

Outlook and Policy in 2025

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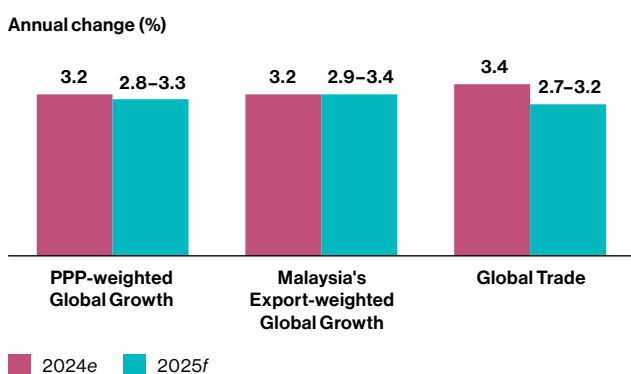
Outlook and Policy in 2025

2025: RESILIENT GROWTH DESPITE EXTERNAL UNCERTAINTIES

Broadly sustained global growth in 2025

The global economy is expected to be broadly sustained in 2025 (2.8%–3.3%; 2024: 3.2%). Economic activity will continue to be supported by positive labour market conditions, moderating inflation and continued monetary policy easing across most major countries. These factors will help cushion against potential headwinds from the uncertainties surrounding tariff and other policies from major economies, alongside geopolitical developments.

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: Bank Negara Malaysia estimates

In advanced economies, growth will remain resilient, supported by positive labour markets and household balance sheets. Growth in the US economy will be supported by sustained consumption activity. The baseline projection is for inflation in the US to moderate. In line with this, the expected gradual easing of monetary policy by the Fed will also provide an additional lift to growth. The euro area is expected to stage a gradual recovery, supported by resilient labour markets, moderating inflation and continued easing of monetary policy, alongside receding effects from the conflict in Ukraine. This rebound, however, may be weighed down by political and policy uncertainties as well as restrained fiscal policy.

Regional economies are projected to grow at a sustained pace, driven by resilient domestic demand and continued trade expansion. Trade-reliant countries, however, will face waning support from 2024's rebound in global trade as well as new anticipated headwinds as tariffs and other policies unfold in the major economies. China's economy, on the other hand, is expected to soften further. Ongoing challenges in its real estate market will continue to weigh heavily on consumer sentiment and the economy. This will be partially mitigated by government measures including the issuance of special treasury bonds alongside other policy initiatives, such as the increases in civil servant salaries and pensions.

Global trade growth is expected to remain supported by demand across both the E&E and non-E&E sectors. The global technology upcycle will continue to be spurred by the device replacement cycle amid increased artificial intelligence (AI) adoption across end-products and software upgrades. Other factors such as the greater usage of cloud technology and a higher demand for electric vehicles (EVs) will also continue to bolster E&E trade. Meanwhile, continued investments in key strategic areas such as automation and the low-carbon transition will uplift demand for non-E&E products, especially machinery and equipment (M&E). Global tourism will keep its positive momentum, with global air passenger traffic projected to surpass pre-pandemic levels against

a backdrop of increased flight capacity and more liberal visa policies. Although the baseline projection is for continued growth in global trade, external demand conditions are expected to face considerable challenges arising from heightened uncertainties surrounding tariffs and other policies from major economies, and geopolitical developments.

Global inflation is projected to continue moderating towards its long-term average, driven by disinflation especially amongst advanced economies. Lower demand from China and higher oil supply from both OPEC and non-OPEC countries will drive a moderation in energy-related commodity prices. Similarly, global food prices are expected to decline, albeit with pockets of volatility stemming from adverse weather conditions. Services inflation is expected to gradually moderate, reflecting the lagged impact of previous monetary policy tightening. Tariffs and other policies from major economies, however, could exert upward pressure on prices. The exact impact of these restrictions on inflation is highly uncertain and could be significant, should countries retaliate or if demand is stronger than expected, especially in the US.

Global financial conditions will remain primarily driven by the pace and magnitude of global monetary policy easing. Should inflationary pressures materialise and persist following increased trade restrictions, central banks in advanced economies, particularly the Fed, may adopt a more measured approach to monetary policy easing than earlier anticipated. Against this backdrop, interest rates in the US being kept high for longer would lend continued support to the US dollar's current strength, with investors favouring relatively higher-yielding assets globally. An interplay of multiple global uncertainties may further lead to increased market volatility as investors react to developments surrounding monetary, trade and key economic policies.

Despite the expected increase in market volatility, narrower interest rate differentials between emerging market economies and the US could spur shifts in global capital flows in favour of regional financial markets. This hinges upon the Fed's continued easing of monetary policy. Nevertheless, the magnitude of inflows will depend on country-specific factors, including risks to the regional economies' outlook for growth and inflation.

Global growth outlook subject to downside risks amid considerable uncertainties on policy developments in major economies

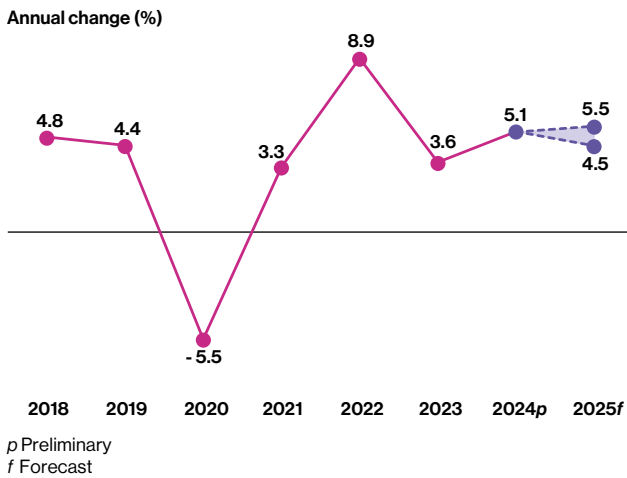
The outlook for global growth, inflation and trade is subject to considerable uncertainties surrounding tariffs and key policies by major economies, as well as geopolitical developments. Downside risks persist from higher trade restrictions alongside potential retaliatory measures from the affected countries. Geopolitical conflicts may also escalate if peace negotiations are unsuccessful. These developments could contribute to increased volatility in global financial conditions. Jointly, these factors could weigh on global growth, placing it towards the lower end of the range. On the upside, the global economy may be lifted by successful trade negotiations between the US and its partners. This, together with the resolution of some geopolitical conflicts could lift sentiment, boost consumption and investment activity, and lower commodity prices. Country-specific initiatives, including the effective rollout of pro-growth policies in the US and increased fiscal policy stimulus in China and possibly Europe, would further raise economic activity. Should these tailwinds materialise, growth will be boosted towards the upper end of the range.

The Malaysian economy is projected to grow between 4.5%–5.5% in 2025

Despite external uncertainties, domestic growth will remain resilient (Chart 2.2). This is underpinned by sustained strength in domestic demand and the diversified nature of Malaysia's economy.¹ Employment and income growth will continue to drive household spending. Investment activity is also expected to remain robust driven by the new and ongoing progress of multi-year projects. Measures outlined in Budget 2025, including initiatives on income enhancement, will further support consumption. Against an uncertain backdrop, Malaysia's external sector is projected to grow more moderately. Exports, however, are still expected to benefit from the continued global technology upcycle and higher tourist spending.

¹ For further details on Malaysia's diversified economy, please refer to the white box article on 'Malaysia's Resilience: A Diversified Economic and Export Structure'.

Chart 2.2: Malaysia's Real GDP Growth



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

Domestic demand will remain Malaysia's anchor of growth amid steady private sector expenditure. Improving labour market conditions alongside continued policy support will drive higher household spending. Employment is expected to grow further, reducing the unemployment rate to 3.1%, which is below its long-term average. Income is anticipated to grow at a faster pace, supported by increased labour utilisation amid continued expansion in economic activity as well as wage-related policy measures. These measures include the salary increment for civil servants under the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA) and a higher minimum wage. The higher household income, alongside a larger disbursement of targeted cash transfers, will help to alleviate the cost-of-living pressures faced by low- and middle-income earners. In addition, the targeted approach towards the policy reforms, such as the RON95 subsidy rationalisation and expansion of the sales and services tax (SST), is intended to minimise their impact on cost of living and domestic spending.

Malaysia will continue to see a robust expansion in investment activity. The investment upcycle is expected to extend into 2025, driven by the implementation of new and existing projects. In the private sector, investment intentions for 2025 remain strong, as reflected in the high level of approved investments of RM378.5 billion in 2024, which grew by 14.9% on an annual basis (2023: RM329.5 billion). The realisation of these investments in the year ahead will be underpinned by continued global demand supporting key industries such as E&E and information and communication technology (ICT), including data centres. The progress of these investments will also be accelerated by government initiatives to expedite

approval processes and facilitate project implementation, enhanced by active engagements between authorities and investors. In addition, Malaysia's well-established and conducive investment ecosystem will provide continued impetus,² attracting new investors and promoting investment retention in the country. Catalytic initiatives under national master plans³ will further support investment activity. Notable examples include PETRONAS's Kasawari Carbon Capture and Storage (CCS) project and Tenaga Nasional Berhad's Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project.

Following Malaysia's strong trade recovery in 2024, exports and imports will expand at a more moderate pace in 2025 amid global policy uncertainties. Gross exports will benefit from the ongoing global technology upcycle, in line with the double-digit growth in global semiconductor sales as projected by the World Semiconductor Trade Statistics (WSTS).⁴ Non-E&E manufactured products will remain supported by continued external demand and investment activities in regional countries. These factors will mitigate the impact of the planned maintenance of key oil and gas facilities, affecting both upstream and downstream commodity products. Gross imports will be driven by an expansion in intermediate and capital goods, reflecting Malaysia's sustained manufacturing exports and strong investment activity. The projected growth in tourist spending, bolstered by improving global travel demand, more liberal visa policies and higher flight connectivity, will lift services exports.

The growth outlook for the Malaysian economy is subject to several downside risks, stemming primarily from considerable external uncertainties. These include more restrictive trade policies and subsequent retaliatory measures, as well as potential escalation of geopolitical conflicts. These factors could disrupt global trade, leading to an economic slowdown in Malaysia's key trading partners and subsequently affecting the country's trade performance. Collectively, these uncertainties may also affect investment and spending decisions amid weaker sentiments. In addition, further disruptions in commodity production could weigh on the growth outlook. These factors, if realised, would place growth towards the lower end of the projected

² For further details on investment upcycles and investment facilitation efforts, please refer to the box article 'Deciphering Investment Cycles in Malaysia' in BNM's Economic and Monetary Review 2024.

³ These include the New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS) and National Energy Transition Roadmap (NETR).

⁴ In its Fall 2024 forecast, the WSTS projected that the global semiconductor market will grow further by 11.2% in 2025, following the 19.1% growth achieved in 2024.

range. Notwithstanding, growth could be lifted by several positive factors to potentially exceed 5%, within the upper bound of the projected range. These include higher external demand from successful trade negotiations and pro-growth policies in major economies, as well as greater spillovers from the global technology upcycle. More robust tourism activity, alongside faster implementation of new and existing investment projects, could also provide an upside to growth.

Headline and core inflation are expected to average between 2%–3.5% and 1.5%–2.5% respectively in 2025. The outlook largely reflects potential upside from domestic policy measures and shifts in external cost conditions

Inflation is expected to trend higher in 2025, with the wider forecast range taking into consideration impact arising from the rollout of major policy reform measures. Inflation, however, will likely remain manageable, in line with easing global cost conditions and the absence of excessive domestic demand pressures. Global commodity prices are expected to continue to moderate. This will contribute towards lower pressures on production costs in the near term, particularly for items dependent on imported products, including fresh food. Meanwhile, underlying demand conditions will remain moderate in view of stable private consumption growth and wage gains that are in line with productivity growth. In this environment, while the announced domestic policy measures are expected to contribute to higher inflation during the year, the overall impact is expected to be contained. This includes policy reforms such as the RON95 subsidy rationalisation and SST expansion, alongside wage-related measures.

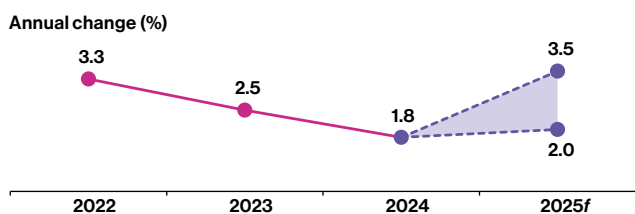
The impact of policy measures to inflation is subject to details surrounding implementation. The effects, however, are expected to be transitory and manageable. The direct impact from a one-off RON95 fuel price adjustment is projected to lapse a year after its implementation as base effects diminish. Further, planned expansions to the SST are primarily focused on non-essential food and durable products, which are applicable to only a small subset of the consumer price index (CPI) basket.

More broadly, the indirect effects of these policy measures on inflation through spillovers to the prices of other goods and services will be largely contained. Primary usage of RON95 for personal rather than commercial purposes

should limit spillovers via businesses’ operating costs. Meanwhile, although the upward revisions to the minimum wage and civil servant salaries will provide additional support to demand, these are unlikely to fuel excessive demand pressures. The minimum wage revision will primarily benefit lower-income workers who account for a proportionally smaller share of total wages. Importantly, it mainly addresses prevailing wage-productivity gaps through a normalisation of real wages. The continued productivity enhancements by businesses will further contribute towards containing the pass-through of higher costs to consumers. Collectively, the increase in unit labour costs is therefore projected to stay moderate and broadly in line with Malaysia’s productivity growth.

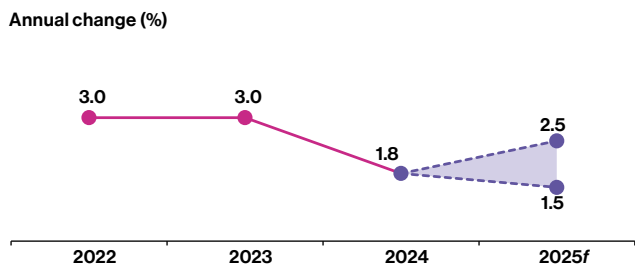
Furthermore, these policy adjustments will be carried out at a time of moderating global commodity prices while domestic demand pressures are unlikely to be excessive. Given this, the risk of a generalised and sustained increase in prices is assessed to be contained. On balance, headline inflation is projected to remain manageable, averaging between 2% and 3.5% in 2025. Core inflation is also projected to remain moderate, averaging between 1.5% and 2.5%. The wider forecast range incorporates some potential upside, including projections on various policy scenarios and their impact on inflation.

Chart 2.3: Malaysia’s Headline Inflation



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

Chart 2.4: Malaysia’s Core Inflation



f Forecast
Note: Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

The risks to Malaysia's inflation outlook primarily hinge on domestic policy reforms as well as shifting external cost conditions. Domestically, upside risk to inflation would be dependent on further implementation details of these policy reforms and the extent of their interactions with demand conditions. While the impact is expected to be contained, there remains a tail risk of higher inflation arising from these effects taking place against a stronger-than-expected demand environment where firms find it easier to raise prices and pass on costs to consumers. This may lead to knock-on effects on the prices of other goods and services, contributing to pressures on underlying inflation. The degree of these interactions and spillovers are expected to be reflected in the pervasiveness and persistence of inflation, which are monitored very closely.

On the external front, upside risks to inflation stem from the imposition of potential trade restrictions alongside possible retaliatory actions amongst key trading nations. Such developments may lead to higher domestic inflation through three channels: increased imported inflation; a stronger dollar due to risk aversion in financial markets; and higher production costs as a result of supply chain disruptions. Global commodity prices may also experience upward pressure from geopolitical tensions and weather disruptions. In these events, sectors sensitive to import prices, such as food and transport, would be subject to a more material impact. In contrast, downside risks to inflation are rooted primarily in weaker global growth as trade tensions weigh on international trade, as well as the resulting lower commodity prices.

Domestic monetary and financial conditions are expected to remain supportive of financing needs amid sustained economic expansion

Domestic financial conditions will be subject primarily to spillovers from external developments, mainly through the movement of capital flows. Greater clarity on the Fed's monetary policy easing path will be a key factor in shaping domestic financial market trends and influencing overall financial conditions. Narrowing interest rate differentials amid continued global monetary easing will support capital inflows. Nevertheless, this is subject to the risk of a potential slowdown in foreign inflows amid volatile financial markets driven by more gradual monetary policy easing, global policy uncertainties and geopolitical developments.

The ringgit's performance for the year will be driven mainly by fluctuations in capital flows. Foreign inflows due to narrower interest rate differentials are expected to lend support to the ringgit. However, the Fed keeping rates high for longer may weigh on the ringgit's performance. This may be compounded by continued investor demand for the US dollar as a 'safe haven' asset. Further, given policy uncertainties across major economies, the ringgit may be subject to heightened bouts of volatility as investors react to policy announcements and details on implementation, as well as developments on geopolitical conflicts. While these cyclical factors may drive short-term ringgit volatility, Malaysia's favourable economic prospects, domestic structural reforms and ability to attract long-term investments, complemented by ongoing initiatives to encourage flows, will provide an enduring longer-term support to the ringgit.

Developments in domestic capital markets are expected to be broadly favourable. Malaysian Government Securities (MGS) yields may trend moderately lower amid gradual inflows into the domestic bond market. Domestic equities are expected to build on last year's gains, underpinned by continued political stability and improved corporate earnings prospects across core sectors including banking and utilities. In the medium-term, the Government's commitment to structural reforms, including continued fiscal consolidation and industrial upgrading initiatives, is expected to raise investor confidence and support the performance of domestic equities. This would be augmented by foreign inflows into high-growth sectors, supported for instance, through planned and ongoing catalytic investments in the E&E and ICT subsectors under NIMP 2030.

Domestic financing conditions will stay conducive to sustained credit growth. Credit to the non-financial private sector will remain forthcoming in line with banks' steady lending outlook for 2025. Credit demand, particularly amongst households and small and medium enterprises (SMEs), will be driven by positive prospects on domestic growth and income. Furthermore, loan growth momentum towards businesses, especially SMEs, will be lifted by robust investment activity. Credit supply will continue to be enabled by banks' healthy capital and liquidity buffers coupled with continued robust competition among banks. In addition, corporate bond activity will remain supported by favourable bond yields.

Overall, Malaysia is well-positioned to weather the global volatility, with its solid economic fundamentals and robust financial system. Importantly, our deep and liquid financial

markets will cushion spillovers arising from fluctuations in global financial conditions. BNM will remain vigilant on global developments while ensuring uninterrupted financial intermediation for the economy. To this end, BNM stands ready to provide sufficient liquidity and safeguard the stability of the financial system with the tools at its disposal. While external developments may have some impact to financial conditions domestically, Malaysia's financial markets are expected to remain resilient and well-positioned to manage any potential ensuing effects from the global front.

Monetary policy will remain focused on maintaining an environment of price stability conducive to sustainable economic growth

Monetary policy decisions throughout the year will remain guided by the Monetary Policy Committee's (MPC) assessment of risks to Malaysia's inflation and growth outlook. The MPC aims to maintain an environment of price stability that is conducive to sustainable growth. In ensuring this, the MPC will continue to assess global developments and potential spillovers to the domestic economy. The MPC will also remain vigilant on the implications of ongoing domestic policy reforms on the economy, and the general pace and drivers of price increases going forward.

Domestic growth will be underpinned by sustained strength in domestic demand. This is supported by improving labour market conditions and robust investment activity. External headwinds present a downside risk to growth, including slower-than-expected global demand amid considerable uncertainties surrounding trade policies and ongoing geopolitical developments. Meanwhile, growth could potentially benefit from greater spillovers from the global tech upcycle, more robust tourism activity and faster implementation of investment projects.

Inflation is projected to remain broadly manageable in line with modest global cost conditions and the absence of excessive domestic demand. Notwithstanding the upside risks to inflation, the impact of policy reforms on overall price pressures is expected to remain contained in this environment. The effects of shifting labour market dynamics on inflation, arising from wage-related policies and the subsequent impact on demand, is unlikely to fuel excessive demand pressures.

Amidst an uncertain global environment, the MPC's formulation of monetary policy will take into consideration the trajectory of economic growth and the ensuing impact of global developments on the domestic economy. The MPC will also continue to assess the persistence and pervasiveness of inflation alongside potential second-round effects arising from policy measures. As such, the monetary policy approach will remain data-dependent going forward, guided by the evolving balance of risks surrounding the outlook on Malaysia's inflation and growth.

Domestic demand continues to be the anchor of growth

In 2025, Malaysia's economy is expected to be supported by the steady growth of domestic demand and moderate expansion in exports. Further improvements in labour market conditions and income-related government policy measures will provide support to household spending. Investment activity would be sustained by existing and new multi-year projects across key economic sectors on the back of the strong investment approvals as well as implementation of catalytic projects under the national master plans. Amid uncertain global trade environment, the external sector is expected to register more moderate growth, driven by continued growth in the electrical and electronic (E&E) sectors and further increase in tourism activity.

Table 1

Real GDP by Expenditure (2015=100)

	2024p	2024p	2025f	2024p	2025f
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand*	95.2	6.5	6.3	6.1	6.0
Private Sector Expenditure	77.2	6.6	6.5	5.0	5.0
Consumption	60.7	5.1	5.6	3.1	3.4
Investment	16.5	12.3	10.1	1.9	1.7
Public Sector Expenditure	18.0	6.3	5.3	1.1	1.0
Consumption	13.1	4.7	4.9	0.6	0.6
Investment	4.8	11.1	6.4	0.5	0.3
Gross Fixed Capital Formation	21.4	12.0	9.3	2.4	2.0
Change in Stocks	0.5			-1.1	-1.3
Net Exports of Goods and Services	4.3	2.2	4.5	0.1	0.2
Exports	68.2	8.5	6.5	5.6	4.4
Imports	63.9	8.9	6.6	5.5	4.2
Real Gross Domestic Product (GDP)	100.0	5.1	4.5-5.5	5.1	4.5-5.5

* 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 expected to grow by 5.6% in 2025 (2024: 5.1%) driven by the continued improvement in labour market conditions and higher income growth. Employment is projected to expand by 2.1% (2024: 2.6%) with total employment projected at 17 million persons (2024: 16.6 million). The unemployment rate is estimated to decline to 3.1%. Income growth is projected to improve supported by higher labour utilisation and government policy measures, including the implementation of a higher minimum wage and civil servant salary under the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA).

Gross fixed capital formation (GFCF) is expected to grow by 9.3% (2024: 12%). The strong growth is driven by the continued robust investments in both structures as well as machinery and equipment (M&E).

Private investment growth is expected to remain strong at 10.1% (2024: 12.3%). This is underpinned by the global technology upcycle and sustained external and domestic demand conditions. The realisation of new and ongoing investments is progressing well, with 84.5% of manufacturing projects approved since 2021 in various phases of implementation. In addition, construction activities are expected to record high growth, as reflected in the increased value of early-stage construction work done (2024: RM33.9 billion; 2023: RM31.5 billion). Moving forward, high investment approvals in 2024 reaching RM378.5 billion (2023: RM329.5 billion) signal strong investment intentions.

Notably, the quality of investments has improved amid the shift towards higher value-added subsectors including E&E and information and communication technology (ICT), as well as emerging industries such as green technology.

Public investment is projected to grow by 6.4% (2024: 11.1%) driven by higher capital expenditure by public corporations. Transportation and utilities-related industries are expected to drive investments amid the expansion of railway and public transportation systems. In addition, higher demand for electricity is poised to support electricity grid network enhancement and energy transition projects. Continued progress of existing projects and rollout of new infrastructure investment such as Pan Borneo Highway Sabah Phase 1B, Mutiara Light Rail Transit (LRT) line and expansion of airports will also continue to support growth into 2025.

Public consumption is estimated to expand by 4.9% (2024: 4.7%). Growth will be supported mainly by the Government's higher emoluments amid salary increment for civil servants under the SSPA.

Expansion in most economic sectors

On the supply side, most sectors are projected to expand in 2025. The *services* and *manufacturing* sectors will again be the key drivers to overall growth.

Table 2

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

	2024p	2024p	2025f	2024p	2025f
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.3	5.4	5.7	3.2	3.4
Manufacturing	23.2	4.2	3.9	1.0	0.9
Agriculture	6.3	3.1	2.2	0.2	0.1
Mining and quarrying	6.0	0.9	-0.8	0.1	0.0
Construction	4.0	17.5	11.0	0.6	0.4
Real Gross Domestic Product (GDP)	100.0*	5.1	4.5–5.5	5.1	4.5–5.5

* 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 register a higher growth of 5.7% in 2025 (2024: 5.4%), with continued expansion across all subsectors. The transport and storage subsector will be driven by continued support from air passenger traffic, launching of new and upgraded highways, operationalisation of LRT 3 and steady growth in logistics and storage activities. Growth in the finance subsector will be underpinned by sustained loan demand. The real estate and business services subsector will benefit from strong growth in construction activities. Consumer-related subsectors are also expected to lift services growth, driven by higher household spending amid improving income supported by policy measures. These policy measures include the implementation of a higher minimum wage and salary increment for civil servants under the SSPA. Additionally, tourism-related sectors will continue to benefit from incoming tourists with the more intensive promotion activities leading up to Visit Malaysia Year 2026. The higher emoluments for civil servants under the SSPA will also support government services.

The *manufacturing* sector growth is expected to moderate slightly to 3.9% (2024: 4.2%), as the continued expansion of the E&E and consumer-related industries are offset by slower growth in primary and construction-related industries. Primary-related industry is expected to be affected by lower natural gas output and scheduled upstream maintenance. As key infrastructure projects are near completion, construction-related manufacturing growth is also expected to record a moderation. Nevertheless, the E&E industry is set to benefit from the broader spillovers of the global tech upcycle, which

is expected to record growth across all semiconductor segments. This is underpinned by the continued growth in global sales outlook, driven by external demand for consumer electronics and AI-related semiconductors. Consumer-related industries will gain support from continued household spending and the launch of domestic electric vehicle models.

The *agriculture* sector is projected to expand by 2.2% (2024: 3.1%). Production of food crops such as rice, fruits and vegetables are expected to improve amid better weather conditions. Meanwhile, crude palm oil production is expected to continue to expand but at a more moderate pace as further productivity gains from better trained workers and improved fertiliser application will be offset by limited growth in mature hectareage. Growth in the livestock subsector will be sustained due to stable demand conditions and ongoing technological enhancements to the sector's production processes.

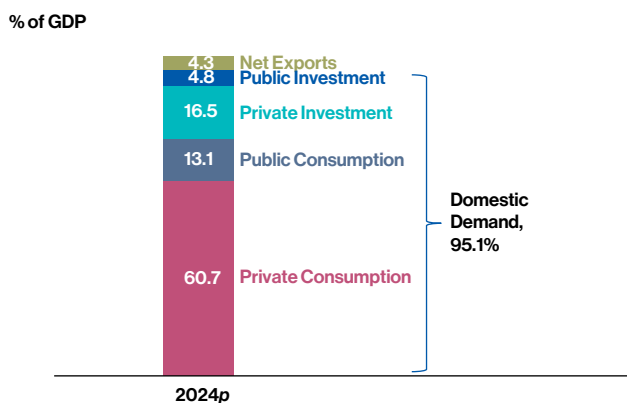
The *mining* sector is estimated to contract by 0.8% (2024: 0.9%), due to planned maintenance at key oil and gas facilities. In addition, production declines in maturing fields will continue to weigh on oil production. These factors will more than offset the support from the commencement of new fields in 2024 such as Jerun and Kasawari in Sarawak, as well as ongoing expansions and enhanced recovery measures in some existing fields.

The *construction* sector is expected to continue to record high growth, albeit at a more moderate pace than in 2024 (11%, 2024: 17.5%). Growth will be driven by continued activities in non-residential, special trade and residential subsectors. In the non-residential subsector, growth is expected to remain robust. This will be underpinned by projects in both the industrial and commercial property segments. The special trade subsector will be supported by the implementation of small-scale projects announced under the Budget 2025 and end-stage works from large infrastructure projects that are nearing completion. The residential subsector will benefit from new housing projects, particularly in the affordable housing segment. Government incentives such as the personal tax relief for first-time homebuyers are expected to stimulate housing demand. However, the near-completion of infrastructure projects such as LRT 3 and Johor Bahru–Singapore Rapid Transit System (RTS) Link will result in a moderate growth in the civil engineering subsector.

Malaysia's Resilience: A Diversified Economic and Export Structure

Domestic demand will continue to drive Malaysia's growth, accounting for 95% of the economy. On the supply side, the services and construction sectors, which are predominantly domestic-oriented, account for more than 60% of the economy.

Chart 1: Real GDP by Expenditure (2015=100)

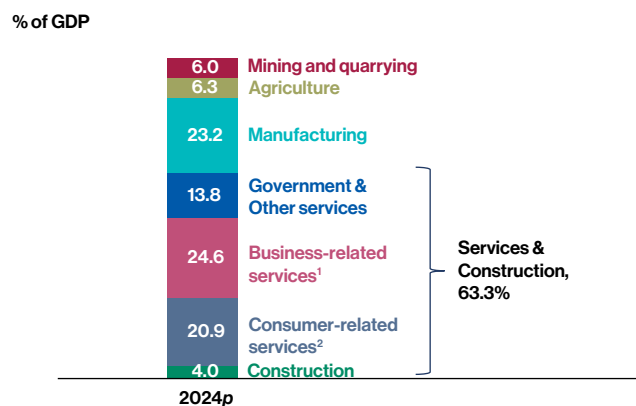


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Note: Figures may not add up due to rounding and exclusion of stocks component.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 2: Real GDP by Kind of Economic Activity (2015=100)



¹ Refers to finance and insurance, information and communication, real estate and business services, transport and storage as well as utilities services.

² Refers to wholesale trade, retail trade, motor vehicles, food, beverage and accommodation services.

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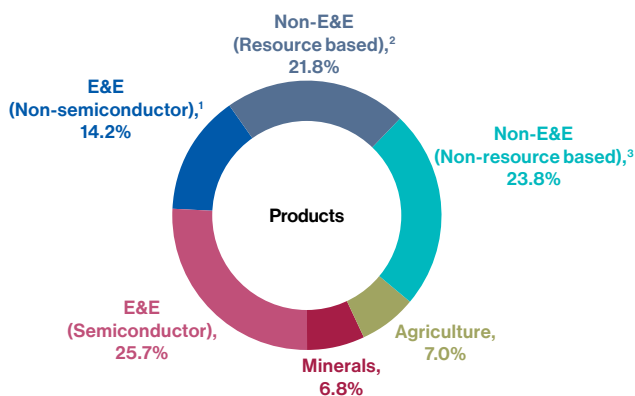
Note: Figures may not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Diversified export products and markets will cushion Malaysia against potential shocks on any particular market or product. 60% of Malaysian exports comprise of non-E&E products. Beyond the US and China, almost half of the demand for Malaysian exports come from regional countries in Asia.

Chart 3: Exports by Product (2024)

Share of total exports, %

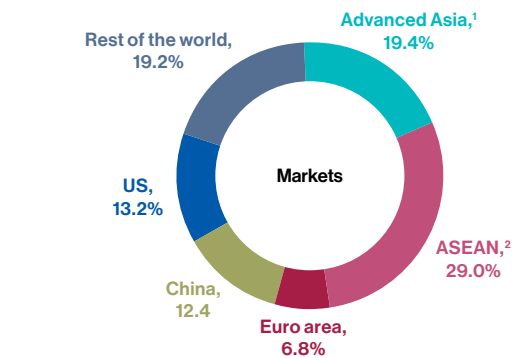


¹ Examples include telecommunications equipment, computer parts and electrical household appliances.
² Examples include chemicals & chemical products, wood products, rubber products, processed food, palm oil-based manufactured products and petroleum products.
³ Examples include manufactures of metal, optical and scientific equipment, iron and steel products as well as manufactures of plastics and jewellery.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 4: Exports by Market (2024)

Share of total exports, %



¹ Japan, Korea, Taiwan and Hong Kong.
² Singapore, Thailand, Indonesia, the Philippines, Brunei, Vietnam, Cambodia, Myanmar and Laos.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Trade and Current Account Outlook

Continued growth in exports and imports in 2025

Malaysia's gross exports are expected to grow by 5.2% in 2025 (2024: 5.7%). Manufactured exports, particularly electrical and electronics (E&E), will continue to drive this growth, offsetting the decline in commodity exports.

Manufactured exports, which constituted 86% of Malaysia's total exports in 2024, are projected to expand by 5.5% (2024: 6%). Growth will be led by E&E exports, underpinned by the global technology upcycle. The growth of cloud computing, widespread adoption of AI-powered devices during the replacement cycle and rising demand for devices with enhanced processing capability will continue to drive the broad-based expansion across key end-segments of personal computers, mobiles and servers.

Commodity exports are expected to decline by 1.6% in 2025 (2024: 3.8%) on account of lower oil and gas production due to plant maintenance and lower commodity prices. This is expected to weigh on overall non-E&E exports. Meanwhile, agriculture exports are expected to register sustained growth as crude palm oil (CPO) production continues to expand amid improved labour productivity and fertilisation.

The escalation of geopolitical tensions and trade restrictions as well as unexpected supply disruptions to domestic commodities production pose downside risks to Malaysia's export growth projections. On the other hand, exports could potentially be higher from stronger-than-expected spillover from the global technology upcycle and more robust tourism activity leading up to Visit Malaysia 2026.

Meanwhile, gross imports growth is expected to moderate to 7.4% from the strong growth last year (2024: 13.2%). Capital imports will continue to increase amid the implementation of investment projects while the growth of intermediate imports will move in tandem with manufactured exports.

Table 3

External Trade

	2015–19 average	2024 ^p	2025 ^f
	Annual change (%)		
Gross exports	5.6	5.7	5.2
<i>of which:</i>			
Manufactured	7.6	6.0	5.5
Agriculture	-0.6	11.4	10.3
Minerals	-3.1	-3.1	-14.1
Gross imports	4.7	13.2	7.4
<i>of which:</i>			
Capital goods	1.2	29.6	7.4
Intermediate goods	3.1	20.7	8.7
Consumption goods	8.4	12.8	2.9
Trade balance (RM billion)	109.5	136.8	113.5

^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 continue registering a surplus of 1.5%–2.5% of gross domestic product (GDP) in 2025 (2024: 1.7% of GDP). This is driven mainly by sustained goods surplus amid a lower deficit in the services account.

The goods account is projected to record a surplus of RM118.9 billion (2024: RM117.1 billion), as exports continue to exceed imports. Meanwhile, the services account is expected to post a narrower deficit of RM8.1 billion (2024: -RM13.9 billion), supported by a higher surplus in the travel account, as tourist arrivals and receipts in 2025 are projected to grow further and exceed pre-pandemic levels.

The primary income account is projected to remain in deficit (-RM59.3 billion, 2024: -RM61.5 billion). This is driven by the continued income payment accrued to foreign investors in Malaysia amid improving exports earnings. Similarly, the secondary income account is expected to remain in deficit (-RM10.5 billion, 2024: -RM8.9 billion), due mainly to higher outward remittances by foreign workers. Nevertheless, this is expected to be partly cushioned by higher inward remittances from Malaysians working abroad.

Table 4

Current Account of the Balance of Payments*

Item (Net)	2024 ^p	2025 ^f
	RM billion	
Goods	117.1	118.9
Services	-13.9	-8.1
Primary income	-61.5	-59.3
Secondary income	-8.9	-10.5
Current account balance	32.8	41
<i>% of GDP</i>	<i>1.7</i>	<i>1.5–2.5</i>

* 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

Potential Output and the Output Gap of the Malaysian Economy

Potential output is the highest non-inflationary level of output that can be produced in an economy, based on prevailing factors of production (i.e. labour and capital) and productivity.

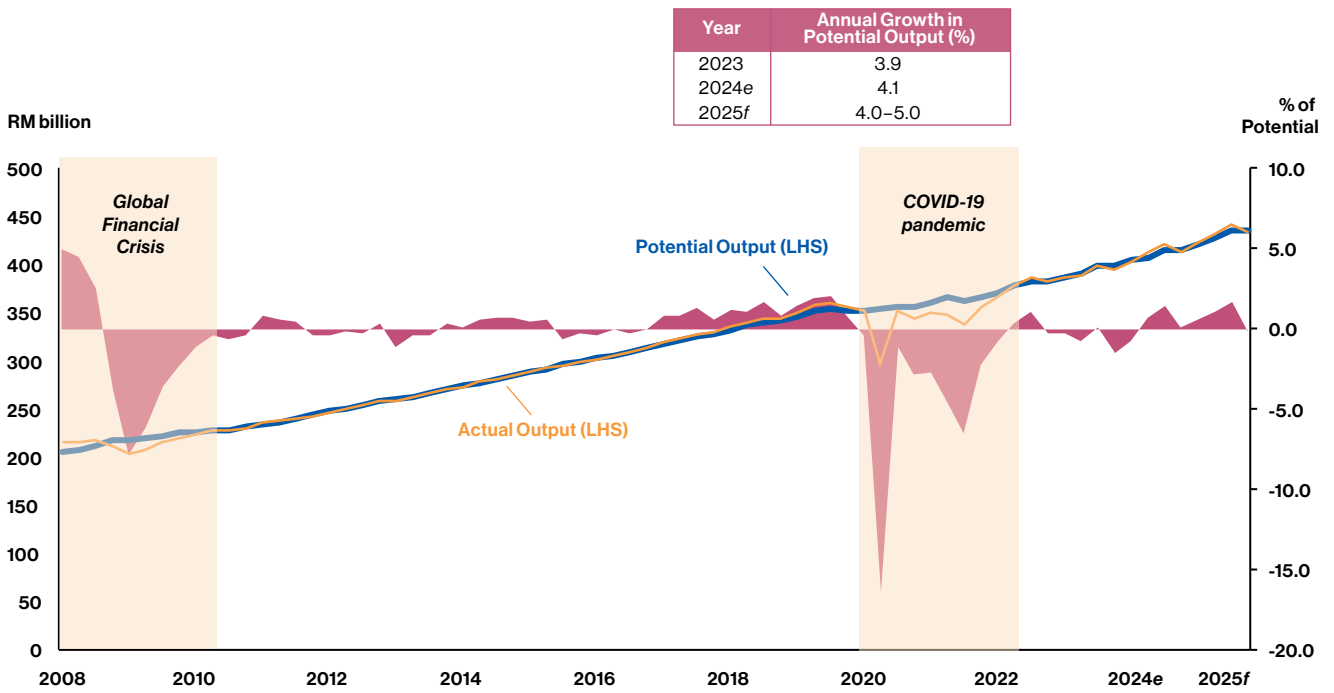
In 2024, potential output⁵ expanded by 4.1% (2023: 3.9%; 2011–19 average: 4.9%). The expansion was driven by higher capital accumulation in line with robust investment activity (2024: 12%; 2023: 5.5%). Total factor productivity (TFP) growth was also higher as firms' increased capital investments helped raise technological efficiency and resource utilisation. Labour utilisation improved with the unemployment rate declining to below pre-pandemic level while labour force participation rate increased to 70.5% (2023: 70%). The output gap turned positive in 2024 at 0.4% (2023: -0.6%)⁶ as the level of actual output was higher relative to the potential output.

Going forward, the output gap is expected to remain positive in 2025. While the potential output is projected to grow at its pre-pandemic levels of 4%–5%, the actual output growth could grow at a faster pace of 4.5%–5.5%, driven by sustained strength in domestic demand. Over the medium term, potential output will remain supported by higher investments and improvements in productivity amid the continued implementation of multi-year investment projects, as well as national masterplans such as New Industrial Master Plan 2030 (NIMP 2030), National Semiconductor Strategy (NSS), National Energy Transition Roadmap (NETR), and the upcoming 13th Malaysia Plan (RMK-13).

⁵ Potential output is derived through an average of estimations based on the following methodologies: Production Function, Laubach-Williams model, Real Business Cycle (RBC) model, Kalman Filter and Dynamic Stochastic General Equilibrium (DSGE) model.

⁶ The output gap is formally defined as $\frac{(\text{Actual output level} - \text{Potential output level})}{\text{Potential output level}} \times 100\%$.

Chart 5: Actual and Potential Output



■ Output Gap (RHS)

e Estimate

f Forecast

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