



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

# **BNM** **Quarterly** **Bulletin**

Vol. 41 No. 3

# 3Q

Third 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 3Q 2025

## GDP recorded a strong growth of 5.2% (2Q: 4.4%)

What are the factors supporting growth?



### Sustained household spending

Private Consumption: 5% (2Q 2025: 5.3%)



### Steady investment activities

Gross Fixed Capital Formation: 7.4% (2Q 2025: 12.1%)



### Higher net exports

Net Exports of Goods and Services: 17.7% (2Q 2025: -72.6%)

## Continued improvement in the labour market



### Unemployment Rate

3%  
(2Q 2025: 3%)



### Private Sector Nominal Wages

3.8%  
(2Q 2025: 3.4%)

## Headline inflation remained stable at 1.3% (2Q: 1.3%)

What are the key factors affecting inflation?



### Higher core inflation amid firm domestic demand

Core inflation: 2%  
(2Q 2025: 1.8%)



### Lower administered prices, including electricity and diesel

Price-administered inflation: -0.7%  
(2Q 2025: -0.1%)

## The ringgit appreciated against currencies of most trading partners



### Ringgit NEER\*

0.8%  
(2Q 2025: 1.5%;  
YTD: 5.3%)



### MYR/USD

0.05%  
(2Q 2025: 5.1%;  
YTD: 8.2%)



### US Dollar Index

0.9%  
(2Q 2025: -6.9%;  
YTD: -8.3%)

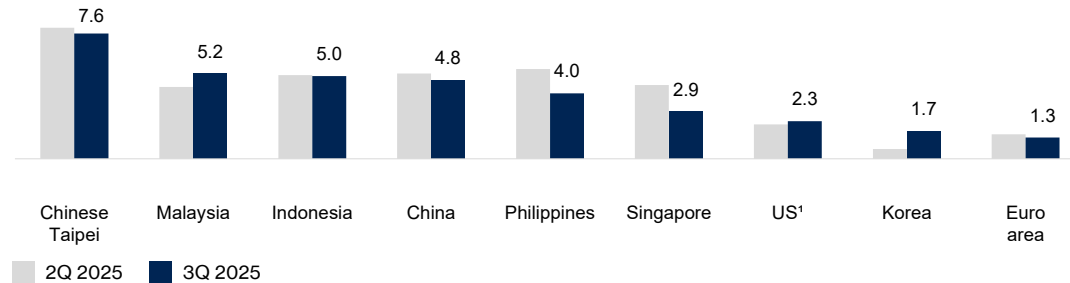
\*NEER: Nominal Effective Exchange Rate  
Note: YTD as of 12 November 2025.

# International Economic Environment

## Global Economic Performance

### Slower global growth in 3Q 2025

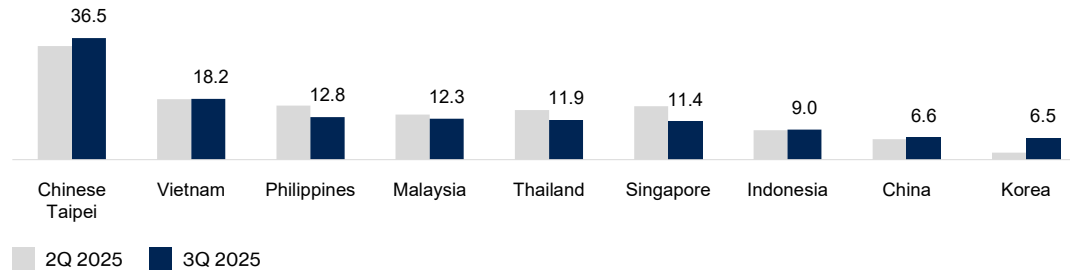
GDP of selected economies,  
Annual change, %



<sup>1</sup> Refers to Federal Reserve Bank of Atlanta's GDP 3Q 2025 nowcast as the government shutdown delayed the actual GDP data release.  
Source: National authorities

### Trade performance of regional economies moderated

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



Source: National authorities

### Highlights

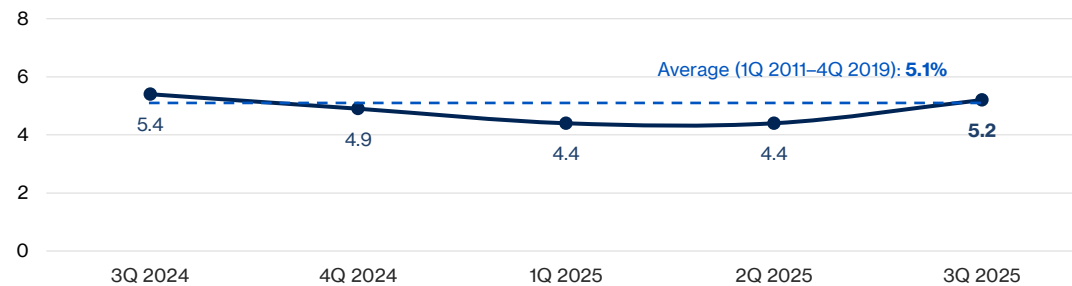
- **Slower global growth**, as higher tariffs began affecting growth and uncertainty remained elevated. Growth in US was broadly sustained as resilient consumption offset slower investments. In China, property sector downturn and weak sentiments continued to weigh on growth.
- **Trade activity in regional economies eased.** The moderation was largely accounted by lower trade in electrical and electronics (E&E), and machinery and equipment (M&E), after earlier surge to beat tariff deadlines.
- **Headline inflation edged lower**, especially in emerging economies as agricultural prices fell due to higher supply of selected beverage crops (e.g. cocoa, coffee) and grains.
- **Brent crude oil price edged slightly higher** to USD68 per barrel in 3Q 2025 (2Q 2025: USD67 per barrel), driven by resilient demand from emerging markets (i.e. India). Meanwhile, higher OPEC+ supply and easing geopolitical tensions in the Middle East limited further gains.

# Developments in the Malaysian Economy

## Gross Domestic Product

### GDP recorded a strong growth of 5.2% in 3Q 2025

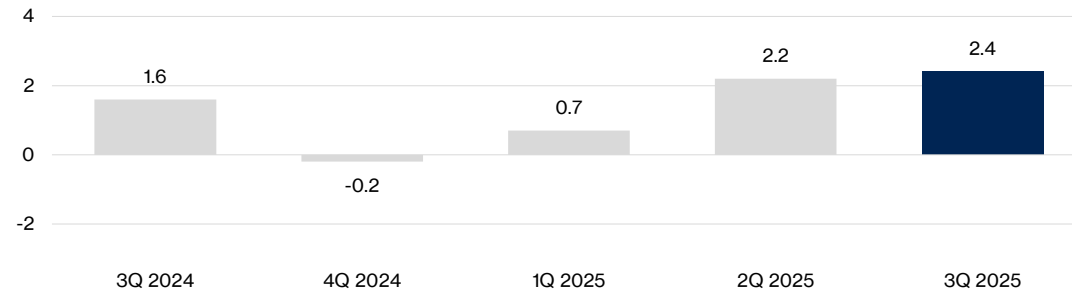
Gross domestic product,  
Annual change, %



Source: Department of Statistics, Malaysia

### On a QoQ seasonally-adjusted basis, the economy expanded by 2.4%

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



Source: Department of Statistics, Malaysia

### What are the factors supporting growth in 3Q 2025?



Sustained growth in household spending supported by positive labour market conditions



Steady investment activities



Continued export growth led by E&E, robust tourism activity and strong recovery in mining-related exports



However, agriculture sector moderated led by slower performance in rubber, oil palm and other agriculture subsectors

# Developments in the Malaysian Economy

## Malaysia's Economic Performance

### Sustained domestic demand and higher net exports

Annual change, %

#### Private Consumption



**5%**

(2Q 2025: 5.3%)

Sustained household spending supported by positive labour market conditions

#### Private Investment



**7.3%**

(2Q 2025: 11.8%)

Further capacity expansion by firms and robust construction activities

#### Public Consumption



**7.1%**

(2Q 2025: 6.4%)

Higher growth in emolument as well as supplies and services spending

#### Public Investment



**7.4%**

(2Q 2025: 13.6%)

Supported by continued capital expenditures by public corporations

#### Net Exports



**17.7%**

(2Q 2025: -72.6%)

Continued export growth and lower import growth

Source: Department of Statistics, Malaysia

### Growth driven by services and manufacturing sectors

Annual change, %

#### Services



**5%**

(2Q 2025: 5.1%)

Sustained growth driven mainly by consumer-related sectors

#### Manufacturing



**4.1%**

(2Q 2025: 3.7%)

Stronger production in E&E and consumer-related goods

#### Agriculture



**0.4%**

(2Q 2025: 2.5%)

Slower growth in rubber, oil palm and other agriculture subsectors

#### Mining



**9.7%**

(2Q 2025: -5.2%)

Recovery in LNG and crude oil production, post-planned maintenance

#### Construction



**11.8%**

(2Q 2025: 12.1%)

Continued robust growth across all subsectors

Source: Department of Statistics, Malaysia

# Developments in the Malaysian Economy

## Labour Market Conditions

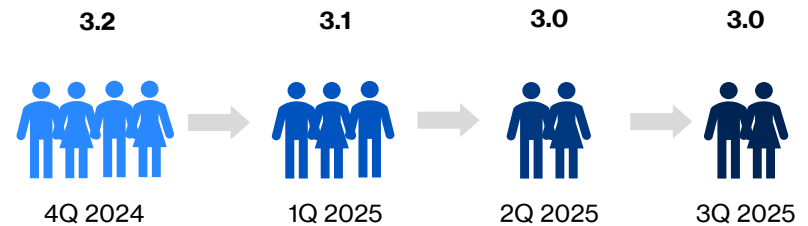
### Labour market remains positive

- The unemployment rate remained unchanged at 3% in 3Q 2025 (2Q 2025: 3% of the labour force).
- Employment improved to 16.97 million persons in 3Q 2025 (2Q 2025: 16.85 million persons) amid continued demand for labour.
- Labour supply remained forthcoming as the labour force participation rate increased further to 70.9% in 3Q 2025 (2Q 2025: 70.8%).

Source: Department of Statistics, Malaysia

### Low unemployment rate

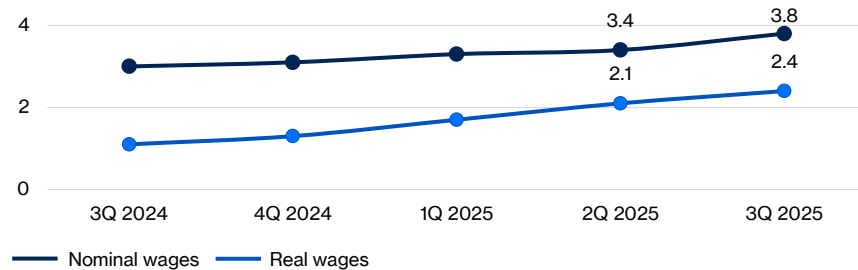
Unemployment rate, % of labour force



Source: Department of Statistics, Malaysia

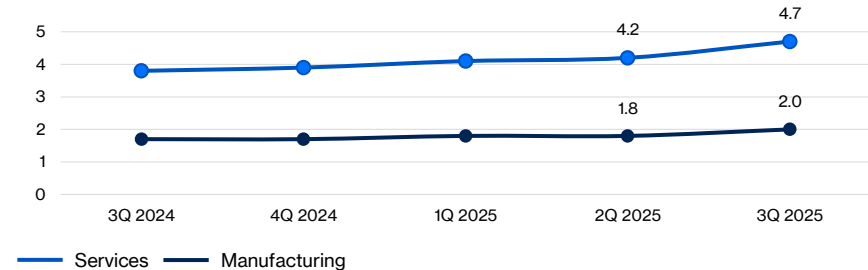
### Continued growth in private sector wages

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

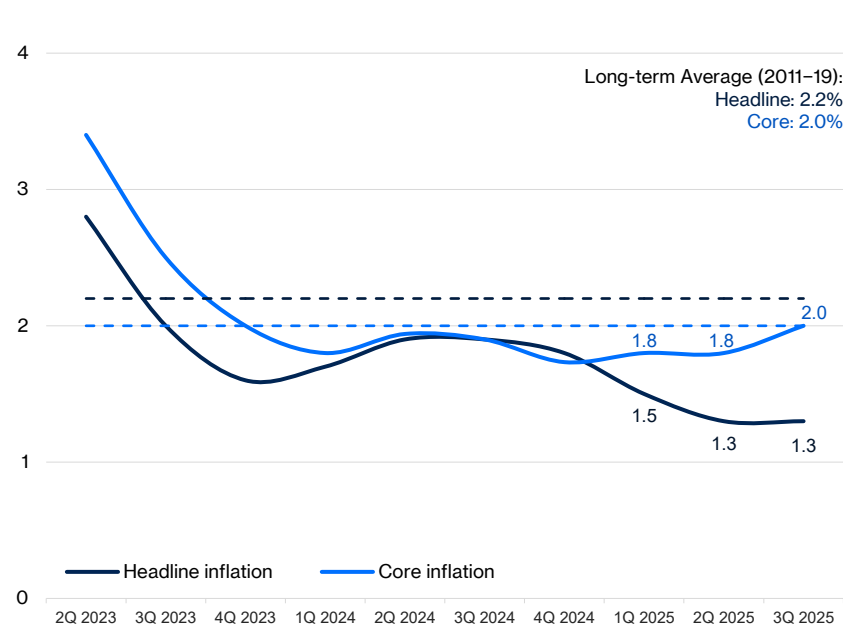
# Developments in the Malaysian Economy

## Inflation Trend

### Headline inflation remained stable during the quarter while core inflation edged higher

- Headline inflation remained stable at 1.3%, while core inflation increased to 2%.
- While the higher core inflation added impetus to headline inflation, this was offset by declines in selected administered prices, namely electricity and diesel, during the quarter.

#### Headline and core inflation, Annual change, %

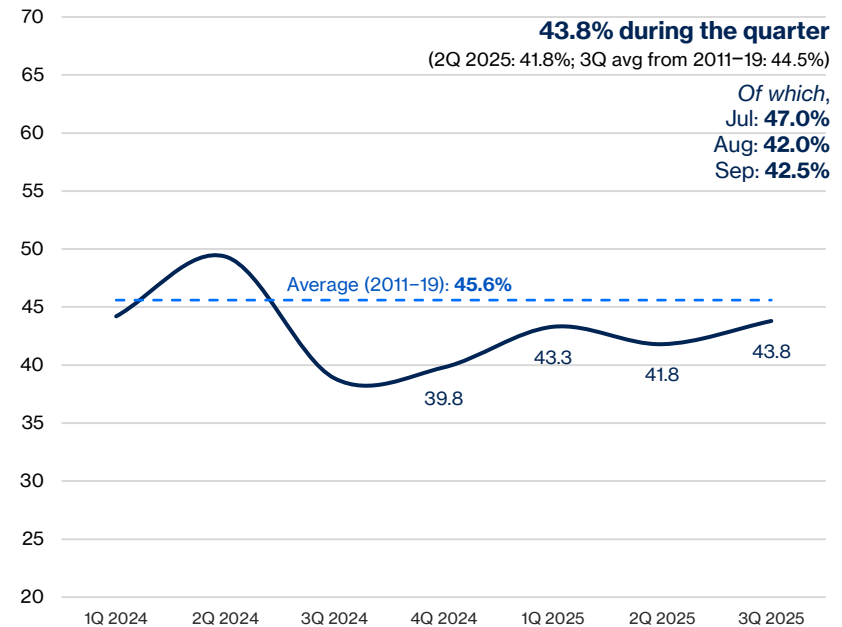


Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation.  
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

### Inflation pervasiveness increased in the third quarter

- The share of CPI items registering price increases trended higher in the third quarter, although it remained below the historical average.
- The higher pervasiveness reflected the gradual pass-through of Sales and Service Tax (SST) expansion to CPI prices, although the extent of price increases remained contained amid moderate global cost conditions.

#### 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

### Higher export growth while import growth moderated



**Gross Exports**

**6.7%**  
2Q 2025: 3.3%

Higher manufactured exports led by E&E and improvement in mining exports



**Gross Imports**

**0.4%**  
2Q 2025: 9%

Moderating capital imports and larger contraction in intermediate imports

Source: Department of Statistics, Malaysia

### Larger current account surplus and financial account outflows



Current Account  
**RM12.2 billion; 2.4% of GDP**  
(2Q 2025: RM0.3 bil; 0.1%)

#### Key driving factors

- Higher goods surplus, supported by improved manufacturing and mining exports, alongside lower capital and intermediate imports.
- Services account turned around to record a surplus, driven by improved travel and construction-related services.
- Narrower secondary income deficit.

#### Which offset

- Wider primary income deficit.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia



Financial Account  
**Net outflows RM11.2 billion**  
(2Q 2025: Net outflows RM2.2 bil)

#### Key driving factors

- Net outflows in portfolio investment, attributed to non-resident redemption of domestic debt securities.

#### Which partially offset

- Net inflows in direct investment, due to higher net foreign direct investment (FDI) inflows.
- Net inflows in other investments, driven mainly by repayment of interbank loans by non-resident banks to resident banks.

### Lower external debt

**RM1.38 trillion or 69.4% of GDP**

(2Q 2025: RM1.4 trillion or 71.4% of GDP)

- Liquidation of non-resident holdings of domestic debt securities.
- Net redemption of bonds and notes, mainly by corporates.

#### External debt remained manageable

% of total external debt

Currency

**Ringgit-denominated: 32.3%**

Unaffected by ringgit exchange rate fluctuations.

**FCY-denominated: 67.7%**

of which 59.5% is subject to BNM's prudential and regulatory requirements, and 18.4% are due to intercompany loans.

Maturity

**Medium- and long-term: 56.9%**

Limited rollover risks.

**Net International Investment Position**

**RM77.3 billion**  
(2Q 2025: RM63.1 billion)

**International Reserves<sup>1</sup>**

**USD123.8 billion**  
(2Q 2025: USD120.6 billion)

- **4.8 months** of imports of goods and services
- **0.9 times** short-term external debt

<sup>1</sup> As of 31 October 2025

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

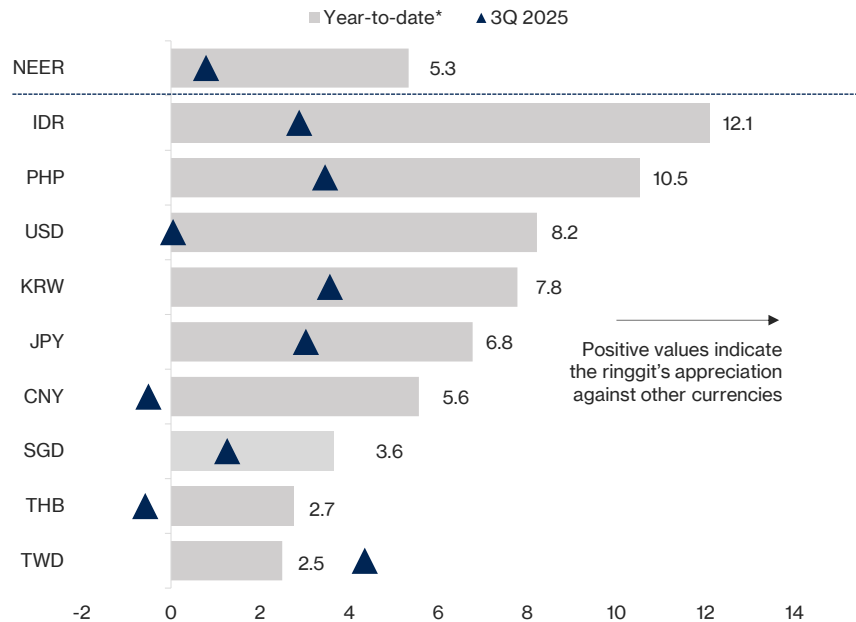
# Monetary and Financial Developments

## Financial Markets and Exchange Rate

### The ringgit appreciated against currencies of most trading partners

The ringgit's appreciation was supported by favourable domestic economic prospects and a weaker outlook for the US dollar, following the US Federal Reserve's policy rate cut in September.

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



Note: \*YTD as of 12 November 2025.  
NEER refers to the ringgit nominal effective exchange rate, which measures the ringgit's performance against a basket of currencies of Malaysia's major trading partners.  
Source: Bank Negara Malaysia

### Domestic financial market developments were driven by both global and domestic factors



#### Stable bond yields

as non-resident outflows were offset by domestic investor demand during the quarter

#### MGS 10Y Yield

**-2 bps**  
(2Q 2025: -30 bps)



#### Equity market rose

in line with global equities, supported by strong domestic corporate earnings

#### KLCI

**+5.1% QoQ**  
(2Q 2025: +1.3%)

### Key factors influencing global and domestic markets



**Expectations of further policy rate cuts by the US Federal Reserve** amid weak labour market conditions and concerns over the US economic growth outlook



**Trade tensions have eased** following trade deal announcements, although they remain elevated



**Positive domestic economic prospects**, supported by resilient economic growth alongside the Government's commitment to structural reforms and fiscal sustainability

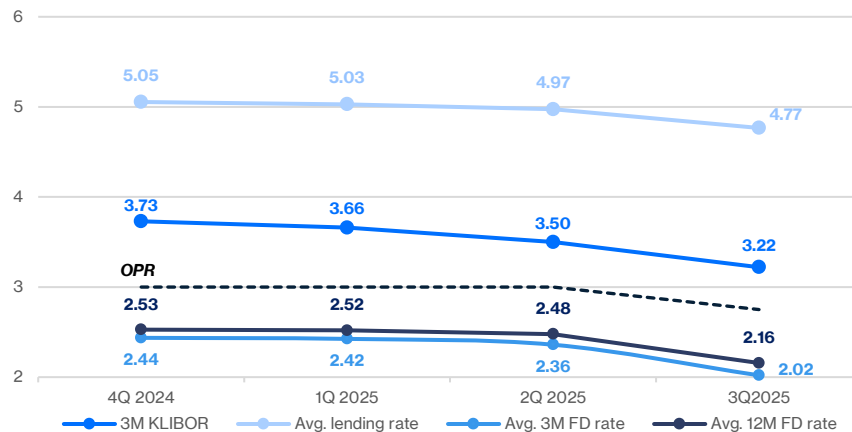
Source: Bank Negara Malaysia, Electronic Trading Platform (ETP) and Bursa Malaysia

# Monetary and Financial Developments

## Interest Rates and Liquidity

### Interest rates declined during the quarter following the Overnight Policy Rate (OPR) reduction

Interest rates,  
End-period, %

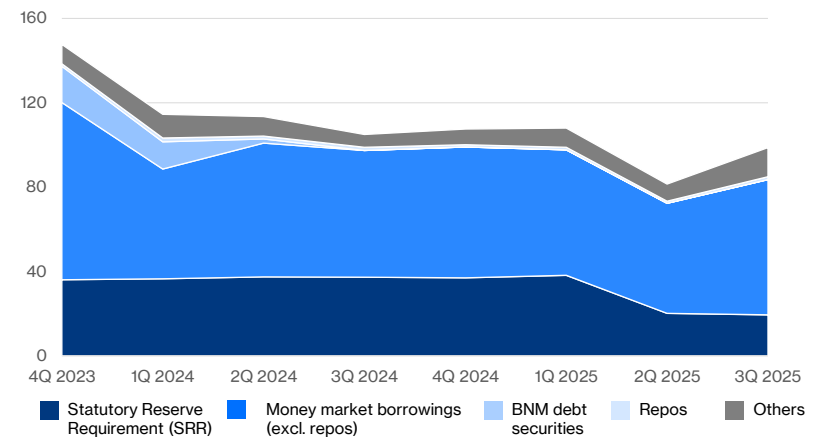


- **Interbank rates declined** during the quarter, reflecting strong and immediate pass-through from the 25 basis points reduction in the OPR on 9 July 2025, with the KLIBOR decreasing by 20 to 24 basis points across tenures within one day of the OPR adjustment.
- Similarly, **retail board fixed deposit (FD) rates declined** between 30 to 33 basis points across tenures of 1 to 12 months during the quarter.
- Reference rates such as the Standardised Base Rate (SBR), Base Rate (BR) and Base Lending Rate (BLR) adjusted fully, reflecting a strong transmission from the OPR reduction. Correspondingly, the **average lending rate (ALR) on outstanding loans declined** by 21 basis points.

Source: Bank Negara Malaysia and Bloomberg

### Banking system liquidity continued to facilitate financial intermediation

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



- **Total banking system liquidity increased** during the quarter amid higher liquidity injection by BNM.
- Banking system liquidity remained sufficient to support financial intermediation. At the institutional level, most banks continued to maintain surplus overnight placements with BNM as at end-September 2025.

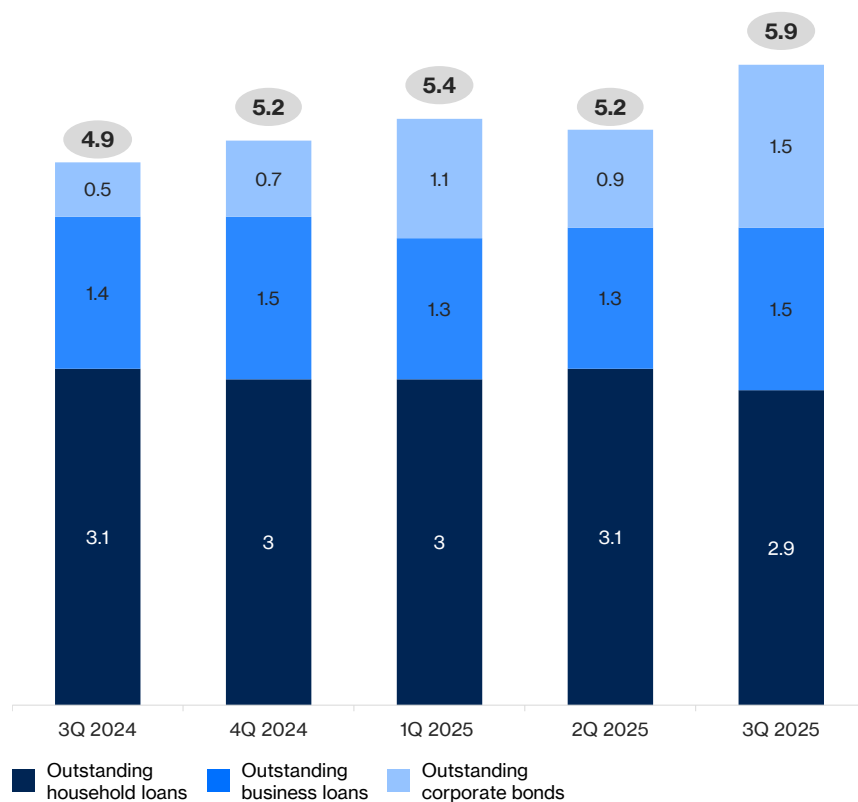
Source: Bank Negara Malaysia

# Monetary and Financial Developments

## Credit Conditions

### Credit growth increased amid higher growth in outstanding corporate bonds and business loans

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



Note: Figures may not add up due to rounding.  
Source: Bank Negara Malaysia

### Key developments

#### Credit to the Private Non-Financial Sector<sup>1</sup>

**5.9%**  
2Q 2025: 5.2%

- Growth in outstanding loans<sup>2</sup> was sustained at 5.6% (2Q 2025: 5.5%) following an increase in business loan growth, while household loan growth moderated slightly.
- Outstanding corporate bonds grew at a faster pace of 7.3% (2Q 2025: 4.3%), supported by several large bond issuances.

#### Business Loans

**5.4%**  
2Q 2025: 4.5%

- Growth in business loans increased to 5.4%, following higher growth in investment-related<sup>3</sup> loans, particularly among non-SMEs.
- SME loan growth also increased slightly, supported by growth in working capital loans amid sustained level of applications for this purpose.

#### Household Loans

**5.7%**  
2Q 2025: 6%

- Household loans grew by 5.7% due to some moderation in loan growth for personal use.
- Notwithstanding, financing demand remained broadly steady across most purposes and continued to be met with sustained approvals.

<sup>1</sup> All numbers quoted are in terms of annual change.

<sup>2</sup> Refers to loans from the banking system and development financial institutions (DFIs).

<sup>3</sup> 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 November 2025 MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 2.75% at the September 2025 MPC meeting, and most recently at the November 2025 MPC meeting.
- The MPC will continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.

## Monetary policy is appropriate and supportive of the economy amid price stability

Following the pre-emptive OPR reduction by 25 basis points at the July 2025 MPC meeting, the MPC maintained the OPR at 2.75% in its meetings in September and November 2025.

At the recent November meeting, the latest indicators pointed towards a continued expansion in global growth. The MPC assessed that while the impact of higher tariffs would continue to weigh on global growth, the outlook remains supported by resilient labour market conditions, moderating inflation, less restrictive monetary policy and supportive fiscal policy. The conclusion of more trade negotiations has, to some extent, eased global uncertainty. Downside risks remain, arising from potentially

higher tariffs, especially product-specific ones, and escalation in geopolitical tensions. Additionally, there are concerns over the elevated valuations in financial markets. Upside potential includes a milder tariff impact on economic activity and pro-growth policies in major economies.

For the Malaysian economy, the latest developments as of the November MPC meeting indicated better-than-expected growth in the third quarter, driven by sustained domestic demand, resilient electrical and electronics (E&E) exports, and recovery in commodity production. Looking ahead, the MPC assessed that resilient domestic demand will continue to support growth going into 2026. Employment, wage growth and income-related policy measures will remain supportive of household spending. The expansion in investment activity will be driven 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 national master plans and the Thirteenth Malaysia Plan (RMK13). Measures under Budget 2026 will also support growth. The MPC assessed that this growth outlook remains subject to uncertainties, in particular surrounding global developments. Downside risks to the growth outlook remain from slower global trade, weaker sentiment, as well as lower-than-expected commodity production. Meanwhile, upside potential to growth could arise from a better global growth outlook, stronger demand for E&E goods, and robust tourism activity.

## Policy Considerations

Year-to-date, headline and core inflation averaged 1.4% and 1.9%, respectively. Moving forward, headline inflation is expected to remain moderate in 2026 amid the continued easing in global cost conditions. Global commodity prices are expected to remain modest, contributing to contained domestic cost conditions. Meanwhile, core inflation in 2026 is expected to remain stable and close to its long-term average, reflecting continued expansion in economic activity and the absence of excessive demand pressures. In this environment, the overall impact of the implemented domestic policy reforms on inflation in 2026 is expected to be limited.

At the current OPR level, the MPC deemed that the monetary policy stance is appropriate and supportive of the economy amid price stability. The MPC will continue to monitor ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.

## Global Economic Outlook

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### Global growth outlook remains unchanged; to moderate following US tariff measures and retaliations

#### Global economy:

- Overall, growth will remain supported by positive labour market conditions, monetary easing and fiscal stimulus in major economies.
- Resolution of trade negotiations has reduced uncertainty around US tariffs, though some product-specific tariffs remain unclear.
- Tariffs and remaining uncertainty surrounding this are likely to continue weighing on global growth in the remainder of the year.

#### Global trade:

- Global trade growth would also continue to moderate in the remainder of the year as the impact of frontloading dissipates.
- Nevertheless, the continued demand for E&E goods will help support trade, alongside other structural drivers such as higher digitalisation, investments in low-carbon transition and sustained intra-regional trade.

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### Risks to growth outlook stem mainly from prospect of higher tariffs and geopolitical tensions

- **Downside risks** include potentially higher tariffs, especially product-specific ones, and escalations in geopolitical conflicts. In addition, there are concerns over the elevated valuations in financial markets.
- **Upside risks** would stem from a milder tariff impact and larger policy support in major economies.

## Domestic Economic Outlook

### Domestic growth outlook remains unchanged; Resilient domestic demand will continue to support growth

- Growth projection remains within the range of 4%–4.8% in 2025. This will be driven by resilient domestic demand.
- Household spending will be supported by employment, wage growth and income-related policy measures.
- The expansion in investment activity will be driven 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 national master plans and the Thirteenth Malaysia Plan (RMK13).
- Budget 2026 measures will also provide additional impetus to economic activity in 2026.
- Exports performance is expected to be impacted by tariffs and more moderate external demand. However, growth would be supported by continued demand for electrical and electronic goods, inbound tourism as well as the recovery in mining-related exports as domestic production resumes following completion of maintenance activities.

### The growth outlook remains subject to uncertainties, in particular surrounding global developments

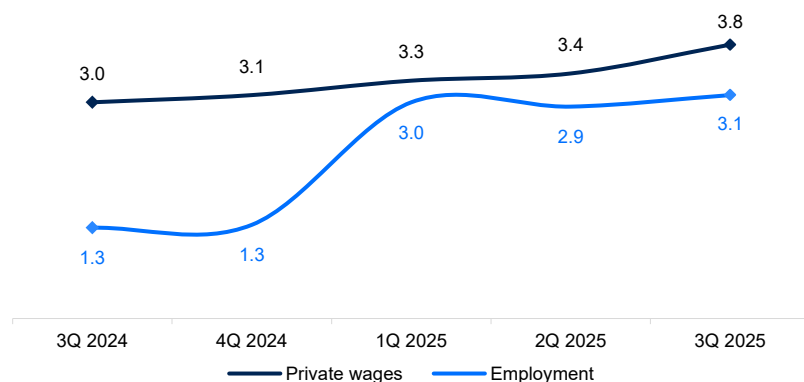
- **Downside risks to growth outlook** include slower global trade, weaker sentiment and lower-than-expected commodity production.
- **Upside risks to growth outlook** could arise from a better global growth outlook, stronger demand for E&E and robust tourism activity.

# Macroeconomic Outlook

## Domestic Demand Conditions

### Household spending will be underpinned by positive labour market conditions and policy support

**Private sector wages and employment**  
Annual change, %

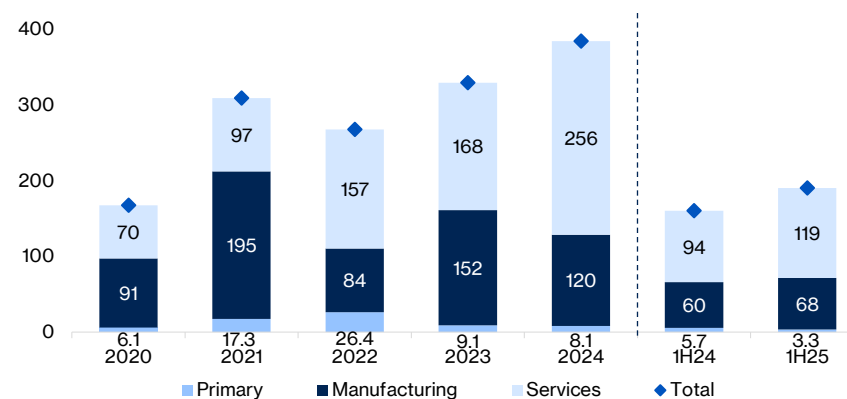


- **Private consumption is expected to continue expanding** amid continued growth in wages, further supported by income-related policy measures including minimum wage increment and Civil Servant Salary Revision.
- While more moderate external demand may weigh on wages in the export-oriented sectors, overall wage growth will be cushioned by more resilient domestic-oriented sectors.
- Cash transfers, such as Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA), would provide support to household spending.

Source: Department of Statistics, Malaysia

### Further progress of multi-year projects and national development plan 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.
- The strength in 1H 2025 investment intentions, particularly in the services sector (62.3% of total investment approvals) underscores the forthcoming investment activity by both domestic and foreign participants.
- Further realisation of manufacturing projects approved in 2024 and 1H 2025 (June 25: 83.5% and 49.6% of total projects approved, respectively) at various stages of implementation is expected to continue supporting investment growth.

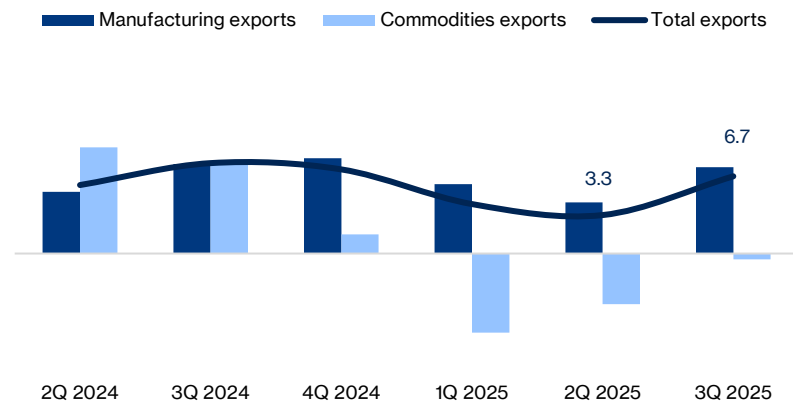
Source: Malaysia Investment Development Authority (MIDA)

# Macroeconomic Outlook

## External Demand Conditions

### Export growth to be supported by resilience of E&E sector

**Gross exports growth**  
Annual change, %

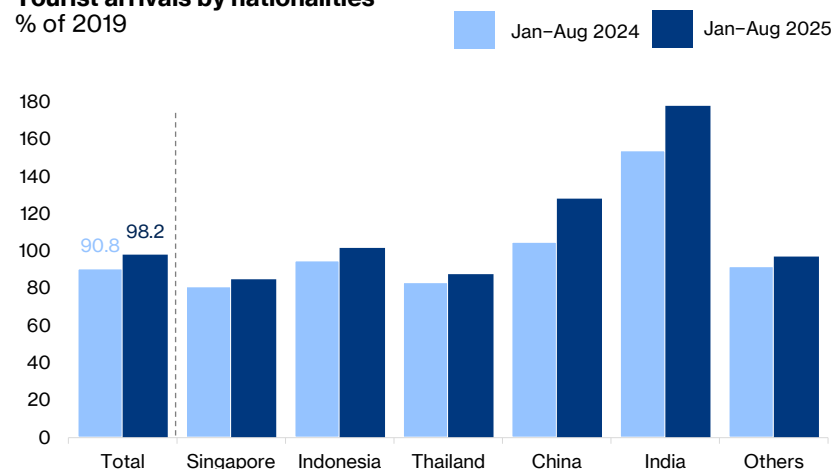


- **Outlook for exports will be weighed by tariff impact.**
- Nevertheless, the resilience of the E&E sector, underpinned by continued AI-related demand and Malaysia's key role in the E&E global value chain, will support export growth.
- In addition, the recovery in mining-related exports following completion of maintenance activities is expected to lend some support to export performance.

Source: Department of Statistics, Malaysia

### Continued expansion in tourism is expected to support exports

**Tourist arrivals by nationalities**  
% of 2019



- **Inbound tourism to sustain support for exports**, driven by higher flight connectivity, visa exemptions as well as promotional activities amid Visit Malaysia Year 2026.
- Tourist arrivals from China is expected to remain strong given visa relaxation, Memorandum of Understanding (MOU) on Malaysia–China tourism cooperation and the introduction of new direct flight routes.

Source: Tourism Malaysia

# Inflation Outlook

## Inflation is expected to remain moderate in 2025 and 2026

- Both headline and core inflation are expected to remain moderate for the remainder of the year. Based on the Ministry of Finance's Economic Outlook 2026, headline inflation is projected to average between 1%–2% for 2025 amid steady domestic demand and continued easing in global cost conditions. These factors, together with Government measures to cushion the impact of domestic policy reforms on households, will help sustain a low and stable inflation environment.
- Domestic policy reforms implemented in 2025, such as the SST expansion, removal of egg subsidies, and adjustments to utility tariffs, have had a modest overall effect on inflation. The recent RON95 subsidy rationalisation is expected to lower headline inflation slightly in 2025 and 2026, given the price reduction for Malaysian users to RM1.99/litre from RM2.05/litre for usage up to 300 litres.
- Heading into 2026, inflation is expected to remain moderate<sup>1</sup> amid steady domestic demand, stable labour market conditions, and favourable supply conditions.

<sup>1</sup> Based on the Ministry of Finance's Economic Outlook 2026, headline inflation is projected to average between 1.3% - 2% for 2026.

## Inflation outlook will remain primarily dependent on risks from the external environment

- **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 (e.g. via commodity prices, supply disruptions).
  - **Downside risks** may stem from weaker global growth and trade activity, contributing to lower commodity prices. Moreover, the sustained easing in input costs arising from a stronger ringgit could exert further downward pressure on inflation. More moderate domestic demand conditions, amid softer external demand, could also weigh on overall price pressures.
- **Domestically**, while some delayed direct cost pass-through from recent policy measures (e.g. SST expansion) could still occur in the coming months, broader spillover effects are expected to be limited. This reflects more cautious price-setting behaviour among firms given heightened competition, alongside the broader easing in global input prices, which would likely offset the cost pressures.

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

## Summary

- Rising global demand for artificial intelligence (AI) and cloud computing is accelerating data centre growth. Malaysia is emerging as a key destination in Asia Pacific due to its strategic location, competitive costs and supportive digital ecosystem.
- Data centres present significant opportunities by attracting high-value foreign direct investment, enabling deeper and wider digitalisation across sectors, and contributing directly and indirectly to GDP and job creation. However, the surge in data centre investment also poses risks, particularly in terms of resource constraints and pressure on Malaysia’s current account balance.
- Strategic policy interventions are therefore essential to ensure the country reaps the full benefits of data centre growth while effectively mitigating the associated challenges.

## Malaysia’s emergence as a key data centre hub

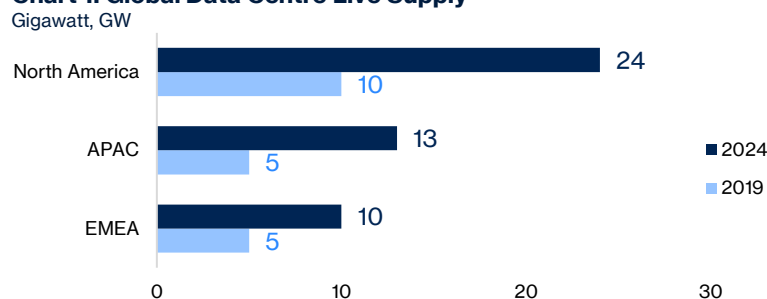
Global digital trends such as generative AI and cloud computing are driving demand for solutions to manage and process large amounts of data. Accordingly, data centres have become essential for storing data, hosting applications, and supporting AI development. While institutions traditionally stored data in-house, the growing need for scalable solutions has made third-party data centres (e.g. colocation, hyperscalers) a more cost-effective option.

In particular, data centres’ usage of AI is expected to grow faster than traditional computing use amid the proliferation of AI tools. By 2027,

estimates<sup>1</sup> suggest data centres’ power usage globally will increasingly shift towards AI (to 27% of total data centre power use, from 14% as at Feb 2025) from storage (23% from 32%). The North American region has received the most data centre investments given the location of large technology companies, accounting for 41% of the global data centre market in 2024 (2023: 38%)<sup>2</sup>. Data centre companies are diversifying their focus to emerging regions like the Asia Pacific – benefitting markets such as Singapore, Hong Kong, Indonesia and Malaysia (Chart 1).

The live capacity of data centres in Malaysia, or those in operation, has grown exponentially between 2019 and 3Q 2025 (Chart 2). These data centres serve both domestic and international markets, capturing demand from social media, AI and public cloud usage.

**Chart 1: Global Data Centre Live Supply**



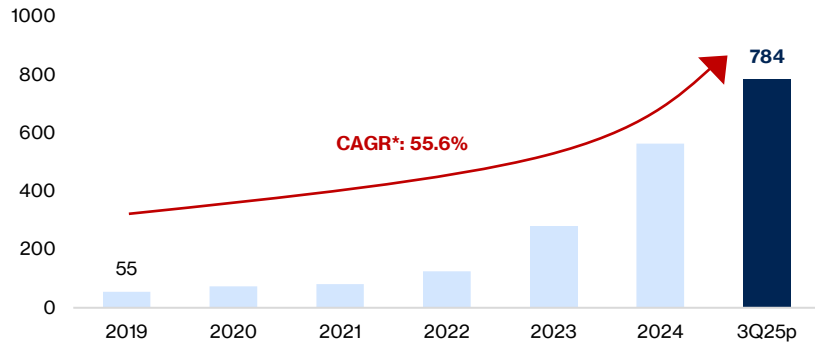
Note: APAC refers to Asia Pacific while EMEA refers to Europe, Middle East and Africa  
Source: DC Byte

<sup>1</sup> Source: [AI to drive 165% increase in data center power demand by 2030 | Goldman Sachs](#)

<sup>2</sup> Source: Precedence Research, 2024: <https://www.precedenceresearch.com/data-center-market>, 2023: <https://rss.globenewswire.com/news-release/2024/09/18/2948393/0/en/Data-Center-Market-Size-Expected-to-Reach-USD-775-73-Billion-by-2034.html>

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

**Chart 2: Malaysia's Data Centre Cumulative Live Capacity**  
Megawatt, MW



p Preliminary data as of 10 November 2025  
\* CAGR: Compounded Annual Growth Rate  
Source: DC Byte, Bank Negara Malaysia estimates

## Data centres have become a key source of foreign direct investments, supporting Malaysia's digitalisation ambitions

Malaysia's conducive investment ecosystem has been key to attracting data centre investments, especially by major cloud service providers (Diagram 1). Between 2021 and 1H 2025, approved data centre investment amounted to RM144.4 billion. This has changed the composition of foreign direct investment (FDI) into Malaysia, where the data centre investments overtook the manufacturing sector as the predominant beneficiary of FDI in recent years (Chart 3).

**Diagram 1: Factors Attracting Investments**

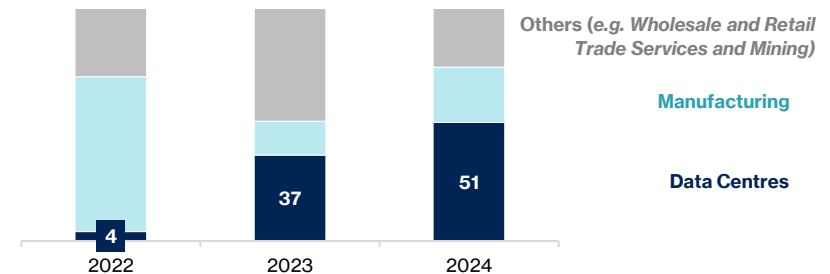
- Strategic location** given Malaysia's proximity to submarine cable landing points, facilitating high-speed connectivity
- Resource availability** such as energy, water supply and skilled labour, as well as speedy facilitation for power grid connectivity and competitive land prices
- Favourable government policies** supported by MIDA and MDEC incentives

<sup>3</sup> Based on publicly announced information by the data centre companies  
Source: MIDA, MDEC and newsflows

**Examples of Key FDI by Data Centres<sup>3</sup>**

- aws**  
RM29.2 bil (2023-38)
- Microsoft**  
RM10.5 bil (2024-27)
- Google**  
RM9.4 bil (2024-30)

**Chart 3: Malaysia's net FDI Inflows by Industry**  
% of total net FDI inflows



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

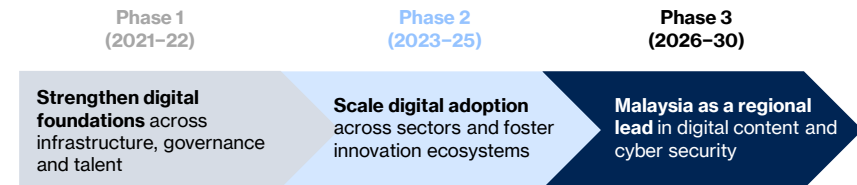
# From Bytes to Bucks: The Economics of Data Centres in Malaysia

These FDIs facilitate **the advancement of Malaysia’s digitalisation initiatives**. In addition to supporting the goals under the Digital Economy Blueprint (2021–30) (Diagram 2), data centres will also play a key role towards achieving the New Industrial Master Plan (NIMP) targets (Diagram 3).

The presence of data centres in Malaysia also comes with several advantages compared to storing data abroad.

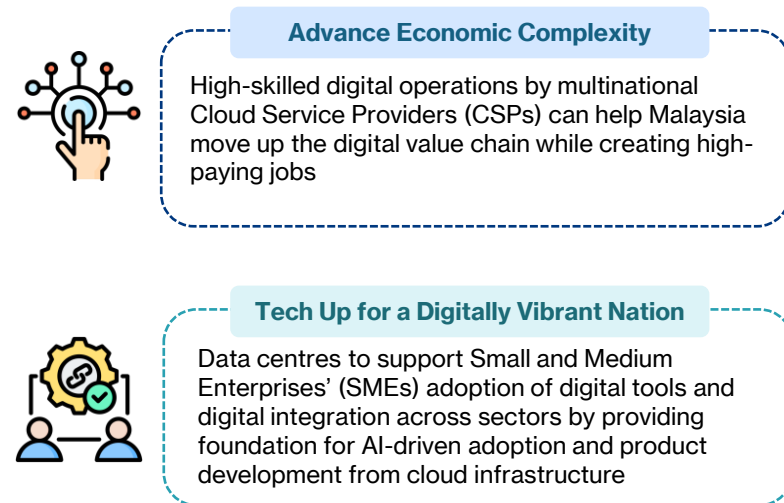
- **Reduced latency** improves speed and connectivity as data travels a shorter distance between the user and where it is being stored. For example, low-latency allows businesses to effectively implement and operate advanced technologies to enable real-time decision-making, precision control, and high-frequency data processing while online retailers would benefit from enhanced customer experience to improve sales.
- **Lower expenses** to businesses and consumers. This is due to reduced costs such as removing cross-border transfer fees and competitive resources (such as utilities) in Malaysia compared to abroad.
- **Data sovereignty** over regulatory challenges and privacy concerns. Malaysia will have greater oversight on how data is used and monetised. This will also ensure protection over critical information in banking, healthcare and government.

**Diagram 2: Digital Economy Blueprint (2021-2030)**



Source: Ministry of Economy

**Diagram 3: Areas of Contribution by data centres to NIMP targets**



Source: New Industrial Master Plan 2030, Ministry of Investment, Trade and Industry, Malaysia

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

## Data centre growth benefits industries across the supply chain while creating higher-paying jobs

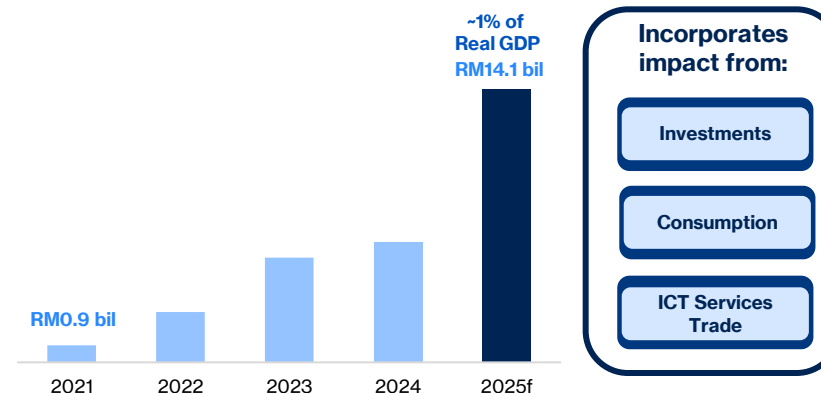
### 1) Direct contribution to economic output

Data centres contribute directly to GDP through multiple channels. First, the economic impact begins at the early stage of data centre investments, including construction of the facilities, which can take up to 3 years.<sup>4</sup> In the pre-establishment phase, operators engage professional services for permits, planning and design. Subsequently, during the construction and setup phase, investment in building infrastructure and installing equipment contribute to gross fixed capital formation (GFCF). Second, via private consumption as the salaries paid to data centre employees – such as IT professionals, engineers, technicians and facility managers – are spent, further stimulating economic activity. Lastly, once in operation, through the trade channel from ICT services exports by serving international clients, as well as potentially reducing ICT services imports of domestic customers.

Staff’s initial estimates suggest the direct impact of data centre operations contributed approximately RM0.9 billion to GDP in 2021 (Chart 4). This is estimated to be significantly higher in 2025, amounting to RM14.1 billion as more data centre projects commence construction and operations. These estimates reflect both the economic activity generated by data centre construction and operations as well as import substitution, as more

<sup>4</sup> Source: Bank Negara Malaysia engagements

**Chart 4: Data Centres’ Direct Contribution to Real GDP**  
RM billion



<sup>f</sup> Forecast  
Source: Bank Negara Malaysia estimates

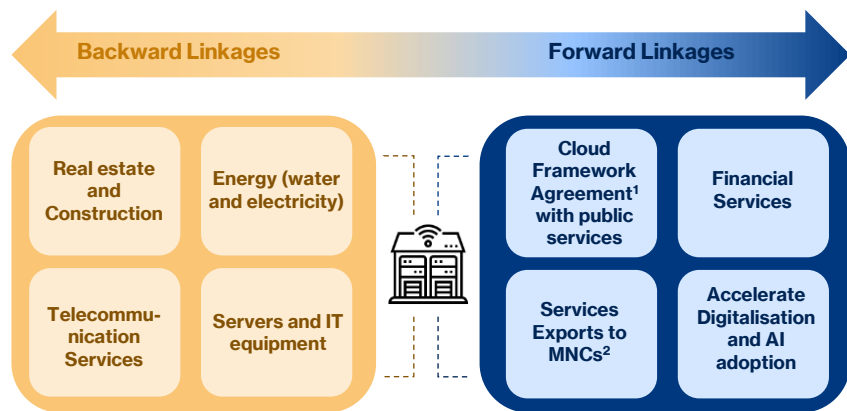
services are now provided locally through domestic data centres. These estimates also account for the offsetting impact on GDP caused by substantial imports of specialised equipment due to the limited availability of locally-produced alternatives.

### 2) Enhancing industries across the data centre supply chain

While the direct impact to GDP may be modest, the overall economic gains are significantly amplified when indirect benefits across the data centre supply chain are considered (Diagram 4). These indirect impact are realised through backward and forward linkages, as businesses across various industries benefit from the expansion of the data centre industry.

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

**Diagram 4: Data Centre Ecosystem within the Economy**



<sup>1</sup> Cloud Framework Agreement is a formal agreement between the Malaysian Government and selected Cloud Service Providers (CSPs) and Managed Service Providers (MSPs) to deliver cloud services to public sector agencies.

<sup>2</sup> MNCs refer to multinational corporations

Source: Adapted from MDEC, Copenhagen Economics 'Finland's Economic Opportunities from Data Centre Investment', Shimona Shodipo 'The Digital Value Chain: Risk and Unintended Consequences', Tech UK 'Data Centre: Engines of Growth' and Bank Negara Malaysia engagements

**Backward linkages** support upstream industries which provide the inputs to build and operate the data centres. This includes cement, steel and glass producers for the construction sector, while the boost in demand for utilities support suppliers of transformers and cables.

**Forward linkages** emerge once data centres are operational. Cloud service providers (CSPs) would collaborate with IT consulting firms, independent software providers, as well as companies providing IT, hardware and workforce professional training to offer digital services to their clients.




Data centres create economic gains through a crowding-in effect, attracting foreign equipment suppliers to set up manufacturing facilities in Malaysia. For example, the rapid growth in hyperscale data centres has attracted producers of server racks, pre-fabricated modular racks, and cooling distribution units into the country. Leveraging these networks of suppliers could present an opportunity for Malaysia to expand its manufacturing base.

These forward linkages also create opportunities for domestic businesses including SMEs to leverage cloud services and data centre capabilities to accelerate their digital and AI adoption. Businesses can access scalable computing power, secure data storage and advanced analytics tools, as experienced in markets with established data centre presence (Table 1). These services are also more cost-effective compared to subscribing to the same services if data centres were located abroad.

A strong local data centre industry is a critical enabler of digitalisation and AI adoption in Malaysia. Data centres deliver the computer power and storage capacity essential for deploying advanced AI solutions. Establishing these facilities locally not only attracts more global tech firms but also spur local AI start-ups and other digital economy spillovers while fostering innovation. This, in turn, unlocks productivity gains across sectors and could increase Malaysia's ICT services exports, reduce reliance on CSPs based abroad and ultimately support the creation of a digitally inclusive economy. In the long run, a robust local data centre ecosystem reinforces Malaysia's position as a regional technology hub, generating multiplier effects on innovation, talent development and economic growth.

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

**Table 1: Case Studies of SMEs’ Utilising Data Centre Capabilities**

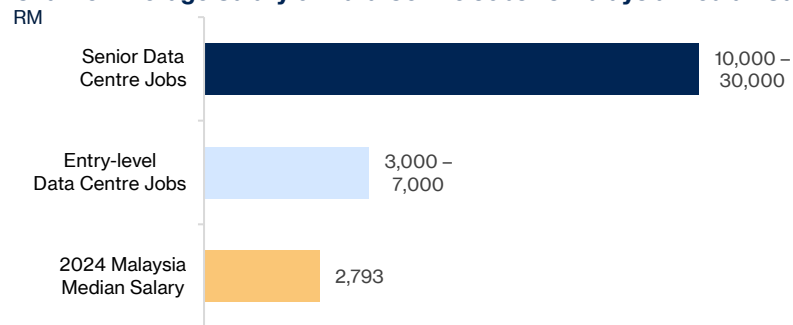
Industries	Challenges	Results
 Advanced Mfg.	<b>Supply Chain Management:</b> Fluctuations in demand and lead times compromised stock management and profits	<b>Integrated AI-driven model to forecast sales,</b> reducing inventory costs while improving efficiency
	<b>Operational efficiency:</b> Manual data processing and analysis	<b>Adopted AI data analytics platform</b> to collect, process and analyse operational performance. This reduced manual tasks, allowing strategic resource reallocation
 Retail	<b>Payment systems:</b> Labour intensive and prone to delays, especially during peak retail demand hours	<b>Leveraged cloud-based services</b> to centralise and automate payment processing across different outlets
	<b>E-commerce Marketing:</b> Difficulty in customer retention and targeting	<b>Utilised AI solution</b> to segment and prioritise customers, improving targeting of marketing campaigns
 Services	<b>Work Environment:</b> Rigid office setups	<b>Cloud services</b> enable flexible remote works arrangements and improving access to job information
	<b>Communication:</b> Timely updates to caregivers to ensure client needs are met accurately	<b>Streamlined operations with cloud computing,</b> ensuring support for remote care while enhancing data security to comply with regulations

Source: Government agencies, company reports and newsflows

### 3) Expanding Malaysia’s Labour Market with Higher Paying Jobs

Data centres contribute to job creation but typically generate fewer jobs compared to industries like manufacturing, due to automation and remote operations. However, these roles are highly-specialised, in-demand, and well-paid, even at entry-level positions (Chart 5).

**Chart 5: Average Salary of Data Centre Jobs vs Malaysia Median Salary**



Note: Entry-level data centre jobs refer to associate and junior-level roles in engineering or cloud specialists while senior data centre jobs refer to managerial positions such as facility manager and project director. These are approximations based on available information on Jobstreet.

Source: Department of Statistics, Malaysia, Jobstreet and Bank Negara Malaysia engagements

Data centres employ professionals such as network specialists, cloud architects and data scientists. To meet growing demand for these roles, CSPs have introduced specialised certifications to upskill local talent and optimise their platforms’ operations. This helps upskill the workforce and prepare them for industry needs while ensuring Malaysians are equipped with the right capabilities to take full advantage of the digital economy.

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

## Risks associated with data centres

### High resource demand

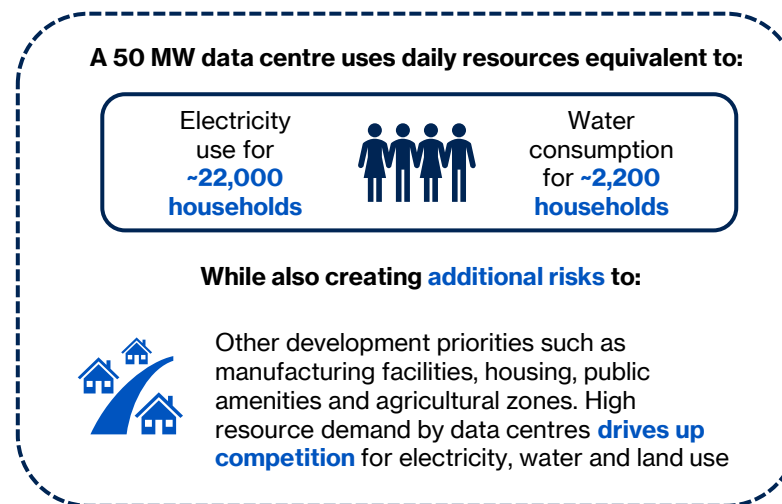
Data centre operations require large amounts of electricity and water to fuel their operations and to cool their equipment. For instance, a 50MW data centre would consume approximately the equivalent power and water usage for ~22,000<sup>5</sup> and ~2,200<sup>6</sup> households per day, respectively (Diagram 5).

Although data centres are increasingly adopting green practices - such as energy-efficient cooling systems – to reduce their environmental impact, these measures alone may not be sufficient. By continuing to rely heavily on brown electricity and not renewable energy, the growth in this industry could potentially derail Malaysia’s target of achieving net-zero emissions by 2050.

Furthermore, unregulated data centre expansion can place a significant strain on domestic infrastructure, including electricity grids, water supply systems, and land use. Such pressures risk disrupting or displacing other development priorities such as industrial parks, housing, public amenities, and agricultural zones. Without coordinated and strategic planning, this could lead to utility bottlenecks, higher costs for other sectors, and undermine long-term urban planning.

Hence, it is crucial to implement proper resource governance, coordinated infrastructure planning and sustainability safeguards in ensuring the development and operations of data centres do not overburden local infrastructure and remain fully aligned with Malaysia’s decarbonisation pathway.

**Diagram 5: Sustainability Risks from Data Centre Activities**



Source: Bank Negara Malaysia estimates

<sup>5</sup> Estimated by assuming a daily four-person household electricity usage of 54.6kWh/day (Source: [Electric power consumption \(kWh per capita\) - Malaysia | Data](#))

<sup>6</sup> Calculated by approximating a daily four-person household water consumption of 1,160 litres per day (Source: SPAN: Perlis, Terengganu, Kedah record highest amount of domestic water use in Malaysia | Malay Mail) and water usage effectiveness of 2.2 m<sup>3</sup>/MWh ( Source: MIDA [Guideline-for-Sustainable-Development-of-Data-Centre.pdf](#))

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

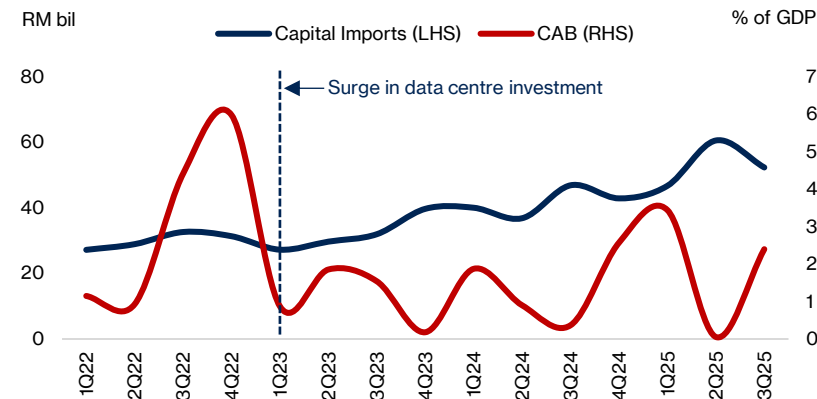
## Risks to external imbalances

Data centres import high volumes of specialised equipment such as server racks and cooling systems due to limited local manufacturing options. This has resulted in a surge of capital imports in recent years (average Jan–Sep 2025: RM17.8 bil; avg. 2024: RM13.9 bil; avg. 2022: RM10.7 bil), exerting pressure on Malaysia’s current account balance (Chart 6). This pressure, to a certain degree, would be cushioned by ICT services exports once data centres begin their operations.

However, since these benefits will only materialise when data centres are completed and operational, the support from services exports would likely be marginal in the near term.

Of note, there are already tentative signs that data centres have started to contribute positively to ICT services exports. Between Jan–Sep 2025, ICT services exports grew 9% to RM16.8 bil, higher than the RM15.5 bil recorded in the same period last year.

**Chart 6: Malaysia’s Overall Capital Imports and Current Account Balance (CAB)**



Source: Department of Statistics, Malaysia

Continued reliance on imports for critical and related parts and equipment also weakens data centres’ backward linkages as it limits opportunities for local vendors, domestic value creation, and technology transfer. Therefore, development of Malaysia’s domestic supply chain is necessary to capture the global demand for data centre technology.

Furthermore, similar to any other FDI, as foreign-owned data centre firms begin repatriating profits, Malaysia’s primary income account could face pressure. These firms generate revenue from hosting and cloud services as well as services from leasing and cooling facilities to tenants, which would likely be returned abroad as dividends or retained earnings.

## From Bytes to Bucks: The Economics of Data Centres in Malaysia

### Policy priorities to maximise data centre presence in Malaysia

Recognising the importance of the data centre industry, the Government has undertaken various initiatives to further promote the growth of its ecosystem. Central to this effort is the inter-agency Data Centre Task Force led by MITI and Kementerian Digital, which aims to drive sustainable growth and strengthen the ecosystem of the data centre industry.

To promote sustainability in Malaysia's growing data centre industry, the Government has introduced specific benchmarks for **Power Usage Effectiveness (PUE)** and **Water Usage Effectiveness (WUE)**. These metrics are not only environmental standards but also form part of the eligibility criteria for incentives under schemes like the Digital Ecosystem Acceleration Scheme (DESAC), aligning industrial growth with Malaysia's net-zero ambitions.

Moreover, the Government is coming up with the Framework for Sustainable Data Centre Industry Development in Malaysia to ensure a coordinated approach to policies related to data centre development. This will cover various issues related to data centres, including data storage, security and integration. These measures are important steps to ensure sustainable growth of the data centre industry.

Successful strategies and policy execution will be key to maximising the opportunities from data centre investment while managing the risks, guided by the following key principles:

### (I) Increasing economic spillovers through forward and backward linkages

Given the modest direct impact of data centre investments to the economy, it is important to strengthen the linkages of the data centre industry to boost the indirect impact to growth, supporting affiliated industries and jobs.

**A database of local data centre supply chain companies** could enhance the visibility of local firms involved, potentially improving the matching of data centre operators with local vendors. For the Government, it maps the capabilities and gaps within the domestic players to assist targeted policy intervention for the firms to move up the value chain and expand capacity.

Forward linkages can be strengthened by driving the adoption of and migrations by firms to cloud technology. This is to **leverage low-latency and cost competitive infrastructure as well as Cloud Service Provider (CSP) tools**, which will be key to improving productivity and output.

Measures to achieve this can include early-stage focus on awareness and business support to adopt new digital tools and implement strategies for commercialisation (Diagram 6).

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

**Diagram 6: Selected Approaches to Accelerate Businesses' Digitalisation Adoption**



Singapore



Ireland



Australia

## Early-Stage Adoption

### Chief Technology Officer-as-a-Service (CTOaaS):

Tailored digital solutions based on digital gaps

### Start Digital Programme:

Provides fee waivers for foundational cloud tools (e.g. accounting, payroll, marketing)

### Grow Digital Scorecard:

Evaluate digital readiness

### AI Ambassador Programme:

Employed a public figure in AI development to lead engagements with various businesses

### Public-private partnership:

Build cloud-native integration to align with upcoming legislative changes

### Technology Investment Boost:

20% bonus tax deduction on expenses related to digital tools

## Advanced-Stage Adoption

### GenAI x Digital Leaders Programme:

Partnership between digitally mature companies with established tech firms to develop proprietary GenAI tools

### European Digital Innovation Hubs:

Provides access to advanced digital technologies and experimentation environments to test and train prototypes before deployment

### Innovate to Grow Program:

R&D support for new tech adoption use cases including funding for the technology, intellectual property applications and commercialisation

Source: National agencies, newsflows

Addressing the development of affiliated industries will also boost data centres' forward linkages in Malaysia. Specifically, this can be achieved by creating a service-centric digital ecosystem around major data centres. This may include solution experts' technology services partners and software and application providers / CSP-related services (e.g. system integrators, IT consulting firms) that will create high-value jobs, enhance productivity and innovation, and boost local talent competitiveness.

## (II) Managing negative externalities from data centres

Resource constraints and pressure to current account balance are some of the key and immediate risks posed by data centres on the economy. To manage these challenges, policy efforts should focus on **reducing import dependency and ensuring sustainable resource management.**

To ensure support to Malaysia's sustainable growth, tying fiscal incentives with PUE and WUE benchmarks is a commendable first step. Other measures can include mandating renewable energy adoption in line with the National Energy Transition Roadmap (NETR). Coordination with utilities authorities is critical to avoid grid and resource strain.

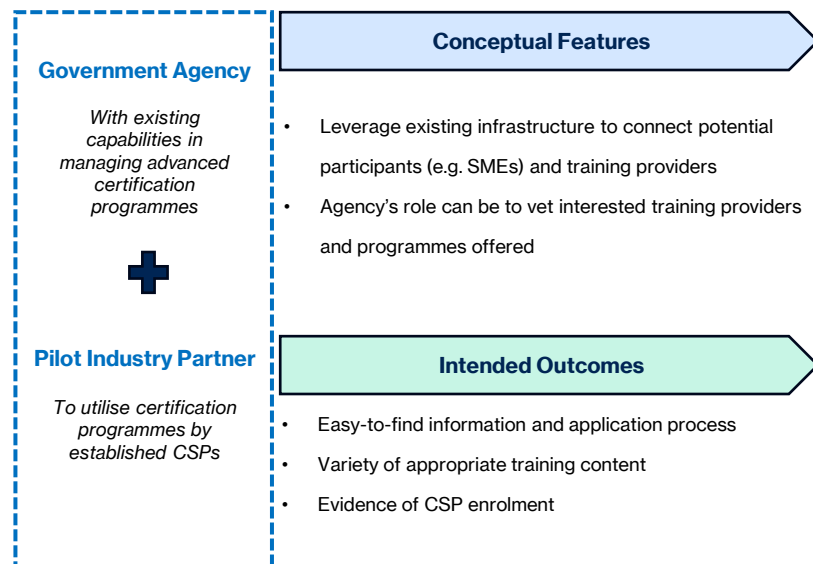
It is essential to attract quality investment projects that can improve local industries' capabilities and adopt sustainable technologies. Priority should be given to projects that can advance Malaysia's expertise in AI and machine learning, with the goal of further improving ICT services exports.

# From Bytes to Bucks: The Economics of Data Centres in Malaysia

## (III) Developing future-ready talent to meet the demands of the growing industry

**Bridging talent demand concerns** (e.g. limited local talent) and talent supply issues (e.g. training mismatch with industry needs) **through industry-agency collaboration**. Initiatives should include enabling easier access to training provided by Cloud Service Providers, accredited Technical and Vocational Education and Training (TVET) programmes and self-learning courses tailored for local consumption.

**Diagram 7: Conceptual Features for CSP Talent Development**



## Conclusion

Demand for data centres is set to remain strong in tandem with global and technological trends, particularly the growth of AI, expansion of cloud computing and digital transformation. Malaysia is well-positioned to harness this growth, leveraging its geographic location, digital infrastructure and skilled workforce to attract investment, boost economic growth and create higher-paying, knowledge-based jobs.

To fully realise these benefits, policy interventions should focus on developing the data centre ecosystem and strengthening the integration of the data centres with the broader economy, while managing against the risks. Specific attention should also be given to strengthen the forward linkages to accelerate digitalisation and AI adoption across industries.

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# Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

## Executive Summary

- Malaysia's increasing global integration – characterised by higher cross-border trade, investment flows, and financial linkages – has led to an increase in external borrowing, primarily driven by the banking sector, followed by corporate entities.
- Cross-border interbank borrowing enables banks to diversify their funding sources and increase access to international markets. Meanwhile, trade credits by corporates have grown since the pandemic amid increased trade in export-oriented industries.
- Despite rising short-term external debt, Malaysia's external position remains resilient underpinned by supportive external sector dynamics, prudent regulatory oversight and ample external assets.

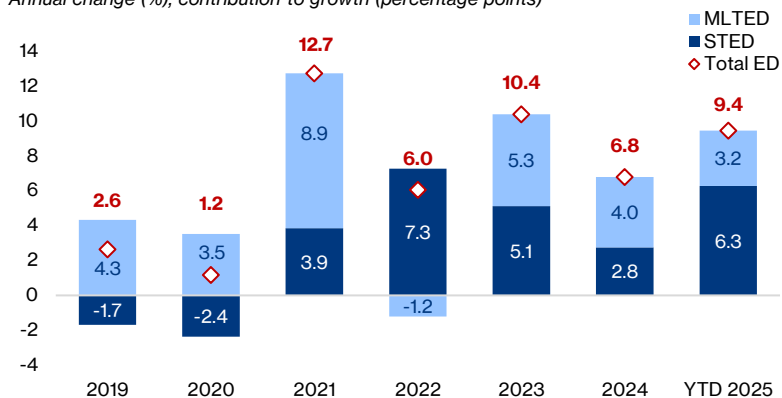
## Malaysia's external debt: A footprint of growth and openness

Over the past decade,<sup>1</sup> Malaysia's total external debt (ED) expanded at an average annual rate of 6.3%, driven primarily by the continued rise in short-term external debt (STED) (Chart 1). This trend is not unique to Malaysia – short-term external borrowing in upper middle income countries has surged by 107% between 2010 and 2023, reflecting heightened liquidity needs as economies recovered from the Global Financial Crisis (GFC) and COVID-19 pandemic. Against this backdrop, this article examines the key drivers of Malaysia's STED and evaluates their implications for the country's external resilience.

<sup>1</sup> Refers to period between 2014 and 2024.  
 Note: Year-to-date (YTD) 2025 refers to the period of end-September 2025.

**Chart 1: External debt growth by maturity**

Annual change (%), contribution to growth (percentage points)

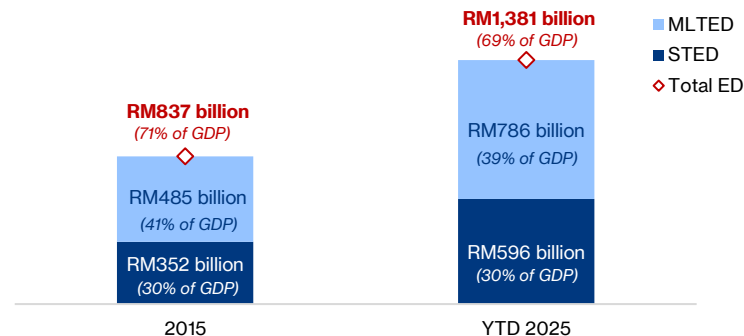


Notes: 1/ MLTED: Medium- and long-term external debt. 2/ YTD 2025 refers to annual change between September 2024 and September 2025.

Source: Bank Negara Malaysia

**Chart 2: External debt level by maturity**

RM billion, % of GDP



Source: Bank Negara Malaysia

# Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

## Favourable debt profile reduces rollover risks

As at end-3Q 2025, Malaysia's total external debt stood at RM1.4 trillion, equivalent to 69% of GDP (end-2Q 2025: RM1.4 trillion; 71% of GDP). Most of this debt is in the form of medium- and long-term external debt (MLTED), amounting to RM786 billion or 57% of the total debt (Chart 2). The longer maturity term enables prudent management of the repayment schedules, limiting borrowers' rollover risks. The remaining RM596 billion (43%) comprises of STED, which has remained stable at just over 40% in the last 10 years.

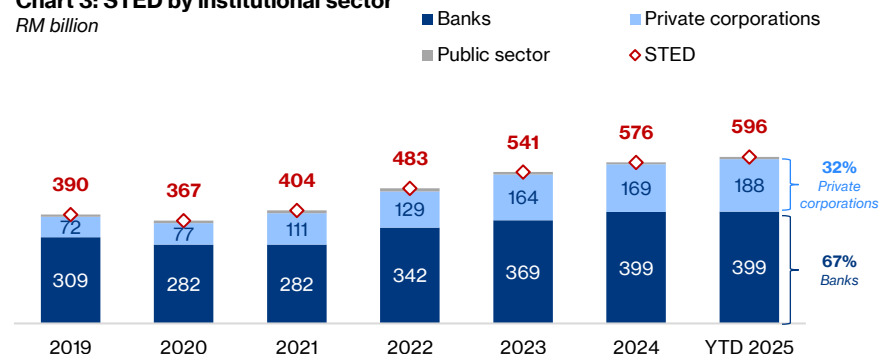
## Since 2021, growth in Malaysia's external debt is driven mainly by short-term debt from the private sector

The private sector continues to be the main contributor to STED, making up 99% of total STED. The public sector's share remains relatively small and stable, consisting mainly of non-resident (NR) holdings of government debt securities (Chart 3). Comparing against other regional peers, Malaysia's share of STED by banks and corporates is slightly above the median level (Chart 4).

The steady rise in STED reflects Malaysia's increasing integration into the global economy through active participation of the banking sector and private firms in cross-border activities. For each sector, these are largely in the form of: **(i) interbank borrowing**; and **(ii) trade credit**.

Chart 3: STED by institutional sector

RM billion

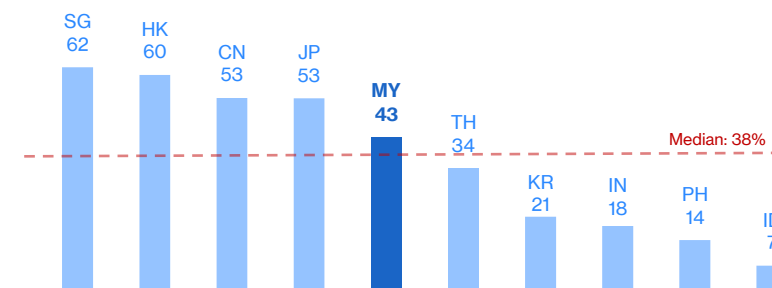


Note: Public sector refers to public corporations, the Government and Central Bank.

Source: Bank Negara Malaysia

Chart 4: Banks and corporates' STED of selected regional peers

% of total external debt

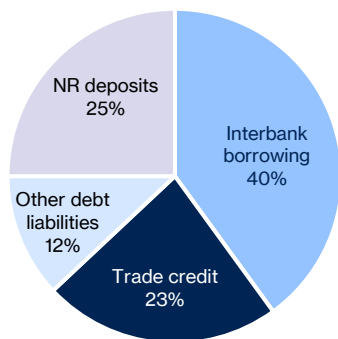


Notes: 1/ SG = Singapore, HK = Hong Kong, CN = China, JP = Japan, MY = Malaysia, TH = Thailand, KR = South Korea, IN = India, PH = Philippines, ID = Indonesia. 2/ Based on the latest available data as at end-2Q 2025 for other countries, whereas Malaysia's data is as at end-3Q 2025.

Source: Bank Negara Malaysia and CEIC

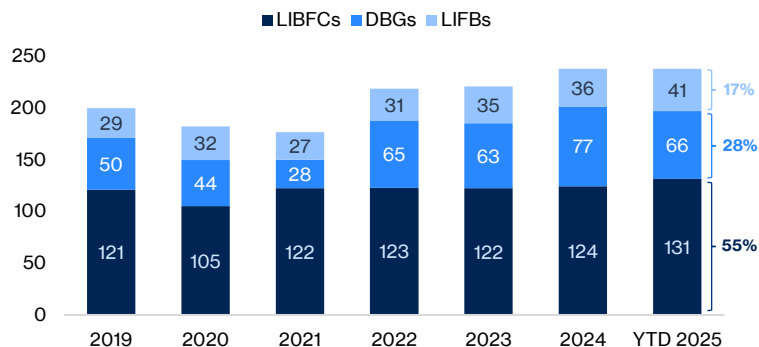
# Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

**Chart 5: Breakdown of STED by instrument as at end-September 2025**  
% share of total STED



Note: Other debt liabilities include loans, NR holdings of domestic debt securities, money market instruments issued in international market and non-trade payables.  
Source: Bank Negara Malaysia

**Chart 6: Interbank borrowing by banking group**  
RM billion



Note: The banking groups refer to Labuan International Business and Financial Centre (LIBFC), Domestic Banking Groups (DBG) and Locally-Incorporated Foreign Banks (LIFB).  
Source: Bank Negara Malaysia

## I. Interbank borrowing reflects growing regional footprint

Interbank borrowing, accounting for 40% of total STED, is the main component of Malaysian short-term borrowings (Chart 5). More than half (55%) of these interbank borrowings are intermediated by the Labuan International Business and Financial Centre (LIBFC), reflecting its role as Malaysia's offshore financial hub (Chart 6).<sup>2</sup> Banks operating within LIBFC often act as conduits for regional financial intermediation, with parent institutions abroad channelling funds to their Labuan entities to support liquidity and operational needs. Such funding structure are a common feature of financial centres, where the amount, tenure, and currency are typically matched and subsequently lent to NR clients through 'out-out'<sup>3</sup> transactions, which limits the spillover risks to Malaysia's domestic financial system.

The remainder (45%) of interbank borrowing is attributable to onshore banks, comprising Domestic Banking Groups (DBGs) and Locally-Incorporated Foreign Banks (LIFBs). In particular, 23% of the total interbank borrowings by DBGs and LIFBs occur with non-related entities,<sup>4</sup> while the remaining 22% is between related counterparties within the same banking group. These intragroup borrowings enable banks to access funding from parent institutions and affiliates often times at concessionary rates, thereby mitigating funding risk and risk of sudden withdrawals.

<sup>2</sup> Banks operating in LIBFC are regulated by Labuan Financial Services Authority (LFSA). The external borrowing of LIBFCs are reported under Malaysia's external debt, in line with the IMF Balance of Payments and International Investment Position Manual.

<sup>3</sup> 'Out-out' refers to the placement of externally sourced funds with external counterparties.

<sup>4</sup> Non-related entities are entities which are not of the same parent institution, while related entities share a common parent institution.

# Malaysia’s Short-Term External Debt: Some Insights on Its Key Drivers

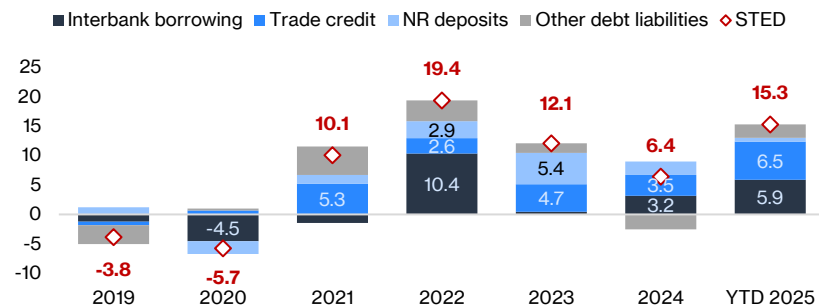
After the pandemic, with the exception of 2023, higher interbank borrowings have been one of the main drivers of the increase in STED (Chart 7). This trend is driven by onshore banks, mainly the DBGs, which have increased their use of short-term financing. This was partly due to DBGs’ access to offshore FCY funding to source cheaper funding from abroad.

With extensive regional presence and international operations, these DBGs also centralise their liquidity management through treasury operations based in Malaysia. The Malaysian head offices act as central conduits, pooling funds from overseas operations and reallocating them across branches to optimise funding efficiency. This process is facilitated through interbank borrowing and lending. In general, these short-term transactions are primarily used by banks to manage short-term funding requirements and preserve their liquidity buffers. DBGs’ transactions with counterparties in key jurisdictions have risen sharply, such as the United Kingdom (2021–25: 54%; 2015–19: 4%), Vietnam (2021–25: 52%; 2015–19: 28%), Indonesia (2021–25: 34%; 2015–19: -16%), and China (2021–25: 21%; 2015–19: 13%).<sup>5</sup>

<sup>5</sup> Refers to average annual growth between 2015 and 2019 as well as 2021 and YTD 2025.

**Chart 7: STED growth by instrument**

Annual change (%), contribution to growth (percentage points)

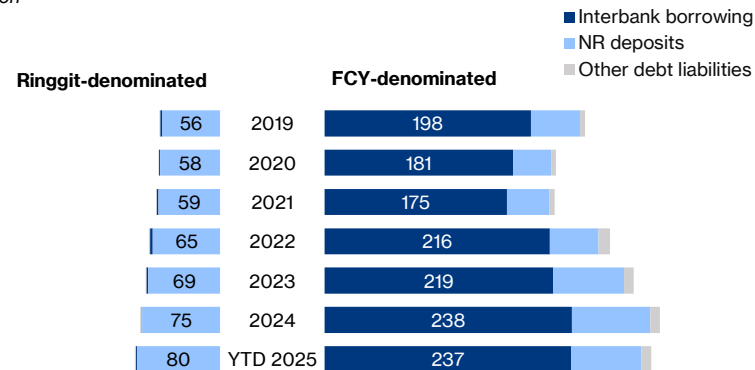


Notes: 1/ YTD 2025 refers to annual change between September 2024 and September 2025. 2/ Other debt liabilities include loans, NR holdings of domestic debt securities, and money market instruments issued in international market, and non-trade payables.

Source: Bank Negara Malaysia

**Chart 8: Banks’ STED by currency and instrument**

RM billion



Note: Other debt liabilities include NR holdings of domestic debt, bonds and notes as well as loans.

Source: Bank Negara Malaysia

# Malaysia’s Short-Term External Debt: Some Insights on Its Key Drivers

## II. Corporates’ short-term borrowings are primarily for trade and has contributions to long-term growth

Corporate STED is predominantly comprised of trade credit arrangements, which account for 70% of total corporate STED (Chart 9). The remainder comprises other short-term liabilities such as intercompany loans, pending insurance claim disbursements, and interest payables on bonds and notes – reflecting the diverse nature of firms’ short-term debt obligations.

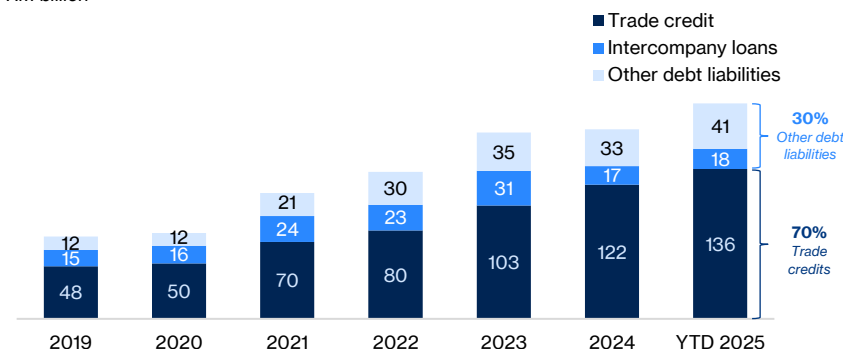
Trade credit allows firms to acquire inventory without immediate payment, providing a cost-effective alternative to traditional loans and allowing effective liquidity management. These arrangements are particularly beneficial during periods of high seasonal demand, enabling firms to stock up in advance without straining cash reserves. Repayment is typically aligned with export proceeds, ensuring that cash inflows match debt servicing needs.

Since the pandemic, corporate STED has increased by 64%, underscoring firms’ adaptive use of trade credit facilities to finance import-related activities. Much of this growth is concentrated in export-oriented manufacturing sectors, notably electrical and electronics (E&E) and petroleum refining (Chart 10). This trend is further reinforced by broader participation, with roughly one-third of the top 100 players<sup>6</sup> being new entrants post-pandemic, highlighting the increasing integration of domestic firms into global trade networks.

<sup>6</sup> Based on the quarterly International Investment Position (IIP) survey conducted jointly by Bank Negara Malaysia and the Department of Statistics, Malaysia.

Chart 9: Corporates’ STED by instrument

RM billion

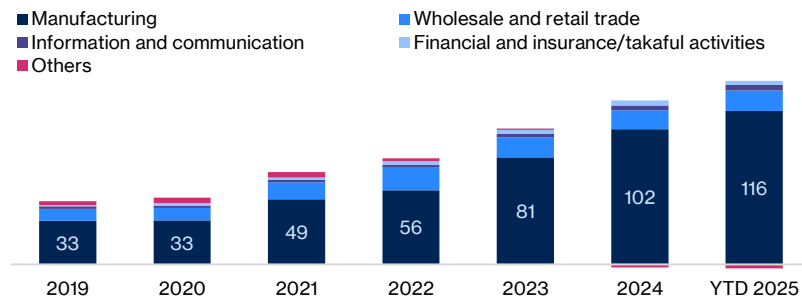


Note: Other debt liabilities include loans, NR holdings of domestic debt securities, money market instruments issued in international market, and non-trade payables.

Source: Bank Negara Malaysia

Chart 10: Corporates’ trade credit by industry

RM billion



Note: Others include administrative and support service activities, real estate activities, construction, professional, scientific and technical activities, mining and quarrying, and transportation and storage.

Source: Bank Negara Malaysia

## Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

### Malaysia's external sector resilience anchored by sound fundamentals and robust policy safeguards

The external sector has been one of the key pillars supporting Malaysia's economic strength, providing a strong buffer against external shocks. This resilience is anchored by supportive external sector dynamics, favourable debt structure, prudent policies and strong external buffers.

#### A. Supportive external sector dynamics

Malaysia's external position remains fundamentally sound, with risks from STED and FCY liabilities exposure remaining contained. A higher share of medium- and long-term external debt reduces rollover risks, while FCY exposures are prudently managed through hedging instruments. In addition, a sustained current account surplus since 1998 further underscores Malaysia's strong external fundamentals.

#### B. Favourable short-term external debt profile

Around one-third of FCY-denominated STED is backed by export earnings, providing a natural hedge against currency risk. Furthermore, some of these short-term borrowings occur between related counterparties, which are on flexible and concessionary terms and thus reduces refinancing and credit risks. These factors collectively limit the vulnerabilities arising from short-term external obligations.

#### C. Strong prudential and regulatory frameworks

BNM enforces a comprehensive regulatory framework and macroprudential surveillance to ensure the banking sector remains resilient. Banks are required to maintain sufficient liquidity buffers and strong capital positions, enabling them to meet short-term obligations and absorb external shocks. This enhances resilience during periods of heightened global uncertainty and contributes to broader financial stability. Meanwhile, under the Foreign Exchange Policy (FEP) rules, resident corporates' external borrowings from non-related parties amounting above RM100 million also require BNM's approval. This ensures that such borrowings are supported by earnings, adequately hedged, and used for productive purposes, thereby minimising systemic risks to the economy.

#### D. Sufficient external liquidity buffer and strong external asset position

Progressive liberalisation of the FEP has enabled banks and corporates to accumulate sizeable non-reserve FCY external assets amounting to RM1,949 billion, of which RM1,044 billion is liquid and can be drawn upon to meet short-term obligations. These strong external assets underpin Malaysia's positive Net International Investment Position (NIIP) of RM77 billion, or 3.9% of GDP. This reaffirms Malaysia's status as a net creditor nation with ample buffers to mitigate against external shocks.

## Malaysia's Short-Term External Debt: Some Insights on Its Key Drivers

### Conclusion

Malaysia's rising STED reflects structural shifts in cross-border financial intermediation rather than heightened vulnerabilities. The key components driving STED – interbank borrowing and trade credit – are expanding in line with regional banking strategies and deeper global trade integration. These borrowings enhance liquidity management and operational flexibility for banks and corporates, with exposures largely concentrated within related entities and supported by stable FCY revenue streams. Moreover, Malaysia's strong prudential frameworks and comprehensive surveillance mechanisms provide an additional safeguard, ensuring early detection and mitigation of emerging external risks.

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

	Share in 2024 (%)	2024			2025		
		3Q	4Q	Year	1Q	2Q	3Q
		Annual change, %					
Aggregate Domestic Demand (excluding stocks)	95.2	7.1	6.4	6.5	6.0	7.0	5.8
Private sector	77.2	6.9	6.6	6.6	5.9	6.8	5.5
Consumption	60.7	4.7	5.3	5.1	5.0	5.3	5.0
Investment	16.5	15.6	12.7	12.3	9.2	11.8	7.3
Public sector	18.0	8.0	5.8	6.3	6.2	8.1	7.2
Consumption	13.2	6.0	4.0	4.7	4.3	6.4	7.1
Investment	4.8	14.4	10.0	11.1	11.6	13.6	7.4
Net Exports	4.2	-5.3	63.6	9.2	19.6	-72.6	17.7
Exports of Goods and Services	68.1	11.7	8.7	8.3	4.1	2.6	1.4
Imports of Goods and Services	63.9	13.0	5.9	8.2	3.1	6.6	0.4
<b>Real GDP, annual change %</b>	<b>100.0</b>	<b>5.4</b>	<b>4.9</b>	<b>5.1</b>	<b>4.4</b>	<b>4.4</b>	<b>5.2</b>
<b>GDP, seasonally adjusted, QoQ change %</b>	<b>-</b>	<b>1.6</b>	<b>-0.2</b>	<b>-</b>	<b>0.7</b>	<b>2.2</b>	<b>2.4</b>

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		
		3Q	4Q	Year	1Q	2Q	3Q
		Annual change, %					
Services	59.4	5.2	5.5	5.3	5.0	5.1	5.0
Manufacturing	23.1	5.6	4.2	4.2	4.1	3.7	4.1
Agriculture	6.3	3.6	-0.7	3.1	0.7	2.5	0.4
Mining	6.0	-2.8	-0.7	0.9	-2.7	-5.2	9.7
Construction	4.0	20.0	20.7	17.5	14.2	12.1	11.8
<b>Real GDP, annual change %</b>	<b>100.0</b>	<b>5.4</b>	<b>4.9</b>	<b>5.1</b>	<b>4.4</b>	<b>4.4</b>	<b>5.2</b>

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

Source: Department of Statistics, Malaysia

Table 3: Balance of Payments<sup>1</sup>

	2024 <sup>r</sup>			2025 <sup>p</sup>		
	3Q	4Q	Year	1Q	2Q	3Q
	RM billion					
<b>Current account</b>	<b>1.8</b>	<b>12.9</b>	<b>27.7</b>	<b>16.7</b>	<b>0.3</b>	<b>12.2</b>
<i>% of GDP</i>	0.4	2.6	1.4	3.4	0.1	2.4
Goods	22.4	36.9	114.5	38.5	17.0	33.3
Services	-0.8	-1.0	-11.7	-3.4	-3.3	0.7
Primary income	-17.4	-17.1	-66.1	-17.1	-8.9	-19.9
Secondary income	-2.4	-5.9	-9.0	-1.2	-4.6	-1.8
<b>Financial account</b>	<b>-3.1</b>	<b>-9.3</b>	<b>-4.9</b>	<b>-20.3</b>	<b>-2.2</b>	<b>-11.2</b>
Direct investment	-0.7	13.5	17.7	12.1	2.2	6.8
Asset	-15.2	-16.2	-63.8	-14.8	-4.9	-2.8
Liabilities	14.5	29.7	81.4	26.9	7.1	9.5
Portfolio investment	3.4	-42.0	-84.1	-48.3	16.4	-28.0
Asset	-31.4	-25.7	-107.3	-34.4	-22.6	-13.5
Liabilities	34.7	-16.3	23.2	-13.9	39.0	-14.6
Financial derivatives	-0.4	2.7	2.8	-1.7	1.3	-0.8
Other investment	-5.3	16.5	58.7	17.6	-22.1	10.9
<b>Net errors &amp; omissions</b>	<b>3.7</b>	<b>2.5</b>	<b>-7.0</b>	<b>6.6</b>	<b>2.9</b>	<b>2.3</b>
<b>Overall balance</b>	<b>2.4</b>	<b>6.1</b>	<b>15.8</b>	<b>3.0</b>	<b>1.0</b>	<b>3.3</b>

<sup>r</sup> Revised<sup>p</sup> Preliminary

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

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

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

Note: Figures may not add up due to rounding.

Source: Department of Statistics, Malaysia

Table 4: Outstanding External Debt

	2024 <sup>r</sup>	2025 <sup>p</sup>	
	end-Sep	end-Jun	end-Sep
	RM billion		
<b>Total external debt</b>	<b>1,262.1</b>	<b>1,403.3</b>	<b>1,381.2</b>
<i>USD billion equivalent</i>	307.3	331.8	327.7
<b>By instrument</b>			
Bonds and notes	152.0	163.8	156.8
Interbank borrowings	207.4	243.9	237.7
Intercompany loans	201.4	231.4	227.4
Loans	84.1	98.0	99.0
Non-resident holdings of domestic debt securities	285.5	296.1	285.9
Non-resident deposits	143.7	145.2	147.1
IMF allocation of Special Drawing Rights (SDRs)	26.9	28.0	27.9
Others	161.2	196.9	199.4
<b>Maturity profile</b>			
Medium- and long-term	745.6	806.8	785.7
Short-term	516.5	596.4	595.5
<b>Currency denomination</b>			
Ringgit	433.9	451.4	445.7
Foreign	828.2	951.9	935.5
<b>Total external debt / GDP, %</b>	<b>66.2</b>	<b>71.4</b>	<b>69.4</b>
<b>Short-term debt / Total external debt, %</b>	<b>40.9</b>	<b>42.5</b>	<b>43.1</b>
<b>Reserves / Short-term external debt, time(s)</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>

<sup>r</sup> Revised

<sup>p</sup> 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	
	3Q	2Q	3Q	3Q	2Q	3Q
	End-period, RM billion			Annual change, %		
<b>Total Credit to the Private Non-Financial Sector<sup>1</sup></b>	<b>2822.4</b>	<b>2941.2</b>	<b>2990.1</b>	<b>4.9</b>	<b>5.2</b>	<b>5.9</b>
Outstanding corporate bonds <sup>2</sup>	582.4	606.0	625.0	2.1	4.3	7.3
Outstanding loans <sup>3,4</sup>	2240.0	2335.2	2365.1	5.7	5.5	5.6
Businesses	795.5	828.7	838.1	4.8	4.5	5.4
SMEs	407.1	431.3	440.0	8.9	6.9	8.1
Non-SMEs	384.8	394.6	395.2	1.0	2.3	2.7
Households	1444.5	1506.5	1527.1	6.1	6.0	5.7
Credit to Businesses <sup>5</sup>	1377.9	1434.7	1463.0	3.7	4.4	6.2

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<sup>4</sup> Excludes loans sold to Cagamas without recourse.

<sup>5</sup> 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 Indicators<sup>1</sup>

	2024	2025		2024	2025	
	3Q	2Q	3Q	3Q	2Q	3Q
	During the period, RM billion			Annual change, %		
<b>Total Private Non-Financial Sector<sup>2</sup></b>						
Loan applications	429.5	415.6	433.4	2.5	7.6	0.9
Loan approvals	224.0	212.0	221.7	4.4	5.4	-1.0
Loan disbursements	555.6	510.5	520.2	-1.0	-5.0	-6.4
Loan repayments	539.7	489.3	500.8	-2.3	-8.2	-7.2
<b>Of which:</b>						
<b>Businesses<sup>3</sup></b>						
Loan applications	181.8	172.9	175.8	0.1	16.4	-3.3
Loan approvals	111.4	102.1	105.3	4.2	9.6	-5.4
Loan disbursements	412.1	374.0	377.3	-3.6	-7.4	-8.5
Loan repayments	404.0	355.5	362.1	-5.4	-11.3	-10.4
<b>SMEs</b>						
Loan applications	98.7	93.3	94.7	-7.6	7.4	-4.0
Loan approvals	51.6	45.8	53.2	-1.6	-3.7	3.2
Loan disbursements	150.3	137.9	144.9	13.0	-4.2	-3.6
Loan repayments	146.2	129.9	137.8	12.3	-6.4	-5.7
<b>Non-SMEs</b>						
Loan applications	83.2	79.6	81.1	11.2	29.1	-2.5
Loan approvals	59.8	56.3	52.1	12.0	23.4	-12.8
Loan disbursements	260.2	234.8	230.3	-11.2	-9.0	-11.5
Loan repayments	256.5	224.3	222.5	-13.3	-14.0	-13.2
<b>Households</b>						
Loan applications	247.7	242.7	257.6	4.3	2.0	4.0
Loan approvals	112.7	109.9	116.4	4.5	1.8	3.3
Loan disbursements	143.5	136.4	143.0	7.2	2.3	-0.4
Loan repayments	135.7	133.8	138.7	8.5	1.3	2.2

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

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

<sup>3</sup> 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	
	3Q	2Q	3Q <sup>P</sup>	3Q	2Q	3Q <sup>P</sup>
	%			Annual change, percentage points		
Return on equity <sup>1</sup> (based on profit before tax)	12.4	13.8	13.3	0.9	1.7	0.9
Return on equity <sup>1</sup> (based on profit after tax)	9.4	10.8	10.3	0.7	1.6	0.9
Return on assets <sup>1</sup> (based on profit before tax)	1.4	1.5	1.5	0.12	0.20	0.10
	RM million			Annual change, %		
Net interest income	15,980	16,324	16,167	7.1	5.2	1.2
Add: Fee-based income	3,437	3,462	3,450	8.3	1.8	0.4
Less: Operating cost <sup>2</sup>	11,488	11,894	11,862	7.0	7.6	3.3
Gross operating profit	7,929	7,892	7,755	7.8	0.3	-2.2
Less: Impairment <sup>3</sup> and other provisions	653	1,380	353	-27.2	197.3	-46.0
Gross operating profit after provision	7,276	6,512	7,402	12.7	-12.1	1.7
Add: Other income <sup>1</sup>	5,744	7,766	5,252	34.6	36.0	-8.6
<b>Profit before tax<sup>1</sup></b>	<b>13,020</b>	<b>14,278</b>	<b>12,654</b>	<b>21.4</b>	<b>8.9</b>	<b>-2.8</b>
<b>Profit after tax<sup>1</sup></b>	<b>9,908</b>	<b>11,131</b>	<b>9,541</b>	<b>21.0</b>	<b>10.1</b>	<b>-3.7</b>

<sup>P</sup> Preliminary

<sup>1</sup> 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%.

<sup>2</sup> Refers to staff costs and overheads.

<sup>3</sup> 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	
	3Q	2Q	3Q <sup>P</sup>	3Q	2Q	3Q <sup>P</sup>
	RM million			Annual change, % <sup>2</sup>		
<b>Life Insurance &amp; Family Takaful</b>						
Excess income over outgo <sup>1</sup>	2,552	3,367	3,624	198.3	14.1	42.0
<b>General Insurance &amp; General Takaful</b>						
Operating profit	844	1,075	984	-2.1	26.5	16.5
Claims ratio (%)	56	57	59	-2.7	-2.5	3.1

<sup>P</sup> Preliminary

<sup>1</sup> 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.

<sup>2</sup> Refers to percentage points for the annual change of claims ratio.

Source: Bank Negara Malaysia

Table 9: Federal Government Finance<sup>1</sup>

	2024		2025 <sup>P</sup>		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	87.1	98.4	72.1	75.5	93.8
<i>Annual change (%)</i>	11.9	10.9	3.1	9.2	7.7
Operating expenditure	76.3	88.1	76.5	78.9	83.0
<i>Annual change (%)</i>	9.5	-9.9	-1.5	-0.7	8.7
<b>Current balance</b>	<b>10.8</b>	<b>10.4</b>	<b>-4.3</b>	<b>-3.4</b>	<b>10.8</b>
Net development expenditure	17.4	31.3	17.6	15.2	20.2
<i>Annual change (%)</i>	-11.3	0.8	-6.0	2.1	15.9
<b>Overall balance</b>	<b>-6.6</b>	<b>-21.0</b>	<b>-21.9</b>	<b>-18.6</b>	<b>-9.4</b>
<b>Memo:</b>					
Total net expenditure	93.7	119.4	94.0	94.0	103.2
<i>Annual change (%)</i>	4.9	-7.3	-2.4	-0.3	10.1
Total Federal Government debt (as at end-period)	1,239.1	1,247.6	1,277.3	1,304.2	1,315.5
Domestic debt	944.8	964.9	993.7	1,006.4	1,027.6
External debt	294.3	282.7	283.7	297.7	287.9
<i>Non-resident holdings of RM-denominated debt</i>	272.1	259.4	260.3	278.1	268.7
<i>Offshore borrowing</i>	22.2	23.4	23.4	19.6	19.2

<sup>P</sup> Preliminary<sup>1</sup> Figures may not add up due to rounding.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia