

Global Economic Outlook

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.

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.

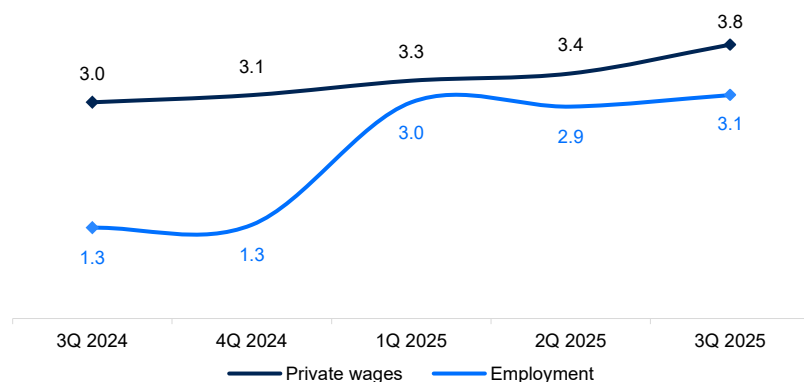
Macroeconomic Outlook

Domestic Demand Conditions

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

Private sector wages and employment

Annual change, %



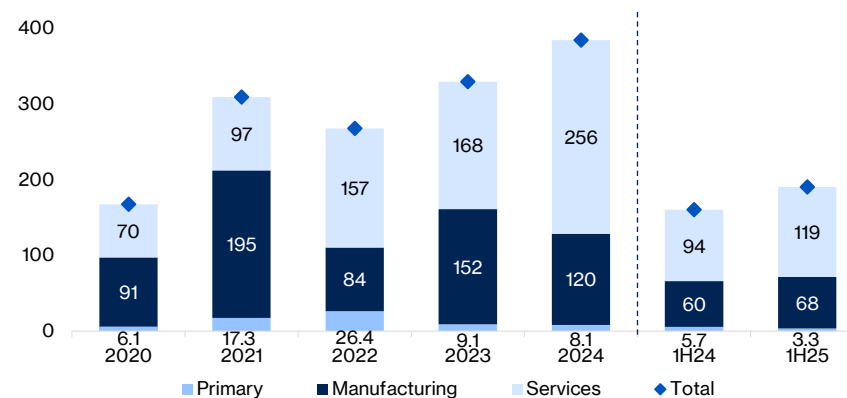
- **Private consumption is expected to continue expanding** amid continued growth in wages, further supported by income-related policy measures including minimum wage increment and Civil Servant Salary Revision.
- While more moderate external demand may weigh on wages in the export-oriented sectors, 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)

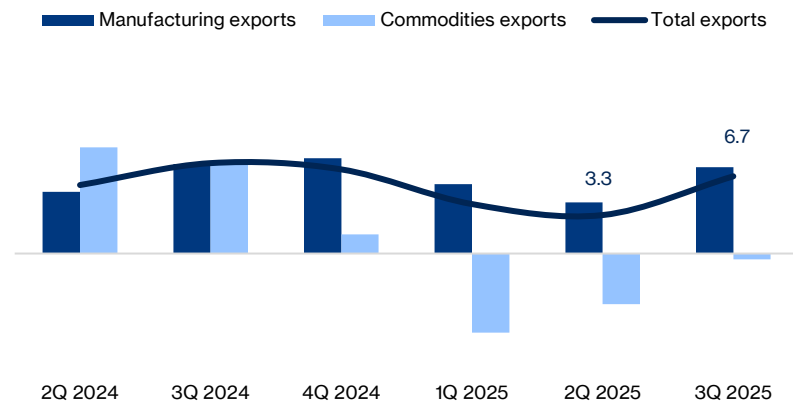
Macroeconomic Outlook

External Demand Conditions

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

Gross exports growth

Annual change, %



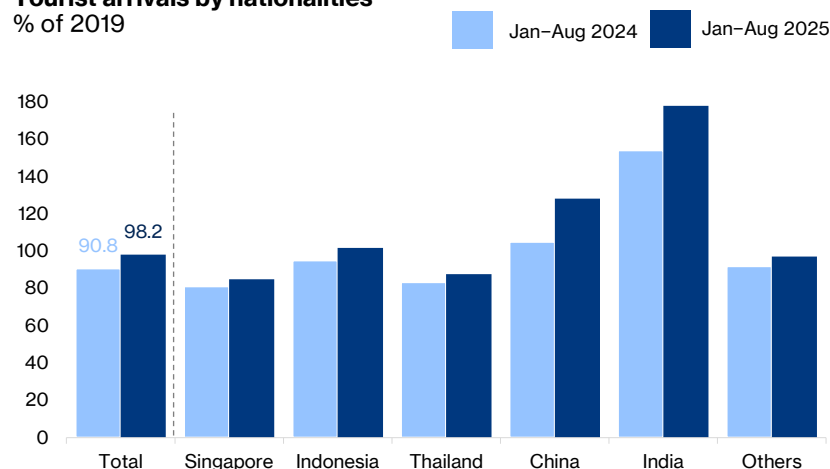
- **Outlook for exports will be weighed by tariff impact.**
- Nevertheless, the resilience of the E&E sector, underpinned by continued AI-related demand and Malaysia's key role in the E&E global value chain, will support export growth.
- In addition, the recovery in mining-related exports following completion 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 moderate¹ amid steady domestic demand, stable labour market conditions, and favourable supply conditions.

¹ 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.