



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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Second Quarter 2025

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes BNM's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by BNM in pursuit of its mandates.

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Key Highlights for 2Q 2025

GDP grew by 4.4% (1Q: 4.4%)

What are the factors supporting growth?



Higher growth in household spending

Private Consumption: 5.3% (1Q 2025: 5%)



Stronger investment activities

Gross Fixed Capital Formation: 12.1% (1Q 2025: 9.7%)



Continued demand for E&E exports and tourism activity

Exports of Goods and Services: 2.6% (1Q 2025: 4.1%)

Continued improvement in the labour market



Unemployment Rate

3.0%
(1Q 2025: 3.1%)



Private Sector Nominal Wages

3.4%
(1Q 2025: 3.3%)

Headline inflation moderated to 1.3% (1Q: 1.5%)

What are the key factors affecting inflation?



Lower fuel prices, driven by lower RON97 and diesel prices

Fuel inflation: -0.6%
(1Q 2025: 0.3%)



Lower food inflation amid softer commodity prices

Food and beverages inflation: 2.2%
(1Q 2025: 2.5%)

The ringgit appreciated against currencies of major trading partners



Ringgit NEER

1.5%
(1Q 2025: 0.01%)



MYR/USD

5.1%
(1Q 2025: 0.8%)



US Dollar Index

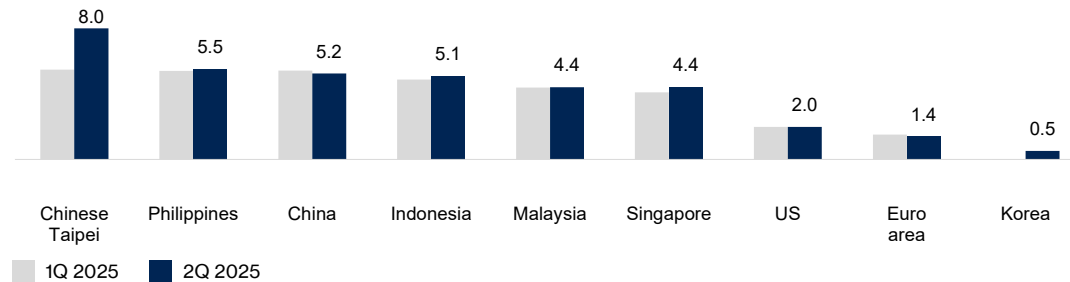
-6.9%
(1Q 2025: -4.1%)

International Economic Environment

Global Economic Performance

Global growth continued to be resilient in 2Q 2025

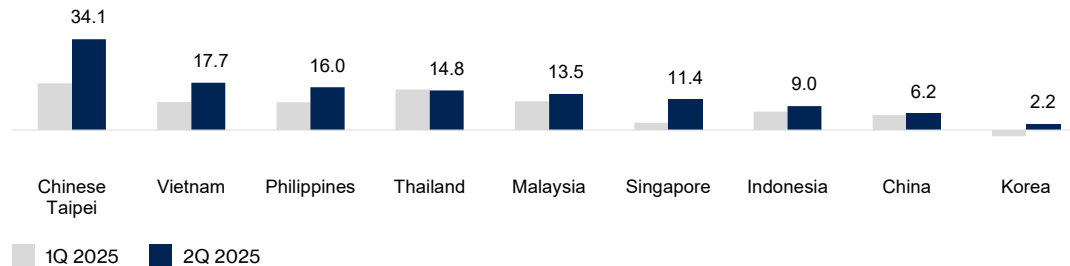
GDP of selected economies,
Annual change, %



Source: National authorities

Regional trade remained firm

Exports of selected economies,
Annual change, % (in USD terms)



Source: National authorities

Highlights

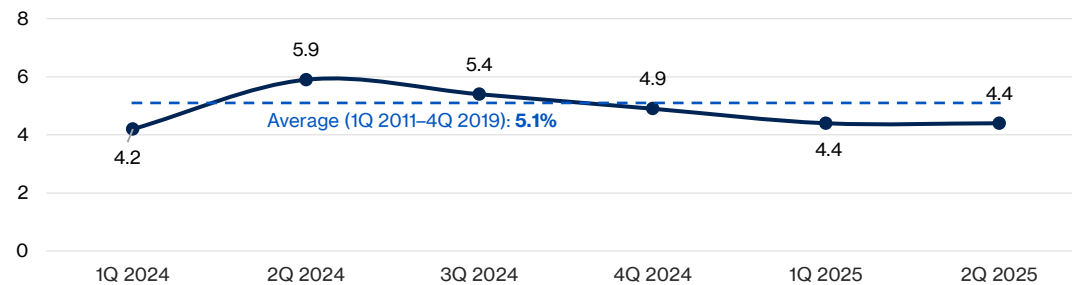
- **Global growth was sustained in 2Q 2025.** The US grew 2% in 2Q, with resilient private consumption and steady employment. China expanded 5.2% underpinned by front-loading trade activities and fiscal-driven consumption.
- **Regional trade remained broadly resilient,** mainly supported by exports to both the US and China as the US–China tariff truce led to further front-loading activities in both consumer goods and industrial materials.
- **Headline inflation moderated,** in both advanced and emerging economies amid lower energy and non-energy prices such as food, and metals and minerals.
- **Brent crude oil price declined** to USD67 per barrel in 2Q 2025 (1Q 2025: USD75 per barrel) owing to higher global supply stemming from the accelerated phasing out of OPEC+ voluntary production cuts. This more than offset the temporary increase in risk premium following the Iran-Israel conflict.

Developments in the Malaysian Economy

Gross Domestic Product

GDP grew by 4.4% in 2Q 2025

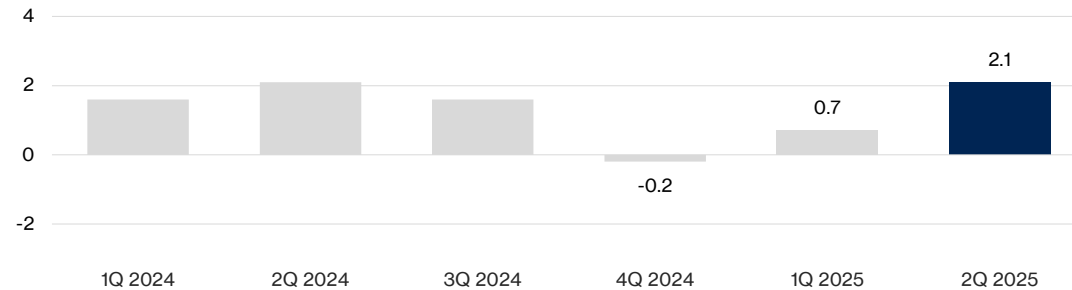
Gross domestic product,
Annual change, %



Source: Department of Statistics, Malaysia

On a QoQ seasonally-adjusted basis, the economy rose by 2.1%

Gross domestic product,
Quarterly change, % (seasonally adjusted)



Source: Department of Statistics, Malaysia

What are the factors supporting growth in 2Q 2025?



Higher growth in household spending supported by positive labour market conditions



Stronger private and public investment activities



Continued demand for electrical and electronics (E&E) exports and robust tourism activity

What are the factors weighing on growth in 2Q 2025?



Lower oil and gas production due to planned maintenance activities

Developments in the Malaysian Economy

Malaysia's Economic Performance

Robust domestic demand

Annual change, %

Private Consumption



5.3%

(1Q 2025: 5%)

Higher household spending supported by positive labour market conditions

Private Investment



11.8%

(1Q 2025: 9.2%)

Continued structures investment and stronger machinery and equipment spending

Public Consumption



6.4%

(1Q 2025: 4.3%)

Higher spending on emoluments as well as supplies and services

Public Investment



13.6%

(1Q 2025: 11.6%)

Stronger capital expenditure by public corporations

Net Exports



-72.6%

(1Q 2025: 19.6%)

Decline in mining-related exports and high capital imports offset continued E&E exports

Source: Department of Statistics, Malaysia

Continued expansion in most sectors

Annual change, %

Services



5.1%

(1Q 2025: 5%)

Sustained support from consumer-related and Government services

Manufacturing



3.7%

(1Q 2025: 4.1%)

Steady growth in domestic-oriented manufacturing, weighed down by disruptions in refined petroleum production

Agriculture



2.1%

(1Q 2025: 0.7%)

Stronger growth in oil palm production following favourable weather conditions

Mining



-5.2%

(1Q 2025: -2.7%)

Lower oil and natural gas output due to planned maintenance activities

Construction



12.1%

(1Q 2025: 14.2%)

Continued robust growth in non-residential, residential and special trade subsectors

Source: Department of Statistics, Malaysia

Developments in the Malaysian Economy

Labour Market Conditions

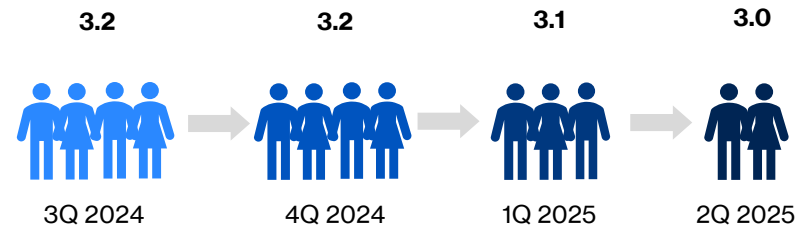
Labour market remains positive

- The unemployment rate declined further to 3% in 2Q 2025 (1Q 2025: 3.1% of the labour force).
- Employment improved to 16.85 million persons in 2Q 2025 (1Q 2025: 16.7 million persons) amid continued demand for labour.
- Labour supply remained forthcoming as the labour force participation rate increased further to 70.8% in 2Q 2025 (1Q 2025: 70.7%).

Source: Department of Statistics, Malaysia

Low unemployment rate

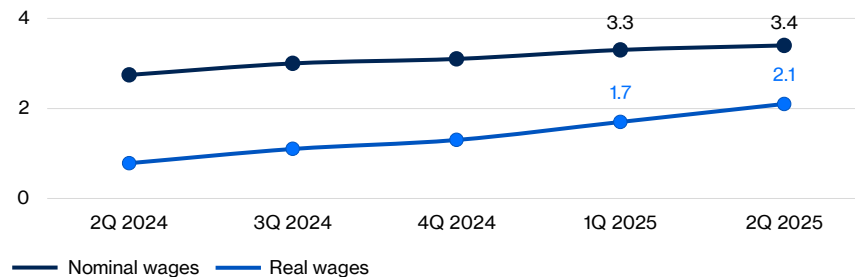
Unemployment rate, % of labour force



Source: Department of Statistics, Malaysia

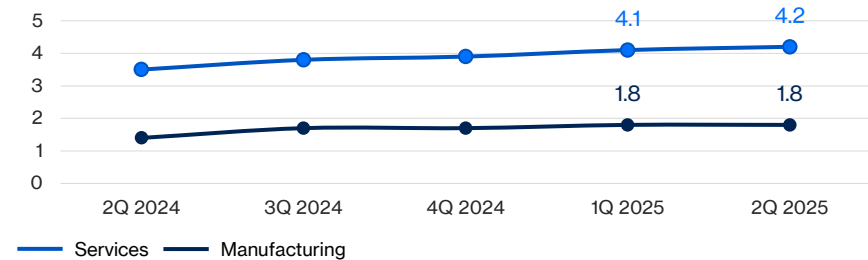
Continued growth in private sector wages

Private sector nominal and real wages, Annual change, %



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

Sectoral nominal wages, Annual change, %



Source: Department of Statistics, Malaysia

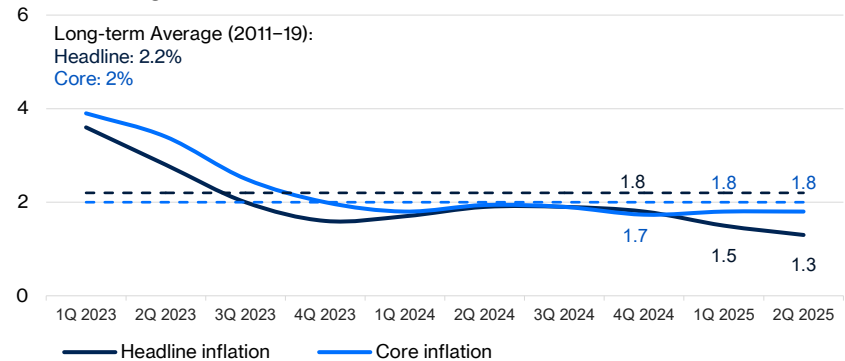
Developments in the Malaysian Economy

Inflation Trend

Headline and core inflation remained moderate during the quarter

- Headline inflation continued to moderate to 1.3%, while core inflation remained stable at 1.8%.
- Lower prices were observed during the quarter for fuel (RON97 and diesel) and food-related items. However, this was partly offset by a slower price decline for mobile communication services.

Headline and core inflation, Annual change, %



Selected Consumer Price Index (CPI) Items

Non-Core Items		Core Items	
Fuel (RON97 & Diesel) (Weight: 5.7% ¹)	Fresh Food (Weight: 7.2% ²)	Food Away from Home (Weight: 13.4%)	Mobile Comms Services (Weight: 2.7%)
▼ -0.6%	▼ -0.8%	▼ 4.4%	▲ -12.1%
1Q 2025: 0.3%	1Q 2025: 0.2%	1Q 2025: 4.7%	1Q 2025: -13.5%

¹ Petrol CPI weight includes both RON95 and RON97.

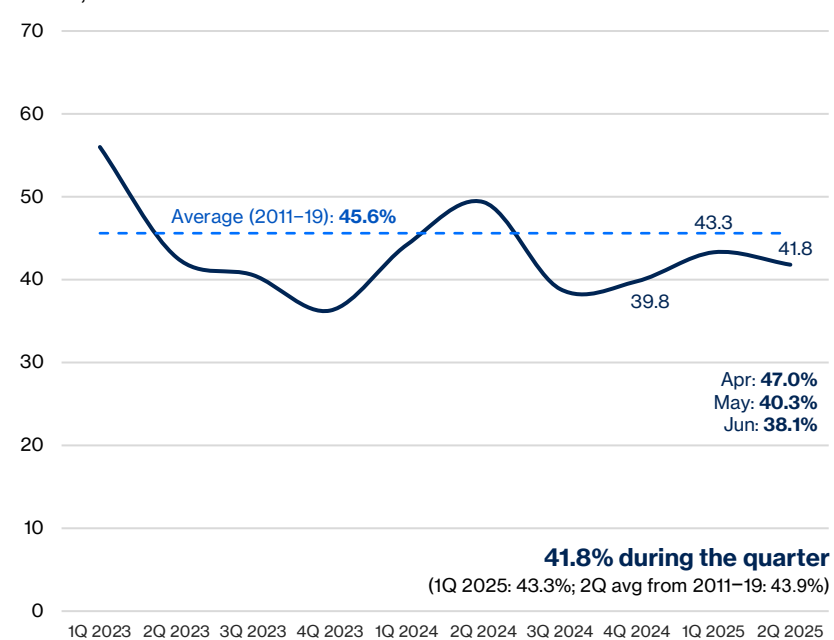
² Price-volatile items are mainly vegetables and eggs.

Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Inflation pervasiveness declined in the second quarter

- A smaller share of CPI items recorded price increases in the second quarter, though this remained broadly in line with the historical average.
- The lower pervasiveness was mainly driven by easing cost conditions, particularly softer global commodity prices.

CPI items recording month-on-month price increase, Share, %



Note: The data for 2025 onwards reflects the additional new items in the CPI basket, based on the HIES 2022.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Developments in the Malaysian Economy

External Sector Development

Continued growth in exports and imports



Gross Exports **3.4%**
1Q 2025: 4.3%

Continued E&E exports weighed by weak mining and non-E&E exports



Gross Imports **9%**
1Q 2025: 2.8%

Robust capital imports partly offset by lower intermediate imports

Source: Department of Statistics, Malaysia

Lower current account surplus and financial account outflows



Current Account
RM0.3 billion; 0.1% of GDP
(1Q 2025: RM16.7 bil; 3.4%)

Key driving factors

- Lower goods surplus amid weaker mining-related exports and higher capital imports.
- Wider secondary income deficit.

Which offset

- Narrower primary income deficit driven by liquidation of overseas assets by resident MNCs.
- Narrower services deficit driven by improving travel balance.



Financial Account
Net outflows RM2.2 billion
(1Q 2025: Net outflows RM20.3 bil)

Key driving factors

- Net inflows in portfolio investment attributed to higher non-resident acquisition of domestic debt securities.
- Net inflows in direct investment as both foreign direct investment (FDI) and direct investment abroad (DIA) recorded inflows.

Which partially offset

- Net outflows in other investments due to deposit placement abroad by resident investors.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Higher external debt

RM1.4 trillion or 71.4% of GDP
(1Q 2025: RM1.38 trillion or 70.5% of GDP)

- Higher non-resident holdings of Government domestic debt securities.
- Net issuance of bonds and notes abroad mainly by public corporations.

External debt remained manageable
% of total external debt

Currency

Ringgit-denominated: 32.2%
Unaffected by ringgit exchange rate fluctuations.
FCY-denominated: 67.8%
of which 59.9% is subject to BNM's prudential & regulatory requirements and 18.7% are due to intercompany loans.

Maturity

Medium- and long-term: 57.5%
Limited rollover risks.

Net International Investment Position **RM63.1 billion**
(1Q 2025: RM37.8 billion)

International Reserves¹ **USD121.3 billion**
(1Q 2025: USD117.5 billion)

- **4.7 months²** of imports of goods and services
- **0.9 times** short term external debt

¹ As at 31 July 2025

² Coverage may differ from the press statement on international reserves published on 7 August 2025, as it reflects the latest 2Q 2025 data on imports of goods and services and short-term external debt.

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

Monetary and Financial Developments

Financial Markets and Exchange Rate

The ringgit appreciated against currencies of major trading partners

Ringgit's appreciation was driven by broad US dollar weakness and sustained global investors' interest in domestic assets, underpinned by resilient domestic economic prospects.

Performance of the ringgit against selected major and regional currencies % year-to-date and quarter-on-quarter



Note: *YTD as of 13 Aug 2025.
NEER refers to the ringgit nominal effective exchange rate, measuring the ringgit's performance against a basket of currencies of Malaysia's major trading partners.
Source: Bank Negara Malaysia

Domestic financial markets supported by favourable domestic economic conditions in the face of global uncertainties



Bond yields decreased
supported by non-resident inflows into the domestic bond market

MGS 10Y Yield
-30 bps
(1Q 2025: -5 bps)



Equity market rose
in line with global equities, following improved sentiment from the temporary 90-day tariff pause

KLCI
1.3% QoQ
(1Q 2025: -7.8%)

Key factors driving global and domestic markets



Re-allocation of funds away from the US amid investors' concerns on US economic prospects in light of US trade and fiscal policy developments



Global investor risk aversion in response to uncertainties from trade negotiations and geopolitical tensions in the Middle East

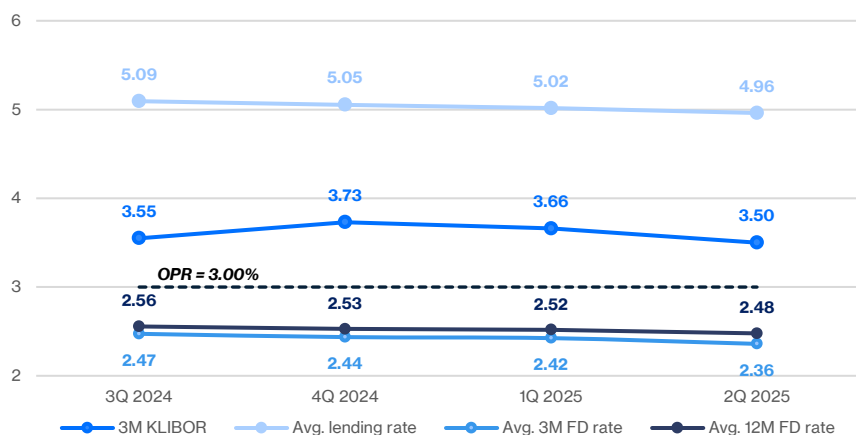
Source: Bank Negara Malaysia, ETP and Bursa Malaysia

Monetary and Financial Developments

Interest Rates and Liquidity

Interbank rates declined following market expectations of a reduction in the Overnight Policy Rate (OPR)

Interest rates,
End-period, %

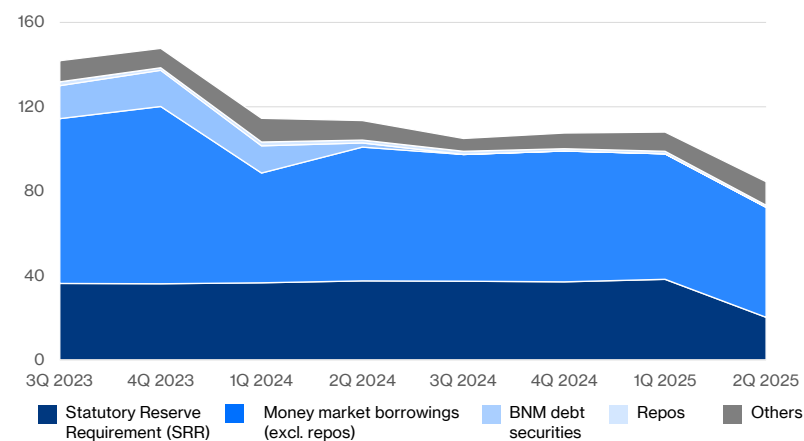


- **The 3M KLIBOR declined** to 3.50% during the quarter as banks priced in expectations of a lower OPR. Following the reduction in the OPR on 9 July 2025, interbank rates trended lower in line with the OPR.
- **Retail board fixed deposit (FD) rates declined slightly** across tenures during the quarter, reflecting shifts in banks' funding strategies amid expectations of a reduction in the OPR.
- **Average lending rate (ALR) on outstanding loans continued to decrease** during the quarter, mainly for business loans.

Source: Bank Negara Malaysia and Bloomberg

Banking system liquidity continued to facilitate financial intermediation

Outstanding ringgit liquidity placed with BNM,
End-period, RM billion



- The reduction in SRR ratio from 2% to 1% has facilitated more effective liquidity management by banks across various sources of liquidity, which led to banks reducing borrowings from BNM.
- Banking system liquidity remained sufficient to support financial intermediation. At the institutional level, most banks continued to maintain surplus overnight placement with BNM as at end-June 2025.

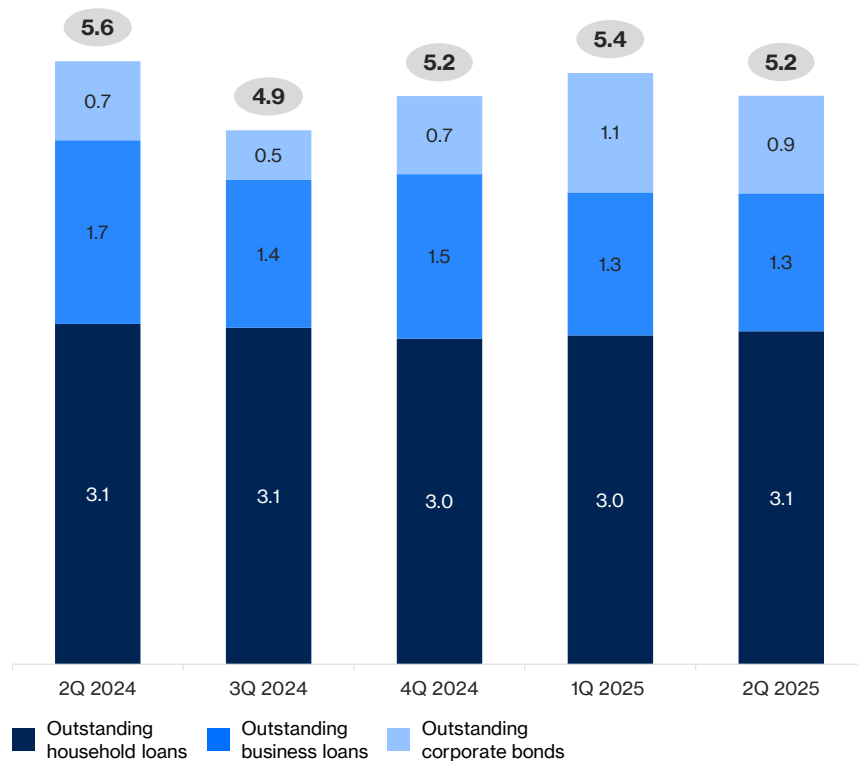
Source: Bank Negara Malaysia

Monetary and Financial Developments

Credit Conditions

Broadly sustained credit growth following steady growth in outstanding loans

Credit to the Private Non-Financial Sector,
Contribution to growth, ppt



Source: Bank Negara Malaysia

Key developments

Credit to the Private, Non-Financial Sector¹

5.2%
1Q 2025: 5.4%

- Growth in outstanding loans² was sustained at 5.5% (1Q 2025: 5.5%) amid steady growth in business and household loans.
- Outstanding corporate bonds grew at a more moderate pace of 4.3% (1Q 2025: 5.3%), following lower bond issuances in the quarter.

Business Loans

4.5%
1Q 2025: 4.6%

- Steady expansion in outstanding business loans at 4.5% reflecting broadly stable growth in loans for both working capital and investment-related³ purposes.
- Sustained demand for financing, especially for investment-related loans, with higher loan applications across SMEs and non-SMEs.

Household Loans

6%
1Q 2025: 6%

- Household loan growth was steady at 6% with sustained loan growth across most purposes.
- Household loan applications also recorded an increase, driven mainly by applications for housing loans.

¹ All numbers quoted are in terms of annual change.

² Refers to loans from banking system and development financial institutions (DFIs).

³ Comprises loans for the purchase of non-residential properties, residential properties for business use, fixed assets as well as for construction activities.

Source: Bank Negara Malaysia

Policy Considerations

Highlights of the July 2025 MPC Meeting

- At the July 2025 meeting, the Monetary Policy Committee (MPC) reduced the OPR by 25 basis points to 2.75% given prevailing risks to domestic growth prospects, amid an environment of price stability.
- The MPC remains vigilant to ongoing developments and will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation.

The OPR reduction is a pre-emptive measure to preserve Malaysia's steady growth path amid moderate inflation prospects

After keeping the OPR unchanged at 3% in its May 2025 meeting, the MPC decided to reduce the OPR by 25 basis points to 2.75% at the recent July 2025 MPC meeting. The adjustment to the OPR is a pre-emptive measure to preserve Malaysia's steady growth path amid external uncertainties, in an environment of domestic price stability.

At the July meeting, the latest indicators pointed towards continued expansion in global growth, supported by sustained consumer spending and to some extent, front-loading activities. The MPC assessed that the global growth outlook would remain supported by positive labour market

conditions, less restrictive monetary policy and fiscal stimulus. This outlook is weighed down by uncertainties surrounding tariff developments, as well as geopolitical tensions. Such uncertainties could also lead to greater volatility in the global financial markets and commodity prices.

For Malaysia, the latest developments as of the July MPC meeting pointed towards continued growth in economic activity in the second quarter, underpinned by sustained domestic demand and export growth. Moving forward, the MPC assessed that growth is expected to be supported by resilient domestic demand. Employment and wage growth, particularly within domestic-oriented sectors, as well as income-related policy measures, will support household spending. The expansion in investment activity will be sustained by the progress of multi-year projects in both the private and public sectors, the continued high realisation of approved investments, as well as the ongoing implementation of catalytic initiatives under the national master plans. Favourable trade negotiation outcomes, pro-growth policies in major economies, continued demand for electrical and electronic goods, and robust tourism activity could raise Malaysia's export prospects. However, the MPC assessed that the balance of risks to the growth outlook remains tilted to the downside, stemming mainly from a slower global trade, weaker sentiment, as well as lower-than-expected commodity production.

Policy Considerations

Headline and core inflation averaged 1.4% and 1.9% in the first five months of the year respectively. Overall, inflation in 2025 is expected to remain moderate, amid contained global cost conditions and the absence of excessive domestic demand pressures. Inflationary pressure from global commodity prices is expected to remain limited, contributing to moderate domestic cost conditions. In this environment, the overall impact of the announced and upcoming domestic policy reforms on inflation is expected to be contained.

The ringgit performance will continue to be primarily driven by external factors. Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to provide enduring support to the ringgit.

While the MPC assessed that the domestic economy is on a strong footing, uncertainties surrounding external developments could affect Malaysia's growth prospects. The reduction in the OPR is, therefore, a pre-emptive measure aimed at preserving Malaysia's steady growth path amid moderate inflation prospects. The MPC will continue to remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.

Global Economic Outlook

Modest global growth outlook, following US tariff measures and retaliations

Global economy:

- Fundamentally, global growth would remain supported by positive labour market conditions and less restrictive monetary policy.
- The conclusion of trade negotiations would help reduce the degree of uncertainty on US tariffs. However, there remains uncertainty on some forms of tariffs, especially product-specific ones.
- Tariffs are expected to weigh more on global growth in the second half of the year, as firms pass on higher costs. This would be partly offset by fiscal stimulus undertaken in several major economies.

Global trade:

- Global trade growth is also expected to moderate in the second half of the year, as the current pause in tariff hikes lapses and the frontloading effect dissipates.
- Nevertheless, the continued demand for E&E is expected to remain supportive of overall global trade, alongside other structural drivers such as higher technology adoption, investments in low-carbon transition, and sustained intra-regional trade.

Risks to growth outlook stems mainly from prospect of higher tariffs and escalation in geopolitical conflict

- **Downside risks** stem from higher tariffs and further escalations in geopolitical conflicts. Such uncertainties could also lead to greater volatility in the global financial markets.
- **Upside risks** include favourable outcomes from remaining trade negotiations, and pro-growth policies in major economies.

Domestic Economic Outlook

Malaysia's economy is expected to be supported by resilient domestic demand going forward.

- Growth is expected to be driven by resilient domestic demand. Continued household spending will be supported by employment and wage growth as well as income-related policy measures.
- Investment activity will be sustained by the progress of infrastructure projects, continued high realisation of approved private investments and implementation of national master plans.
- Export growth is expected to moderate, as tariffs take effect and global uncertainty lingers. However, the impact to Malaysia's export prospects would be partially cushioned by continued demand for electrical and electronic goods and inbound tourism.
- As a result, growth is projected to range between 4%–4.8%¹ in 2025, lower than the earlier projected range of 4.5%–5.5%.

¹ See White Box titled Revised Growth Forecast: Resilience amid Global Headwinds on page 19
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Growth remains subject to both downside and upside risks

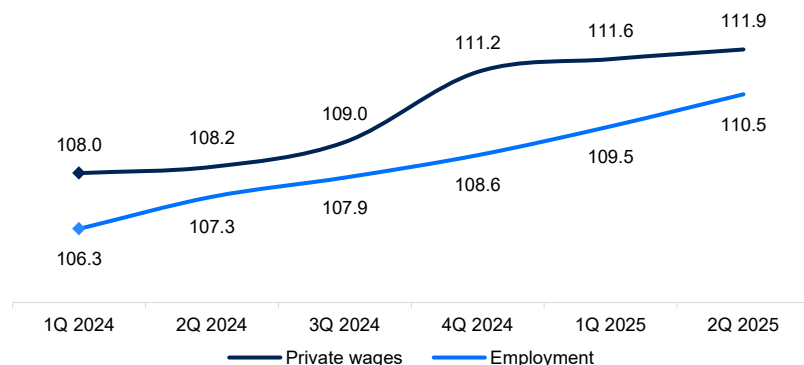
- **Downside risks to growth** stem from further slowdown in trade from higher tariffs and weaker sentiment following the uncertainties affecting spending and investments. Other downside risks include lower-than-expected commodity production due to disruptions in the oil and gas subsector.
- **Upside risks to growth** include pro-growth policies in major economies, favourable outcome from remaining trade negotiations and more robust tourism activities.

Macroeconomic Outlook

Domestic Demand Conditions

Household spending underpinned by positive labour market conditions and higher policy support

Private sector wages and employment
Index, 4Q 2019=100

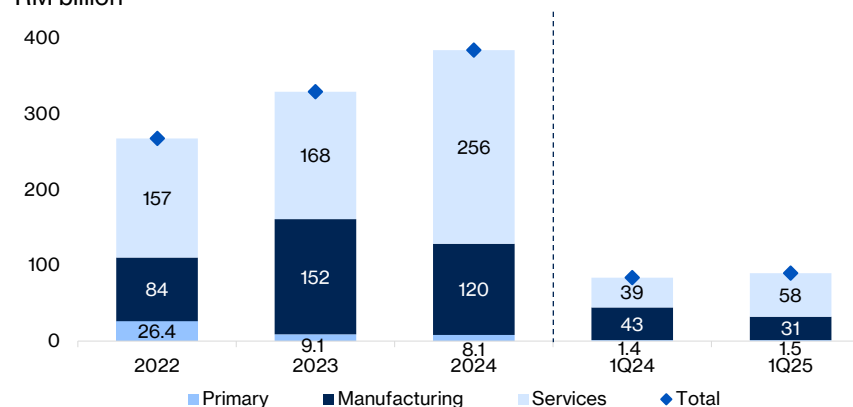


- While external developments might affect the incomes of households working in the export-oriented sectors, **private consumption is expected to continue expanding**.
- This is supported by steady recovery in wages, in line with the implementation of salary increment for civil servants, higher minimum wage from RM1,500 to RM1,700 and support from income growth in the domestic-oriented sectors.
- Additionally, targeted cash transfers, such as Sumbangan Tunai Rahmah, will remain available to support lower income households.

Source: Department of Statistics, Malaysia

Further progress of multi-year projects to support investment growth

MIDA total investment approvals by sectors
RM billion



- **Investment outlook** to remain sustained, supported by the forthcoming investment intentions and ongoing implementation of multi-year projects in both the private and public sectors.
- Forthcoming investment activity by both domestic and foreign participants is reflected by the strength in 1Q 2025 investment intentions, particularly in the services sector (64.4% of total investment approvals).
- Further realisation of manufacturing projects approved in 2023 (June-25: 89.9%) at various stages of implementation and 2024 (June-25: 75.1%) is also expected to support the continued growth in investment activity despite rising global uncertainties.

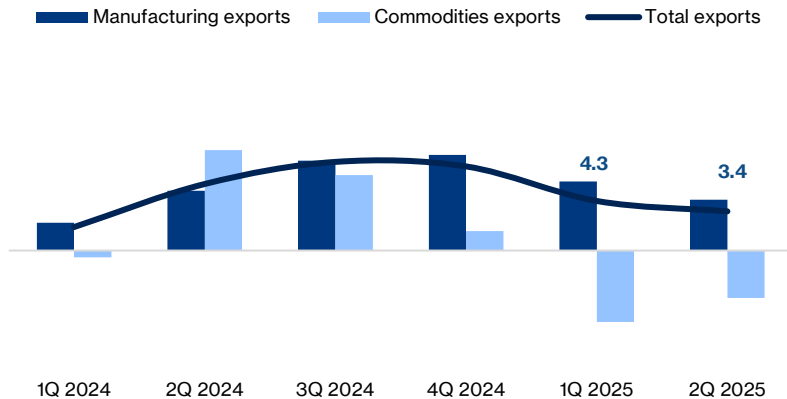
Source: MIDA

Macroeconomic Outlook

External Demand Conditions

Export growth to moderate, but E&E sector will provide some support

Gross exports growth
Annual change, %

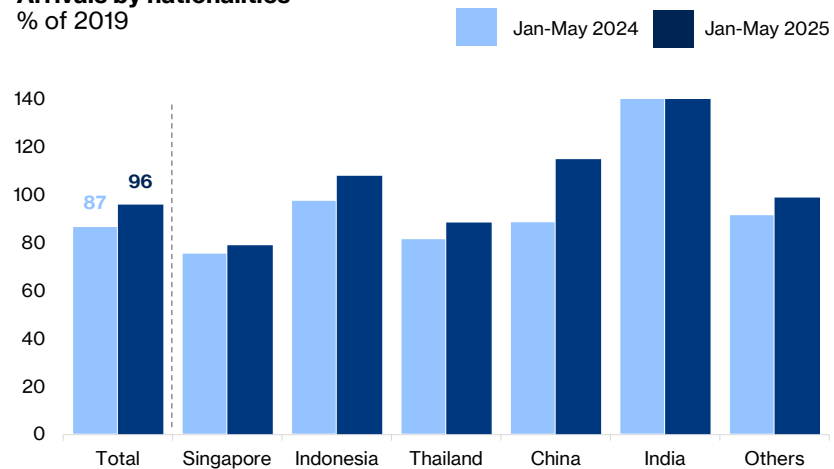


- **Exports growth outlook has moderated** due to higher tariffs and the tapering of frontloading activities.
- Mining-related exports are anticipated to continue to be impacted by maintenance activities and lower prices.
- E&E exports are expected to support export growth, underpinned mainly by continued AI-related demand. Furthermore, Malaysia's integral role in the E&E global value chain supports this outlook.

Source: Department of Statistics Malaysia

Continued expansion in tourism is expected to support exports

Arrivals by nationalities
% of 2019



- **Inbound tourism to sustain support for exports in 2025**, driven by higher flight connectivity, visa exemptions as well as promotional activities leading to Visit Malaysia Year 2026.
- Tourist arrivals from China is expected to remain strong given visa liberalisation, recent MOUs on Malaysia–China tourism cooperation and the introduction of new direct flight routes.
- However, downside risks remain given potentially weaker income and demand from tourists due to the ongoing trade tensions.

Source: Tourism Malaysia

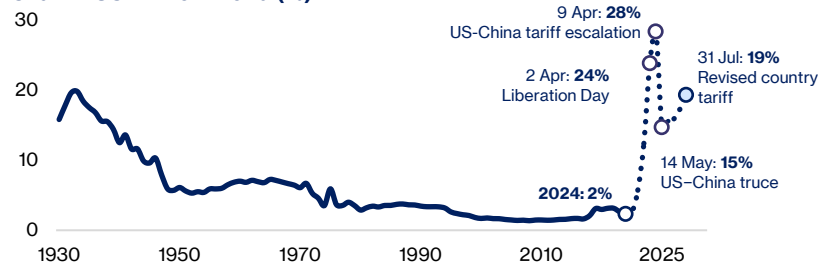
Revised Growth Forecast: Resilience amid Global Headwinds

Introduction

Since BNM's announcement of Malaysia's 2025 GDP forecast in the Economic and Monetary Review 2024, global trade landscape has changed significantly. The US administration imposed higher tariff rates on most countries, and on selected products. Global policy uncertainty was exacerbated by the speed and frequency of policy reversals, as well as retaliatory actions by some countries. Consequently, the US effective tariff rate (ETR) on global trading partners jumped to 19%, as of 31 July 2025 from 2% in 2024, the highest since 1938 (Chart 1). These developments will impact global growth, including Malaysia as a small open economy.

As such, Malaysia's 2025 growth forecast is revised down to 4%–4.8%, as announced on 28 July 2025, from 4.5%–5.5% in BNM's Economic and Monetary Review 2024. This article outlines the key assumptions underpinning the revised forecast and discusses the impact of the higher tariffs on the Malaysian economy.

Chart 1: US ETR on World (%)



Source: US Bureau of Economic Analysis, Global Trade Atlas and staff estimates

More severe and elevated tariffs will weigh on global growth

BNM updated its global growth assumptions to reflect the higher tariff rate environment compared to that in BNM's Economic and Monetary Review 2024. The revised assumptions capture a range of tariff outcomes (Table 1). Since the release of the revised growth forecast on 28 July 2025, more trade negotiations have been concluded, including Malaysia's tariff reduction to 19% from 25%. These developments fall within BNM's range of assumptions.

Table 1: Key tariff assumptions for revised growth forecast (July 2025)

Assumption	Low tariff outcome	High tariff outcome
US ETR¹ on the World	13%	29%
Country tariff²	<ol style="list-style-type: none"> China: 30%³ Other countries: Tariff rates at the 'pause' rate of 10% 	<ol style="list-style-type: none"> China: 50%⁴ Other countries: Tariff rates at their 2 Apr rates (e.g. TW: 32%) or trade deals (e.g. MY: 25%; VN: 20%)
Product tariff²	<ol style="list-style-type: none"> 50% on steel, aluminium and copper 25% on auto 0% on currently exempted items 	<ol style="list-style-type: none"> 50% on steel, aluminium and copper 25% on auto 25% on currently exempted items

¹ Calculates revenue from US customs duties as a percentage of its imports.

² Additional tariff from 2024 levels.

³ Assumes tariff announced during the US-China 90-day truce is permanent.

⁴ Time-weighted rate assuming tariff rate reverts to 54% once the US-China 90-day truce lapses on 12 Aug.

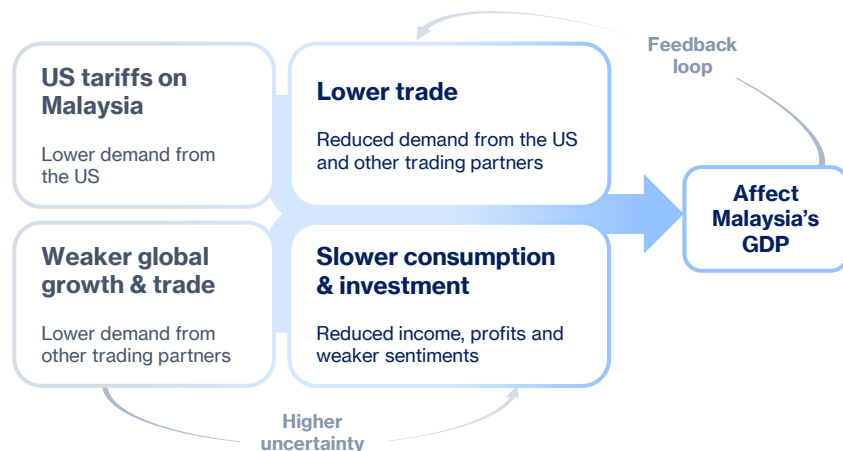
Revised Growth Forecast: Resilience amid Global Headwinds

Trade tension impacts Malaysia mainly via the trade channel

Higher tariff rates impact Malaysia directly through lower demand from the US for Malaysian exports, and indirectly from lower global growth and trade, especially in major economies and trading partners.

As a result, trade activity is likely to moderate, with some adverse effects to firms and household income, especially in export-oriented sectors. Weaker consumer and business sentiment could also weigh on domestic consumption and investment, creating a feedback loop that could weigh down domestic demand (Diagram 1).

Diagram 1: Transmission channels of tariffs on Malaysia's GDP

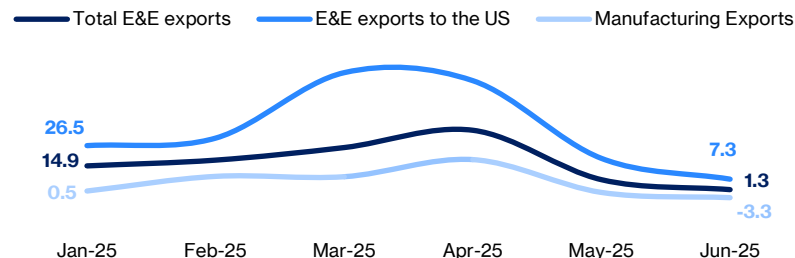


E&E goods demand, tourism activity and diversified export structure to partly mitigate impact on exports

Latest exports data have started to show signs of moderation (Chart 2). However, continued demand for E&E products has partly contained the moderation. Feedback from E&E firms indicates signs of steady order flows heading into 3Q 2025 driven by ongoing interest in AI and data centre-related demand. Malaysia's diversified export market would also provide some buffers against external demand volatility.

Chart 2: Malaysia's manufacturing exports

Annual change, %



Source: Department of Statistics, Malaysia

Tourism activity has also remained supportive to trade as strong tourist arrivals from ASEAN and East Asian markets help sustain exports in services. Tourist arrivals for Jan–May 2025 saw an 11% increase compared to the same period in 2024, reinforcing the sector's positive momentum.

Revised Growth Forecast: Resilience amid Global Headwinds

Domestic demand remains a key contributor to Malaysia’s economic outlook

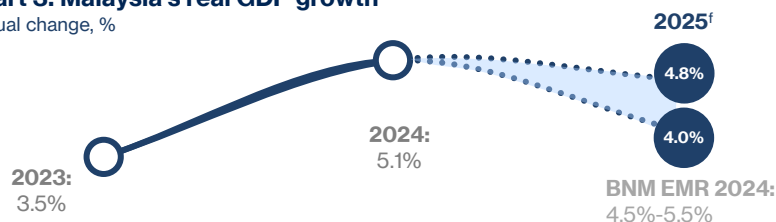
Resilient domestic demand will partially cushion the negative impact on Malaysia’s growth. Positive labour market conditions, particularly in domestic-oriented sectors, will underpin domestic consumption. Meanwhile, investment activity will be sustained by the progress of infrastructure projects, continued high realisation of approved private investments and implementation of national master plans.

The Malaysian economy is projected to grow between 4%–4.8% in 2025

Incorporating the latest economic data releases and more severe tariff assumptions as outlined in Table 1, Malaysia’s growth forecast is revised to 4%–4.8%, below the 4.5%–5.5% announced in BNM’s Economic and Monetary Review 2024.(Chart 3). This forecast still holds after the 31 July tariff announcements as the outcomes fall within BNM’s range of assumptions (e.g. 19% on Malaysia).

Chart 3: Malaysia’s real GDP growth

Annual change, %



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Risks remain dependent on evolving global and domestic developments

With the finalisation of most trade negotiations, downside risks from global policy uncertainties have lessened. Nevertheless, further slowdown in trade from higher tariffs, weaker sentiments following the global uncertainty, as well as lower-than-expected commodity production could result in growth being closer to the lower end of the range.

Conversely, favourable outcomes from remaining trade negotiations, pro-growth policies in major economies, and more robust tourism activity could support growth towards the upper end of the range.

Strategic policy responses are integral toward securing a resilient future for Malaysia

In an increasingly uncertain global environment, Malaysia’s policy response must focus on building resilience from within, while strengthening ties beyond its borders. Deepening regional cooperation can help cushion external shocks, while greater economic diversification, particularly into high-value and sustainable sectors will reduce reliance on traditional growth drivers. Importantly, it is imperative for Malaysia to stay the course on the ongoing economic and fiscal reform agenda to build competitiveness, rebuild buffers and unlock long term growth.

Inflation Outlook

Inflation in 2H 2025 is expected to remain moderate

- Both headline and core inflation are expected to remain moderate for the remainder of the year. Headline inflation is expected to average 1.5%–2.3% in 2025 due to contained global cost conditions and the absence of excessive demand pressures.
- The downward revision to the headline inflation forecast range¹ is largely attributed to the low realised inflation in the first half of the year and the more moderate demand and cost outlook since the BNM's Economic & Monetary Review 2024 publication. The revision also incorporates greater clarity on the implementation of domestic policy reforms, particularly reflecting continued efforts by the Government to limit the impact of these reforms to the majority of Malaysians.
- Moving into the second half of the year, potential upside risk from domestic policy measures, such as the recent SST expansion, would be partly offset by the reduction in RON95 price for local users and the electricity tariff restructuring.
- While external developments have led to periods of volatility in global supply conditions, inflationary pressure from global commodity prices is expected to remain limited, contributing to moderate domestic cost conditions.

¹ During the BNM's Economic & Monetary Review 2024 published in March 2025, headline inflation was earlier forecasted to average between 2.0% and 3.5% for the year.

Inflation outlook will remain dependent on risks from the external environment and domestic policy factors

- **The external environment** remains a key source of uncertainty. Risks to the baseline inflation outlook hinge on the trajectory of global developments.
 - **Upside risks** could emerge from higher external costs due to trade uncertainties and geopolitical tensions.
 - **Downside risks** may stem from weaker global growth and trade activity, contributing to lower commodity prices. Moreover, the potential drag to domestic demand conditions could also weaken demand impetus to inflation.
- **Domestically**, the inflation outlook remains subject to the overall impact of policy reforms. This in turn depends on the timing, design and presence of mitigating measures. Interactions with prevailing demand and supply developments may also influence the extent of spillovers to domestic prices. Overall, the impact of announced and upcoming domestic policies on inflation is expected to be contained.

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Executive Summary

- As global trade faces increasing uncertainty, digital services trade will play a crucial role in supporting Malaysia's external resilience.
- Despite a strong digital foundation, Malaysia's digital services trade continues to record a deficit. Without targeted policy action, this trend is expected to persist or even worsen.
- Unlocking Malaysia's true potential in the digital economy requires targeted policies to enhance both hard and soft infrastructure.

From Non-Tradable to Tradable: The Emergence of Digital Services Trade

Global trade is no longer just about physical goods. Services that once required face-to-face delivery are now traded seamlessly across borders through digital platforms. While not new, this shift is accelerating rapidly, driven by technologies such as cloud computing, software-as-a-services (SaaS) and artificial intelligence (AI). For Malaysia, this is a pivotal moment. As traditional goods trade faces headwinds from rising protectionism and supply chain disruptions, digital services trade offers a new source of growth and global competitiveness. This article explores the rise of digital services trade globally and in Malaysia, its role in economic progress, and the opportunities and challenges in the sector. It ends with policy recommendations to unlock the country's potential in this domain.

The Global and Domestic Landscape of Digital Services Trade

Digital services trade is a fast-growing segment of global trade. While a consistent measurement across countries remains a challenge, statistical guidance by international organisations have collectively defined digital trade as 'all international trade that is digitally ordered and/or digitally delivered'.¹ This would be the definition of digital services trade used in this article. Under the Sixth Edition of Balance of Payments and International Investment Position Manual (BPM6)², these services span five major categories: information and communications technology (ICT), business and professional services, charges for the use of intellectual property (IP), finance and insurance as well as personal, cultural and recreational services.

Globally, digital services have grown at nearly double the pace of goods trade since 2005 (Chart 1). By 2024, they accounted for over 53% of global services exports, an increase from 41% in 2011. While digital services export is led by advanced economies³, several countries in the Southeast Asia region have made notable progress (Chart 2). Singapore leads the region as ASEAN's largest exporter of digital services, followed by Philippines and Thailand.

¹ For more details, see *Handbook on Measuring Digital Trade, second edition (2023)*, World Trade Organisation (WTO), Organisation for Economic Co-operation and Development (OECD), International Monetary Fund (IMF) and the United Nations.

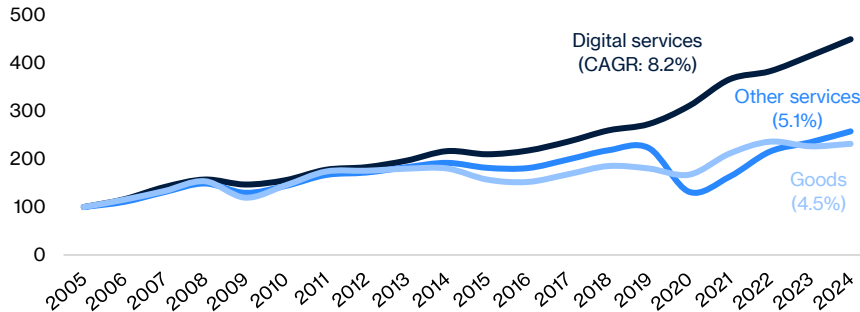
² Source: IMF

³ The top three exporters of digital services are United States, United Kingdom and Ireland.

Box Article

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Chart 1: World exports of goods, digital services and other services
Index (2005=100)

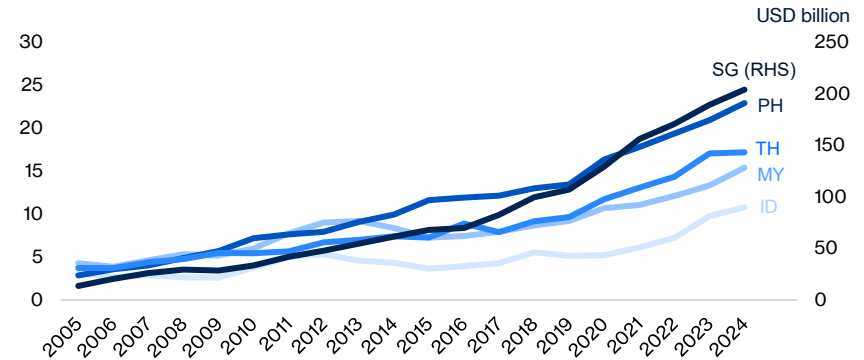


Note: CAGR refers to compound annual growth rate from 2005 to 2024. Other services include manufacturing services, maintenance and repair, transport, travel and construction.
Source: World Trade Organisation

From 2005 to 2024, Malaysia recorded more than threefold increase in digital services exports, driven mainly by business services and ICT. However, this growth has been accompanied by sharper increase in imports, particularly in IP charges, business services and ICT solutions.⁴ Malaysia's persistent and widening trade deficit in digital services (Chart 3) reflects an increasing reliance on foreign digital services, particularly from dominant technology firms. As domestic firms and consumers continue to digitalise their businesses and lifestyles, Malaysia's demand and payments for cloud computing services, online advertising, and licensing fees for digital content such as music and video have also increased. The lack of competitive homegrown alternatives has also contributed to this trend.

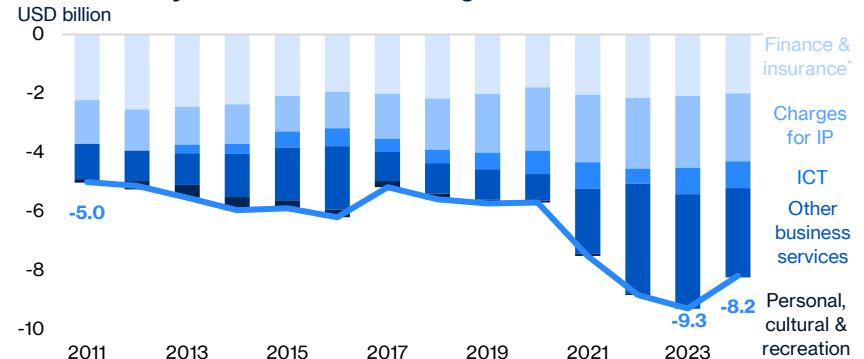
⁴ For more details on Malaysia's services account balance, please refer to the box article titled 'Drivers of Malaysia's Current Account of the Balance of Payments in the Post-COVID-19 Period' in BNM's Economic and Monetary Review 2024.

Chart 2: Regional exports of digital services
USD billion



Note: SG = Singapore, PH = Philippines, TH = Thailand, MY = Malaysia, ID = Indonesia
Source: World Trade Organisation

Chart 3: Malaysia's trade balance of digital services
USD billion



* The deficit was primarily driven by imports of freight insurance, which was in line with strong imports of freight transportation amidst robust goods trade activity.

Note: Other business services include research and development (R&D), professional and management consulting services as well as technical (e.g. architectural, engineering) and trade-related services.

Source: World Trade Organisation

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

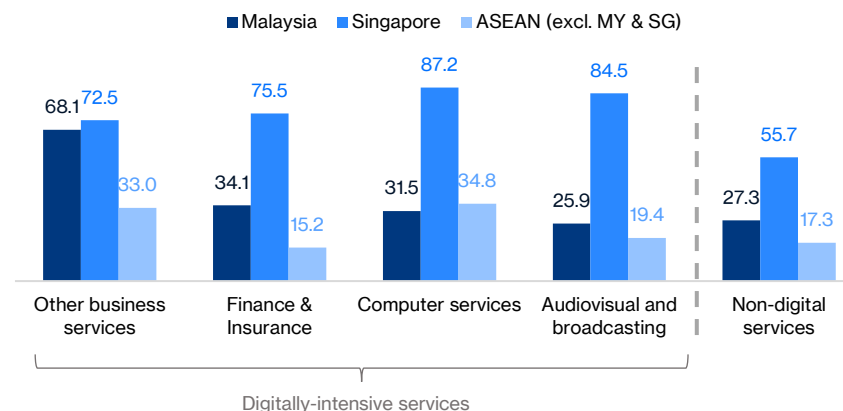
This imbalance reflects deeper structural challenges within the economy. The growing reliance on foreign-developed digital solutions underscores significant gap in domestic capabilities. While digital adoption is rising, export-oriented capacity remains limited. Strengthening this sector is critical not only to narrow the deficit, but also to support a shift toward higher-value economic activity. The economic case for digital services trade is discussed in the next section.

Turning Bandwidth into GDP: The Economic Case for Digital Services Trade

Digital services are critical enabler of economic transformation. For Malaysia, building strong capabilities in digital services trade can unlock significant domestic value, enhance sectoral linkages, and boost productivity gains and income growth.

First, compared to traditional services, digitally-intensive industries tend to grow faster and generate higher domestic value-added. As they can be remotely delivered via digital platforms, these services are scalable and depend more on intellectual capital rather than physical inputs. Once developed, they can be deployed to global markets at relatively low marginal cost. Digital services generate higher domestic value-added, meaning each export contributes more to the local economy. Findings from Trade in Value Added (TiVA) analysis shows that most digital services outperform traditional services in the share of domestic content embodied in foreign demand (Chart 4).

Chart 4: Domestic value added in foreign final demand by sectors
% share of total value added of sub-sectors



Note: For every RM1 of other business services exported by Malaysia, RM0.68 of input is sourced domestically.
Source: OECD Trade in Value Added (TiVA)

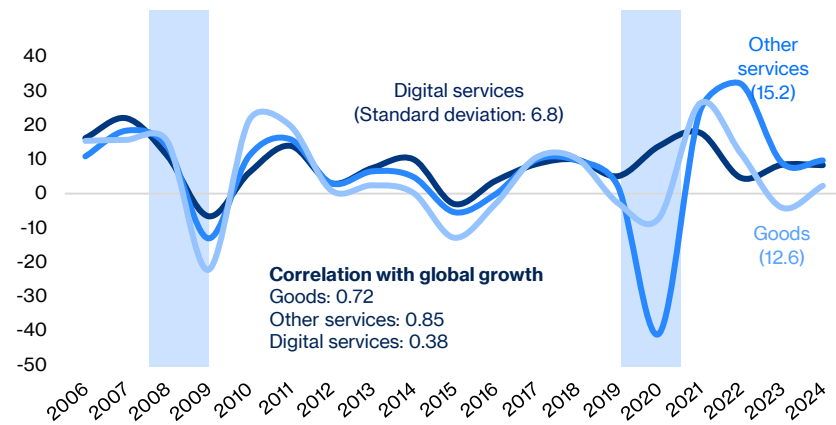
Second, expanding digital services trade can reduce cyclicity in external trade. Vis-a-vis goods or merchandise trade, digital services demonstrated relatively lower volatility and correlation with global growth (Chart 5), as they are less exposed to logistical disruptions and less sensitive to interest rate cycles.⁵ Digital services trade is also more resilient to economic downturns than goods trade. During the COVID-19 pandemic and past crises, digital services exports have continued to rise steadily or experienced shallower contractions (Chart 5).

⁵ This is because digital services tend to grow through accumulation of intangible capital which is driven more by equity financing than bank lending (European Central Bank, 2021).

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Chart 5: Growth of world exports of goods and services

Annual change, %

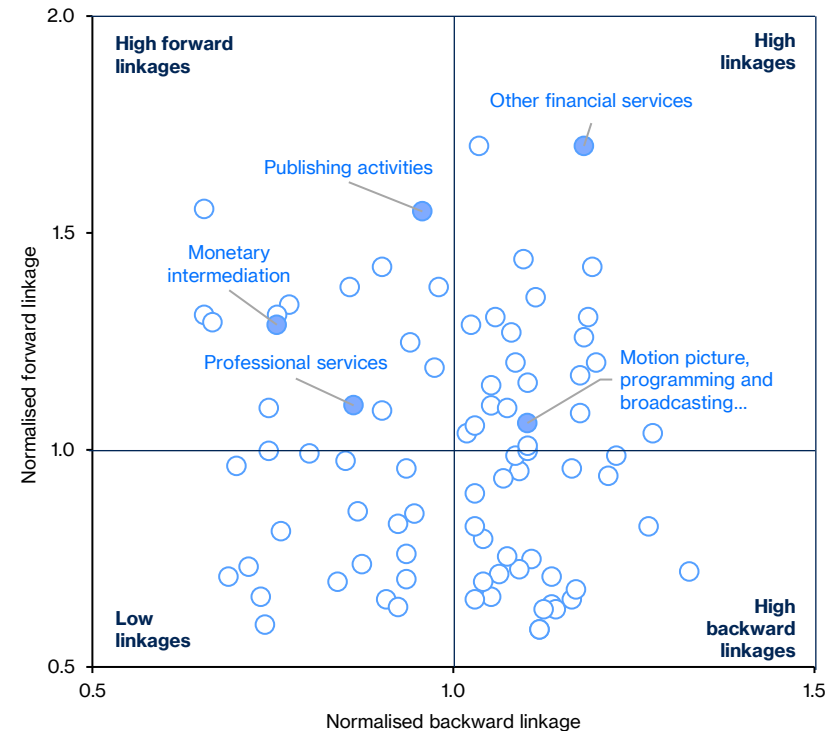


Note: Other services include manufacturing services, maintenance and repair, transport, travel and construction.
 Source: World Trade Organisation, International Monetary Fund and Bank Negara Malaysia estimates

Third, digital services contribute to wider economic spillover through strong forward and backward linkages.⁶ They provide essential inputs for other sectors and create demand for upstream industries, resulting in high multiplier effects. Input-output analysis of Malaysia’s economy reveals that many digitally-intensive industries exhibit strong linkages in the economy, such as motion picture, programming and broadcasting activities as well as other financial services (Chart 6).

⁶ Forward linkage is a relative measure of how much output from digital services sector is used as input for other industries. Backward linkage reflects potential increase in output induced in upstream industries in response to a unit increase in the digital services output.

Chart 6: Forward and backward linkages by industries

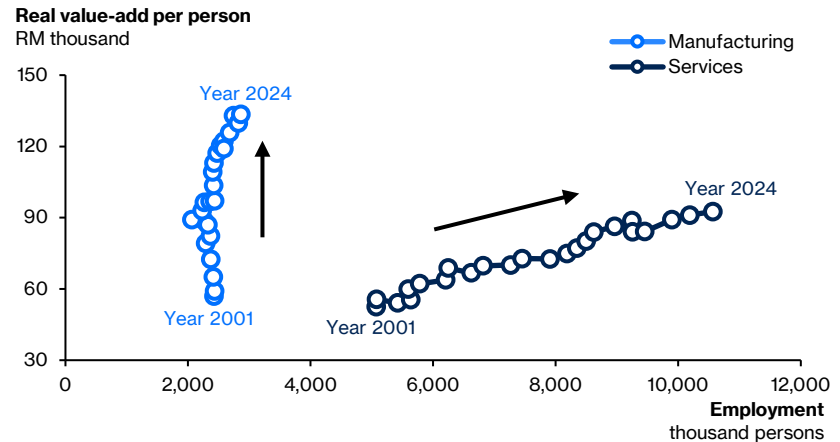


Note: An industry is forward- or backward-oriented if its linkages exceed one, showing above-average linkages compared to other industries.
 Source: Input-Output Tables 2021, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Lastly, strengthening of digital services trade could help address one of the most enduring structural challenges in Malaysia: weak productivity growth. Despite the services sector accounting for over 60% of employment, many services jobs remained concentrated in low-productivity segments which weighed on overall productivity and income growth (Chart 7 and 8). This reflects Baumol's Cost Disease, where labour-intensive sectors such as services often show slower productivity growth. This is because services sector often depends heavily on human interaction, limiting the scope to adopt productivity-enhancing technologies as compared to the manufacturing sector. The low productivity in the services sector subsequently weighs on the overall productivity in the economy. In this respect, digital services could improve productivity and income growth, as their digital- and knowledge-intensive nature allows firms to scale and engage in cross-border trade. Such dynamic is reflected by the higher income levels and growth created in ICT industries subsector, which is supported by their productivity levels (Chart 8a and 8b).

Chart 7: Real value-add per person, employment



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

Chart 8a: Median monthly salaries & wages

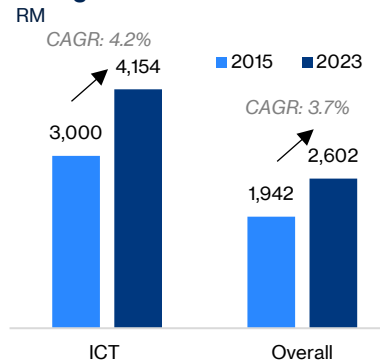
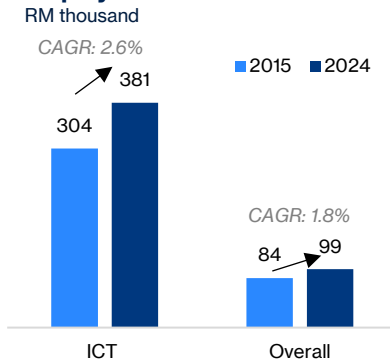


Chart 8b: Annual value-added per employment



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

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Unveiling Strengths and Identifying Gaps

Malaysia has a solid foundation to advance its digital services industry, with strong ICT infrastructure, supportive government policies, vibrant technology industries, and a competitive talent pool (Diagram 1).

Diagram 1: Malaysia's digital services foundations and enablers

Strong ICT infrastructure	Government initiatives	Emerging tech industries	Competitive talent
<p>31 operational data centres</p> <p>>20 incoming data centres</p> <p>80.6% of firms use the Internet (Internet penetration ratio)</p>	<p>>30 digital-related national plans were launched since the last decade, including:-</p> <ol style="list-style-type: none"> 1. Malaysia Digital Economy Blueprint 2. Malaysia National Artificial Intelligence Roadmap 3. National Digital Infrastructure Plan (JENDELA) 	<p>>5000 firms granted 'Malaysia Digital' status as of 1Q 2024</p> <p>1st in the Global Islamic Fintech (GIFT) Index since the index was first launched in 2021</p>	<p>8th in the world for talents with digital skills in the Global Talent Competitiveness Index 2023</p> <p>4th in the world for Women with degrees in the IMD World Digital Competitiveness Ranking 2023</p>

Source: Malaysia Digital Economy Corporation (MDEC), World Bank, International Institute for Management Development (IMD), Dinar Standard and newsflow

Nevertheless, several challenges must be addressed to fully capitalise on this sector as a sustainable source of growth (Diagram 2).

Diagram 2: Gaps in Malaysia's digital services ecosystem

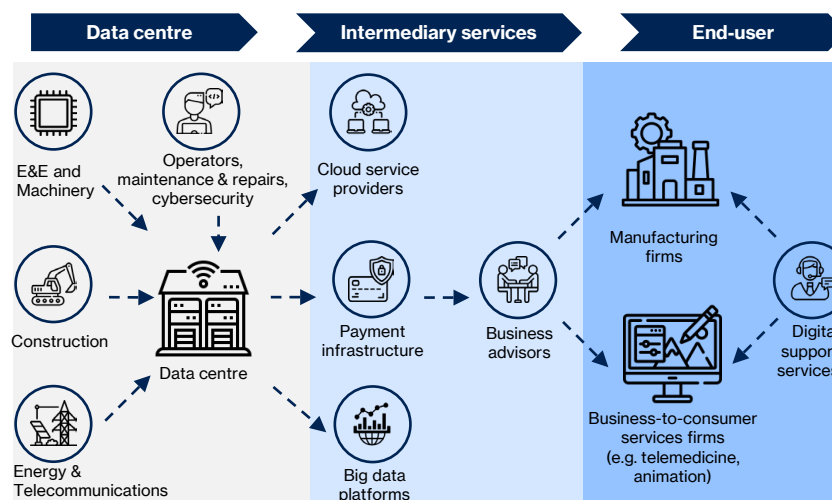
1	<p>Over-reliance on foreign R&D</p> <ul style="list-style-type: none"> • Misaligned research priority areas under R&D and IP development with industry needs • Low and declining Malaysia's R&D spending as % of GDP (~1%) <p>Ongoing initiatives: National Research, Development, Innovation, Commercialisation and Economy (RDICE) roadmap to improve R&D ecosystem</p>
2	<p>Lacklustre startup ecosystem</p> <ul style="list-style-type: none"> • Lack of private funding, especially at later stage for commercialisation • Fragmented government agencies, with limited support to reach greater market access <p>Ongoing initiatives: Malaysia Startup Ecosystem Roadmap 2021-2030, KL20 Action Plan</p>
3	<p>Limited measures to boost data centres' (DC) forward linkages</p> <ul style="list-style-type: none"> • Current initiatives focus on backward linkages, but limited measures to boost forward linkages • Once DC operationalises and spur firms' digitalisation, lack of domestic providers can lead to higher digital services imports <p>Ongoing initiatives: Data Centre Task Force</p>
4	<p>Shortage of skilled talents</p> <ul style="list-style-type: none"> • Demand outpacing supply, with higher salaries in SG drawing existing talent away • Heavy reliance on overseas expertise rather than local talent for high-skilled services (e.g. cloud) <p>Ongoing initiatives: MDEC Tech Talent Initiatives</p>

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

- **Over-reliance on foreign research and development (R&D):** Malaysia depends heavily on foreign technology and expertise. Low R&D spending domestically also limits local innovation. Malaysia’s R&D spending as a share of GDP is only around 1%, lower than regional peers such as Singapore (2.2%), Japan (3.4%) and South Korea (5.2%).⁷
- **Underdeveloped startup ecosystem:** While government initiatives have provided some support, the absence of substantial private sector involvement restricts the development of a competitive entrepreneurial ecosystem. This issue is compounded by a weak innovation ecosystem, where research output are often disconnected from market needs, leading to poor commercialisation of ideas and homegrown technologies. Finally, the local startup ecosystem lacks public and private funding (e.g. venture capital, angel investors).
- **Shortage of skilled talent:** Despite producing a considerable number of professionals with digital skills, Malaysia faces a persistent shortage of experienced talent. This gap is partly due to the country’s proximity to Singapore – where salaries are significantly higher for similar roles – draws skilled talent from Malaysia.
- **Limited measures to boost data centre forward linkages:** Having data centres alone is insufficient. Malaysia must develop strong downstream digital services to fully capture the value of digital economy. Efforts

must be placed on strengthening the connections between data centres and domestic downstream services, as well as promoting local digital service offerings – many which are tradable (Diagram 3). Without a cohesive strategy, the value of data centre investments to the broader economy would only end at stimulating upstream demand for construction and energy. Worse, once these data centres are operational, the lack of domestic providers may increase the dependence on imports of digital services.

Diagram 3: An illustration of digital services value chain of data centre



Note: Sectors listed are not exhaustive. The position in the value chain (i.e. front-end and back-end) does not reflect the extent of value added by the sector.
 Source: Adapted from MDEC, Copenhagen Economics ‘Finland’s Economic Opportunities from Data Centre Investment’, Shimona Shodipo ‘The Digital Value Chain: Risk and Unintended Consequences’, and Tech UK ‘Data Centre: Engines of Growth’.

⁷ Source: World Bank, data based on latest available year

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Mini Box: Turnaround in Singapore's Digital Services Trade

Between 2005 and 2013, Singapore experienced a growing deficit in digital services (Chart 10). However, this trend was reversed post-2013, driven by development of a robust digital ecosystem and effective implementation of targeted policy measures. Key factors behind the improvement in Singapore's digital trade balance include:

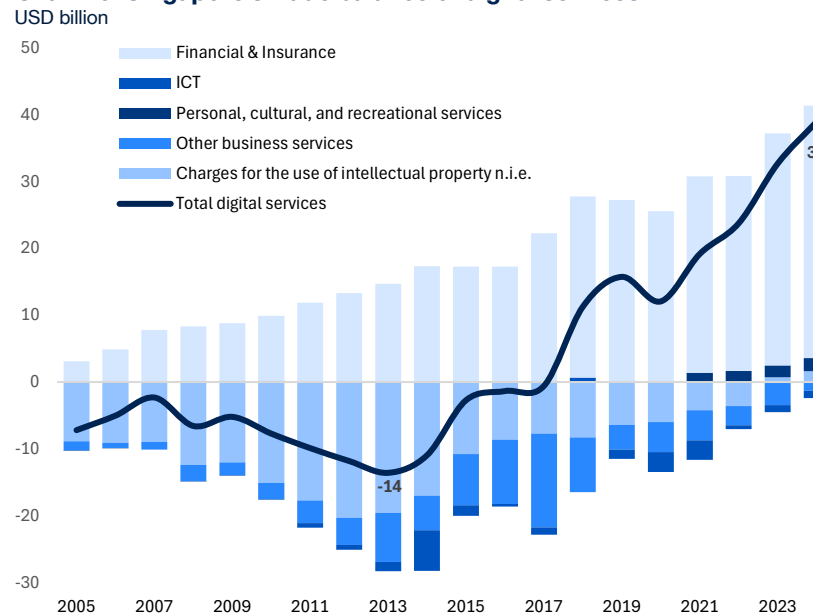
- Boosting Intellectual Property (IP) exports:** In 2013, Singapore introduced the Intellectual Property Hub Master Plan focusing on creating a robust IP ecosystem by developing a vibrant IP marketplace, increasing access to IP financing and strengthening legal frameworks. The plan played an important role in attracting patenting activity, fostering high-value innovation, and enabling commercialisation of intellectual property, which contributed to a strong growth in IP exports and reduction in IP imports, thereby effectively narrowing the deficit in charges for IP. The country's trademarks in force increased from 273,519 in 2013 to 395,899 in 2023.⁸
- Increasing surplus of financial services:** Singapore deepened its strength in financial and insurance services, especially in digital banking services and fintech adoption. The country's licensed financial institutions almost tripled from 896 in 2013 to 2,565 in 2024.⁹

⁸ Source: World Intellectual Property Organization (WIPO)

⁹ Source: Monetary Authority of Singapore

In 2018, Singapore's multi-year deficit in digital services trade turned to a surplus. This turnaround highlights the importance of a strong digital framework and targeted policies in strengthening a country's overall digital economy.

Chart 10: Singapore's trade balance of digital services



Source: World Trade Organisation

Digital Services Trade in Malaysia: Opportunities and Policy Imperatives

Charting the Future for Malaysia’s Digital Services Trade

To close the gap in digital services trade performance, policy interventions should focus on three mutually reinforcing areas: developing a skilled workforce, improving infrastructure, and enhancing the business environment. Key priorities include targeting high-value, low-latency industries, strengthening Malaysia’s startup and IP ecosystem as well as building digital talent. The strategy is aimed at supporting areas where structural gaps in digital ecosystem are more pronounced. In contrast, finance and insurance sector which has been mostly driven by goods trade activity, falls outside the scope of this discussion.

Table 1: Policy areas and broad strategy

Policy areas	Motivation	Broad strategy
Targeting high-value, low-latency industries	To maximise the positive spillovers (forward linkages) from data centres.	Leveraging on data centres to develop local high-value downstream industries (e.g. animation, gaming, cloud service providers, cybersecurity).
Enhancing start-up and IP ecosystem	To reduce import pressure from R&D and IPs.	Increase access to IP financing and strengthen IP court to protect innovations and incentivise R&D investments.
Building digital talent	To address shortage of high skilled talent in the digital sector.	Strengthen visa and returning expert programmes, expand digital upskilling efforts and align TVET and university curricula with industry needs.

Conclusion

Despite a strong foundation, Malaysia continues to record deficit in digital services trade. Without effective policy interventions, such trend is likely to persist or even worsen. Looking ahead, digital services trade is likely to become even more critical in supporting external resilience amidst geoeconomic tensions and intensifying uncertainty in global trade. Malaysia’s true potential in digital economy lies at the digital services, which require policy interventions that are aimed at strengthening both the hard and soft infrastructure.

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Table 1: GDP by Expenditure Components (at constant 2015 prices)

	Share in 2024 (%)	2024					2025	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual change, %						
Aggregate Domestic Demand (excluding stocks)	95.2	6.1	6.5	7.1	6.4	6.5	6.0	7.0
Private sector	77.2	5.7	7.1	6.9	6.6	6.6	5.9	6.8
Consumption	60.7	4.7	5.7	4.7	5.3	5.1	5.0	5.3
Investment	16.5	9.2	12.0	15.6	12.7	12.3	9.2	11.8
Public sector	18.0	8.4	3.4	8.0	5.8	6.3	6.2	8.1
Consumption	13.2	7.3	1.8	6.0	4.0	4.7	4.3	6.4
Investment	4.8	11.5	9.1	14.4	10.0	11.1	11.6	13.6
Net Exports	4.2	-8.3	0.3	-5.3	63.6	9.2	19.6	-72.6
Exports of Goods and Services	68.1	4.2	8.5	11.7	8.7	8.3	4.1	2.6
Imports of Goods and Services	63.9	5.2	9.0	13.0	5.9	8.2	3.1	6.6
Real GDP, annual change %	100.0	4.2	5.9	5.4	4.9	5.1	4.4	4.4
GDP, seasonally adjusted, QoQ change %	-	1.6	2.1	1.6	-0.2	-	0.7	2.1

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

Source: Department of Statistics, Malaysia

Table 2: GDP by Economic Activity (at constant 2015 prices)

	Share in 2024 (%)	2024					2025	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual change, %						
Services	59.4	4.8	5.9	5.2	5.5	5.3	5.0	5.1
Manufacturing	23.1	2.1	4.7	5.6	4.2	4.2	4.1	3.7
Agriculture	6.3	1.9	7.6	3.6	-0.7	3.1	0.7	2.1
Mining	6.0	4.3	2.7	-2.8	-0.7	0.9	-2.7	-5.2
Construction	4.0	11.9	17.2	20.0	20.7	17.5	14.2	12.1
Real GDP, annual change %	100.0	4.2	5.9	5.4	4.9	5.1	4.4	4.4

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

Source: Department of Statistics, Malaysia

Table 3: Balance of Payments¹

	2024 ^r					2025 ^p	
	1Q	2Q	3Q	4Q	Year	1Q	2Q
	RM billion						
Current account	8.7	4.3	1.8	12.9	27.7	16.7	0.3
% of GDP	1.9	0.9	0.4	2.6	1.4	3.4	0.1
Goods	31.1	24.0	22.4	36.9	114.5	38.5	17.0
Services	-6.1	-3.7	-0.8	-1.0	-11.7	-3.4	-3.3
Primary income	-16.7	-14.8	-17.4	-17.1	-66.1	-17.1	-8.9
Secondary income	0.5	-1.2	-2.4	-5.9	-9.0	-1.2	-4.6
Financial account	-19.1	26.6	-3.1	-9.3	-4.9	-20.3	-2.2
Direct investment	-5.5	10.5	-0.7	13.5	17.7	12.1	2.2
Asset	-24.1	-8.1	-15.2	-16.2	-63.8	-14.8	-4.9
Liabilities	18.6	18.6	14.5	29.7	81.4	26.9	7.1
Portfolio investment	-23.8	-21.7	3.4	-42.0	-84.1	-48.3	16.4
Asset	-21.3	-29.0	-31.4	-25.7	-107.3	-34.4	-22.6
Liabilities	-2.5	7.3	34.7	-16.3	23.2	-13.9	39.0
Financial derivatives	1.1	-0.6	-0.4	2.7	2.8	-1.7	1.3
Other investment	9.1	38.4	-5.3	16.5	58.7	17.6	-22.1
Net errors & omissions²	19.1	-32.3	3.7	2.5	-7.0	6.6	2.9
Overall balance	8.7	-1.4	2.4	6.1	15.8	3.0	1.0

^r Revised^p Preliminary

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

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

¹ In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).² As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.

Note: Figures may not add up due to rounding.

Source: Department of Statistics, Malaysia

Table 4: Outstanding External Debt

	2024 ^r		2025 ^p	
	end-Jun		end-Mar	end-Jun
	RM billion			
Total External Debt	1,347.5		1,375.3	1,403.3
<i>USD billion equivalent</i>	285.5		310.3	331.8
By instrument				
Bonds and notes	173.0		154.0	163.8
Interbank borrowings	234.9		249.3	243.9
Intercompany loans	210.3		234.7	231.4
Loans	94.3		93.2	98.0
Non-resident holdings of domestic debt securities	269.7		276.8	296.1
Non-resident deposits	146.3		150.3	145.2
IMF allocation of Special Drawing Rights (SDRs)	30.0		28.4	28.0
Others	189.1		188.6	196.9
Maturity profile				
Medium- and long-term	770.5		776.2	806.8
Short-term	577.1		599.0	596.4
Currency denomination				
Ringgit	418.6		424.1	451.4
Foreign	928.9		951.2	951.9
Total debt / GDP, %	71.7		70.5	71.4
Short-term debt / Total debt, %	42.8		43.6	42.5
Reserves / Short-term external debt, time(s)	0.9		0.9	0.9

^r Revised^p Preliminary

Note: Figures may not add up due to rounding.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table 5: Credit to the Private Non-Financial Sector

	2024	2025		2024	2025	
	2Q	1Q	2Q	2Q	1Q	2Q
	End-period, RM billion			Annual change, %		
Total Credit to the Private Non-Financial Sector¹	2,795.0	2,915.3	2,941.4	5.6	5.4	5.2
Outstanding corporate bonds ²	580.9	603.2	606.0	3.4	5.3	4.3
Outstanding loans ^{3,4}	2,214.1	2,312.1	2,335.4	6.1	5.5	5.5
Businesses	793.2	824.7	828.8	6.0	4.6	4.5
SMEs	403.5	423.4	431.4	9.8	7.2	6.9
Non-SMEs	385.8	398.2	394.6	2.3	2.3	2.3
Households	1,420.9	1,487.4	1,506.6	6.2	6.0	6.0
Credit to Businesses ⁵	1,374.0	1,427.9	1,434.8	4.9	4.9	4.4

¹ Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector was introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.

² Includes conventional and Islamic short-term papers in addition to longer-term bonds and sukuk; excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.

³ Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.

⁴ Excludes loans sold to Cagamas without recourse.

⁵ Comprises outstanding loans to businesses and outstanding corporate bonds.

Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Table 6: Loan Indicators¹

	2024		2025			2025		
	2Q	1H	1Q	2Q	1H	1Q	2Q	1H
	During the period, RM billion					Annual change, %		
Total Private Non-Financial Sector²								
Loan applications	386.4	744.6	383.9	416.3	800.1	7.2	7.7	7.5
Loan approvals	201.2	375.7	192.0	212.6	404.7	10.0	5.7	7.7
Loan disbursements	537.3	1079.8	551.7	538.1	1090.0	1.7	0.2	0.9
Loan repayments	533.0	1069.0	540.0	516.3	1056.3	0.7	-3.1	-1.2
Of which:								
Businesses³								
Loan applications	148.5	284.6	153.4	173.3	326.7	12.7	16.7	14.8
Loan approvals	93.2	171.3	87.7	102.5	190.2	12.3	9.9	11.0
Loan disbursements	403.9	807.7	407.2	401.7	808.9	0.8	-0.5	0.1
Loan repayments	401.0	800.6	397.2	382.5	779.7	-0.6	-4.6	-2.6
SMEs								
Loan applications	86.8	167.6	86.2	93.6	179.8	6.8	7.8	7.3
Loan approvals	47.6	87.5	38.7	45.8	84.6	-3.1	-3.7	-3.4
Loan disbursements	144.0	281.4	150.8	144.7	295.5	9.8	0.5	5.0
Loan repayments	138.7	271.7	142.6	136.4	278.7	7.2	-1.7	2.7
Non-SMEs								
Loan applications	61.7	117.1	67.2	79.6	146.8	21.2	29.2	25.4
Loan approvals	45.7	83.6	49.0	56.7	105.6	29.1	24.1	26.4
Loan disbursements	258.2	522.6	254.8	255.3	510.8	-3.6	-0.9	-2.2
Loan repayments	260.8	526.2	253.7	244.9	498.6	-4.4	-6.1	-5.2
Households								
Loan applications	237.9	459.9	230.4	243.0	473.4	3.8	2.1	2.9
Loan approvals	108.0	204.3	104.3	110.2	214.5	8.2	2.1	5.0
Loan disbursements	133.4	272.1	144.5	136.6	281.1	4.2	2.4	3.3
Loan repayments	132.0	268.4	142.8	133.8	276.6	4.7	1.3	3.1

¹ Loans for all segments include data from banking system and development financial institutions (DFIs).

² Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.

³ Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.

Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Table 7: Banking System Profitability Indicators

	2024	2025		2024	2025	
	2Q	1Q	2Q ^P	2Q	1Q	2Q ^P
	%			Annual change, percentage points		
Return on equity ¹ (based on profit before tax)	12.1	13.9	13.8	0.5	3.0	1.7
Return on equity ¹ (based on profit after tax)	9.2	11.0	10.8	0.4	2.8	1.6
Return on assets ¹ (based on profit before tax)	1.3	1.5	1.5	0.07	0.34	0.20
	RM million			Annual change, %		
Net interest income	15,518	15,938	16,324	6.5	5.0	5.2
Add: Fee-based income	3,402	3,365	3,460	13.1	1.6	1.7
Less: Operating cost ²	11,051	11,444	11,894	2.6	3.5	7.6
Gross operating profit	7,870	7,859	7,890	15.6	5.7	0.3
Less: Impairment ³ and other provisions	464	426	1,380	-44.5	-56.6	197.3
Gross operating profit after provision	7,405	7,433	6,510	24.1	15.2	-12.1
Add: Other income ¹	5,709	6,825	7,768	13.3	60.6	36.1
Profit before tax¹	13,114	14,258	14,278	19.1	33.2	8.9
Profit after tax¹	10,107	11,211	11,131	19.7	40.1	10.1

^P Preliminary

¹ Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.

² Refers to staff costs and overheads.

³ Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

Source: Bank Negara Malaysia

Table 8: Insurance and Takaful Sector Profitability Indicators

	2024	2025		2024	2025	
	2Q	1Q	2Q ^P	2Q	1Q	2Q ^P
	RM million			Annual change, % ²		
Life Insurance & Family Takaful						
Excess income over outgo ¹	2,951	1,392	3,367	185.3	-74.3	14.1
General Insurance & General Takaful						
Operating profit	850	787	1,075	-4.2	-10.0	26.5
Claims ratio (%)	60	59	57	2.3	3.0	-2.5

^P Preliminary

¹ Excess income over outgo excludes investment-linked unit funds to reflect the core performance of insurers and takaful operators' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.

² Refers to percentage points for the annual change of claims ratio.

Source: Bank Negara Malaysia

Table 9: Federal Government Finance¹

	2024		2025 ^P		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	69.1	139.1	72.1	75.5	147.6
<i>Annual change (%)</i>	-4.3	-6.3	3.1	9.2	6.1
Operating expenditure	79.4	157.1	76.5	78.9	155.3
<i>Annual change (%)</i>	2.9	9.2	-1.5	-0.7	-1.1
Current balance	-10.3	-18.0	-4.3	-3.4	-7.7
Net development expenditure	14.9	33.5	17.6	15.2	32.7
<i>Annual change (%)</i>	-17.1	-24.4	-6.0	2.1	-2.4
Overall balance	-25.2	-51.6	-21.9	-18.6	-40.5
Memo:					
Total net expenditure	94.3	190.6	94.0	94.0	188.1
<i>Annual change (%)</i>	-0.9	1.3	-2.4	-0.3	-1.3
Total Federal Government debt (as at end-period)	1,227.5	1,227.5	1,277.3	1,304.2	1,304.2
Domestic debt	946.2	946.2	993.7	1,007.3	1,007.3
External debt	281.3	281.3	283.7	296.8	296.8
<i>Non-resident holdings of RM-denominated debt</i>	256.8	256.8	260.3	278.42	278.42
<i>Offshore borrowing</i>	24.5	24.5	23.4	18.4	18.4

^P Preliminary¹ Figures may not add up due to rounding.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia