role within GVCs at a level commensurate with its development aspirations. The aim is not merely to maintain participation in GVCs, but to become an 'indispensable middle' whose role is critical to the functioning of the broader production network. If Malaysia succeeds in securing this position, the path toward high-income status and more durable prosperity will be significantly more secure.

¹⁵ For further details, please refer to the box article 'The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities' in Bank Negara Malaysia's Economic and Monetary Review 2023.

¹⁶ Refers to ongoing efforts to strengthen governance and coordination within the TVET ecosystem, including the pending establishment of a dedicated TVET Commission along with broader reforms to align industry standards, funding and data across institutions.

¹⁷ Refers to Malaysia's National Dual Training System, an industry-driven apprenticeship model that combines practical training in real workplaces and theory in training centres to build a highly skilled workforce.

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Outlook and Policy in 2026 |

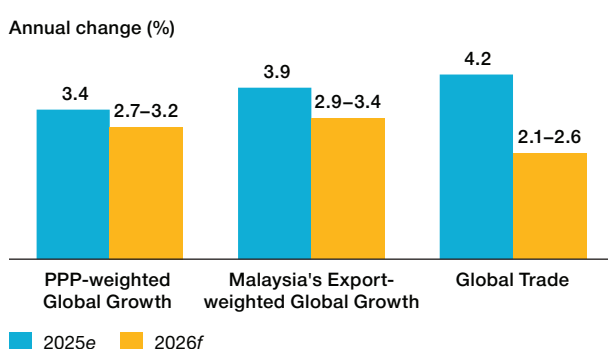
Outlook and Policy in 2026

2026: RESILIENT GROWTH DESPITE EXTERNAL HEADWINDS

Global growth is expected to expand at a more moderate pace in 2026

Global economic growth is expected to continue growing at a more moderate pace in 2026 (2.7%–3.2%; 2025: 3.4%), supported by resilient domestic demand including robust investment in technology and digitalisation, particularly artificial intelligence (AI). The prevailing monetary policy condition and fiscal support are expected to provide an additional lift to economic activity. Nonetheless, global growth is expected to face ongoing headwinds from the impact of higher tariffs, the uncertainty surrounding them, as well as heightened geopolitical conflict in the Middle East.

Chart 2.1: Global Real GDP and Trade Growth



e Estimate
f Forecast

Notes: 1. PPP-weighted global growth is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.

2. Export-weighted global growth is the aggregate growth of Malaysia's key trading partners, as weighted by their shares in Malaysia's exports. This measure of global growth is more reflective of Malaysia's exports and growth prospects.

Source: International Monetary Fund (IMF) and Bank Negara Malaysia estimates

Growth in advanced economies is projected to remain resilient, underpinned by firm household spending amid broadly supportive monetary and fiscal policies. In the US, consumption will continue to drive economic activity despite recent signs of labour market softening, while the further pass-through from tariffs will be most pronounced in the first half of 2026 before tapering off thereafter. This will be supported by ongoing fiscal measures such as the extension of tax cuts, easing monetary policy and elevated household net wealth. Meanwhile, strong investment in technology and digitalisation, particularly in AI-related applications is expected to be a key growth driver. In the euro area, growth will be sustained by resilient labour markets and supportive fiscal measures. In particular, Germany's ongoing government spending on defence and infrastructure projects are expected to lend support to growth.

Regional economies are expected to grow steadily, supported by household spending and supportive fiscal and monetary policies. Investments will be supported by robust demand for AI, reflecting the region's central role in global semiconductor production. China, Chinese Taipei, Japan and Korea account for a large share of advanced fabrication capacity needed for the AI and electrical and electronics (E&E) supply chain.¹ Nevertheless, trade-reliant economies could face headwinds from slower global trade as the temporary boost from frontloaded shipments fades. In China, despite continued fiscal support, growth is expected to soften further, weighed down by prolonged property market weakness and tariff-related pressures.

Global trade growth is projected to slow in 2026 as the temporary boost from frontloaded shipments in 2025 fades and the impact of tariffs materialises, particularly in non-E&E product segment.² While the tariff rates are lower following the US Supreme Court ruling in February 2026,

¹ Based on OECD's 'The Chip Landscape' analysis, which indicates that these economies together account for approximately 78% of global in-production wafer capacity as of September 2025.

² Non-E&E products accounted for an average of 64% share of global exports in January to October 2025 (2024: 67%), while E&E goods and commodities accounted for 21% and 15% respectively (2024: 19% and 14% respectively).

tariff uncertainty has re-escalated, at least in the near-term. Geopolitical conflict will also weigh on supply chains and investment decisions, leaving global trade growth below its historical average. Despite these headwinds, trade will be supported by stronger demand for E&E and machinery and equipment (M&E), anchored by technological upgrades and infrastructure investment. With global AI spending projected to reach around USD2.5 trillion in 2026³ (2025: USD1.8 trillion), export of AI-related products is also expected to support global trade. The high valuation of the technology companies and the attendant risk of a market correction pose a risk to this positive prospect. Meanwhile, steady growth in global tourism activity will provide a modest offset to weakness in goods trade.

The prevailing disinflationary trend in global headline inflation now faces greater uncertainty as the ongoing Middle East conflict disrupts energy markets and supply chains. This raises risks of higher inflation in 2026 through increased energy prices and transportation costs. Additionally, tariff-related measures could also exert upward pressure on prices, particularly in the US as tariff pass-through keep price pressures above those in other major economies. Services inflation in advanced economies may also remain sticky given persistent wage pressures.

Global financial conditions are expected to remain broadly accommodative in 2026, underpinned by generally supportive monetary policy. However, the pace and scale of policy normalisation are expected to slow, as central banks maintain a cautious stance amid more pronounced inflation risk from higher energy prices. In this environment, financial markets are likely to remain sensitive to shifts in expectations around the US monetary policy path. As a result, forthcoming US inflation and labour market data releases alongside ongoing geopolitical developments could continue to prompt bouts of volatility across global financial markets.

While progress on trade negotiations in 2025 has helped ease some global uncertainties, financial markets remain prone to episodes of elevated volatility. This reflects heightened sensitivity to changes in monetary policy expectations, evolving trade and geopolitical dynamics, and the risk of market corrections amid elevated asset valuations in segments linked to AI-related investments. Against this backdrop, a continued but modest narrowing of interest rate differentials between advanced economies and several emerging

markets could support capital inflows. These inflows would be more pronounced for emerging markets with strong fundamentals and favourable economic prospects.

Global growth risks are tilted to the downside

Risks to the global growth outlook are tilted to the downside. Higher and more product-specific tariffs could weigh on global trade flows. Prolonged and more destructive conflict in the Middle East could further push commodity prices higher, affecting financial markets, global inflation and growth. Concerns over elevated financial markets valuations could also increase the risk of corrections, with potential spillovers to economic activity. On the other hand, stronger-than-expected technology spending, a milder tariff impact on economic growth and greater policy support in major economies could help cushion these risks.

The Malaysian economy is projected to grow between 4% and 5% in 2026

Malaysia's growth is expected to remain resilient in 2026 (Chart 2.2). Domestic demand will remain the main driver of growth, supported by steady private sector spending. Labour market conditions are expected to remain firm, as employment growth continues and the unemployment rate declines. Continued income, supported by steady economic growth and civil servant salary adjustment,⁴ will support private consumption. Moreover, fiscal support in the form of cash assistance and measures announced in Budget 2026 are expected to further lift consumption, particularly among lower-income households.

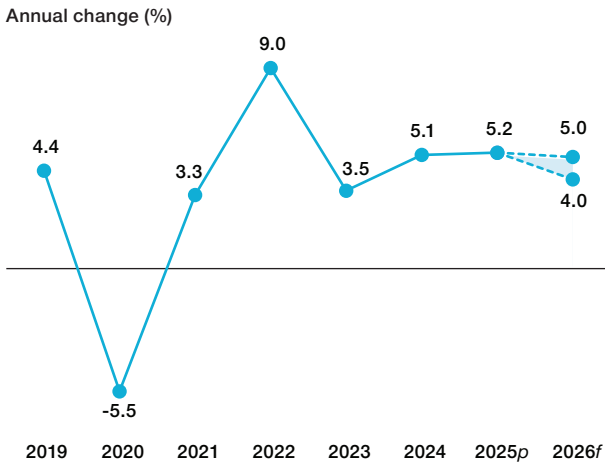
Investment activity is expected to maintain its momentum from the current investment upcycle, albeit expanding at a more moderate pace. The realisation of the high approved projects in 2025 will provide a solid foundation for continued growth. Malaysia's strong fundamentals, deep and extensive production ecosystem and supportive policy measures will sustain investor confidence. Hence, risks from reshoring of foreign investments in response to global trade pressure are likely to remain contained.⁵ Strong global demand for AI-related technologies and services,

³ Based on Gartner (2026).

⁴ Refers to Phase 2 of the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA), which is effective in January 2026 with a 7% adjustment (8% adjustment for Phase 1 in December 2024).

⁵ Based on BNM's Regional Economic & Industry Surveillance team engagements with some major exporters to US and their suppliers between October and November 2025.

Chart 2.2: Malaysia's Real GDP Growth



^p Preliminary
^f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

together with continued digitalisation and automation, will support investment growth in 2026. Capacity expansion in the private sector will be driven by E&E as well as information and communications technology (ICT) sectors. The continued implementation of national masterplans across both the private and public sectors, including initiatives under the Thirteenth Malaysia Plan (RMK-13) will also provide additional impetus to economic activity. Ongoing public investment projects, particularly in transport and energy-related projects, will continue to support growth throughout the year. These include PETRONAS's Kasawari Carbon Capture Storage (CCS) project, Tenaga Nasional Berhad's Hydro and Solar initiatives as well as the Mutiara LRT Line.

Malaysia's trade outlook is expected to remain challenging in 2026 as exporters contend with new developments and uncertainties surrounding tariff and geopolitical conflict. However, Malaysia's diversified export structure and several supportive factors are expected to cushion the impact. The E&E sector is poised to gain from strong semiconductor demand in 2026⁶ amid the global technology expansion, digitalisation and acceleration of AI adoption. Robust E&E ecosystem and earlier investments to move towards higher value-added activities, such as advanced packaging, have enabled the sector to be in a prime position to capture these opportunities. The realisation of data centre investments, particularly those with AI capabilities will strengthen Malaysia's ICT ecosystem linkages and encourage more sophisticated manufacturing activities. Additionally,

⁶ In its Autumn 2025 forecast, the World Semiconductor Trade Statistics (WSTS) projected that the global semiconductor market will grow further by 26.3% in 2026, following the 22.5% growth achieved in 2025.

newly operational data centre facilities will also provide some support to ICT services exports.⁷ It is recognised that the global AI momentum remains sensitive to shifts in global financial markets, which shape financing conditions and capital allocation to AI-related investments. A correction in the valuation of AI-linked equities, for instance, may lead to lower investment in AI companies and spillover to related production and trade activities.

Services exports will also benefit from steady inbound tourism during Visit Malaysia Year 2026. Tourist arrivals will be supported by visa exemption for visitors from China and India, continued international flight connectivity, as well as ongoing promotional efforts in conjunction with the Visit Malaysia Year 2026.

The outlook for non-E&E exports remains mixed, reflecting both persistent production surpluses in China and recent geopolitical conflict. The oversupply may keep competitive pressures elevated across selected non-E&E segments, while geopolitical conflict could affect price and demand conditions, especially in petroleum and chemical products.

Meanwhile, import growth is expected to pick up in line with the gradual recovery of intermediate imports to support the continued expansion of manufactured exports. This will be partly offset by the normalisation of capital import growth after a strong expansion in 2025.

The growth outlook for the Malaysian economy remains subject to uncertainties. Externally, downside risks stem from slower-than-expected global trade due to geopolitical conflict in the Middle East and tariffs. Domestically, lower-than-expected commodity production due to adverse weather conditions or unplanned maintenance could weigh on growth prospects. On the upside, better-than-expected global growth outlook, stronger demand for E&E and more robust tourism activity could boost Malaysia's export and growth prospects.

Inflation is expected to remain moderate and close to its long-term average in 2026

Headline inflation is expected to remain moderate, averaging between 1.5% and 2.5% in 2026. Global

⁷ Based on BNM's internal Cash BOP data, data centre exports of services amounted to RM11.7 billion in 2025, significantly higher compared to RM2.8 billion on 2024. Currently, only about 26% of planned data centre capacity has come online, suggesting significant room to further support to services exports as more facilities are completed in the coming years (Source: DC Byte, as of January 2026).

commodity prices are projected to experience greater volatility amid the conflict in the Middle East. Nevertheless, the stronger exchange rate could provide some support in containing import prices. Domestic policy measures will also help mitigate the pass-through of global cost pressures to domestic prices. In turn, cost pressures faced by firms are expected to remain manageable, with pricing behaviour remaining generally cautious across the retail and services segments. Overall, these developments point to a relatively contained inflation path over the course of the year.

Underlying inflation, as measured by core inflation, is expected to remain close to its long-term average. This is consistent with expectations of economic activity remaining in line with potential, without generating material demand-driven inflationary pressures. Core inflation is projected to average between 1.8% and 2.3% in 2026.

The inflation outlook remains primarily dependent on external risks. Upside risks could stem from prolonged supply disruptions and trade policy uncertainty, including higher input costs from elevated global commodity prices which could be amplified by the conflict in the Middle East and weather disruptions. In such scenarios, sectors that are more sensitive to import prices, such as food, could face stronger cost pressures. Some producers and retailers could also opportunistically raise prices. On the downside, weaker global demand could weigh on domestic activity, while softer global commodity price developments could lower imported costs and ease inflationary pressures. Exchange rate developments would also have a bearing on imported cost pressures, which could affect inflation outcomes.

Domestic monetary and financial conditions are expected to remain supportive of economic activity

Developments in domestic financial markets are expected to remain broadly favourable. This is supported by generally accommodative global financial conditions and Malaysia's strong economic fundamentals. In the bond market, Malaysian Government Securities (MGS) yields

are expected to remain broadly supported by the global interest rate environment and gradual foreign inflows. A more favourable exchange rate environment could lift currency-adjusted returns and attract investor interest in domestic bonds. Meanwhile, domestic equity market performance is expected to be underpinned by improving investor confidence, supported by Malaysia's positive growth prospects.

Financing conditions will remain supportive in 2026, underpinned by sustained credit growth amid continued economic expansion and conducive borrowing conditions. Banks remain well-positioned to provide credit, given their strong capital buffers, supportive liquidity conditions and manageable funding costs. As such, credit to the private non-financial sector is expected to remain forthcoming. On the demand side, credit growth will continue to be supported by steady economic activity, favourable labour market conditions, and ongoing domestic policy support measures. Business loan growth is expected to remain firm in line with sustained investment momentum, while corporate bond issuance is likely to remain attractive given competitive yields.

Risks to domestic financial conditions stem mainly from external developments. In particular, unexpected shifts in expectations around the US monetary policy path, market corrections amid elevated valuations of AI-related equities, and heightened geopolitical uncertainties, particularly in the Middle East, could prompt episodes of global financial market volatility. This may lead to periods of intermittent volatility in capital flows and exchange rates. Nevertheless, spillovers to domestic financial conditions are expected to remain manageable. This reflects Malaysia's strong economic fundamentals, a deep domestic institutional investor base, and a well-capitalised banking system with sufficient buffers. Asset prices are expected to adjust in an orderly manner, supported by healthy trading activity and broad-based investor participation. Bank Negara Malaysia (BNM) will continue to monitor developments and ensure adequate liquidity in the domestic financial system to support smooth market functioning. In the foreign exchange market, BNM will continue to maintain orderly conditions. This includes ongoing measures to encourage two-way flows through engagement with exporters and corporates, as well as the Qualified Resident Investor (QRI) programme.

Monetary policy will remain focused on fostering conditions that support sustainable economic growth while keeping inflation contained

In 2026, monetary policy decisions will continue to be guided by the Monetary Policy Committee's (MPC) assessment of risks to Malaysia's inflation and growth outlook. The MPC remains committed to supporting sustainable economic growth in an environment of price stability.

Domestic growth is expected to remain firm, supported by resilient domestic demand amid steady private sector expenditure. Nevertheless, external headwinds pose downside risks, including slower global trade amid geopolitical and tariff-related uncertainties. On the domestic front, lower-than-expected commodity production could also weigh on growth. On the upside,

growth could benefit from stronger global activity, firmer demand for E&E goods and more robust tourism activity.

Inflation is projected to remain moderate. While global commodity prices may be subject to greater volatility given recent developments, the impact on domestic inflation is expected to be contained. Upside risks could stem from renewed external cost pressures, while downside risks may arise from softer global growth and more moderate domestic demand conditions.

The MPC aims to maintain a monetary policy stance that is supportive of economic activity, while preserving price stability. This is guided by the prevailing assessment on the balance of risks to Malaysia's inflation and growth outlook, taking into account underlying economic and financial conditions. As such, monetary policy will remain data-dependent, with the MPC closely monitoring developments and their potential spillovers to the Malaysian economy.

Domestic demand to remain the main driver of growth

In 2026, domestic demand, particularly private sector spending, will remain the anchor of growth for the Malaysian economy. The external sector will benefit from continued global technology expansion and steady tourism activity supported by Visit Malaysia Year 2026 amid challenges surrounding global uncertainties, including the conflict in the Middle East.

Table 1

Real GDP by Expenditure (2015=100)

	2025 ^p	2025 ^p	2026 ^f	2025 ^p	2026 ^f
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand*	96.3	6.3	5.5	6.0	5.3
Private Sector Expenditure	77.8	6.1	5.5	4.7	4.3
Consumption	60.6	5.2	5.0	3.1	3.0
Investment	17.2	9.4	7.5	1.6	1.3
Public Sector Expenditure	18.4	7.6	5.6	1.4	1.0
Consumption	13.4	6.6	4.9	0.9	0.7
Investment	5.1	10.3	7.3	0.5	0.4
Gross Fixed Capital Formation	22.2	9.6	7.4	2.1	1.7
Change in Stocks	0.5			-0.1	0.0
Net Exports of Goods and Services	3.3	-19.3	-26.4	-0.8	-0.9
Exports	66.8	3.1	2.8	2.1	1.9
Imports	63.5	4.6	4.3	2.9	2.7
Real Gross Domestic Product (GDP)	100.0	5.2	4.0-5.0	5.2	4.0-5.0

* Excluding stocks.

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Private consumption is projected to grow by 5% (2025: 5.2%). Growth will be driven by firm labour market conditions and continued income growth. Employment will continue to expand, led by hiring in manufacturing and services sectors. The unemployment rate is expected to remain low at 2.9%. Income growth will also be supported by sustained domestic activity and income-related policies through the civil servant salary adjustment under Phase 2 of the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA). Fiscal measures through cash transfers and BUDI95, alongside the Overnight Policy Rate (OPR) reduction in July 2025, will also be supportive to household spending.

Gross fixed capital formation (GFCF) is expected to expand by 7.4% (2025: 9.6%). Growth will be driven by multi-year projects across both structures, and machinery and equipment (M&E)-related investments, supported by the forthcoming realisation of investment approvals. As such, the investment upcycle is expected to extend into 2026, albeit at a more moderate pace.

Private investment is projected to grow by 7.5% (2025: 9.4%). The realisation of the high level of investment approvals in the past couple of years, particularly in the high-technology sub-sectors such as information and communications technology (ICT), and electrical and electronics (E&E) are expected to support capital expenditure by both domestic and foreign investors. Of significance, around 84.9% of manufacturing projects approved between 2021 and 2025 are in various phases of implementation. The global technology expansion and advancements in automation and digitalisation are expected to boost investment in high-value and innovation-driven activities. Additionally, sustained early-stage construction activity (2025: RM40.5 billion; 2024: RM33.9 billion) suggests positive investment prospects going forward. While the pipeline of new investments remains strong, the growth rate is expected to moderate on account of the large base effect from strong investments in prior years. This will result in some normalisation of private investment growth in 2026.

Public investment is expected to grow at a more moderate pace of 7.3% (2025: 10.3%). This reflects the near completion of several large infrastructure projects. Growth will be supported by catalytic investments in strategic sectors such as utilities, energy and transportation. The focus will be on projects to enhance electricity generation capacity, upgrade railway networks, and improve public transport services. The rollout of projects under the national master plans, including Budget 2026 and the Thirteenth Malaysia Plan (RMK-13), and the continued progress of existing projects will further support growth in public investment in 2026.

Public consumption is expected to expand by 4.9% (2025: 6.6%). Growth will be driven mainly by the Government's continued emoluments spending amid Phase 2 of civil servant salary adjustment under the SSPA. The supplies and services expenditure, however, is expected to grow more moderately. This is in line with the Government's commitment to improve spending efficiency while sustaining public service delivery.

Expansion in most economic sectors

Most economic sectors are expected to grow in 2026, except for the agriculture and mining sectors. The services and manufacturing sectors are expected to continue to drive overall growth.

Table 2

Real GDP by Kind of Economic Activity (2015=100)

	2025p	2025p	2026f	2025p	2026f
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.6	5.5	5.2	3.3	3.1
Manufacturing	23.0	4.5	4.3	1.0	1.0
Agriculture	6.1	2.2	-1.0	0.1	-0.1
Mining and quarrying	5.7	0.7	-1.2	0.0	-0.1
Construction	4.3	12.2	9.1	0.5	0.4
Real Gross Domestic Product (GDP)	100.0*	5.2	4.0–5.0	5.2	4.0–5.0

* Figures may not necessarily add up due to rounding and exclusion of import duties component.

p Preliminary

f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

The services sector is expected to grow at 5.2% (2025: 5.5%). The consumer-related subsector is expected to remain resilient as household spending remains forthcoming. Tourism activities will be lifted by the Visit Malaysia Year 2026 campaigns, notwithstanding some travel disruptions from the Middle East conflict. Continued operationalisation of data centre activities will support ICT subsector growth. Real estate and business services subsector are expected to strengthen, in line with continued growth in construction activities. The transport and storage subsector will benefit from air passenger traffic driven by tourist arrivals, commencement of LRT3 and new highways, as well as continued trade growth. Growth of the finance and insurance subsector will be underpinned by sustained loan demand and rollout of insurance products aligned with consumer needs. Meanwhile, the Phase 2 of civil servant salary adjustment under SSPA will continue support government services subsector.⁸

The manufacturing sector will continue to grow, albeit at a more moderate pace at 4.3% (2025: 4.5%). The E&E industry will be supported by the ongoing strong demand related to AI, while consumer-related industries are expected to benefit from resilient household spending. However, growth of primary-related industry would remain subdued. This reflects the stiff competition from lingering global excess capacity within the industry.

The agriculture sector is projected to contract by -1.0% (2025: 2.2%). Crude palm oil production is expected to normalise following the strong yields recorded in late 2025, while ongoing replanting activities in East Malaysia will also weigh on output. Meanwhile, innovative planting methods such as the Five Seasons in Two Years paddy planting program (Penanaman Padi Lima Musim Dalam Tempoh Dua Tahun) are expected to support paddy production. Continued technological enhancements would also support production of other food crops such as fruits and vegetables.

The mining sector is projected to contract by -1.2% (2025: 0.7%). Maturing fields continue to weigh on oil production. In addition, planned maintenance activities in oil and gas fields are expected to affect output.

Growth in the construction sector is expected to expand by 9.1% (2025: 12.2%), driven by continued activities across all subsectors. While some large infrastructure projects are nearing completion, growth in the civil engineering subsector will continue. It will be supported by the sustained development expenditure of the Government including for provision and upgrades of essential public infrastructure as announced under the Budget 2026. The non-residential subsector will continue to be buoyed by strong demand for industrial spaces, driven in part by steady pipeline of data centres projects. The residential subsector will continue to see launches of affordable new housing projects from both private and public developers. Activities in these three subsectors will also translate to more early-stage and finish work, boosting the special trade subsector.

⁸ When civil servant salaries rise, the economic value of government services also grows because these are non-market services and are measured based on their cost of delivery.

Continued growth in exports and imports in 2026

Malaysia's gross exports are expected to grow by 8.6% in 2026 (2025: 6.4%). Manufactured exports, which accounted for 86% of total exports in 2025, will remain the key driver with a projected expansion of 9.6% (2025: 7.7%). Growth will be supported by robust E&E exports amid the global shift toward AI-related technologies. Malaysia's prominent role in the global E&E supply chain will benefit from the continued demand for semiconductors and advanced electronic components. Meanwhile, the outlook for non-E&E exports is expected to be more mixed. Exports of refined petroleum and petrochemical products may benefit from higher product prices amid the ongoing conflict in the Middle East, while other non-E&E products are likely to continue to be weighed by intense regional competition driven by higher exports from China.

Commodity exports are expected to recover slightly by 1.6% in 2026 (2025: -2.4%). This is mainly attributed to the recovery in mining exports which is projected to rebound by 13% (2025: -10.8%), following higher global prices of crude oil and LNG exports. Meanwhile, agriculture exports is expected to register a decline of -7.6% due to lower CPO production amid yield normalisation following exceptionally strong output in 2025 and ongoing replanting activities.

Potential upsides to the export outlook include stronger-than-expected tech demand, robust inbound tourism, as well as faster ICT and data centre rollout, which may provide additional support to overall export growth. At the same time, risks remain from potential disruption to global trade from the ongoing geopolitical and trade tensions, further payback from frontloading of exports to the US, and larger-than-expected impact of ringgit appreciation on Malaysia's export competitiveness. Supply disruptions from adverse weather conditions and unplanned maintenance could also affect commodity-related exports.

Gross imports are projected to grow by 9% in 2026 (2025: 6%). Capital imports are expected to moderate while remaining elevated, following the strong growth in 2025 due to data centre and E&E-related investments. Meanwhile, intermediate goods imports are anticipated to recover in line with expectations for continued growth in manufactured exports.

Table 3
External Trade

	2015–19 average	2025 ^p	2026 ^f
	Annual change (%)		
Gross exports	5.6	6.4	8.6
<i>of which:</i>			
Manufactured	7.6	7.7	9.6
Agriculture	-0.6	5.8	-7.6
Minerals	-3.1	-10.8	13.0
Gross imports	4.7	6.0	9.0
<i>of which:</i>			
Capital goods	1.2	29.0	2.3
Intermediate goods	3.1	-4.0	6.9
Consumption goods	8.4	1.8	7.3
Trade balance (RM billion)	109.5	154.6	161.2

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Sustained current account surplus

The current account of the balance of payments is expected to remain in surplus, ranging from 1.5%–2.5% of GDP in 2026 (2025: 1.6% of GDP). This is driven mainly by continued goods and services surplus despite a challenging external environment, which is partially offset by a widening of primary and secondary income deficit.

The goods account is projected to record a higher surplus of RM128.1 billion (2025: RM110.9 billion), as exports level continue to exceed imports. Meanwhile, the services account is expected to record a higher surplus of RM5 billion (2025: RM1.2 billion), supported by a larger surplus in the travel account, reflecting continued tourist arrivals, partly supported by the Visit Malaysia Year 2026 campaign. Additionally, newly operational data centre facilities will also provide support to ICT services exports.

The primary income account is projected to remain in deficit (-RM74.2 billion, 2025: -RM69.5 billion). This is driven by the continued income payment accrued to foreign investors in Malaysia amid continued profitability of multinational companies (MNCs) operating in Malaysia. Similarly, the secondary income account is also expected to remain in deficit (-RM13.2 billion, 2025: -RM10.8 billion), due mainly to outward remittances by foreign workers. Nevertheless, this is expected to be partly cushioned by inward remittances from Malaysians working abroad.

Table 4
Current Account of the Balance of Payments*

Item (Net)	2025 ^p	2026 ^f
	RM billion	
Goods	110.9	128.1
Services	1.2	5.0
Primary income	-69.5	-74.2
Secondary income	-10.8	-13.2
Current account balance	31.8	45.6
<i>% of GDP</i>	1.6	1.5–2.5

* In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

^p Preliminary

^f Forecast

Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The economy remains near potential in 2026

Potential output reflects the amount of goods and services an economy could produce without generating excess inflationary pressures given the available factors of production (i.e. labour and capital) and productivity. The output gap is a measure of the difference between the economy's actual output and potential output. This relationship serves as a key indicator for monetary policy, as it is an estimate of spare capacity in the economy, provides early signs of inflationary pressures and supports more informed policy formulation.

As potential output and the output gap of the economy cannot be observed directly, they can only be inferred or derived from other information. Various techniques are used to estimate potential output, including statistical filters, econometric modelling of production functions, and dynamic stochastic general equilibrium (DSGE) frameworks. These estimates are therefore subject to a high degree of uncertainty.⁹

In 2025, Malaysia's potential output¹⁰ is estimated to have expanded by 4.8% (2024: 3.9%; 2011–19 average: 4.9%). The expansion was attributed to higher capital accumulation, in line with robust investment activity (2025: 9.6%; 2024: 12%; 2011–19 average: 6.8%). Labour utilisation improved with the unemployment rate declining to below pre-pandemic levels while the labour force participation rate increased to 70.9% (2024: 70.5%; 2011–19 average: 67.3%). As the level of actual output was higher relative to the potential output, the output gap¹¹ is estimated to have been positive in 2025, at 1% above the potential output (2024: 0.6%).

Potential output growth can also be decomposed to capture both the availability of production inputs as well as how efficiently and intensively they are utilised when producing goods and services. Using the

⁹ Refer to 'Estimating Malaysia's Potential Output' box article in BNM Annual Report 2012 for more information on the model-driven approaches to assess potential output and the output gap.

¹⁰ Potential output is derived through an average of several methodologies including Production Function, Laubach-Williams model, Real Business Cycle model, Kalman Filter and Dynamic Stochastic General Equilibrium (DSGE) model.

¹¹ The output gap is formally defined as $\frac{\text{Actual output level} - \text{Potential output level}}{\text{Potential output level}} \times 100\%$.

production function modelling framework,¹² they can be indicated by the availability of labour, capital, and changes in total factor productivity (TFP). Between 2022 and 2024, Malaysia’s potential output growth has been driven largely by capital accumulation, reflected in higher capital stock. The contribution from labour has also risen, returning to levels close to those observed prior to the COVID-19 pandemic.

Table 5

Decomposition of Estimated Potential Output Growth Using the Production Function Approach

	Annual averages			
	2008–24	2008–19	2020–21	2022–24
Annual potential output growth (%)	4.2	4.6	2.5	4.1
of which, potential labour supply growth	0.9	1.0	0.2	1.1
of which, average hours	-0.1	-0.2	0.0	0.1
of which, working population*	1.0	1.2	0.2	1.0
of which, capital accumulation**	2.2	2.4	1.1	1.8
of which, TFP***	1.2–1.3	1.2–1.3	0.5–1.2	1.2–1.9

Note: Contributions of respective components may not sum to the total due to rounding and the uncertainties surrounding the TFP estimates.

* Working population refers to the multiplication of working-age population (population between the ages of 15 to 64), labour force participation rate and 1-NAIRU (non-accelerating inflation rate of unemployment).

$$\text{Working population} = \text{Working age population} \times \text{LFPR} \times (1 - \text{NAIRU})$$

** Capital accumulation refers to the growth in net capital stock.

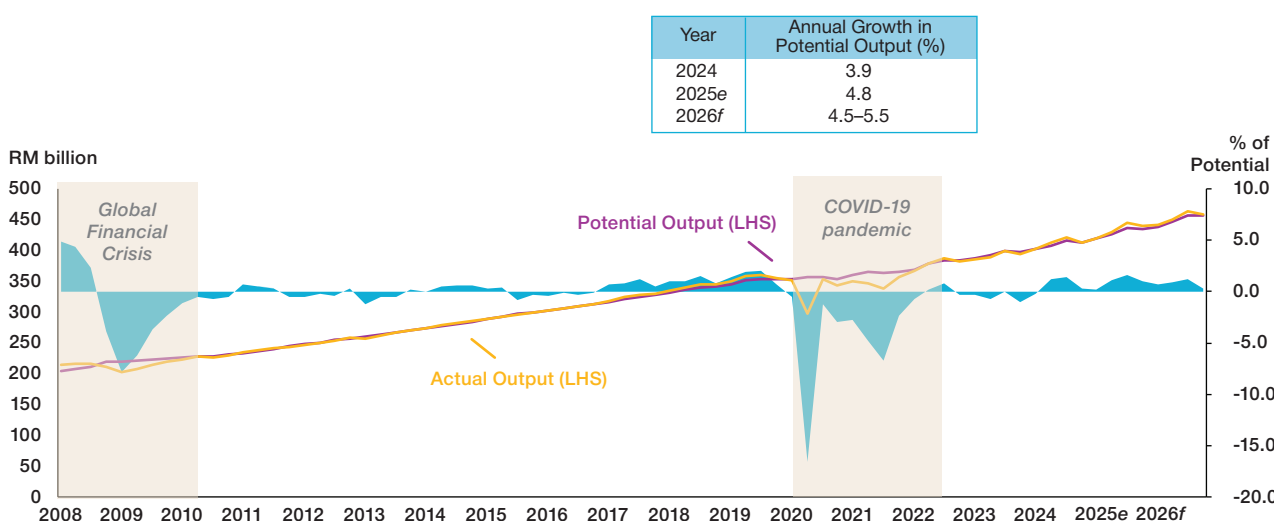
*** TFP denotes contribution to potential productivity growth arising from the efficiency in which capital and labour are utilised.

The estimate is net of its cyclical component, capturing only the underlying trend component. Ranges indicate uncertainty of its estimate which can vary depending on methodology.

Source: Bank Negara Malaysia estimates

Going forward, the Malaysian economy is expected to remain close to potential, with a marginally positive output gap in 2026. Potential output is projected to grow at its pre-pandemic levels of 4.5%–5.5% while actual output growth is forecast to expand by 4%–5%, supported by domestic demand. In the near term, potential output growth is expected to be supported by capital accumulation and productivity gains amid higher investments in strategic sectors, particularly ICT and E&E.

Chart 1: Actual and Potential Output



■ Output Gap (RHS)

e Estimate
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

¹² Decomposition is undertaken using the production function methodology adapted from The Production Function Methodology for Calculating Potential Growth Rates and Output Gaps (Havik et al., 2014).

Oil price shocks from the conflict in Middle East: Implications to Malaysia’s growth and inflation outlook in 2026

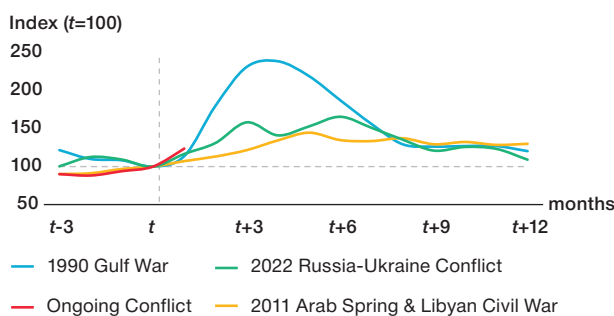
In late February 2026, geopolitical tensions in the Middle East escalated sharply following the onset of a military conflict, disrupting regional oil and gas production, as well as associated supply chain and logistics. Concerns over safety, rising insurance costs, and the subsequent withdrawal of major commercial shipping operators led to significant disruptions in maritime traffic through the Strait of Hormuz. The strait carries nearly 20% of the global oil supply daily. Beyond shipping disruptions, the conflict has also forced temporary closures of key oil production facilities across the Middle East region due to infrastructure damage and overfilled storage capacity, further constraining global supply. These combined factors sharply increased global oil prices¹³ and raised concerns over spillovers to global inflation and growth. The conflict has also led to heightened volatility in the financial markets and tighter financial conditions in a large number of economies, which could further weigh on economic activity.

As a small open economy, Malaysia’s growth and inflation outlook is sensitive to geopolitical and global energy price developments. The conflict transmits to the domestic economy mainly through three key channels. First, higher energy prices raise import costs and subsequently exert upward pressure on domestic production costs and consumer prices. These, in turn, could dampen household spending and business activity. Second, weaker external demand following oil price shocks could weigh on exports and overall growth. Third, elevated oil prices and heightened uncertainty increase risk aversion, prompting a shift towards safe-haven assets. This leads to more volatile capital flows across emerging markets, including Malaysia, with potentially adverse spillover on domestic financial conditions and exchange rate.

However, these effects may be partly mitigated by higher commodity-related export earnings, given Malaysia’s position as a net energy exporter.¹⁴ Existing targeted fuel subsidies would also help cushion the transmission of higher global energy prices to the domestic inflation and economy.

The overall impact on Malaysia will depend on how long the conflict lasts, how severe the disruption is, and how far it affects the global energy production and logistics. During previous episodes of military conflict, oil prices increased significantly for three to six months before gradually declining to its pre-conflict level (Chart 2). However, outcomes have varied across different episodes, and the current Middle East conflict could unfold differently. If hostilities remain contained and de-escalate gradually, disruptions may be short-lived, characterised by temporary production outages and partial shipping disruptions through the Strait of Hormuz, with strategic reserves helping to cushion near-term supply shortfalls. In such circumstances, oil prices are likely to settle at elevated but manageable levels, with limited spillovers to global growth, trade and inflation.

Chart 2: Monthly Average Brent Price Trajectory Following Military Conflict



Note: Time *t* denotes the month of the disruption events.

Source: Bloomberg, CEIC, newsflow and Bank Negara Malaysia estimates

¹³ Following the escalation of the conflict, Brent crude oil price increased from USD71 per barrel on 27 February (pre-conflict) to USD77 per barrel on 2 March (first post-conflict trading day). Prices breached USD100 per barrel on 9 March, reflecting over 40% increase nine days since the start of the conflict. Since then, Brent price continues to trade in the USD85 to 105 per barrel range.

¹⁴ As at 2025, Malaysia’s status as a net energy exporter was mainly driven by sustained trade surpluses in LNG (+RM45.3 billion) and refined petroleum (+RM3.1 billion). This was partly offset by a trade deficit in crude petroleum (-RM29.9 billion).

By contrast, more persistent disruptions, could result in prolonged disruptions to maritime traffic, sustained damage to energy infrastructure, and extended production shutdowns across major Gulf producers. This would keep oil prices elevated for longer, dampen external demand, and weigh on global trade and growth. In this scenario, domestically, elevated energy and input costs could increase the likelihood of broader cost pass-through to consumer prices, posing risks of more persistent inflationary pressures. This would erode household purchasing power and amplify the drag on domestic demand.

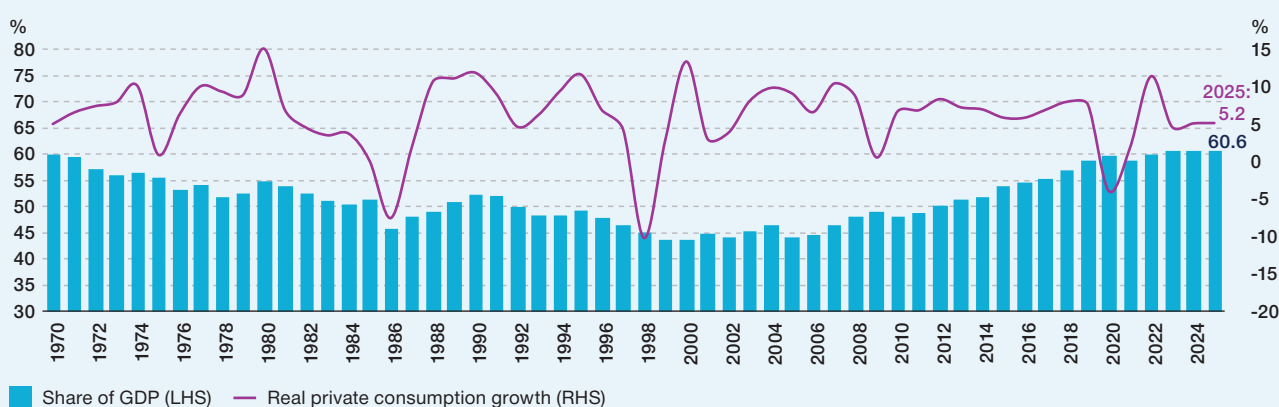
Of great significance, Malaysia is entering this period from a position of strength, supported by robust domestic demand, moderate inflation, a sound financial sector, and resilient external position. Our standing as a net energy exporter also provides some buffer against external headwinds. Nevertheless, BNM will remain vigilant to the rapidly evolving nature of this conflict and stand ready to ensure that monetary policy remains supportive of the economy while safeguarding price stability.

Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

Introduction

Malaysia's growth landscape has changed significantly over the decades. Malaysia transitioned from a consumption-driven growth model in the 1970s to an export-led industrialisation strategy from the mid-1980s to the early 2000s, with manufacturing and external trade becoming the dominant engine of expansion. From 2010 onwards, the growth engine turned inward again, with private consumption accounting for nearly 61% of GDP in 2025 (Chart 1).

Chart 1: Evolution of Real Private Consumption Growth and Its Share of GDP



Note: Pre-1990 data for real private consumption growth is sourced from World Bank and Post-1990 data is sourced from Department of Statistics, Malaysia. The share to GDP series is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Department of Statistics, Malaysia

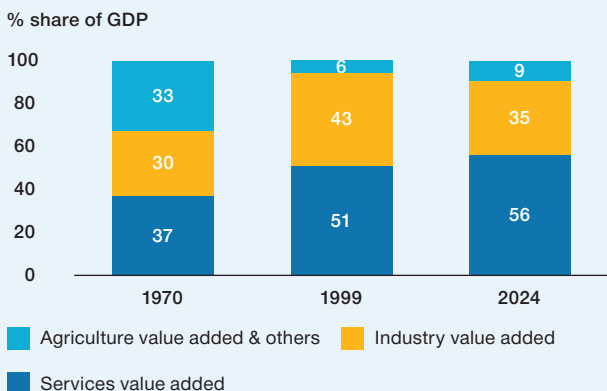
This article explores the evolution and sustainability of private consumption in Malaysia through two lenses. The first covers the major long-term structural factors such as the country's economic transformation and sociodemographic trends. The second perspective explores the underlying drivers of households' spending capacity such as income, wealth, debt and policy support. Finally, the article highlights challenges and policy priorities to ensure private consumption remains a sustainable engine of growth going forward.

Part 1: Structural Drivers of Rising Private Consumption

Economic Transformation and Income Growth

Since the 1970s, Malaysia's economy has steadily changed from agriculture-led to manufacturing and later, services (Chart 2). This shift created better-paying jobs and drew workers to higher-value added sectors. Productivity within these sectors increased, supported by a growing workforce and investments in equipment and infrastructure. These changes lifted output per capita and supported years of household income growth (Chart 3). In turn, this fuelled higher consumer spending.

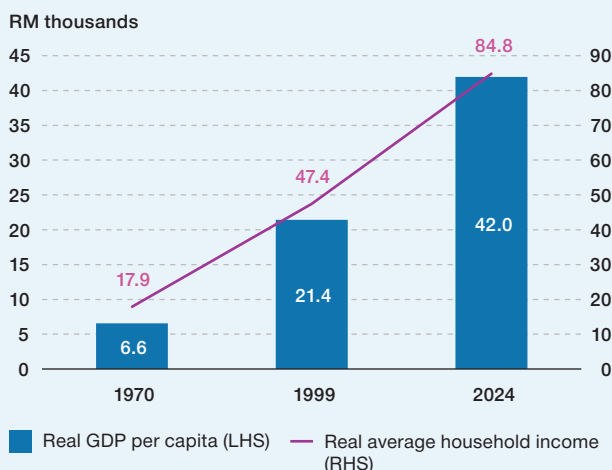
Chart 2: Sectoral Share of GDP



Note: Industry value added is the sum of manufacturing, mining and construction value added. For the year 1970, services value added is a residual of industry and agriculture, which means the estimate for services for that year incorporates import duties. For 1999 and 2024, import duties are considered under 'Agriculture value added & Others'. 1970 data is sourced from World Bank while 1999 and 2024 are sourced from the Department of Statistics, Malaysia.

Source: World Bank, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 3: Real GDP Per Capita and Real Average Household Income

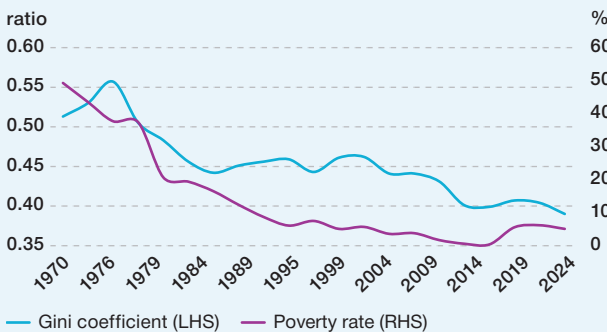


Note: Average household income is annualised and deflated to 2010 real terms using GDP deflator to standardise the frequencies.

Source: World Bank, CEIC, Household Income Survey by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

As household income rose, poverty and inequality declined sharply. The national poverty rate¹ fell from 49.3% in 1970 to 5.1% in 2024, while income inequality as measured by the Gini coefficient improved from 0.51 to 0.39 (Chart 4). Better income distribution also supported aggregate consumption, as lower-income households who have a higher marginal propensity to consume (MPC) gained more money to spend.²

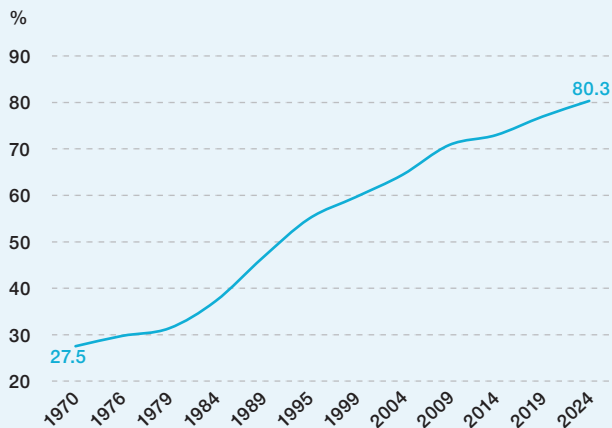
Chart 4: Poverty Rate and Income Inequality



Note: The increase in poverty rate in 2019 was due to a revision to Poverty Line Income. Further increase in 2020 reflected the impact from a sharp decline in income of vulnerable groups following the COVID19 pandemic.

Source: Household Income and Expenditure Survey by the Department of Statistics, Malaysia

Chart 5: Share of Urban Population to Total Population



Source: World Bank, CEIC

¹ The national poverty rate measures the percentage of Malaysian population living in households with total monthly gross income below the Poverty Line Income (PLI). In 1970, this was defined as RM25 per month; in 2024 it is RM2705 per month.

² Murugasu, D., Ang, J. W., & Tng, B. H. (2013) The Marginal Propensity to Consume Across Household Income Groups.

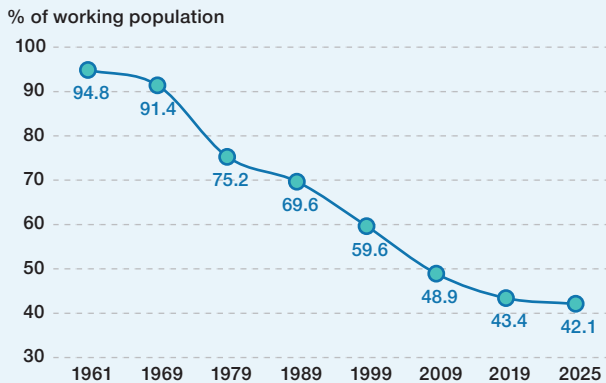
Urbanisation, Financial Deepening and Changing Consumption Habits

Alongside the sectoral shifts, Malaysia’s urbanisation rate more than doubled from 28% in 1970 to 80% in 2024 (Chart 5). Higher paying jobs in the manufacturing and services sectors attracted families to cities, spurring demand for homes and dwelling and the related spending on furnishing. Urban living also increased demand for transportation, modern retail, and services such as dining out and entertainment, creating new spending habits.³ In addition, financial deepening, through greater availability of banking services and credit facilities, enabled households to finance home purchases, consumer goods, and lifestyle services more easily.

Demographic Dividend and Household Structure

Rapid urban growth since the 1970s brought along challenges such as rising living costs and urban congestion. Meanwhile, better access to education, growing female workforce participation and lower fertility rates reshaped family structures, resulting in smaller families,⁴ more dual-income households⁵ and delayed marriage and childbearing.⁶ These factors contributed to the increase in the share of the working age population relative to dependents, reducing the total dependency ratio (TDR) (Chart 6). Consequently, the effects of the first wave of the demographic dividend were amplified, with a larger workforce and fewer dependents boosting per capita income⁷ and consumption⁸ (Chart 7).

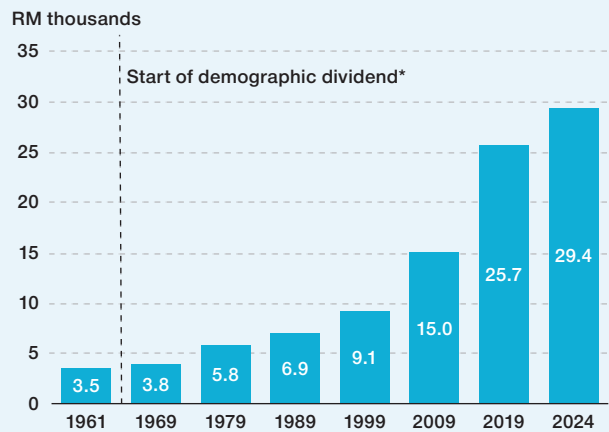
Chart 6: Total Dependency Ratio



Note: Total dependency ratio is a demographic measure that represents the combined number of children (under 15) and seniors (65 or older) relative to the number of working-age adults (aged 15-64). The pre-1990 series is taken from World Bank while the rest is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Population Estimates by the Department of Statistics, Malaysia

Chart 7: Real Private Consumption per capita



Note: Real private consumption data prior to 1970 is sourced from World Bank while population data and post-1970 real private consumption data are sourced from the Department of Statistics, Malaysia.

Source: Department of Statistics, Malaysia, World Bank, CEIC, Bank Negara Malaysia estimates and *Ogawa et al (2021)

³ KRI (2024) The State of Households: Households and the Pandemic.

⁴ Population Census; Household Income Survey, Department of Statistics, Malaysia.

⁵ Zaimah, R., Sarmila, M.S., Selvadurai, S., Lyndon, N., Er, A. C., & Jamian, M. N. (2013). The History and Current Status of Dual-career Families in Malaysia.

⁶ Fertility Rate, Population Statistics, Department of Statistics, Malaysia.

⁷ Zélity, B. (2025). Estimating the Growth Effect of the Demographic Dividend. *Macroeconomic Dynamics*, 29, e127.

⁸ Cutler, D. M., Poterba, J. M., Sheiner, L. M., Summers, L. H., & Akerlof, G. A. (1990). An Aging Society: Opportunity or Challenge?. *Brookings papers on economic activity*, 1990(1), 1–73.

Part 2: Dynamics of Underlying Drivers of Private Consumption

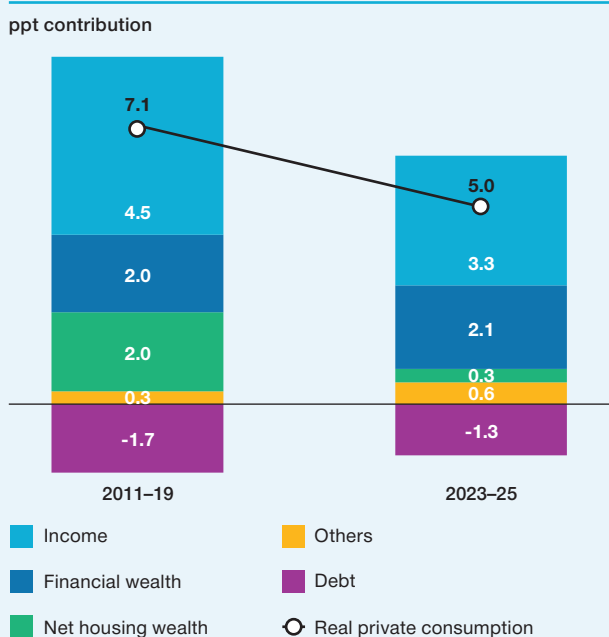
While structural forces shape the long-run potential for private consumption, they operate through more direct channels such as income, wealth, indebtedness and policy support. These drivers determine households' ability to spend and form the foundation of empirical consumption models. An error correction model (ECM)⁹ is used to identify the key factors driving private consumption and to compare their relative strength. The study also compares the key drivers of consumption before and after the COVID-19 pandemic.

Income is the most fundamental and durable driver of private consumption

Income is the core driver of private consumption because it determines households' purchasing power. Most spending decisions depend on disposable income, which is generally stable and predictable, particularly from wages and salaries. This makes income a reliable basis for consumption planning, which also anchors households' expectations of future consumption.

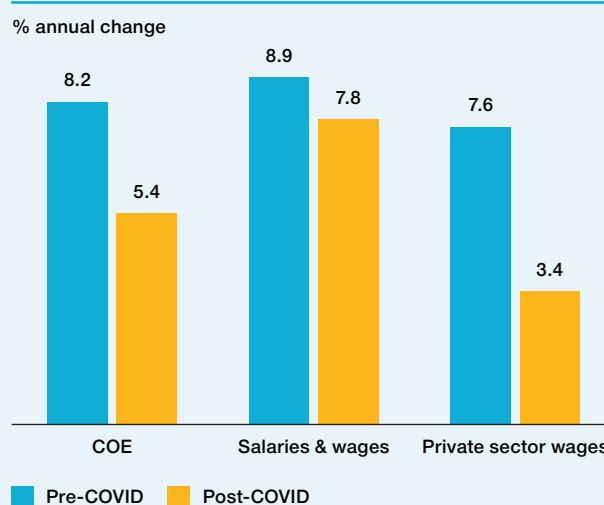
In the ECM, income measured by compensation of employees (COE), remains the main driver of consumption, accounting for more than 60% share of spending in both pre- and post-pandemic periods. However, income growth has been more moderate in the post-pandemic period, which has corresponded with a softer pace of private consumption growth (Chart 8). This is reflected across multiple income indicators,¹⁰ including COE, private sector wages and overall salaries and wages, which show slower growth in the post-COVID period despite broader economic recovery (Chart 9).

Chart 8: Decomposition of Drivers of Private Consumption Growth



Source: Bank Negara Malaysia estimates

Chart 9: Compensation of Employees (COE) and Wages



Note: Pre-COVID is defined as 2011-19 for COE and salaries & wages, and 2015-19 for private sector wages (data started in 2013). Post-COVID refers to 2023-25 for private sector wages, and 2023-24 for COE and salaries & wages, based on the latest available data.

Source: Department of Statistics, Malaysia

⁹ The error correction model estimates the long-run relationship between private consumption and its drivers, while capturing short-run dynamics around the equilibrium. The model includes labour income (proxied using compensation of employees), financial wealth (sum of deposits, unit trust funds, investment in equities, EPF savings and endowment policies), net housing wealth (number of owned residential units multiplied by the average house price, minus total outstanding housing loans) as well as non-residential debt. The 'Others' category captures the residual, reflecting factors not in the model such as government assistance and self-employment income.

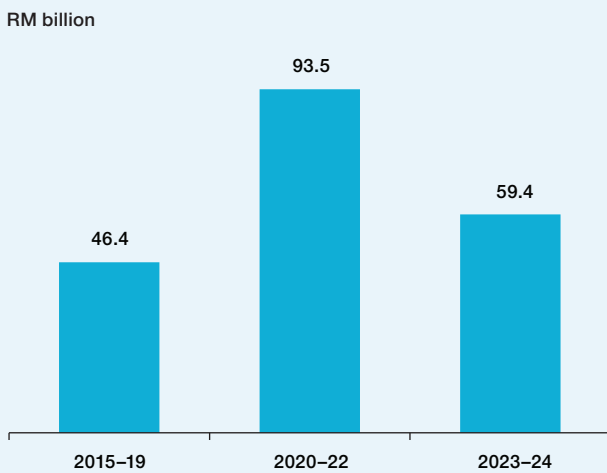
¹⁰ COE is the most comprehensive measure of total remunerations to employees by producers, which includes salaries, wages, allowances, bonuses, commissions and payments in kind. Salaries & wages data covers all private and public sectors. Meanwhile, private sector wages data covers only services and manufacturing sector based on Quarterly Services Statistics and Monthly Manufacturing Statistics. Both COE and overall salaries & wages are only available on annual basis and published with a lag.

Wealth influences consumption through realised and unrealised channels

Both financial and housing wealth support consumption through realised and unrealised channels. The realised channel operates when households liquidate assets to meet spending needs. The unrealised channel materialises as valuation gains on assets strengthen household balance sheets and confidence, thereby supporting spending.

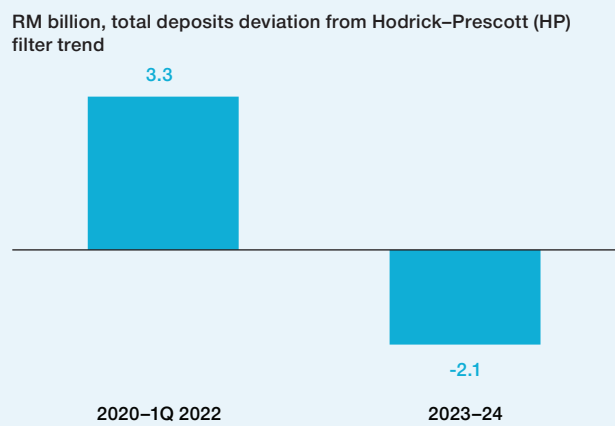
In Malaysia, financial wealth has provided relatively stable support for private consumption. Households’ accumulation of deposits, retirement balances, alongside holdings of equities and unit trusts, support spending through wealth effects and serves as buffers during periods of weak income growth. This role was evident during and after the COVID-19 pandemic. Special Employees Provident Fund (EPF) withdrawal schemes played a critical role in sustaining spending during this period (Chart 10). In addition, excess savings¹¹ built up during lockdowns were drawn upon as the economy reopened to finance pent-up demand (Chart 11).

Chart 10: Average Annual EPF Withdrawals Across Period



Source: Employees Provident Fund

Chart 11: Excess Savings



Note: Malaysia entered ‘endemic’ phase and fully reopened its economy in 1 April 2022.

Source: Bank Negara Malaysia estimates

By contrast, housing wealth, which contributed significantly to private consumption pre-COVID, has played a more limited role in recent years. In the early 2010s, strong house price growth (Chart 12) and robust transaction activity supported consumption through capital gains and sentiment effects. House price growth began to moderate from 2012 as housing demand cooled and speculative activities

Chart 12: Malaysia's House Price Index



Source: National Property Information Centre (NAPIC)

¹¹ Excess savings are measured as deviations of deposits from their HP-filtered long-term trend. Deposits comprise demand deposits, savings deposits, fixed deposits, tawarruq fixed deposits, special investment accounts and general investment accounts.

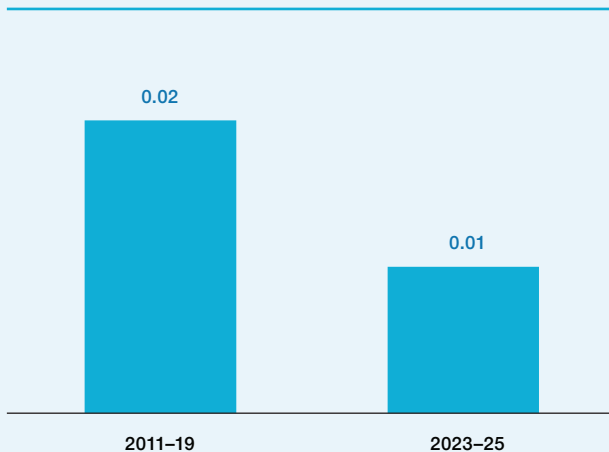
eased, alongside rising supply. Over time, the build-up of unsold units signalled emerging oversupply and placed additional downward pressure on prices. These developments dampened capital gain and softened the unrealised wealth channel. Although house prices growth picked up post-COVID, it has not returned to pre-pandemic average. Consequently, the marginal propensity to consume (MPC) out of housing wealth declined (Chart 13), reducing its contribution to consumption growth.

Credit uptake enables consumption smoothing in the short run but reduces disposable income over time via debt servicing burdens

Household debt plays a dual role in Malaysia’s consumption dynamics. In the short term, access to credit enables households to smooth spending during income fluctuations and bring forward purchases of big-ticket items such as vehicles and durable goods. Over time, however, debt servicing obligations reduce disposable income, weighing on long-term consumption.

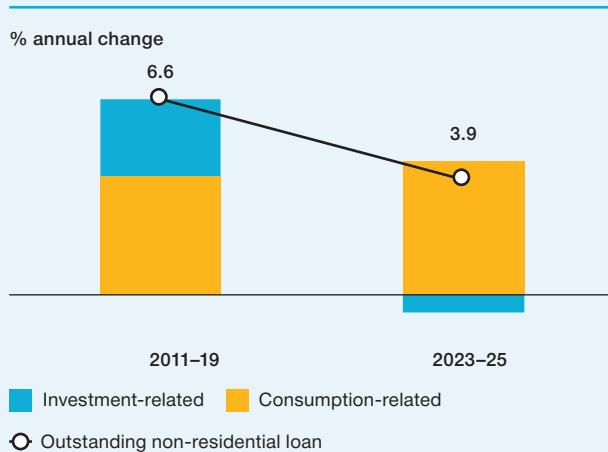
Before the pandemic, Malaysia’s household non-residential debt¹² increased in tandem with economic activity, alongside wider and deeper financial access, reflecting broad-based growth in both consumption and investment-related borrowing.¹³ As indebtedness increased, repayment burdens rose and weighed on spending. In recent years, growth in consumption credit has remained positive, even as borrowing for investment purposes, particularly for securities, has declined. Although outstanding household debt growth has eased slightly (Chart 14), the debt-to-GDP ratio has remained elevated at 84.8% as at end 2025 (2024: 84.1%; 2019: 82.8%). The slower pace of debt accumulation post-COVID has reduced the drag from debt, but debt-servicing burdens remains a factor weighing on private consumption growth.

Chart 13: Marginal Propensity to Consume Out of Net Housing Wealth



Source: Bank Negara Malaysia estimates

Chart 14: Outstanding Household Non-residential Debt



Source: Bank Negara Malaysia

¹² Residential debt has been included as part of net housing wealth.

¹³ Consumption-related loans or consumption credit includes loans for personal use, motor vehicle and credit card. Meanwhile, investment-related loan includes loans to purchase securities and non-residential property.

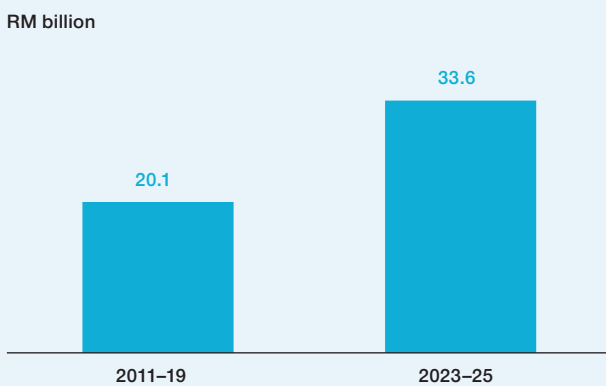
The rising role of policy support and self-employment income

Since 2019, factors beyond formal income and net wealth appear to be increasingly supporting household spending. This primarily reflects the growing role of Government assistance alongside higher income from self-employment.

Government policies continue to help ease financial burden, especially for lower-income households. While cash assistance and subsidies were already part of Malaysia’s social protection framework prior to the COVID-19 pandemic, the scale and scope of the measures have expanded over the years to cushion households against rising living costs (Chart 15). For example, allocations for *Sumbangan Tunai Rahmah* (STR) and *Sumbangan Asas Rahmah* (SARA) reached RM15 billion in 2025, higher than RM5 billion allocated under *Bantuan Sara Hidup* (BSH) in 2019.

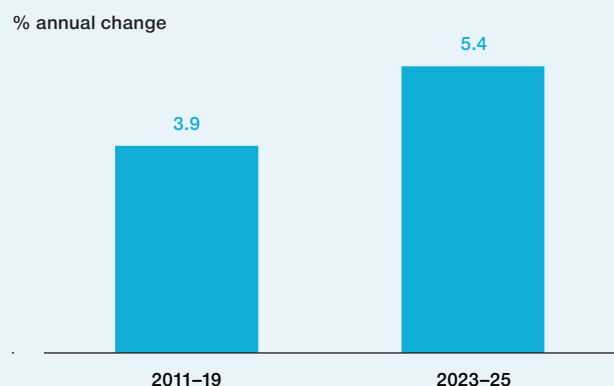
At the same time, the pandemic accelerated digital adoption in Malaysia and reshaped labour dynamics. This led to a growing prevalence of gig work and own-account activities such as delivery services and freelance jobs. Growth in own-account workers rose faster in the post-COVID period, averaging 5.4% compared with 3.9% pre-COVID (Chart 16), and they now make up approximately 20% of total employment.¹⁴ As this work is outside formal wage employment, the earnings are recorded as mixed income rather than COE.¹⁵ Mixed income posted growth of 11.1% in 2023 and 6.6% in 2024.¹⁶ For many households, this additional source of earnings has helped sustain spending amid slower formal wage growth.

Chart 15: Spending on Social Assistance and Non-Fuel Subsidy to Households



Source: Bank Negara Malaysia estimates based on data from Ministry of Finance, Malaysia

Chart 16: Own Account Workers Employment Growth



Source: Department of Statistics, Malaysia

Part 3: Emerging Challenges for Consumption Sustainability

Moderating Structural Tailwinds

Several structural tailwinds that previously supported private consumption are now moderating. Malaysia is approaching the end of its first demographic dividend, as the population median age rises and the total dependency ratio is expected to bottom-out at 40.8 by 2034.¹⁷ This leaves fewer workers to support a growing dependent population. Similarly, gains from urbanisation and improvement in inequality have moderated. The growth rate of urban population has slowed to under 2% annually since 2019 while Gini coefficient has hovered around 0.40 for over a decade.

¹⁴ The share of own account workers is based on DOSM’s Labour Force Statistics. For comparability, the 2024 growth rate is computed using the pre-rebased series (prior to the Population and Housing Census 2020 rebasing) to avoid a break in the time series.

¹⁵ Mixed income combines the remuneration of work done by self-employed workers and the business’s operating surplus from production. This includes income from hawkers, e-hailing and delivery riders, freelancers and other own-account work.

¹⁶ Based on Economic Outlook 2026 by the Ministry of Finance, Malaysia.

¹⁷ Department of Statistics, Malaysia (DOSM), Population Projections (2025).

Slower Wage Growth

Wages, which made up 62.9% of household income in 2024,¹⁸ have grown only modestly over the past decade. Between 2010 and 2019, real¹⁹ monthly median wages rose from RM1,500 to RM2,010, equivalent to a 3.3% compound annual growth rate (CAGR). Wages even fell below productivity during COVID-19. Although wages recovered thereafter, the CAGR of 0.9% during 2019–24 remained below pre-pandemic trend and growth in productivity (CAGR: 1.1%). Wages caught up with the cumulative productivity gains only in 2024 (Chart 17). Undoubtedly, Malaysia’s labour productivity performance has room for improvement relative to aspirational comparators (2021–24 avg. Malaysia: 2.8%, Singapore: 3.4%, UK: 3.2%, China: 5.2%). Even at Malaysia’s current stage of productivity development, workers receive a relatively smaller share of national income compared with regional and advanced economies, as reflected in the lower compensation of employees share of GDP (Chart 18).

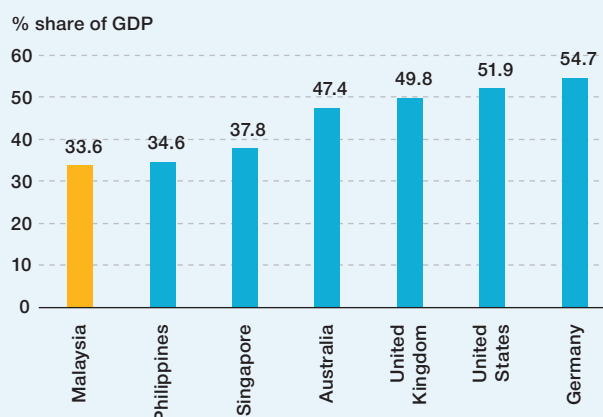
Chart 17: Productivity vs Real Wage (2019–24)



Note: Real median wage is estimated by deflating nominal median wage with Consumer Price Index, with 2010 as the base year. Productivity is defined as real value added per worker.

Source: Salaries and Wages Survey Report, Consumer Price Index and Labour Productivity Statistics by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 18: Compensation of Employees in 2024



Source: Economic Outlook 2026 by the Ministry of Finance, Malaysia

Several structural factors may explain Malaysia’s subdued wage outcomes.²⁰ Firstly, over the last seven years, the economy has not generated enough high-skilled, high-paying jobs, reflecting slow progress in moving towards more technology-intensive production. Secondly, heavy reliance on low-cost foreign labour reinforces low-value production models and further suppresses wage growth, especially in low- and semi-skilled roles. Thirdly, gaps in broader labour market ecosystem, such as persistent skills mismatches and uneven access to quality, relevant skilling opportunities, also limit workers’ ability to access better-paying jobs. Fourthly, during COVID-19, many firms retained their workers despite lower output,²¹ which preserved employment but dampened wage adjustments in the recovery period.

Persistently weak wage growth has two potential implications for the sustainability of household spending. Firstly, under the permanent income²² and life-cycle hypotheses,²³ spending decisions reflect both current earnings and expectations of future income. Slower wage growth signals weaker future earnings, causing prudent households to slow their consumption. Secondly, some households may treat the income weakness as temporary or face frictions in adjusting consumption. To maintain their spending, they may increasingly draw down on savings, increase borrowing, or make use of available policy support. However, prolonged reliance on the non-income channels has its own sustainability risks.

¹⁸ Based on the Department of Statistics, Malaysia Household Income Survey Report 2024, other sources of household income are income from self-employment (14.8%), income from property & investment (11.7%) and income from current transfers (10.6%).

¹⁹ These real monthly median wages are estimated by deflating nominal median wage with the Consumer Price Index, with 2010 as the base year.

²⁰ For further details, please refer to the box article ‘The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities’ in BNM’s Economic and Monetary Review 2023.

²¹ For further details, please refer to the BNM Working Paper 4/2025 ‘Balancing Wages: Investigating Labour Hoarding Dynamics in Malaysia’.

²² Friedman, M. (1957). The Permanent Income Hypothesis. In A Theory of the Consumption Function (pp. 20–37). Princeton, NJ: Princeton University Press.

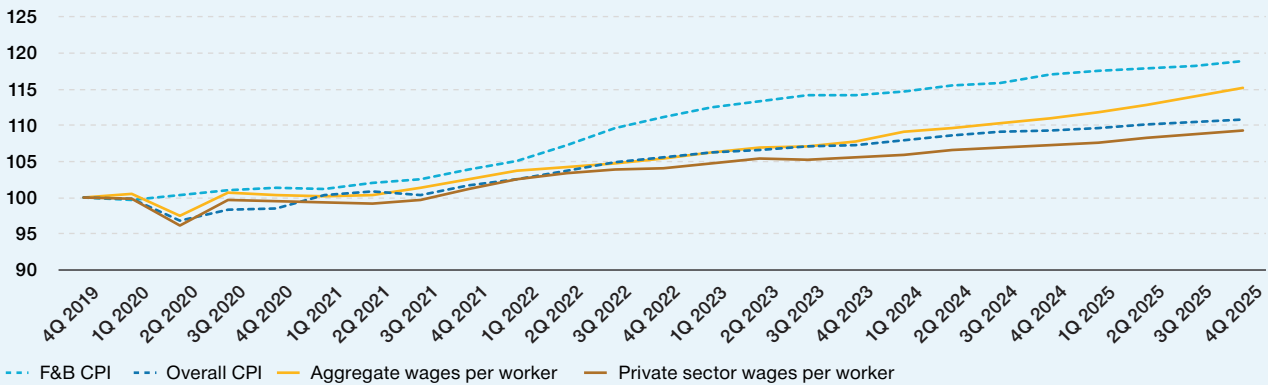
²³ Modigliani, F. (1954). ‘Franco Modigliani and the Life Cycle Theory of Consumption.’ In The Life Cycle Hypothesis as a Tool of Theory and Policy, edited by J. J. Arrow, 1–22. Cambridge University Press.

Cost of Living Pressure

Cost of living concerns have intensified following higher prices during the post-pandemic reopening. Although inflation has stabilised since 2023, price levels remain elevated relative to the pre-COVID period.²⁴ While aggregate wage per worker growth tracked headline inflation, it has not matched the sharper increases in food and beverage (F&B) prices (Chart 19). In the private sector, wage growth lagged both overall and F&B inflation. The pressure is more pronounced for lower-income households, for whom F&B spending constitutes a larger share of total expenditure.²⁵ In this environment, income transfers continue to provide an important buffer, with their share of total household income increasing to 10.6% in 2024 compared to 8.2% in 2019.²⁶

Chart 19: Consumer Price Index (CPI) & Wages

Seasonally adjusted index, 4Q 2019=100



Note: CPI data use seasonal adjustment by Department of Statistics, Malaysia while seasonal adjustment for wages is done using X-13 ARIMA-SEATS method. Wages are in nominal terms.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Sustainability of Fiscal Support and Its Trade-Offs

Government support has played an important role in helping lower income groups cope with cost-of-living pressure. However, fiscal space is limited, and prudence requires careful prioritisation of Government spending. Over time, greater fiscal allocation on recurrent cash assistance will reduce room for public investments that strengthen productive capacity, such as education and public infrastructure. Without effective exit mechanisms, prolonged household reliance on cash transfers increases exposure to shifts in fiscal priorities and could complicate fiscal consolidation and retargeting efforts. These challenges are likely to intensify over the longer term as population ageing raises structural demands on healthcare and social protection.

Moderation in Accumulation of Household Liquid Buffers

As households draw down pandemic-era savings, liquid savings has moderated and the pace of buffer rebuilding has been more gradual. While household liquidity positions remain adequate with outstanding liquid asset exceeding household debt, liquid financial asset-to-debt ratio has eased alongside lower household savings rate (Chart 20).²⁷ This trend aligns with the moderation in residual income, as reported

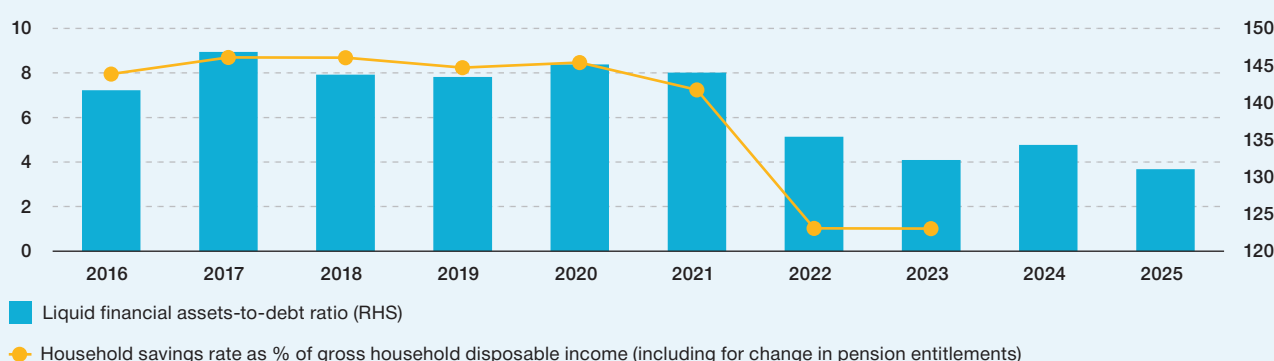
²⁴ For further details, please refer to the box article 'Curbing Inflation, Easing Costs: The Policy Perspective' in Bank Negara Malaysia's Annual Report 2024.

²⁵ Based on the Household Income and Expenditure Survey (HIES) 2024, food and beverage spending (including meals at restaurants) constitutes the largest component of household spending at 32%. By income group, B40 households allocate the highest share to food at 37%, followed by M40 at 34% and T20 at 27%.

²⁶ This share is based on HIES, where transfers include government cash assistance, remittances from other households, pensions, alimony and gifts.

²⁷ Liquid financial asset-to-debt ratio measures the sum of deposits, unit trust funds, investment in equities and surrender value of insurance policies divided by total outstanding household debt.

Chart 20: Household Savings Rate and Liquid Financial Asset-to-Debt Ratio



Note: Household savings rate, which is based on the National Economic Accounts, is only available up to 2023.

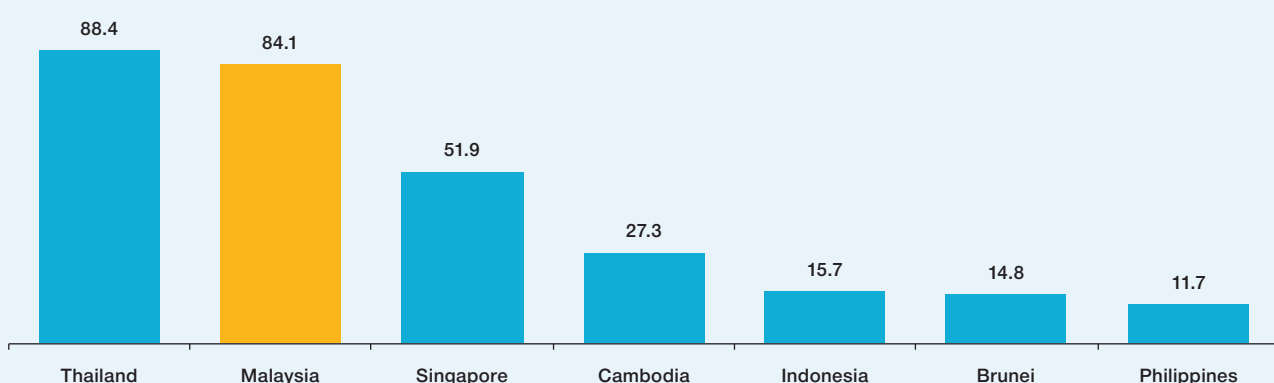
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

by Khazanah Research Institute (KRI), which declined across all gross income deciles between 2019 to 2022.²⁸ From a longer-term perspective, retirement adequacy risks are evident across age groups, with KRI noting that over 90% of EPF members under 30, and most aged 30–54 do not meet the basic savings benchmark for retirement.

Elevated Household Debt

Malaysia’s household debt-to-GDP ratio remains high by regional standards (Chart 21). High leverage increases the sensitivity of consumption to adverse shocks, particularly for low-income and highly indebted groups.²⁹ When income falls and repayments remain fixed, debt service takes up a larger share of income, reducing flexibility to maintain spending. At the same time, such borrowers have limited capacity to borrow further for consumption smoothing. Taken together, these factors imply that shocks to income may lead to more pronounced spending adjustments, heightening downside risks to private consumption.

Chart 21: Household Debt-to-GDP Ratio (2024)



Note: For Thailand, Malaysia and Singapore, the data include household loans from all financial institutions. Meanwhile, the figures for Indonesia Brunei and Philippines cover only household debt within the banking system. Malaysia’s household debt-to-GDP ratio based solely on the banking system stood at 69.5% in 2024.

Source: CEIC, national authorities

²⁸ This is based on KRI State of Household 2024, where residual income is defined as excess of income over consumption expenditure.

²⁹ This is observed in Japan, where highly indebted households exhibit higher marginal propensities to consume (Nakajima 2018), and in Australia and the United States, where households with high debt and limited liquidity display stronger consumption responses to monetary tightening (Loukoianova, Wong and Hussiada 2019; Gelos et al. 2019). Vulnerability is greatest among lower-income groups. IMF stress-tests for China indicate that low-income, highly indebted households face larger consumption declines and higher default risks when adverse shocks materialise (Han et al. 2019).

The Rise of Gig Worker and Income Volatility

Gig employment often substitutes stable and predictable wages with more volatile and uncertain earnings. A recent study by the World Bank finds that informally employed workers, including many gig workers, consistently earn less than formal workers, with earnings concentrated at the lower end of the income distribution.³⁰ Gig work also provides fewer opportunities for skill accumulation, career and wage progression, limiting upward mobility over time. The Government's introduction of the Gig Workers Bill 2025 marks a significant step in formalising gig work and strengthening social protections for gig workers.³¹ Nevertheless, gaps in income stability, retirement savings accumulation and employment benefits relative to formal employment would remain.

Part 4: Policy Imperatives

This section outlines three key policy imperatives to support the sustainability of private consumption growth, namely raising household income; maintaining price stability through low and stable inflation; and harnessing the second demographic dividend.

(a) Raising Household Income

Given the central role of private consumption in driving GDP growth, a key focus area for sustaining economic momentum is to raise Malaysian incomes in a durable way. Higher and more predictable income growth would improve households' expectations of future earnings and reduce the need to increase borrowing or drawdown their savings. This would in turn ease pressures from elevated household debt and help households better absorb cost of living pressures.

To achieve this, Malaysia could benefit from structural reforms that support industrial upgrading, better jobs and skills development. Recent strategies such as the National Industrial Masterplan (NIMP2030), the National Semiconductor Strategy (NSS) and the National Investment Aspirations (NIA) aim to attract quality investments and shift Malaysian firms towards more complex, high-value activities that generate more high-skilled job opportunities. As of September 2025, focus sectors under the NIA framework have attracted RM137.9 billion in investments, with projects expected to generate more than 49,000 jobs.³² Efforts are also underway to strengthen education and skills development,³³ including reforms to technical and vocational education and training (TVET) and expanded industry-linked training initiatives. Additionally, workers should have continuous opportunities to upgrade their skills and participate in lifelong learning. Continued improvements in governance, coordination and alignment with industry needs are critical to enhance workforce adaptability. At the same time, rationalising foreign labour policies will also play a role in strengthening incentives for firms to invest in capital-deepening, while still being able to meet genuine labour shortages.

To meaningfully raise incomes and strengthen purchasing power, Malaysia must also strengthen the institutions that shape how wages are set between employers and employees. The introduction of the minimum wage in 2013, and its subsequent revisions, which progressively raised the wage floor from RM900 to RM1,500, marked a significant step toward correcting institutional imbalances. During the decade leading up to the pandemic, wage inequality declined³⁴ and labour income share improved (Chart 22).

However, as the minimum wage mainly affects the lower end of the wage distribution, repeated adjustments have narrowed wage differentials between low- and semi-skilled workers (2024: RM396, 2016: RM550), reflecting wage 'bunching' around the statutory minimum (Chart 23). In other words, rather than encouraging broad-based wage growth, it is observed that the minimum wage has not proportionally raised wages for workers in the middle of the pay distribution. To support broader, more

³⁰ World Bank (2024). Informal employment in Malaysia: Trends, challenges and opportunities for reform.

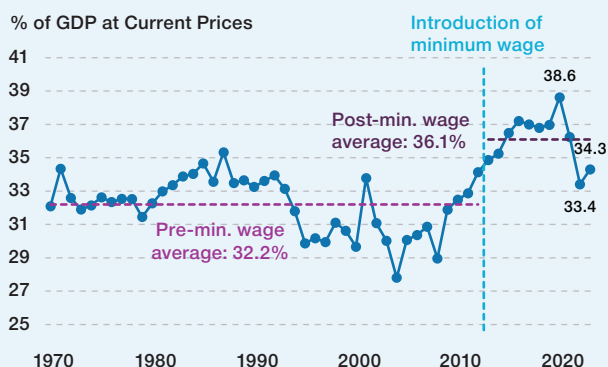
³¹ The Gig Workers Bill 2025 establishes Malaysia's first comprehensive legal framework for gig workers, granting statutory rights such as fair contract terms, payment transparency, access to dispute resolution, and protection from unjust termination. It also mandates minimum service agreement standards, requires platform providers to make Social Security Organization (SOCSSO) deductions and contributions from gig workers' earnings, imposes occupational safety obligations on contracting entities, and creates a new Gig Workers Tribunal to provide accessible and efficient dispute resolution. Source: Parliament of Malaysia. (2025). Gig Workers Bill 2025 (D.R.27/2025). Retrieved from (<https://www.parlimen.gov.my/>).

³² MIDA (2025) 'Malaysia's RM286.2 Billion Approved Investments in 9M 2025 Up 13.2% Y-O-Y, Defies Global Headwinds, Creates Over 150,000 Jobs'.

³³ For further details, please refer to the box article 'The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities' in BNM's Economic and Monetary Review 2023.

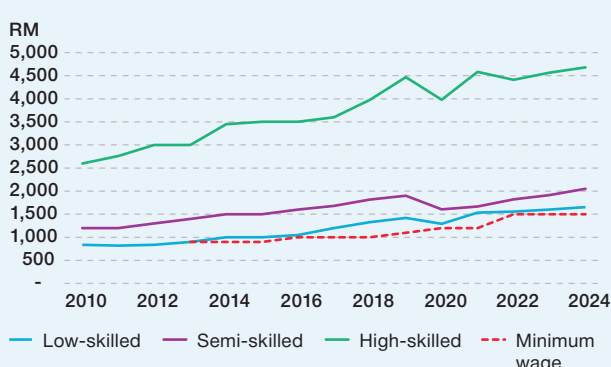
³⁴ Khazanah Research Institute (2023) 'The Returns to Malaysian Labour – Part I'.

Chart 22: Time Series of Malaysia's Labour Income Share



Source: APO Productivity Databook 2025 by the Asian Productivity Organization and Bank Negara Malaysia estimates

Chart 23: Median Nominal Wages by Skill Category



Source: Salaries and Wages Survey Report by the Department of Statistics, Malaysia and Federal Government Gazette

durable income growth, Malaysia will need to further develop its wage-setting institutions beyond the minimum wage. International experience shows that complementary mechanisms, such as wage guidelines, living wage³⁵ standards and coordinated wage-setting can help link wage growth to national priorities like productivity, competitiveness and price stability. For example, Japan's Shunto system is an economy-wide process that helps anchor wage expectations and link wage increases to broader macroeconomic conditions. Adapting these principles to Malaysia's context would help rebalance bargaining power and ensure that rising productivity consistently translates into higher incomes for workers. In this regard, the Thirteenth Malaysia Plan (13MP) outlines commitments to labour market reforms, including strengthening the role and mandate of Majlis Perundingan Gaji Negara (MPGN), encouraging large firms to adopt living-wage practices and promoting a shift from reliance on foreign labour toward greater automation, mechanisation and hiring of local workers.

(b) Maintaining Low and Stable Inflation

Besides income growth, low and stable inflation are also key to ensuring sustainable consumption among households. Bank Negara Malaysia, through its conduct of monetary policy, continues to ensure that inflation remains low and stable, which in turns help with maintaining household purchasing power. The Government has also introduced time-bound measures to alleviate food costs in the short term. Targeted production subsidies and price ceiling for essential food items experiencing temporary supply disruptions helps cushion vulnerable households from a sharp increase in cost of living.³⁶ However, such interventions are not without challenges. For instance, chicken price controls and subsidies were introduced in February 2022 to stabilise prices and production amid higher feed costs.³⁷ Despite the subsidies, this has caused a shortage of chicken supply that persisted into mid-2022.³⁸ These controls distorted market incentives, disrupted production and eventually necessitated the easing of chicken import requirements and the extension of subsidies³⁹ to fulfil the domestic supply. Thus, in the medium to long-term, supply-side policies should be in place to raise productive capacity. Investment in infrastructure and funding for the research and development of high-growth-high-value sectors helps with expanding domestic production thus keeping the prices of essential goods affordable. Externally, relevant government agencies should work closely with industry stakeholders to diversify sources of food products to mitigate future supply disruptions. Such efforts would enable domestic importers to respond more nimbly by securing purchase orders from alternative supplies, helping to keep food inflation low and stable.

(c) Harnessing the 'Second Demographic Dividend'

As Malaysia's population ages, policies must actively harness the 'second demographic dividend', defined as productivity-enhancing economic gains that arise when an ageing population accumulates more savings, wealth, and human capital. Economic literature highlights that, unlike the first demographic dividend, the second dividend is not automatic. It must be enabled through reforms

³⁵ For further details, please refer to the box article 'The Living Wage: Beyond Making Ends Meet' in BNM's Annual Report 2017.
³⁶ For further details, please refer to the box article 'Closing the Food Gap: The Role of Structural Improvements in Agrofood Sector' in BNM's Third Quarter of 2021 Quarterly Bulletin.
³⁷ (<https://www.straitstimes.com/singapore/malaysia-bans-chicken-exports-from-june-1-how-singapore-consumers-businesses-are-coping>).
³⁸ Mohd Zulhelmi et al (2023) Malaysia's Chicken Shortage, A Solution Proposal Through Consumerism, JABM.
³⁹ USDA (2022) Malaysia Extends Price Support Subsidy for Poultry Products.

that raise national savings, strengthen social support systems and increase productivity through targeted capital investments.⁴⁰ A key priority is to continue broadening retirement savings coverage, particularly among informal workers such as micro-entrepreneurs and gig workers. Ongoing measures such as default EPF enrolment for platform-based workers, matching contributions for lower-income informal workers, and simplified contribution channels through e-wallets and payment platforms would directly strengthen their long-term financial buffers. These policies may temporarily come at the cost of lower short-term income and consumption, but they improve retirement adequacy and reduce vulnerability to income shocks in the long run. The pooled savings would then need to be strategically intermediated into sectors with strong productivity spillovers. In practice, this means ensuring that domestic institutional savings are intermediated into priority investments outlined under the various national masterplans (e.g. NIMP 2030).⁴¹ Such investments can raise Malaysia's capital-to-labour ratio, which in turn supports labour productivity growth⁴² and sustained real wage growth even as the labour force contracts.⁴³

At the same time, policies must tackle issues that hinder the enablement and empowerment of older Malaysians to remain economically and socially active. This includes scaling up elder care services such as nursing, rehabilitation, community-based healthcare support,⁴⁴ as well as ensuring adequate standards, staffing and financing models for these services. In parallel, labour policies should promote flexible work arrangements and phased retirement options that enable older Malaysians to remain economically active. Higher participation among older workers not only supports household income but also help support sustainable consumption as this demographic grows in economic significance.⁴⁵ Realising the second demographic dividend therefore requires coordinated execution of related policies to ensure that households continue to experience sustainable income and consumption growth in an ageing Malaysia.

Conclusion

Malaysia's economic landscape has changed significantly since the 1970s. Sustaining private consumption requires addressing pressures on household incomes and living costs. This calls for policies that deliver better-quality jobs, stronger wage growth and more responsive social protection, supported by efforts to keep prices stable. By building a more resilient foundation for households, Malaysia can ensure that private consumption remains a stable and sustainable engine of growth in the years ahead.

⁴⁰ Manuel Mejido (2019) Harnessing the second demographic dividend, Social Development Working Papers.

⁴¹ EPF Commits RM250 Million Aimed At Catalysing Malaysian Mid-To-Growth Stage Companies.

⁴² World Bank (2025) Malaysia Economic Monitor: From Bytes to Benefits: Digital Transformation as a Catalyst for Public Sector Productivity (Box 3).

⁴³ Goh (2009) Is productivity linked to wages? An empirical investigation in Malaysia.

⁴⁴ Cassey Lee (2025) Demographic Change and Services: the case of Malaysia.

⁴⁵ Phillip O'Keefe (2024) Malaysia's Aging Society and the Silver Economy.

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Table A.1

Gross Domestic Product by Kind of Economic Activity at Constant 2015 Prices

	2022	2023	2024	2025 ^p	2026 ^f
	RM million				
Agriculture	100,164	100,393	103,458	105,686	104,584
Mining and quarrying	97,004	97,537	98,432	99,170	98,018
Manufacturing	364,226	366,793	382,034	399,338	416,608
Construction	53,455	56,663	66,580	74,706	81,474
Services	884,870	930,363	980,110	1,034,112	1,088,110
Plus: Import duties	16,784	18,392	19,692	22,635	24,297
GDP at purchasers' prices*	1,516,503	1,570,142	1,650,305	1,735,647	1,813,091
	Annual change (%)				
Agriculture	1.3	0.2	3.1	2.2	-1.0
Mining and quarrying	3.5	0.5	0.9	0.7	-1.2
Manufacturing	8.2	0.7	4.2	4.5	4.3
Construction	5.1	6.0	17.5	12.2	9.1
Services	11.3	5.1	5.3	5.5	5.2
Plus: Import duties	7.3	9.6	7.1	14.9	7.3
GDP at purchasers' prices	9.0	3.5	5.1	5.2	4.0-5.0

* Numbers may not necessarily add up due to rounding.

^p Preliminary

^f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Table A.2

Growth in Manufacturing Production (2015=100)

	2022	2023	2024	2025	2023	2024	2025
	Index				Annual change (%)		
Electrical and electronics products cluster	168.8	165.9	173.1	188.4	-1.7	4.3	8.9
Computer, electronics and optical products	175.4	171.9	180.3	196.9	-2.0	4.9	9.2
Electrical equipment	148.4	147.2	147.8	158.7	-0.8	0.4	7.4
Machinery and equipment	146.7	146.1	151.8	164.1	-0.4	3.9	8.1
Primary-related cluster	131.0	130.0	134.8	135.8	-0.7	3.7	0.7
Coke and refined petroleum products	120.0	118.1	120.3	118.5	-1.6	1.9	-1.5
Chemical and chemical products	124.4	129.7	132.5	134.0	4.2	2.2	1.1
Pharmaceutical products	169.7	168.4	178.1	192.1	-0.7	5.7	7.9
Rubber and plastic products	161.2	152.6	163.4	164.5	-5.3	7.0	0.7
Wood products	121.2	115.8	120.1	123.0	-4.5	3.7	2.5
Paper and paper products	143.9	149.7	154.1	151.5	4.1	3.0	-1.7
Furniture	129.5	123.5	131.7	139.9	-4.6	6.6	6.2
Construction-related cluster	116.5	122.5	131.4	136.6	5.2	7.3	4.0
Other non-metallic mineral products	113.7	118.8	127.2	128.9	4.5	7.1	1.3
Basic metals	121.9	125.5	131.3	138.5	3.0	4.6	5.5
Fabricated metal products, except machinery and equipment	115.3	123.5	134.7	141.4	7.1	9.1	5.0
Consumer-related cluster	128.3	134.1	139.2	145.5	4.6	3.8	4.5
Food products	128.7	135.5	142.3	155.6	5.3	5.0	9.3
Transport equipment and other manufactures	130.0	135.3	137.6	136.0	4.1	1.7	-1.1
Beverages	135.3	137.7	147.3	161.5	1.8	7.0	9.6
Tobacco products	102.2	116.4	127.9	129.2	13.9	10.0	1.0
Textiles, wearing apparel, leather products and footwear	125.0	126.4	129.6	130.4	1.1	2.5	0.6
Total	138.5	139.5	145.6	152.2	0.7	4.3	4.5

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.3

Services Sector Performance at Constant 2015 Prices

	2022	2023	2024	2025 ^p	2022	2023	2024	2025 ^p
	Annual change (%)				Share to GDP (%)			
Services	11.3	5.1	5.3	5.5	58.3	59.3	59.4	59.6
<i>Wholesale and retail trade</i>	13.8	5.9	4.3	4.9	17.5	17.9	17.8	17.7
<i>Government services</i>	4.8	4.9	4.8	6.7	9.1	9.2	9.2	9.3
<i>Finance and insurance</i>	0.4	-2.4	4.9	0.7	7.0	6.6	6.6	6.3
<i>Information and communication</i>	5.2	3.6	3.4	6.2	6.6	6.6	6.5	6.5
<i>Real estate and business services</i>	23.9	8.6	9.5	8.2	4.4	4.6	4.8	4.9
<i>Other services</i>	12.7	6.5	5.7	5.9	4.6	4.7	4.8	4.8
<i>Transport and storage</i>	29.7	13.6	10.7	8.6	3.6	4.0	4.2	4.4
<i>Food & beverage and accommodation</i>	34.6	7.1	6.2	9.1	2.9	3.0	3.0	3.1
<i>Utilities</i>	3.5	2.7	3.6	1.3	2.7	2.6	2.6	2.5

^p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.4

GDP by Demand Aggregates

	2022	2023	2024	2025 ^p	2026 ^f
	at Current Prices (RM million)				
Consumption	1,242,474	1,321,206	1,405,288	1,497,074	1,590,070
<i>Private consumption</i>	1,034,028	1,102,875	1,174,092	1,246,817	1,323,615
<i>Public consumption</i>	208,446	218,331	231,196	250,257	266,455
Investment	326,817	350,711	396,945	431,596	464,715
<i>Private investment</i>	254,356	270,732	307,007	332,828	357,993
<i>Public investment</i>	72,461	79,980	89,938	98,768	106,723
Change in stocks*	96,532	65,197	27,268	-17,655	-61,371
Exports of goods and services	1,378,618	1,252,717	1,378,518	1,435,732	1,520,427
Imports of goods and services	1,249,547	1,165,812	1,275,728	1,323,671	1,387,340
GDP at purchasers' value	1,794,893	1,824,019	1,932,291	2,023,076	2,126,501
	at Constant 2015 Prices (RM million)				
Consumption	1,111,312	1,160,205	1,218,563	1,284,437	1,348,059
<i>Private consumption</i>	910,364	952,397	1,000,999	1,052,570	1,104,769
<i>Public consumption</i>	200,948	207,808	217,563	231,867	243,289
Investment	298,340	314,457	352,316	386,179	414,919
<i>Private investment</i>	232,219	242,719	272,595	298,283	320,634
<i>Public investment</i>	66,121	71,738	79,721	87,896	94,285
Change in stocks*	24,506	31,404	9,485	8,589	8,547
Exports of goods and services	1,126,873	1,038,085	1,124,259	1,158,809	1,191,170
Imports of goods and services	1,044,529	974,008	1,054,317	1,102,367	1,149,604
GDP at purchasers' value	1,516,503	1,570,142	1,650,305	1,735,647	1,813,091

* Includes statistical discrepancy

^p Preliminary^f Forecast

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Table A.5

Savings–Investment Gap

	2021	2022	2023	2024	2025 ^p
	RM million				
Gross national savings	402,839	480,572	435,957	451,929	445,770
(as % of GDP)	26.0	26.8	23.9	23.4	22.0
Gross domestic capital formation	342,661	423,349	415,908	424,213	413,941
(as % of GDP)	22.1	23.6	22.8	22.0	20.5
Balance on current account	60,178	57,223	20,048	27,716	31,829
(as % of GDP)	3.9	3.2	1.1	1.4	1.6

^p Preliminary

Note: Numbers may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia

Table A.6

Balance of Payments¹

Item (Net)	2021	2022	2023	2024	2025 ^p	2026 ^f
	RM million					
Goods²	177,634	187,275	130,897	114,462	110,908	128,109
Services	-65,661	-58,204	-43,993	-11,672	1,153	4,978
Transportation	-31,863	-34,194	-32,005	-30,197	-29,534	-34,008
Travel	-14,857	-1,188	17,279	37,379	49,180	52,795
Other services ³	-18,941	-22,822	-29,267	-18,854	-18,493	-13,809
Balance on goods and services	111,973	129,071	86,904	102,790	112,061	133,087
Primary income	-42,153	-56,943	-55,661	-66,111	-69,465	-74,238
Compensation of employees	-6,659	-7,339	-8,140	-9,941	-9,945	-9,826
Investment income	-35,494	-49,603	-47,521	-56,170	-59,520	-64,412
Secondary income	-9,642	-14,905	-11,195	-8,963	-10,766	-13,224
Balance on current account	60,178	57,223	20,048	27,716	31,829	45,624
% of GDP	3.9	3.2	1.1	1.4	1.6	1.5 ~ 2.5
Capital account	-469	-454	-259	-8	-42	-
Financial account	16,242	8,533	-7,150	-4,928	-21,411	-
Direct investment	31,065	12,593	8,473	17,664	46,041	-
Assets	-53,200	-53,603	-35,570	-63,758	-31,569	-
Liabilities	84,265	66,196	44,042	81,422	77,610	-
Portfolio investment	18,802	-50,114	-36,528	-84,140	-61,727	-
Assets	-35,788	-30,454	-46,784	-107,322	-86,376	-
Liabilities	54,590	-19,660	10,256	23,182	24,649	-
Financial derivatives	-2,250	-2,212	-3,879	2,814	223	-
Other investment	-31,375	48,267	24,784	58,734	-5,948	-
Assets	-51,600	-9,479	3,743	9,417	-54,519	-
Liabilities	20,225	57,746	21,041	49,317	48,571	-
Balance on capital and financial accounts	15,774	8,079	-7,409	-4,936	-21,453	-
Net errors and omissions⁴ (E&O)	-30,266	-11,943	-33,140	-7,038	-2,021	-
Overall balance	45,686	53,359	-20,500	15,742	8,357	-
Bank Negara Malaysia international reserves, net⁵						
USD million	116,876	114,641	113,465	116,204	125,519	-
RM million	486,790	503,272	520,802	520,072	509,731	-
Foreign exchange revaluation gain (+) / loss (-)	11,007	7,890	24,089	-20,820	-34,321	-
Reserves as months of imports of goods and services ⁶	5.9	4.8	5.4	4.9	4.6	-
Reserves as months of retained imports	7.7	6.3	7.0	5.8	5.6	-

¹ In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

² Adjusted for valuation and coverage of goods for processing, storage and distribution.

³ Other services include government goods and services n.i.e.

⁴ As at 1Q 2018, the net E&O excludes reserves revaluation changes. This practice is backdated to 1Q 2010.

⁵ All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain / loss has been reflected accordingly in Bank Negara Malaysia's audited accounts.

⁶ For further details, please refer to "Expansion of the Measure on Reserves Coverage of Imports - from Retained Imports to Imports of Goods and Services" article in BNM's Fourth Quarter of 2021 Quarterly Bulletin.

^p Preliminary

^f Forecast

n.i.e. Not included elsewhere.

Note: Numbers may not add up due to rounding.

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.

Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table A.7

Gross Exports

	2023	2024	2025 ^p	2023	2024	2025 ^p	2023	2024	2025 ^p
	RM million			Annual change (%)			% share		
Manufactures	1,216,283	1,289,189	1,388,129	-6.8	6.0	7.7	85.3	85.4	86.4
<i>of which:</i>									
Electrical and electronic products	575,455	601,577	711,438	-3.0	4.5	18.3	40.3	39.9	44.3
<i>Semiconductors</i>	387,403	387,981	465,621	0.0	0.1	20.0	27.2	25.7	29.0
<i>Office machines and automatic data processing equipment</i>	52,546	77,754	99,686	-11.1	48.0	28.2	3.7	5.2	6.2
<i>Electrical machinery, apparatus and appliances, and parts</i>	78,938	81,162	86,196	-6.1	2.8	6.2	5.5	5.4	5.4
<i>Telecommunications and sound-recording and reproducing equipment</i>	56,568	54,680	59,935	-9.3	-3.3	9.6	4.0	3.6	3.7
Petroleum products	143,494	127,331	103,553	-11.0	-11.3	-18.7	10.1	8.4	6.4
Chemicals and chemical products	71,454	73,614	65,210	-11.3	3.0	-11.4	5.0	4.9	4.1
Manufactures of metal	56,323	61,502	63,157	-11.4	9.2	2.7	3.9	4.1	3.9
Machinery, equipment and parts	57,250	69,011	78,286	-5.2	20.5	13.4	4.0	4.6	4.9
Optical and scientific equipment	54,575	59,171	65,625	-3.6	8.4	10.9	3.8	3.9	4.1
Rubber products	21,337	26,319	24,324	-25.9	23.4	-7.6	1.5	1.7	1.5
Palm oil-based manufactured products	31,212	34,984	40,640	-24.6	12.1	16.2	2.2	2.3	2.5
Processed food	30,304	35,368	38,482	6.7	16.7	8.8	2.1	2.3	2.4
Transport equipment	17,500	18,608	18,395	-7.8	6.3	-1.1	1.2	1.2	1.1
Agriculture	94,818	105,786	111,749	-21.6	11.6	5.6	6.6	7.0	7.0
<i>of which:</i>									
Palm oil and palm oil-based agricultural products	70,891	79,340	84,222	-26.6	11.9	6.2	5.0	5.3	5.2
Sawn timber and moulding	3,141	2,981	2,985	-12.5	-5.1	0.1	0.2	0.2	0.2
Natural rubber	3,714	4,503	4,084	-19.1	21.2	-9.3	0.3	0.3	0.3
Minerals	106,078	103,892	92,272	-9.6	-2.1	-11.2	7.4	6.9	5.7
<i>of which:</i>									
Liquefied natural gas (LNG)	60,231	61,903	51,634	-11.4	2.8	-16.6	4.2	4.1	3.2
Crude petroleum	28,733	26,114	19,418	-9.8	-9.1	-25.6	2.0	1.7	1.2
Others	9,020	10,424	14,323	27.2	15.6	37.4	0.6	0.7	0.9
Total	1,426,199	1,509,291	1,606,473	-8.0	5.8	6.4	100.0	100.0	100.0

^p Preliminary

Source: Department of Statistics, Malaysia

Table A.8

	2023	2024	2025 ^p	2024	2025 ^p	2025 ^p
	RM million			Annual change (%)		% share
Gross Imports						
Capital goods	128,743	166,098	214,302	29.0	29.0	14.8
Capital goods (except transport equipment)	116,429	156,167	199,356	34.1	27.7	13.7
Transport equipment industrial	12,314	9,931	14,946	-19.4	50.5	1.0
Intermediate goods	620,607	749,247	718,639	20.7	-4.1	49.5
Food and beverages, mainly for industry	28,409	33,228	34,627	17.0	4.2	2.4
Industrial supplies	281,919	305,610	284,391	8.4	-6.9	19.6
Fuel and lubricants	109,566	118,612	92,844	8.3	-21.7	6.4
Parts and accessories of capital goods (except transport equipment)	154,507	241,463	251,302	56.3	4.1	17.3
Parts and accessories of transport equipment	46,205	50,335	55,476	8.9	10.2	3.8
Consumption goods	104,118	117,414	119,511	12.8	1.8	8.2
Food and beverages, mainly for household consumption	48,476	54,557	53,723	12.5	-1.5	3.7
Transport equipment non-industrial	1,547	1,736	1,962	12.2	13.0	0.1
Consumer goods, n.e.s	54,095	61,120	63,826	13.0	4.4	4.4
Others	357,576	337,478	399,428	-5.6	18.4	27.5
<i>of which:</i>						
Dual use goods	40,047	40,263	26,329	0.5	-34.6	1.8
Re-exports	315,134	293,231	366,347	-7.0	24.9	25.2
Total	1,211,044	1,370,237	1,451,880	13.1	6.0	100.0

^p Preliminary

n.e.s. Not elsewhere specified

Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia

Chart A.9

Malaysia's Trading Partners



Source: Department of Statistics, Malaysia

Table A.10

Outstanding External Debt and Debt Servicing

	2021	2022	2023	2024	2025p
	RM million (unless stated otherwise)				
Total external debt	1,080,355	1,145,691	1,264,447	1,350,201	1,394,809
<i>USD million equivalent</i>	259,389	260,977	275,479	301,687	343,464
<i>% of GDP</i>	69.8	63.9	69.3	69.9	68.9
<i>Annual change (%)</i>	12.7	6.0	10.4	6.8	3.3
By instrument					
Bonds and notes	197,154	175,984	169,828	162,111	152,948
Interbank borrowings	176,691	218,582	220,739	237,920	241,941
Intercompany loans	144,600	155,262	189,134	228,660	236,241
Loans	73,730	75,996	87,199	89,301	95,522
NR holdings of domestic debt securities	255,056	246,565	269,499	273,957	299,448
NR deposits	99,902	111,572	137,511	149,958	151,539
IMF allocation of Special Drawing Rights (SDRs)	28,150	28,213	29,738	28,185	26,881
Others ¹	105,072	133,517	160,799	180,111	190,289
Maturity profile					
Medium- and long-term	676,155	663,133	723,436	774,344	799,498
Short-term	404,200	482,558	541,011	575,857	595,311
Currency composition (% share)	100.0	100.0	100.0	100.0	100.0
<i>Ringgit</i>	33.1	33.1	32.5	31.2	32.8
<i>US dollar</i>	51.6	51.0	50.0	50.6	51.2
<i>Japanese yen</i>	2.6	2.3	2.3	2.1	1.7
<i>Others</i>	12.6	13.6	15.2	16.2	14.3
Total servicing (including short-term interest payment)	118,159	157,642	166,500	201,433	223,437
of which:					
Medium- and long-term debt	116,351	152,962	154,125	180,241	211,071
Repayment²	99,046	134,653	132,775	164,263	185,393
of which:					
Redemption of matured domestic debt securities held by NR	19,656	17,524	16,636	16,314	17,972
Interest payment	17,305	18,309	21,355	24,058	25,678
of which interest payment on:					
NR holdings of domestic debt securities	8,873	9,209	9,549	10,488	10,318
Debt service ratio (% of exports of goods and services)					
Total debt	10.8	11.4	13.3	14.6	15.6
Medium- and long-term debt of which:	10.6	11.1	12.3	13.1	14.7
NR holdings of domestic debt securities	2.6	1.9	2.1	1.9	2.0

¹ Comprises trade credits and other debt liabilities.

² Excludes prepayment.

p Preliminary

Note: Numbers may not necessarily add up due to rounding.
NR refers to non-residents.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table A.11

Consumer Price Index

	Weights (%) (2010=100) 2018	Weights (%) (2010=100) 2024	2022	2023	2024	2025
	Annual change (%)					
Total	100.0	100.0	3.3	2.5	1.8	1.4
Food and beverages	29.5	29.8	5.8	4.8	2.0	2.1
Alcoholic beverages and tobacco	2.4	1.9	0.5	0.6	0.7	0.9
Clothing and footwear	3.2	2.7	0.1	0.3	-0.3	-0.2
Housing, water, electricity, gas and other fuels	23.8	23.2	1.8	1.7	3.0	1.6
Furnishings, household equipment and routine household maintenance	4.1	4.3	3.5	2.3	0.7	0.2
Health	1.9	2.7	0.7	2.2	1.8	1.2
Transport	14.6	11.3	4.7	1.1	1.0	0.4
Information and communication	4.8	6.6	0.0	-3.0	-1.5	-4.3
Recreation, sport and culture	4.8	3.0	2.3	1.5	1.8	1.1
Education	1.3	1.3	1.1	1.9	1.5	2.3
Restaurants and accommodation services	2.9	3.4	5.0	5.6	3.1	3.2
Insurance and financial services	-	4.0	0.2	0.1	0.3	3.4
Personal care, social protection and miscellaneous goods & services	6.7	5.8	2.0	2.4	3.0	4.4

Source: Department of Statistics, Malaysia

Table A.12

Producer Price Index					
	Weights (%) (2010=100)	2022	2023	2024	2025
		Annual change (%)			
Total	100.0	7.8	-1.9	0.3	-2.0
Crude materials for further processing	16.4	6.2	-9.6	0.7	-3.7
<i>Foodstuffs and feedstuffs</i>	3.2	3.4	4.4	0.3	1.2
<i>Non-food materials</i>	13.2	6.8	-12.1	0.6	-4.7
Intermediate materials, supplies and components	56.1	10.9	-1.2	-0.5	-1.8
<i>Materials and components for manufacturing</i>	29.6	10.1	-3.8	1.3	0.2
<i>Materials and components for construction</i>	2.9	4.3	5.4	1.5	1.4
<i>Processed fuel and lubricants</i>	11.9	18.0	-3.7	-9.2	-8.5
<i>Containers</i>	0.6	1.8	-2.8	-4.8	-0.9
<i>Supplies</i>	11.2	7.8	8.3	3.8	-1.2
Finished goods	27.5	1.8	3.1	1.9	-1.2
<i>Finished consumer goods</i>	11.5	2.7	1.8	-0.8	-0.5
<i>Capital equipment</i>	16.0	1.1	4.1	3.9	-1.7

Source: Department of Statistics, Malaysia

Table A.13

Movements of the Ringgit

	RM to one unit of foreign currency ¹			Annual change (%)		Change (%)
	2005	2024	2025	2024	2025	21 Jul. 05–Dec. 25
	21 Jul. ³	End-Dec.				
SDR ²	5.5049	5.8391	5.5567	5.8	5.1	-0.9
US dollar	3.8000	4.4700	4.0570	2.7	10.2	-6.3
Singapore dollar	2.2570	3.2860	3.1595	6.0	4.0	-28.6
100 Japanese yen	3.3745	2.8572	2.5924	13.6	10.2	30.2
Pound sterling	6.6270	5.6105	5.4621	4.2	2.7	21.3
Australian dollar	2.8823	2.7772	2.7168	13.1	2.2	6.1
Euro	4.6212	4.6528	4.7639	9.2	-2.3	-3.0
100 Thai baht	9.0681	13.0511	12.8835	2.9	1.3	-29.6
100 Indonesian rupiah	0.0386	0.0277	0.0243	7.4	13.9	59.0
100 Korean won	0.3665	0.3032	0.2814	17.4	7.7	30.2
100 Philippine peso	6.8131	7.7296	6.8914	7.1	12.2	-1.1
100 New Taiwan dollar	11.8901	13.6372	12.9286	9.6	5.5	-8.0
Chinese renminbi	0.4591	0.6125	0.5805	5.6	5.5	-20.9

¹ US dollar rates are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market. Rates for foreign currencies other than US dollar are cross rates derived from rates of these currencies against the US dollar and the USD/MYR rate.

² The daily SDR rates published on the BNM website are based on latest available US dollar SDR rates and prevailing USD/MYR mid-rates. The US dollar SDR rate in this table for the years 2024 and 2025 is at a 1-day lag due to different time zones.

³ Ringgit was unpegged against the US dollar.

Source: Bank Negara Malaysia