

Economic, Monetary and Financial Developments in 2025

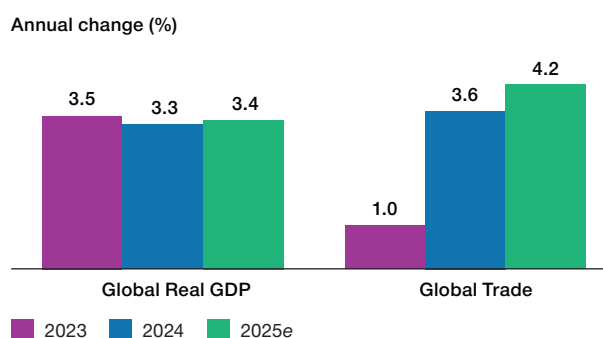
2025: Malaysian economy recorded a stronger growth, driven by resilient domestic demand

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

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

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

Chart 1.1: Global Real GDP and Trade Growth



e Estimate

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

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

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

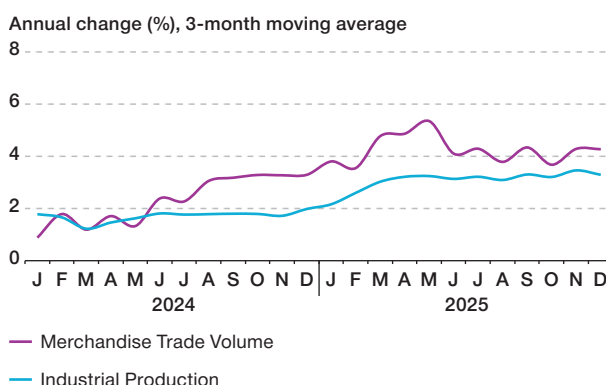
Regional economies showed resilience despite global trade challenges. In China, production and demand were supported by strong frontloading activity early in the year and the government's trade-in programme for household durables. However, growth remained modest compared to the previous year due to ongoing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

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

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

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

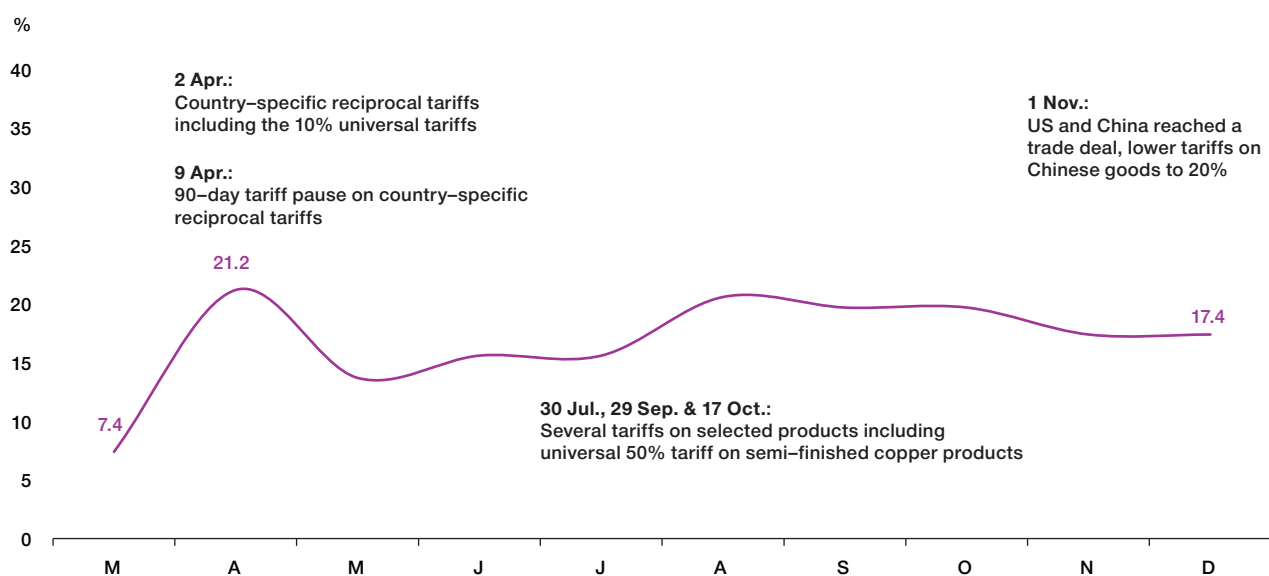
Chart 1.3: Global Merchandise Trade Volume and Industrial Production Growth



Source: CPB Netherlands Bureau for Economic Policy Analysis

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

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



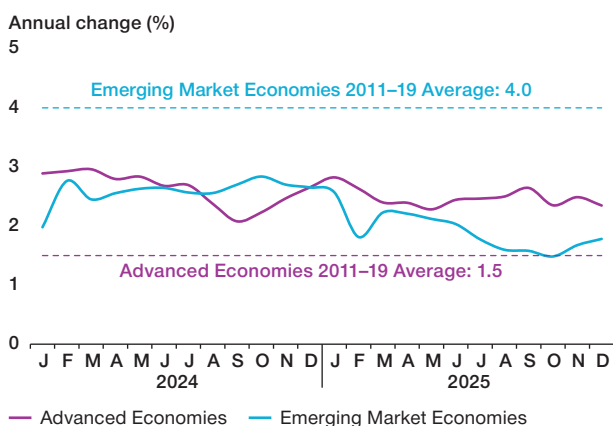
Source: World Trade Organization (WTO), The White House and Peterson Institute for International Economics

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

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

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

Chart 1.4: Global Headline Inflation



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

Source: National authorities and Bank Negara Malaysia estimates

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

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

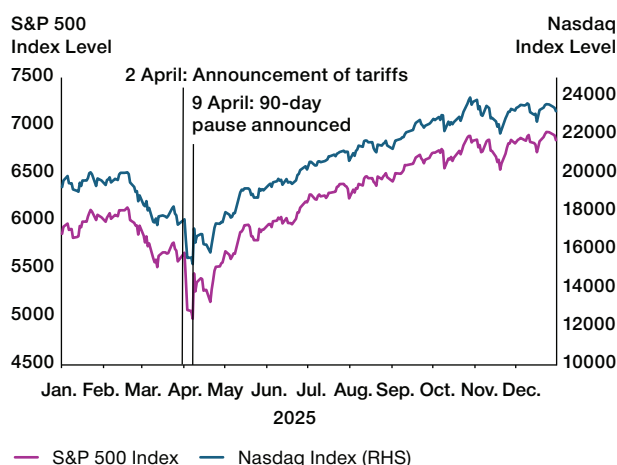
The year began with expectations that global financial conditions would continue easing – in line with the trend seen towards the end of 2024 – driven by more accommodative monetary policy in major economies. However, this easing trend saw a reversal early in 2025 given the challenging external environment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

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

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

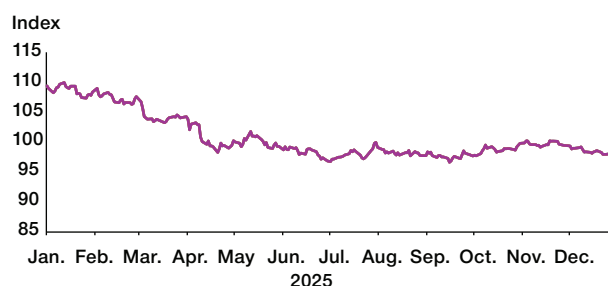
The 90-day tariff pause, announced just one week after the initial announcement of tariffs, alongside subsequent announcements of trade deals with selected countries offered reprieve, reducing uncertainties and improving sentiment. Risk assets rebounded from the earlier sell-off, demonstrated by US equities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

Chart 1.5: S&P 500 and Nasdaq Index



Source: Bloomberg

Chart 1.6: US Dollar Index (DXY)



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

Source: Bloomberg

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

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

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

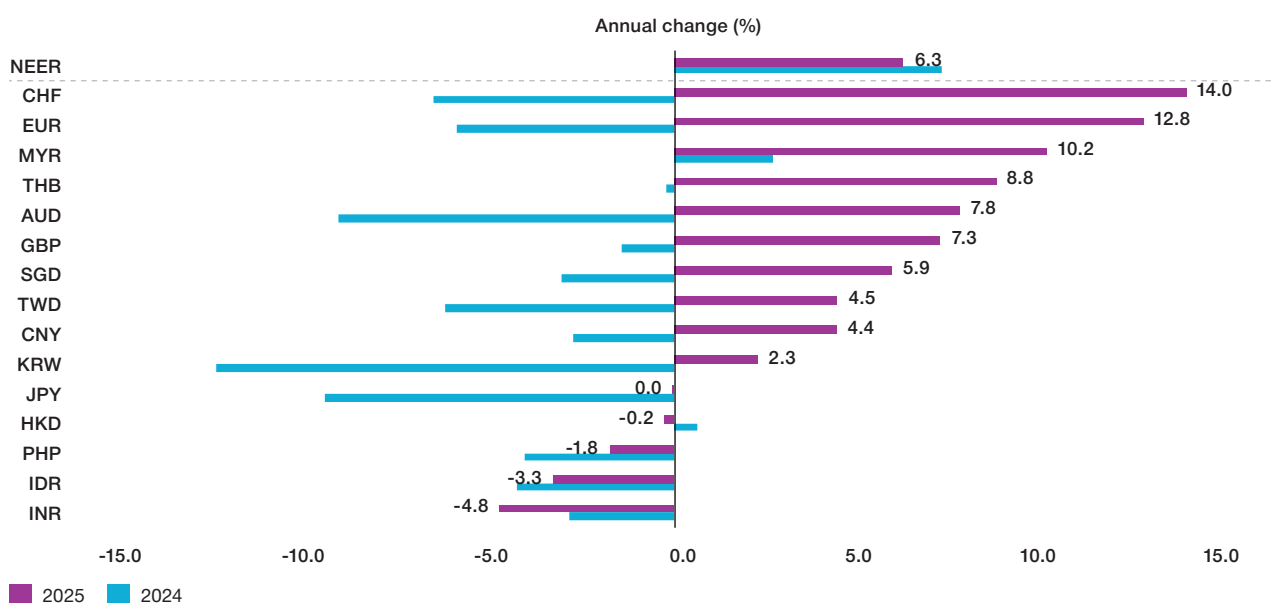
Domestic financial markets were heavily influenced by the shifts in capital flows in 2025, as investors moved away from US assets amid trade-related uncertainties and global monetary policy easing. Amid this challenging global environment, Malaysia emerged as an attractive investment destination in 2025.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

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

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

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

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

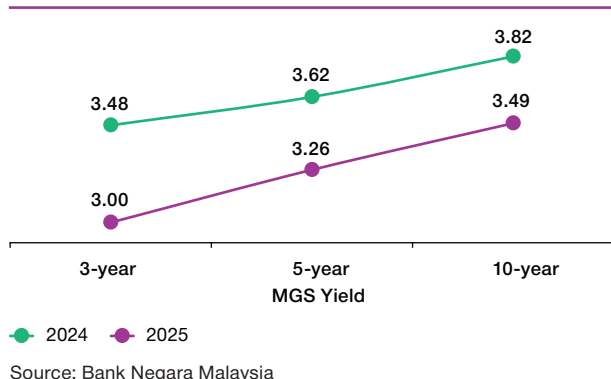


Note: (+) indicates an appreciation of currencies against the US dollar. NEER shows the value of the ringgit against a trade-weighted basket of Malaysia’s major trading partners’ currencies.

Source: Bank Negara Malaysia

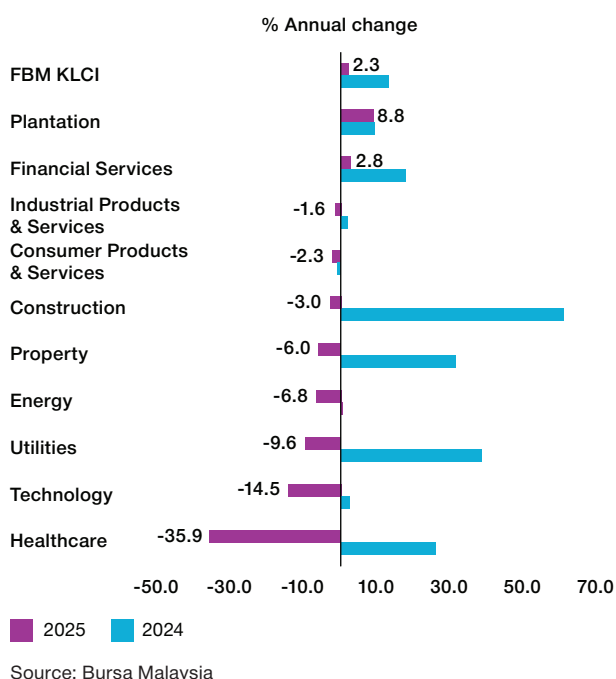
the first half of 2025, in line with other regional peers. This was followed by a further decline as markets anticipated and adjusted to the OPR cut in July. Continued inflows in the second half of 2025 reinforced this trend. For 2025 as a whole, the 3-year, 5-year and 10-year MGS yields decreased by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

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



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

Chart 1.9: Performance of FBM KLCI and Sectoral Stock Indices

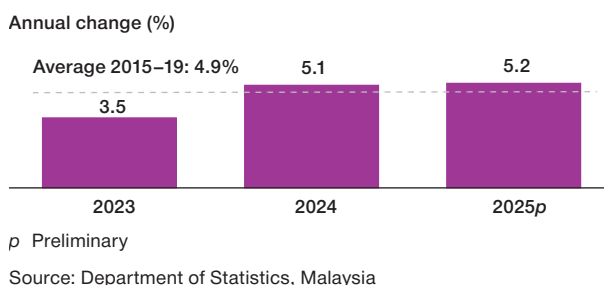


supported by strong domestic corporate earnings, especially in the plantation and financial services sectors. Overall, the KLCI increased by 2.3% (2024: 12.9%) to close at 1680.1 points (Chart 1.9).

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

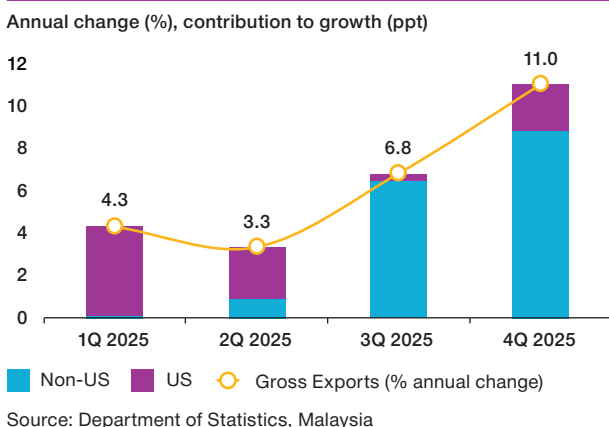
In 2025, Malaysia navigated a highly challenging global landscape marked by significant uncertainties and changing global trade dynamics. These developments affected exports performance and investment decisions. Despite these headwinds, the external sector remained resilient, supported mainly by E&E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

Chart 1.10: Malaysia's Real GDP Growth



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

Chart 1.11: Gross Exports by Country

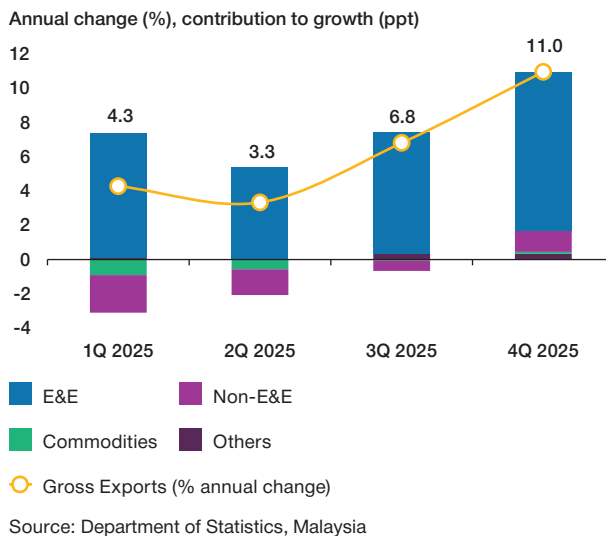


Throughout 2025, Malaysia’s gross exports were supported by resilient performance in the E&E segment, driven by rising global technology demand and the rapid proliferation of AI-related applications. This contributed to higher demand and growth for exports of semiconductor, computer as well as machinery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

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

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

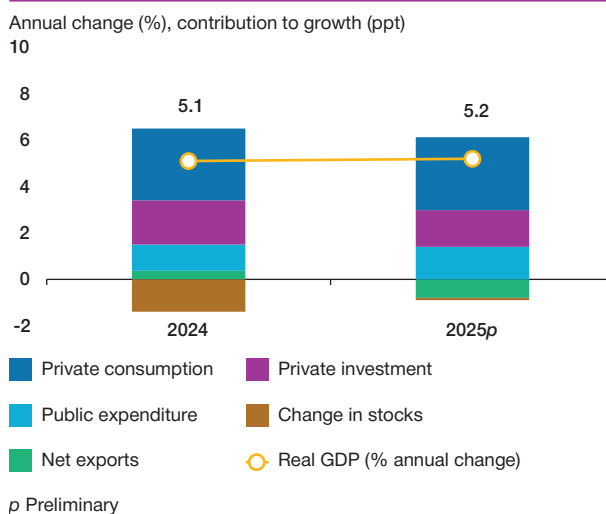
Chart 1.12: Gross Exports by Products



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

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

Chart 1.13: Real GDP by Expenditure



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

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

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

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

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

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

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

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

Table 1.1

Malaysia - Key Economic Indicators

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

¹ Exclude stocks.

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

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

^p Preliminary

^f Forecast

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

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

Table 1.2

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

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

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

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

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

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

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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

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

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

Table 1

Real GDP by Expenditure (2015=100)

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

* Excluding stocks

^p Preliminary

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

Source: Department of Statistics, Malaysia

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

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

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

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

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

Growth was driven by services and manufacturing sectors

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

Table 2

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

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

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

p Preliminary

Source: Department of Statistics, Malaysia

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

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

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

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

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

Resilient labour market conditions in 2025

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

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

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

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

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

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

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

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

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

Table 3

Selected Labour Market Indicators

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

^p Preliminary

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

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

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

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

Current and financial accounts of the balance of payments

External sector remained resilient in 2025

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

Table 4

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

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

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

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

p Preliminary

r Revised

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

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

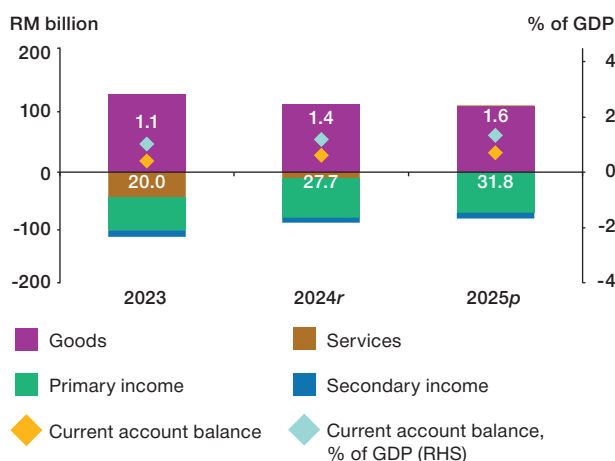
The services account turned around to record a surplus of RM1.2 billion in 2025 (2024: -RM11.7 billion), supported by higher travel receipts of RM110.6 billion (2024: RM95.3 billion) on account of higher tourist arrivals, which rose to 26.6 million persons (2024: 25 million persons). The increase in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

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

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

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

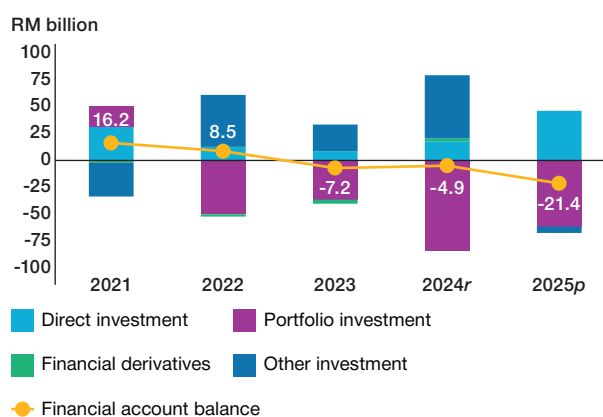
Chart 1: Current Account Balance



p Preliminary
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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Chart 2: Financial Account Flows by Key Components



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Source: Department of Statistics, Malaysia and Bank Negara Malaysia

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

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

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

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

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

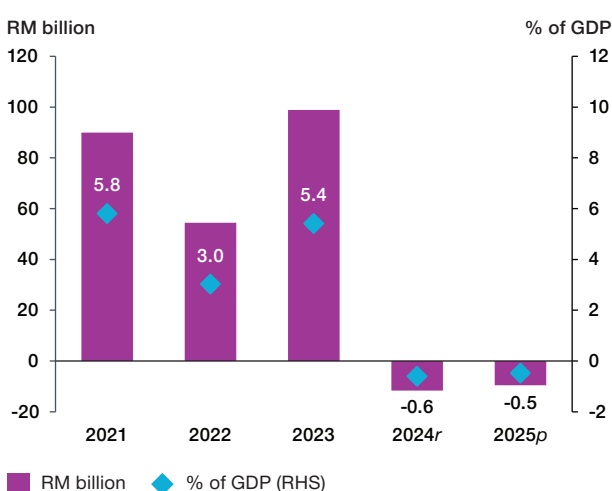
¹¹ 'Out-out' refers to the placement of externally sourced funds with external counterparties.

Improvement in Malaysia’s net international investment position

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

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

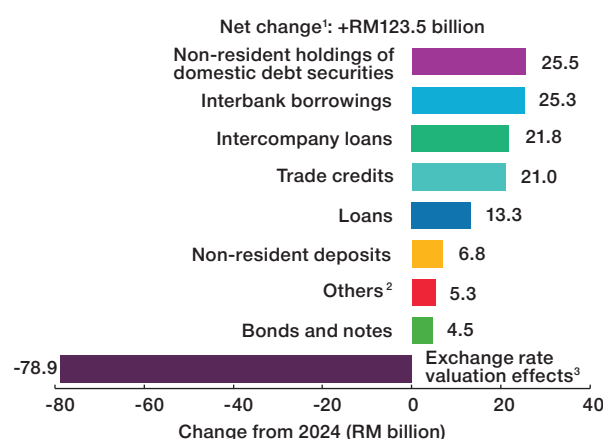
Chart 3: Net International Investment Position (IIP)



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Source: Department of Statistics, Malaysia

Chart 4: Changes in External Debt



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

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

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

Note: Figures may not add up due to rounding.

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

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

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

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

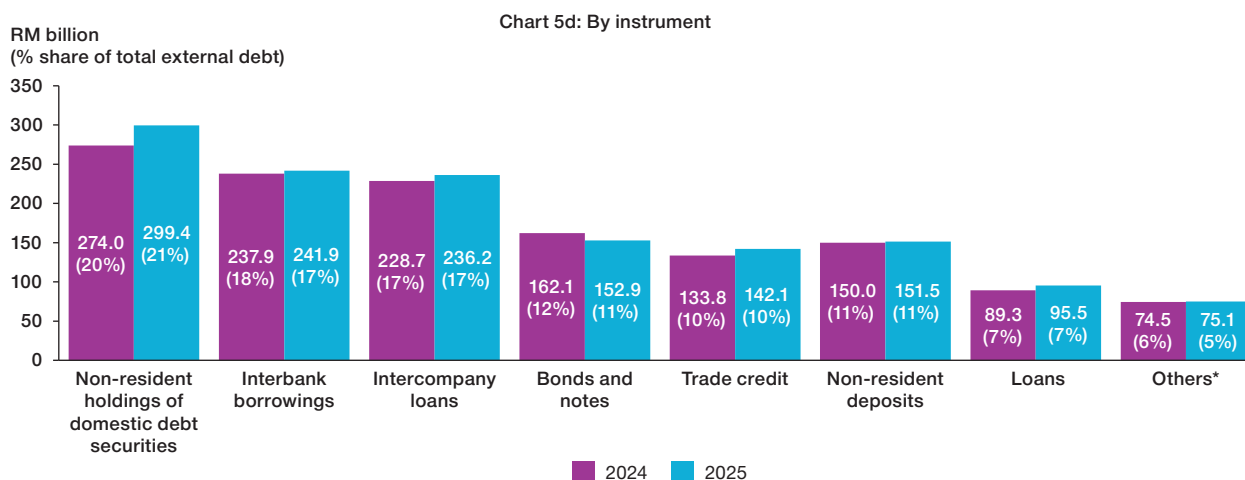
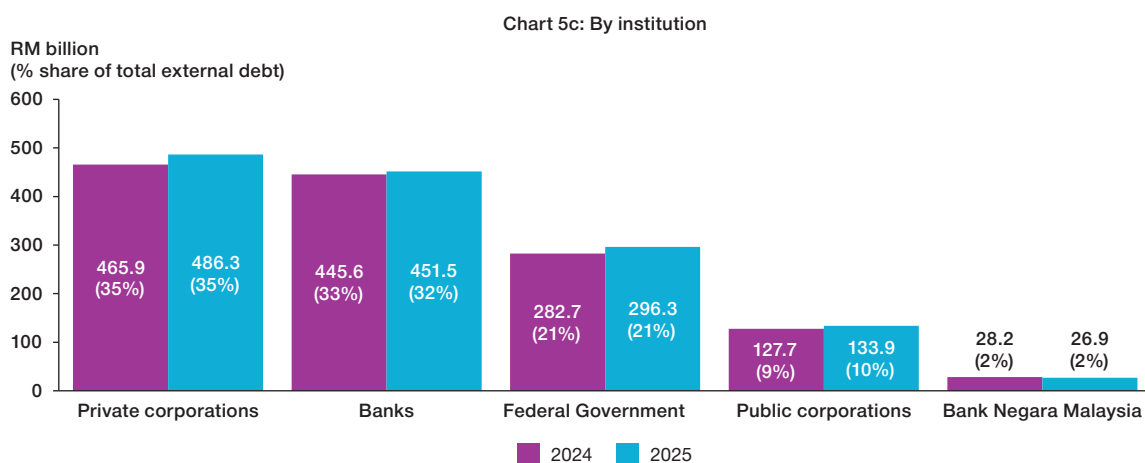
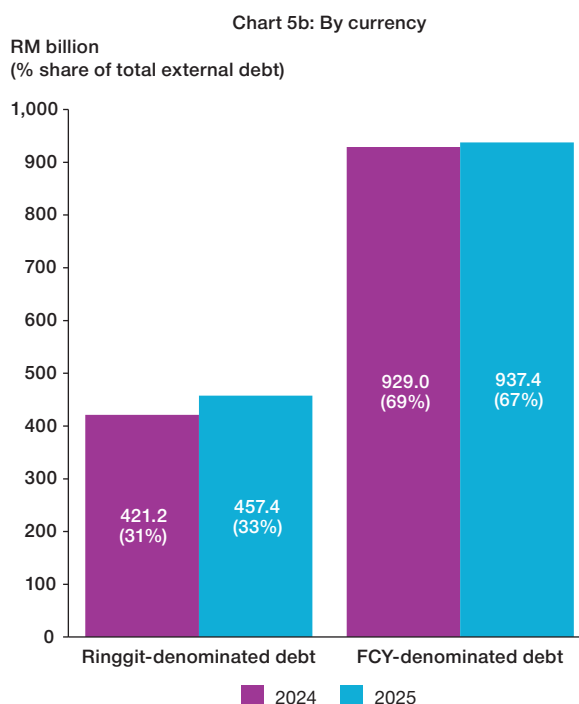
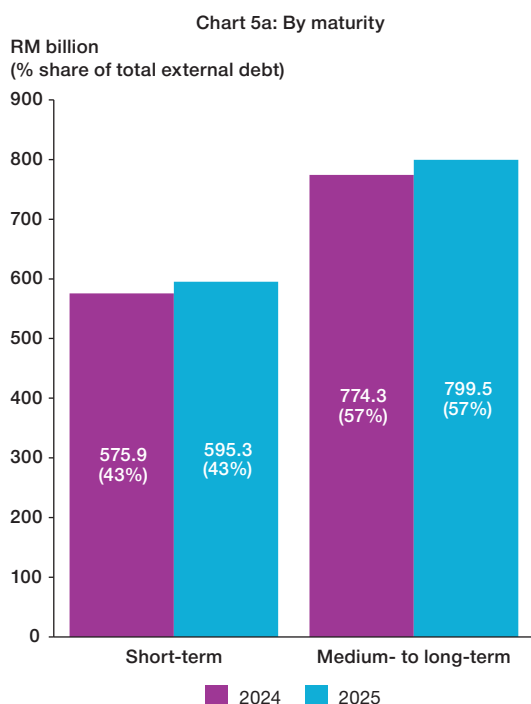
Risks surrounding Malaysia's external debt remained contained, premised upon the favourable maturity and currency profiles of the debt. First, a high share of medium- and long-term external debt (57.3%; 2024: 57.4%) reduces rollover risks (Chart 5a). Meanwhile, Malaysia's short-term external debt (42.7%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

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

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

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

Chart 5: Profile of External Debt



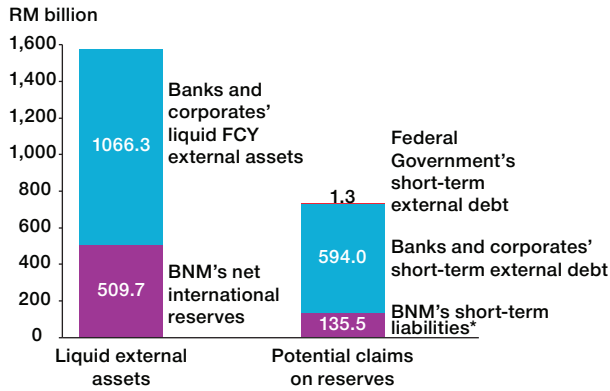
* Comprises IMF allocation of Special Drawing Rights (SDRs) and other debt liabilities, such as insurance claims yet to be disbursed and interest payables on bonds and notes.

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

Source: Bank Negara Malaysia

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

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



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

Source: Bank Negara Malaysia

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

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

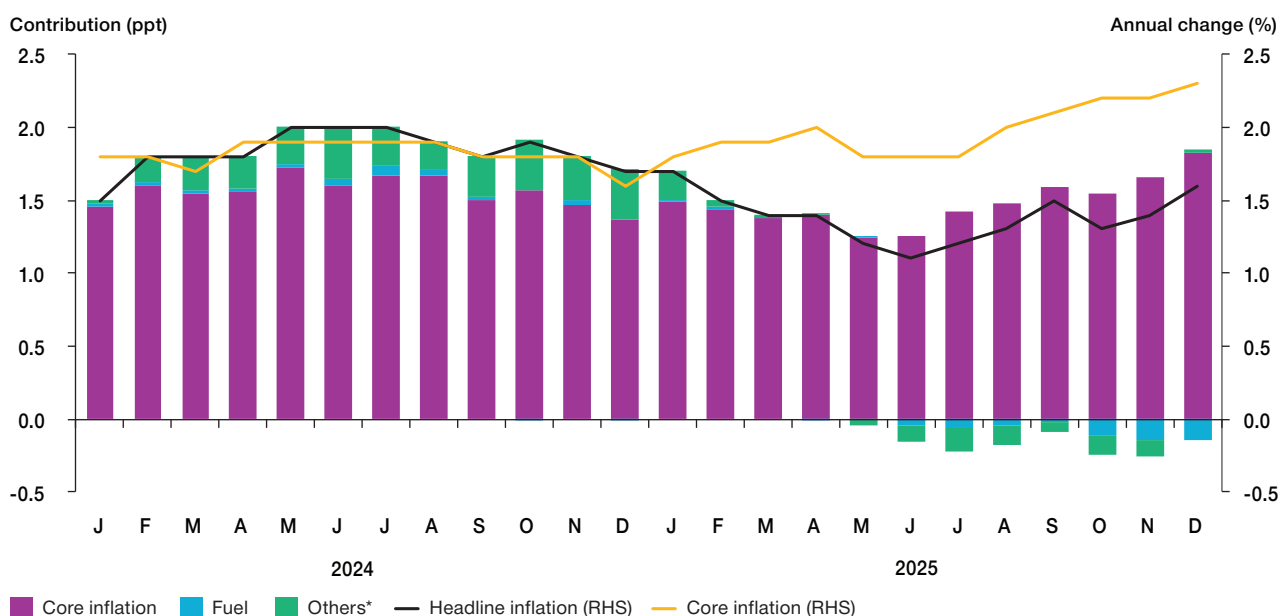
Headline inflation moderated further in 2025, averaging at 1.4% (2024: 1.8%), below its historical average (2011–19 average: 2.2%). This slowdown was largely driven by a continued improvement in global supply conditions and the disinflationary impact from selected domestic policy adjustments. Lower global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

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

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

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

Chart 1.14: Contribution to Headline Inflation by Components



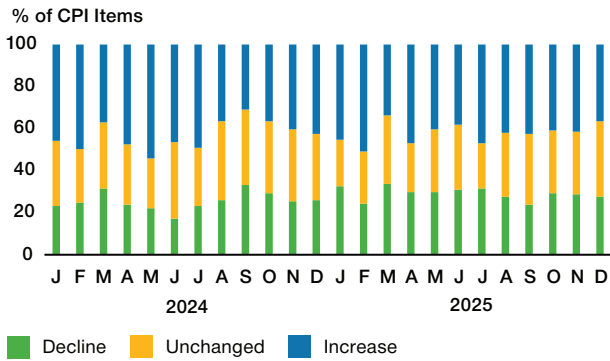
* Others include price-volatile items and other price-administered items (excluding fuel).

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

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

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

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



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

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

Monetary policy is supportive of the economy amid price stability

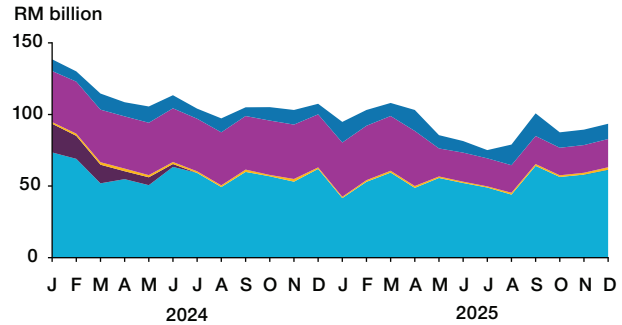
In 2025, the Overnight Policy Rate (OPR) was reduced by 25 basis points to 2.75% in July as a pre-emptive measure to preserve Malaysia’s steady growth path in a challenging external environment amid domestic price stability.

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

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

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

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



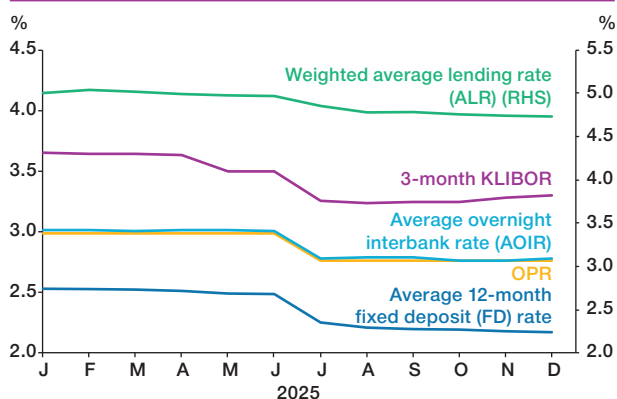
- Money Market Borrowings (excluding repos)
- Bank Negara Monetary Notes and Bank Negara Interbank Bills
- Repos
- Statutory Reserve Requirement (SRR)
- Others

Source: Bank Negara Malaysia

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

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

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



Source: Bank Negara Malaysia and Bloomberg

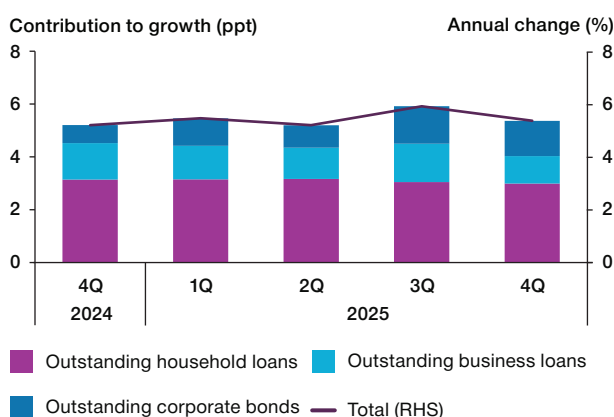
Continued expansion of credit to the private non-financial sector amid a resilient domestic economy and lower OPR

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

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

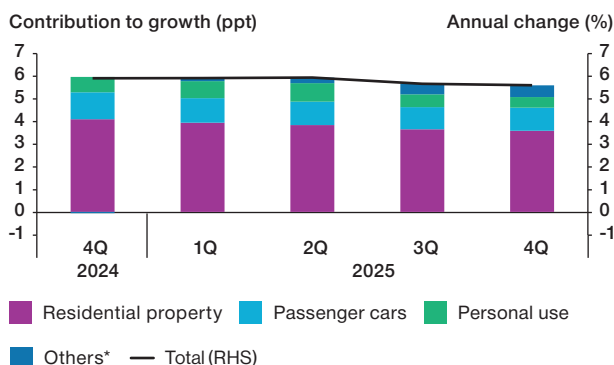
For businesses, growth in outstanding loans moderated to 3.9% (2024: 5.2%) (Chart 1.20). This is mainly following slower growth in working capital loans among non-SMEs,

Chart 1.18: Credit to the Private Non-Financial Sector



Source: Bank Negara Malaysia

Chart 1.19: Households – Outstanding Loans by Purpose



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

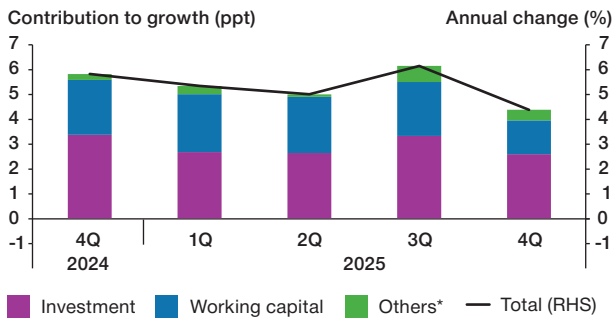
Source: Bank Negara Malaysia

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

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

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

Chart 1.20: Businesses – Outstanding Loans by Purpose



* Includes purchase of securities, credit card and others.

Source: Bank Negara Malaysia

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

Disentangling Malaysia's Value Chains in the Age of Turbulence

Introduction

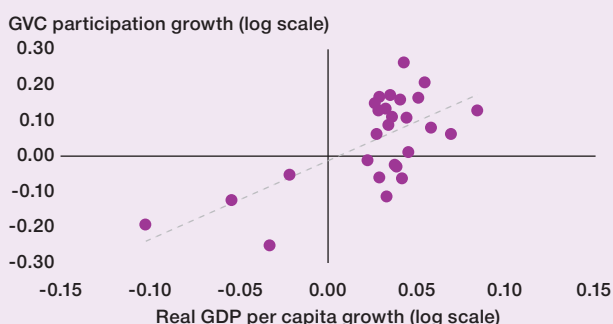
Malaysia is deeply integrated into global value chains (GVCs), with GVC-related activities accounting for more than half of the country's exports.¹ The high level of participation in GVCs has supported export growth and strengthened Malaysia's role as a key supplier within both regional and global production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

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

Malaysia retains a strong foothold in global value chains

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

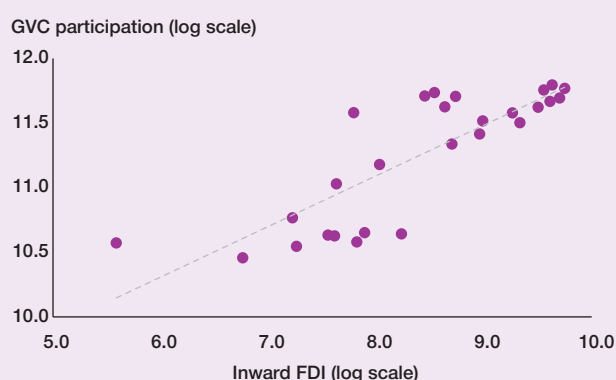
Chart 1: Positive Relationship between GVC Participation and Income Growth Rates in Malaysia, 1996 to 2022



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

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

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



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

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

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

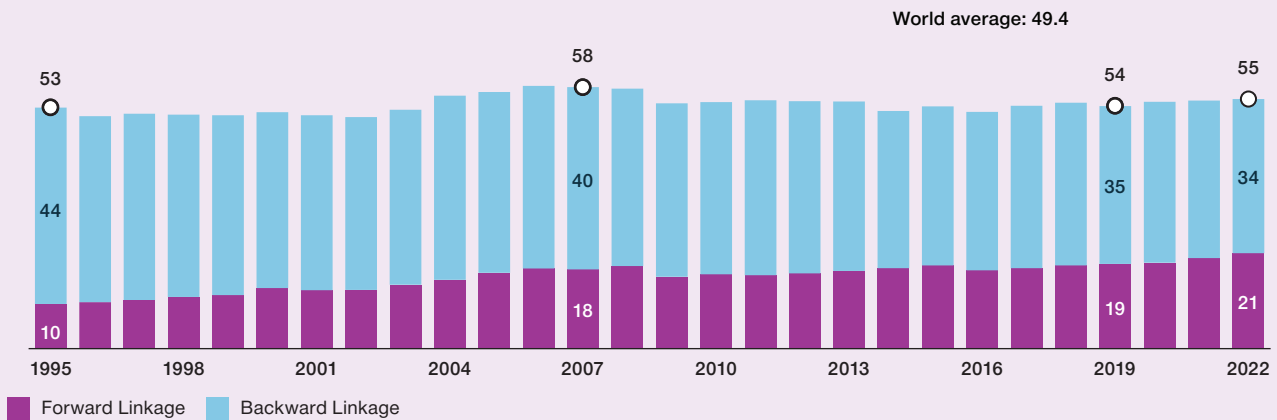
² Malaysia's total trade accounting for 136.4% of nominal GDP in 2025.

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

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

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

Share of Gross Exports (%)

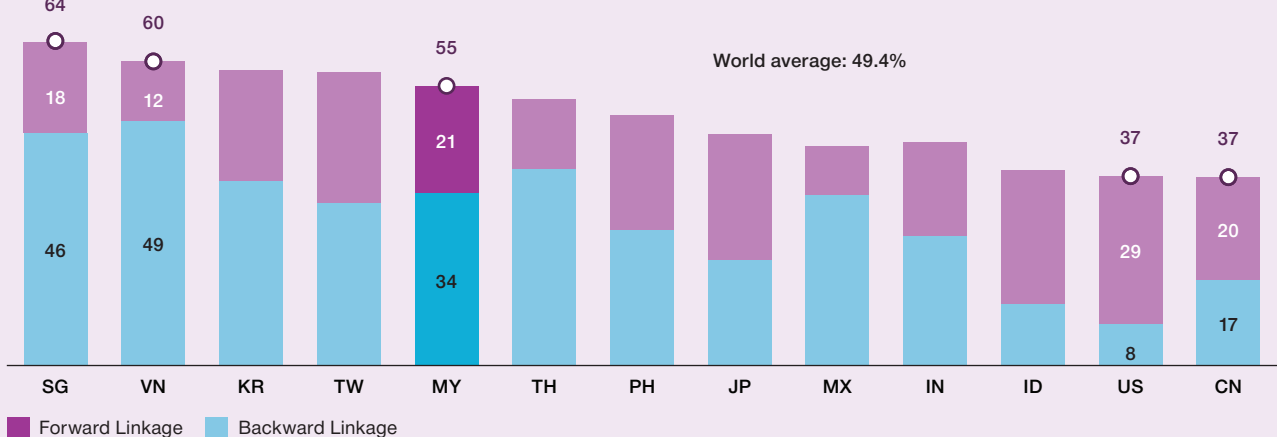


Note: 1. Forward linkages refer to domestic value added embodied in foreign exports; backward linkages refer to foreign value added embodied in Malaysia's exports.
 2. Estimates are based on OECD Trade in Value Added (TiVA) principal indicator shares.

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

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

Share of Gross Exports (%)



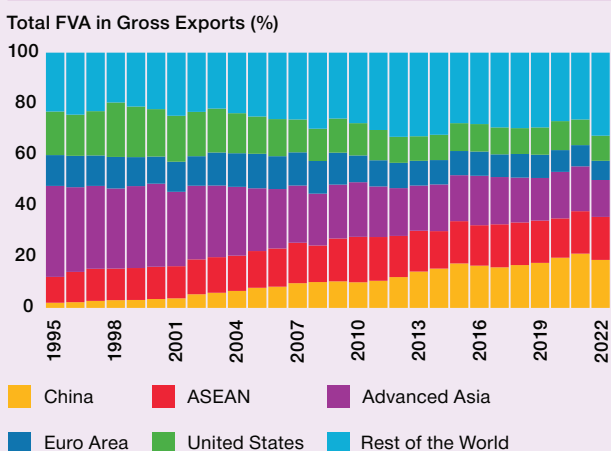
Note: CN = China, ID = Indonesia, IN = India, JP = Japan, KR = Korea, MX = Mexico, MY = Malaysia, PH = Philippines, SG = Singapore, TH = Thailand, TW = Chinese Taipei, US = United States, VN = Vietnam

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

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

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

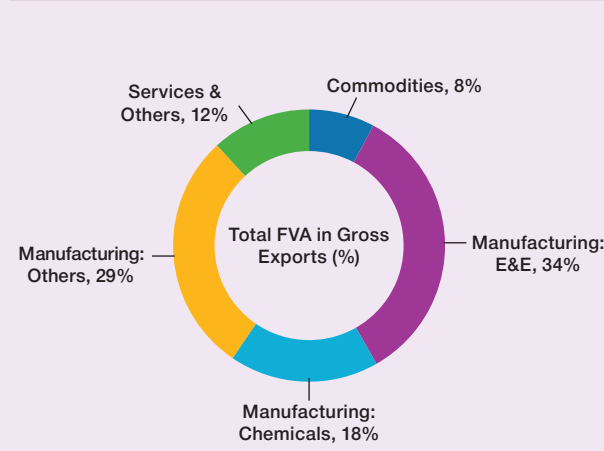
Chart 5: FVA in Malaysia’s Gross Exports by Market (2022)



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

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

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



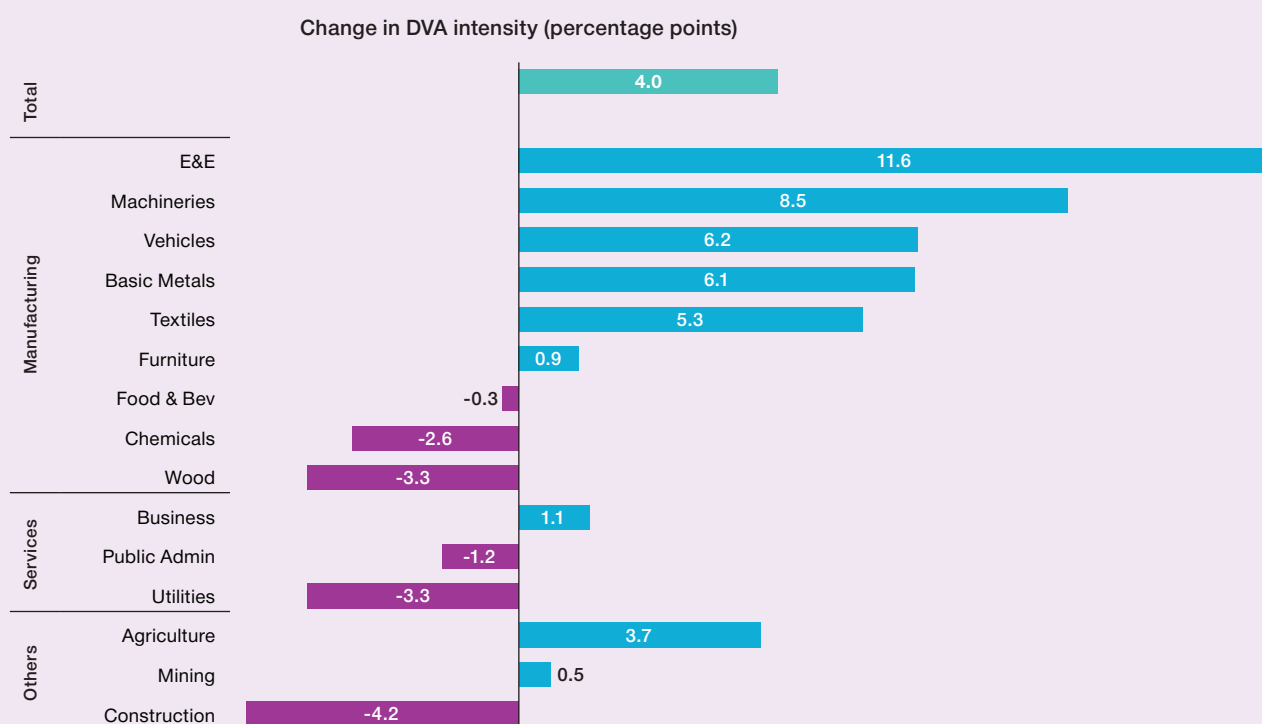
Note: Commodities refer to mining and agriculture.

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

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

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

Chart 7: Difference in DVA Intensity between 2010 and 2022



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

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

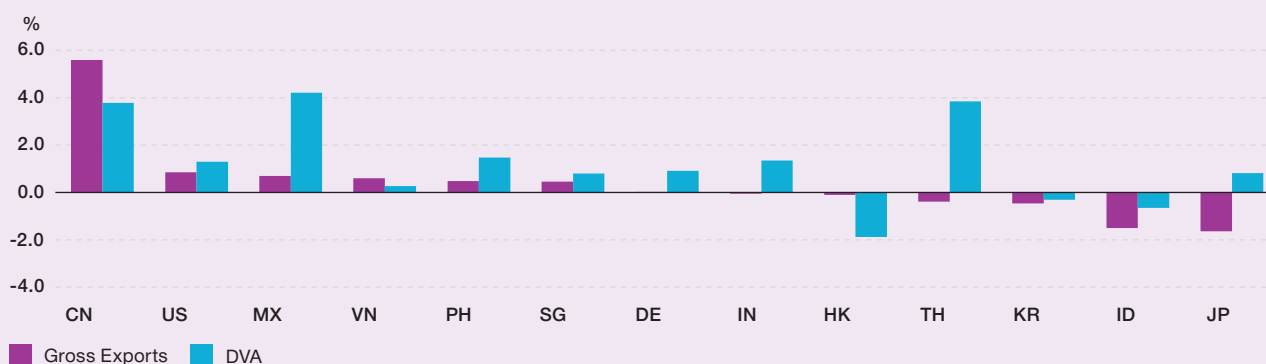
Of significance, increases in Malaysia's DVA have not always moved in tandem with changes in gross export shares across partner markets. In several destinations, DVA intensity has risen more rapidly than export shares, indicating improvements in value capture within existing trade relationships rather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

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

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

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

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



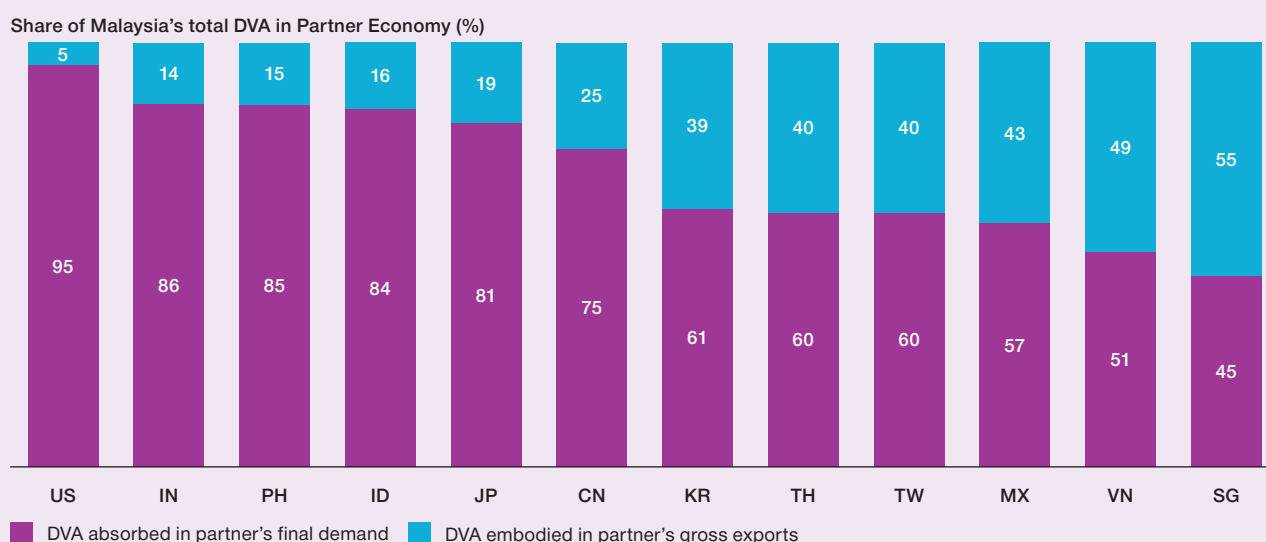
Note: 1. Change in gross export shares and DVA intensity by market.
 2. CN = China, DE = Germany, HK = Hong Kong, ID = Indonesia, IN = India, JP = Japan, KR = Korea, MX = Mexico, PH = Philippines, SG = Singapore, TH = Thailand, TW = Chinese Taipei, US = United States, VN = Vietnam

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

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

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

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



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

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

Cyclical tariff headwinds: Malaysia's GVC resilience holds firm

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

Chart 10: Domestic Exports by Country

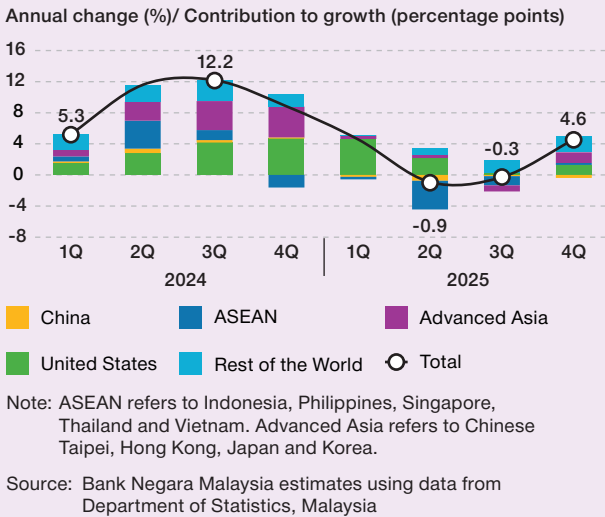
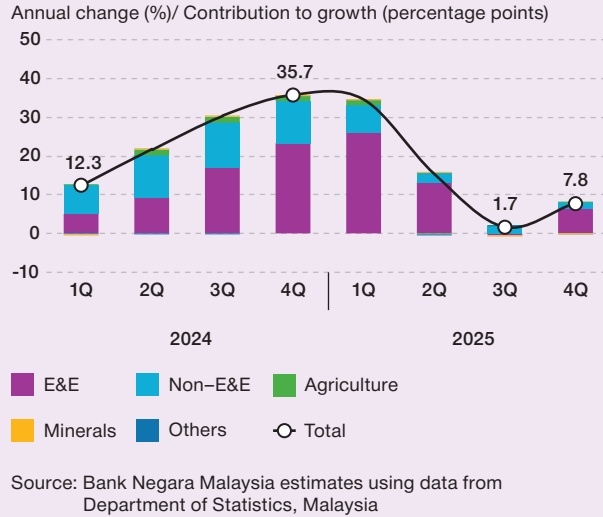


Chart 11: Domestic Exports to US by Product



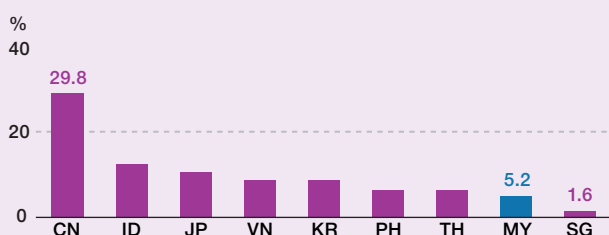
This growth was driven mainly by E&E products (Chart 11), which accounted for more than half of the increase in export receipts. In addition to being exempted from tariffs, the strong shipments of semiconductor devices and integrated circuits reflect Malaysia's integrated role in the global technology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

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

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

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

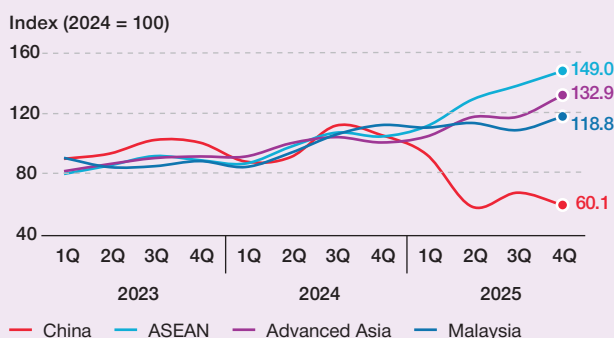
Chart 12: Effective Tariff Rate on US Imports in 2025 by Country



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

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

Chart 13: US Imports by Market



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

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

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

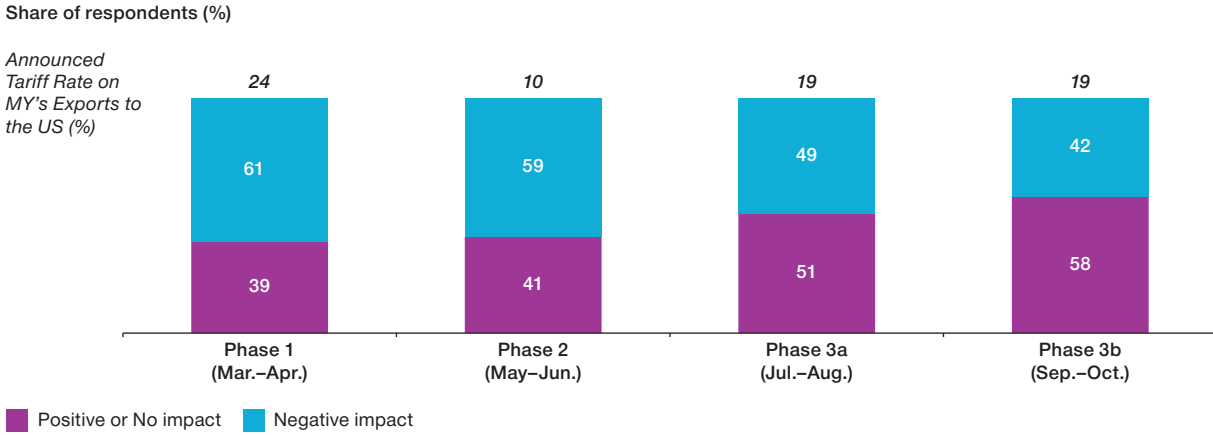
2025 was a year marked by increased uncertainties following the imposition of tariffs by the US. Given the volatile external environment, BNM conducted periodic industrial engagements with export-oriented firms in Malaysia to monitor the impact of US tariffs on Malaysia’s exports amid several tariff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

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

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

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

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



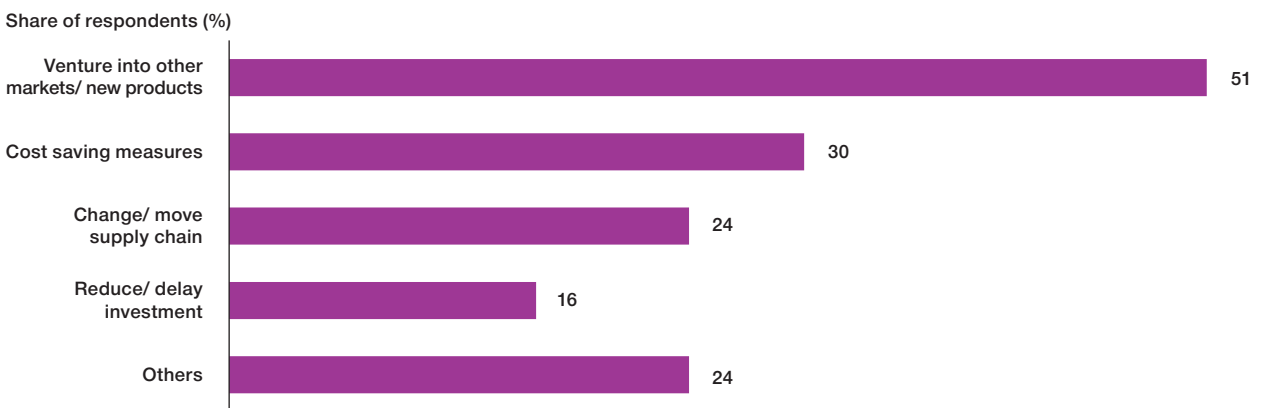
Note: 1. Phase 1 refers to the initial shock when the US announced tariffs on selected imported goods (e.g. steel, aluminium, automobile and automobile parts) in March 2025, followed by a 24% reciprocal tariff on goods imported from Malaysia on 2 April 2025.
 2. Phase 2 refers to the suspension of country-specific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

Source: Bank Negara Malaysia

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

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

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



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

Source: Bank Negara Malaysia

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

a) Between Two Giants: Malaysia’s Demand Exposure

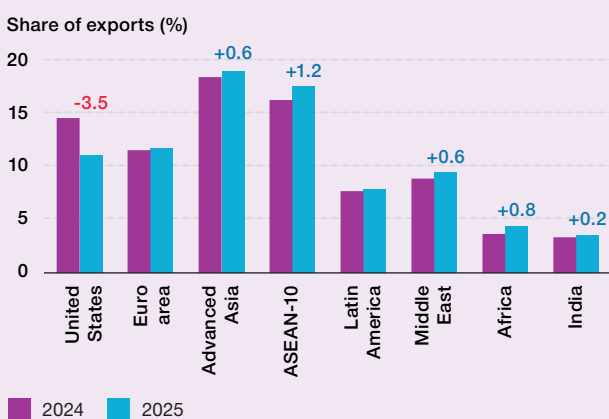
Deep GVC integration has helped cushion the Malaysian economy against recent tariff shocks. However, rising protectionism and global industrial policies, that operate along value-chain lines, are reshaping production networks rather than merely altering bilateral trade flows (IMF, 2023). At the same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

b) Shifting Tides in Global Supply

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

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

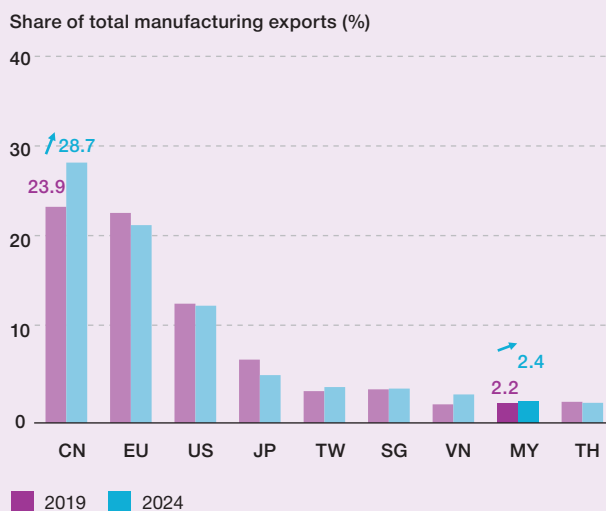
Chart 14: China’s Export Share by Market



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

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

Chart 15: Share of Global Manufacturing Exports



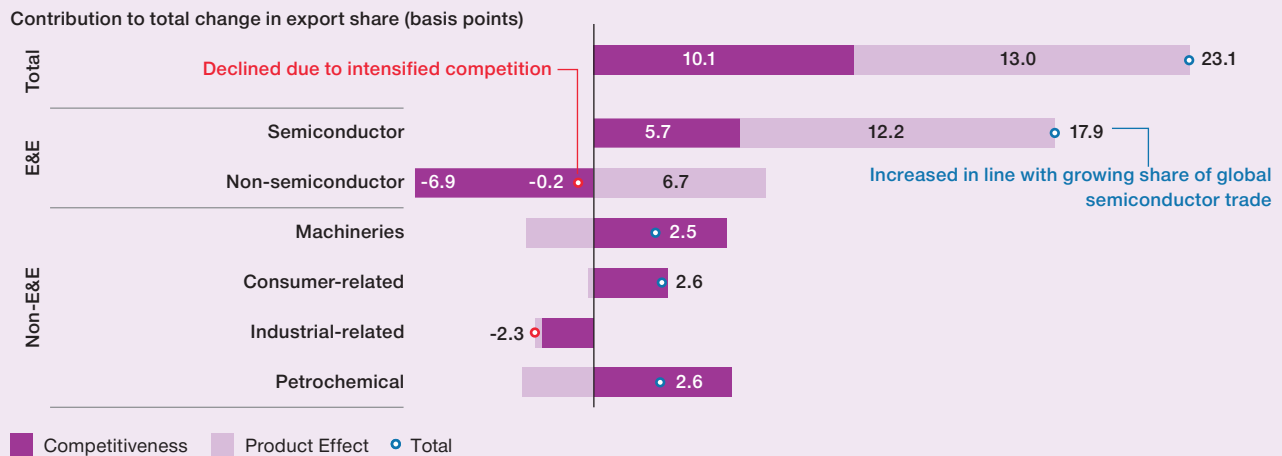
Note: CN = China, EU = European Union, US = United States of America, JP = Japan, TW = Chinese Taipei, SG = Singapore, VN = Vietnam, MY = Malaysia, TH = Thailand

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

c) Risks from Riding Cyclical Tailwinds

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

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



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

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

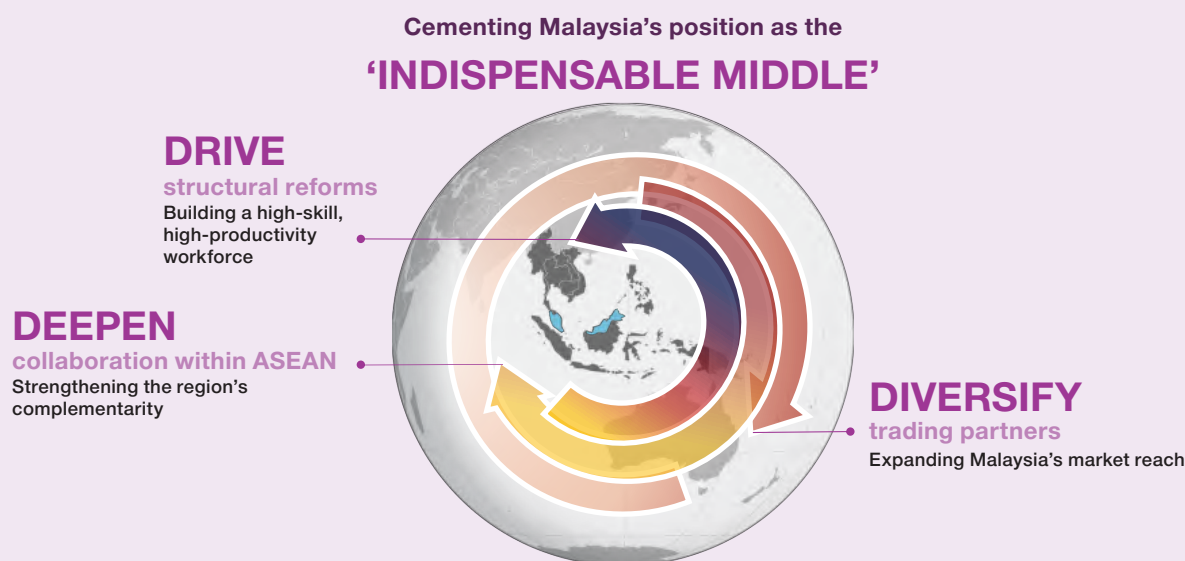
The strong do what they can, the weak adapt as they must:⁸ Cementing Malaysia’s position as the ‘indispensable middle’⁹

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

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

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

Diagram 1: Policy Considerations



Source: Bank Negara Malaysia

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

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

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

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

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

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

¹¹ Malaysia–United Arab Emirates Comprehensive Economic Partnership Agreement.

¹² Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

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

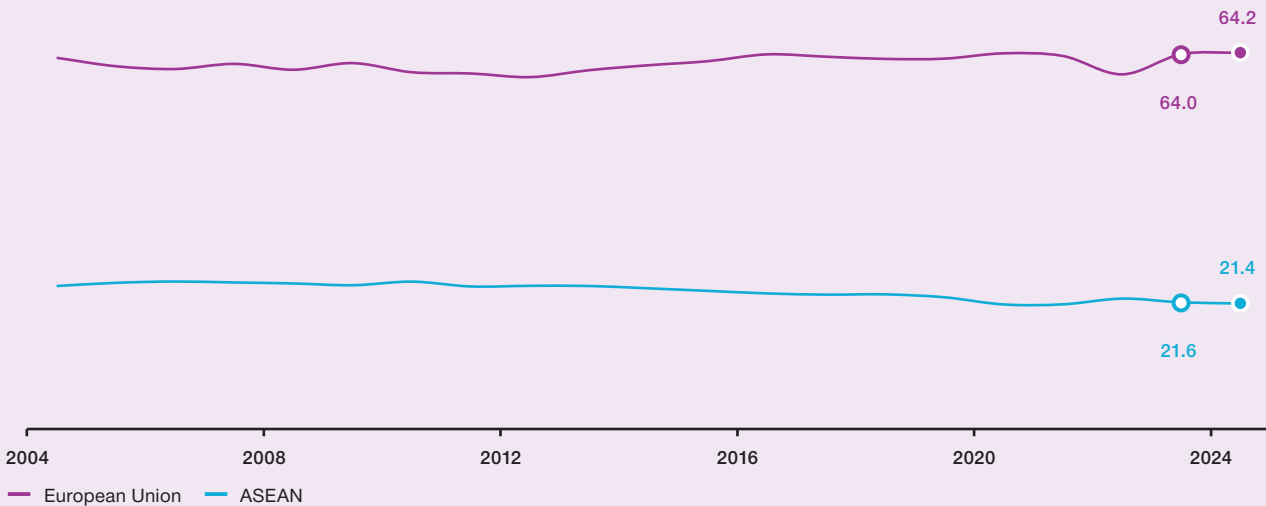
Focus 2: Deepen collaboration within ASEAN: Strengthening the region's complementarity

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

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

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

Share of total trade (%)



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

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

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

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

¹⁴ Source: ASEANstats, Eurostat

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

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

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

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

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

Conclusion

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

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

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

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

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

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