



SERC SDN BHD
Socio-Economic Research Centre

QUARTERLY ECONOMY TRACKER

**The Future Ahead: Malaysia in a
Changing Landscape**

12 August 2025



**Apr-Jun
2025**

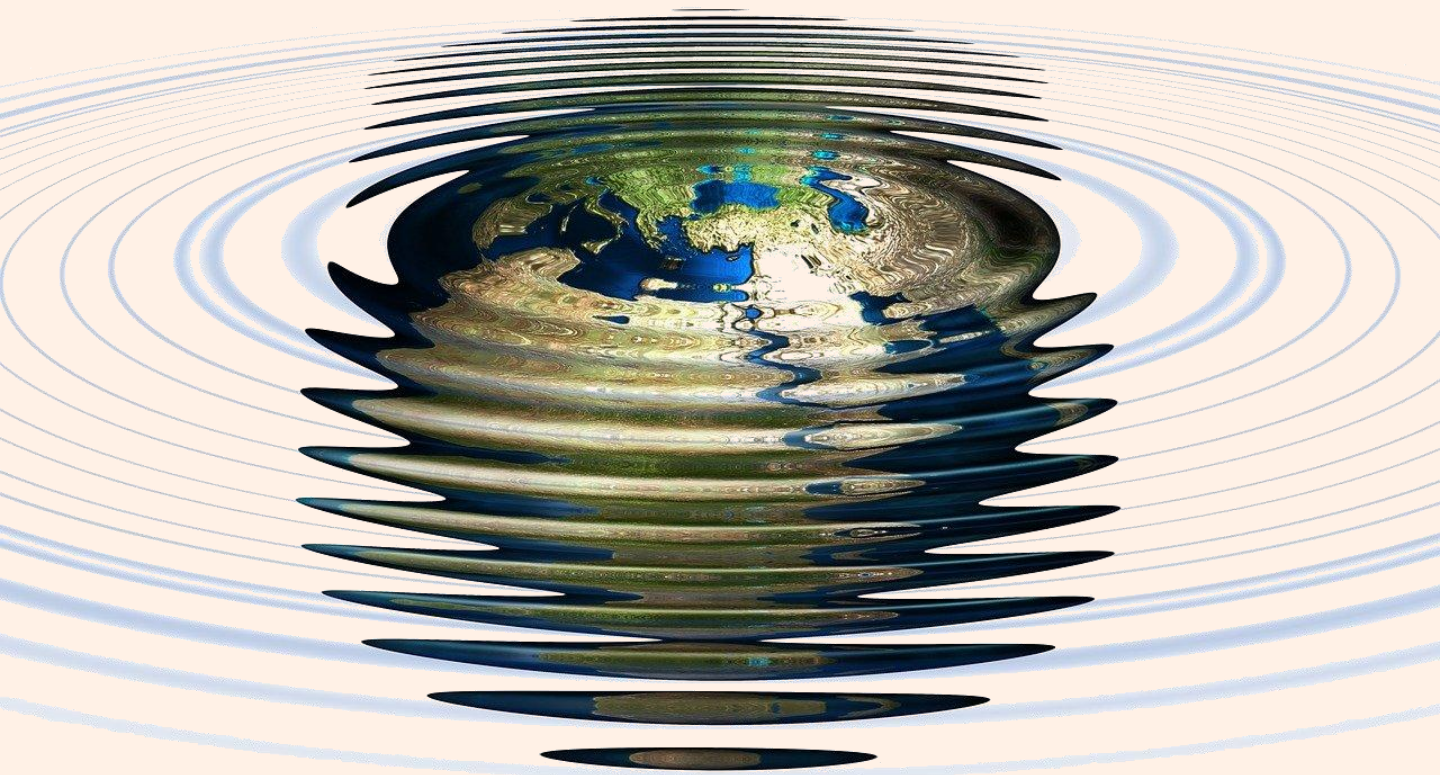


World Economic Outlook Update

POLICY UNCERTAINTIES CONTINUE TO WEIGH ON THE GLOBAL ECONOMY

- **Policy uncertainties remain.** The high frequency indicators showed a mixed bag of performance, indicating continued slowing global expansion in Q2 and 2H 2025, supported by positive labour market conditions, front-loading trade activities, less restrictive monetary policy and fiscal stimulus. Downside risks dominate the outlook in 2025-2026, as the US tariffs-induced trade tensions' impact on global growth, trade and investment continue to linger, weighing on business and consumer confidence as well as could lead to volatility in the global financial markets and commodity prices. Notwithstanding, the International Monetary Fund (IMF), in its World Economic Outlook (WEO) July update, has adjusted its GDP growth forecast marginally upward to 3.0% in 2025 (from 2.8% made in April) and 3.1% in 2026 (from 3.0%).
- **Uneven growth in major advanced economies.** The **US economy** has rebounded by a growth of 3.0% annualised qoq in Q2 2025 from a contraction of 0.5% annualised qoq and +1.5% yoy in Q1, attributed to a downturn in imports and an acceleration in consumer spending that were partly offset by a downturn in investment. The labour market has been remarkably stable since May 2024, with the jobless rate staying within a narrow range of 4.0% to 4.2%, consistent with full employment. Both headline and core inflation edged higher to 2.7% yoy and 2.9% yoy respectively in June (May: 2.4% and 2.8%, respectively), suggesting that tariffs triggered inflation may be starting to make their way through the system.
- The **eurozone's** real GDP growth grew modestly by 0.1% qoq (1.4% yoy in Q2 2025, vs. 0.6% qoq and 1.5% yoy in Q1), as the effect of temporary surge in demand ahead of the US tariffs waned. Growth in Germany and Italy has turned negative in Q2. Growth is projected to moderate in 2H 2025, due to the dampening effects of the US's 15% tariff on the EU imports. The European exporters are heavily reliant on the US market, especially in autos and pharmaceuticals. Nevertheless, increased defence spending and investment in infrastructure are expected to support the economy in 2026.
- **Japan's economy** showed zero growth in terms of qoq basis while expanded by 1.7% yoy in Q1 2025 (+0.6% qoq and +1.3% yoy in Q4 2024), supported by strong domestic demand amid a decline in net exports. However, rising food prices and the US tariffs are expected to dampen consumer spending and manufacturing output, especially in the auto sector.
- **China's economy** slowed to 5.2% yoy in Q2 2025 from 5.4% in Q1 amid monetary easing and consumption boosting measures while exports still growing at moderate pace as the US-China's trade tension lingers in 2H 2025. In June, retail sales growth slowed to 4.8% (6.4% in May), industrial output expanded by 6.8% (5.8% in May), likely due to the expectations of trade truce. Fixed investment in the real estate sector plunged 11.2% in the first six months.

- **The US Fed Reserve's interest rate path in focus.** Global monetary easing is underway though at varying pace as central banks move from restrictive to neutral policies on a gradual moderation in inflation on a global scale.
- Since January, the Fed has kept its key interest rate steady, at a range of 4.25% to 4.50%, in its July's meeting, continuing a wait-and-see approach as it observes potential effects of the Trump's tariffs policy. Markets are pricing in a likelihood that the Fed will cut its key Fed funds rate by 25 basis points (bps) at its September meeting, and will follow up with one more cut by the end of 2025.
- **Key risks to global outlook in 2025-2026** are elevated uncertainty and trade barriers as well as geopolitical conflicts could disrupt trade, energy supplies, investment flows and causes volatilities in global financial markets and commodity market. Rising public debt and fiscal imbalances in the US may limit policy flexibility and increase sovereign risk premiums. Renewed inflationary pressures could derail plans for monetary easing, prolong tightening cycles and increase borrowing costs.





Global Economic and Monetary Conditions

Real GDP growth (% , Y-o-Y)

	2023	2024	2025 Q1	2025 Q2	2025F (IMF)	2026F (IMF)	2025F (WB)	2026F (WB)
World	3.5	3.3	N/A	N/A	3.0	3.1	2.3	2.4
United States	2.9	2.8	2.0	2.0	1.9	2.0	1.4	1.6
Euro Area	0.6	0.9	1.5	1.4	1.0	1.2	0.7	0.8
China	5.2	5.0	5.4	5.2	4.8	4.2	4.5	4.0
Japan	1.4	0.2	1.7	N/A	0.7	0.5	0.7	0.8
India	9.2	6.5	7.4	N/A	6.4	6.4	6.3	6.5
Malaysia	3.6	5.1	4.4	4.5	4.5	4.0	3.9	4.3
Singapore	1.8	4.4	4.1	4.3	2.0	1.9	N/A	N/A
Indonesia	5.0	5.0	4.9	5.1	4.8	4.8	4.7	4.8
Thailand	2.0	2.5	3.1	N/A	2.0	1.7	1.8	1.7
Philippines	5.5	5.7	5.4	5.5	5.5	5.9	5.3	5.4
Vietnam	5.1	7.1	6.9	8.0	5.2	4.0	5.8	6.1

Note: World GDP growth for 2023-2024 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available

Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), World Bank (Global Economic Prospects)

Policy rate (%)

End-period of	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025* (Latest)	2025 F
US, FED Federal Funds Rate	0.25-0.50	0.50-0.75	1.25-1.50	2.25-2.50	1.50-1.75	0.00-0.25	0.00-0.25	4.25-4.50	5.25-5.50	4.25-4.50	4.25-4.50	3.75-4.00
Euro Area, ECB Deposit Facility	-0.30	-0.40	-0.40	-0.40	-0.50	-0.50	-0.50	2.00	4.00	3.00	2.00	2.00
Japan, BOJ Overnight Call Rate	0.00-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.25	0.50	0.75
China, PBC 1-Year Loan Prime Rate	4.35	4.35	4.35	4.35	4.15	3.85	3.80	3.65	3.45	3.10	3.00	3.00
UK, BOE Bank Rate	0.50	0.25	0.50	0.75	0.75	0.10	0.25	3.50	5.25	4.75	4.00	3.75
Australia, RBA Cash Rate	2.00	1.50	1.50	1.50	0.75	0.10	0.10	3.10	4.35	4.35	3.85	3.35
India, RBI Policy Repo Rate (LAF)	6.75	6.25	6.00	6.50	5.15	4.00	4.00	6.25	6.50	6.50	5.50	5.50
Korea, BOK Base Rate	1.50	1.25	1.50	1.75	1.25	0.50	1.00	3.25	3.50	3.00	2.50	2.25
Malaysia, BNM Overnight Policy Rate	3.00	3.00	3.00	3.25	3.00	1.75	1.75	2.75	3.00	3.00	2.75	2.75
Indonesia, BI BI-Rate	7.50	4.75	4.25	6.00	5.00	3.75	3.50	5.50	6.00	6.00	5.25	5.00
Thailand, BOT 1-Day Bilateral Repo Rate	1.50	1.50	1.50	1.75	1.25	0.50	0.50	1.25	2.50	2.25	1.75	1.50
Philippines, BSP Target RRP Rate	4.00	3.00	3.00	4.75	4.00	2.00	2.00	5.50	6.50	5.75	5.25	4.75

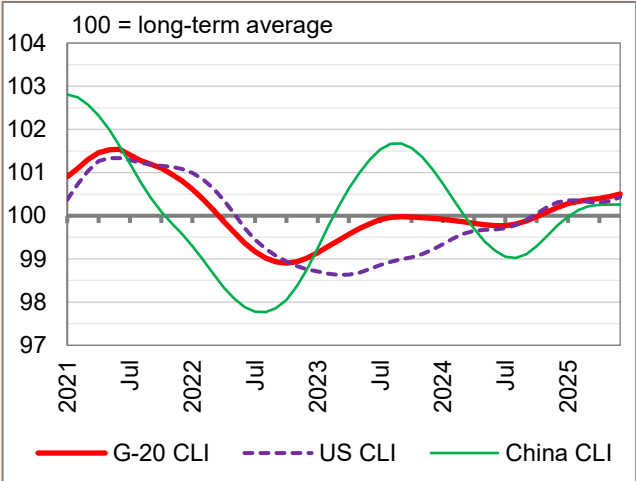
Source: Officials; SERC

* Policy rate as at July / August for 2025.

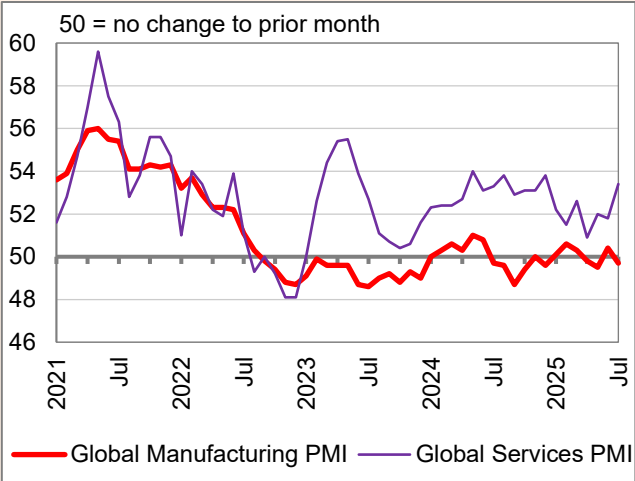


Global Current and Forward Indicators

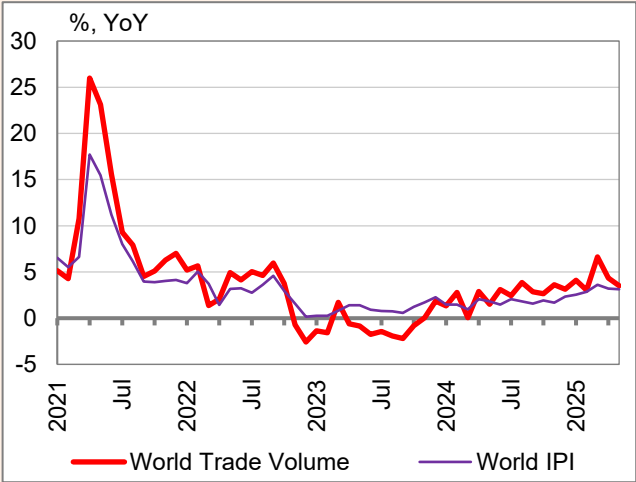
OECD composite leading indicators signal continued global growth



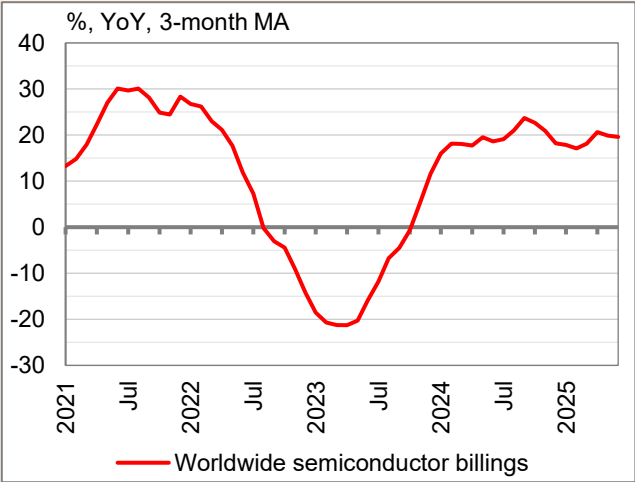
Global manufacturing PMI fell back to negative territory in Jul



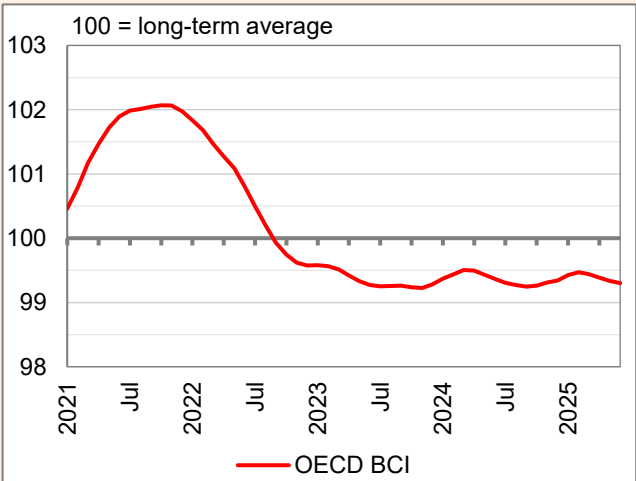
Global trade volume growth is slowing down as front-loading activities wane



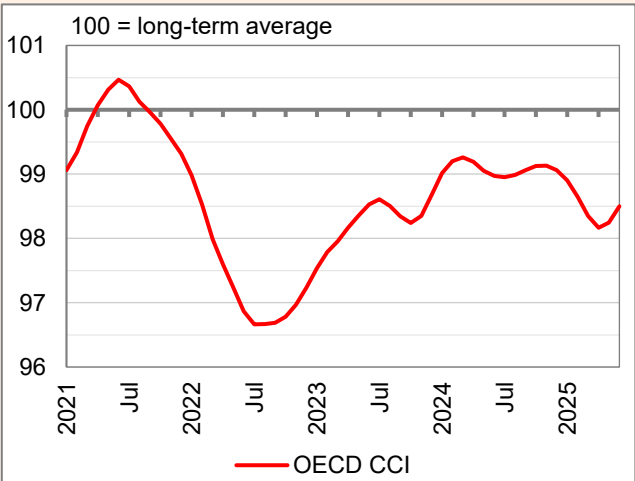
Global semiconductor sales sustained strong growth amid tariffs uncertainty



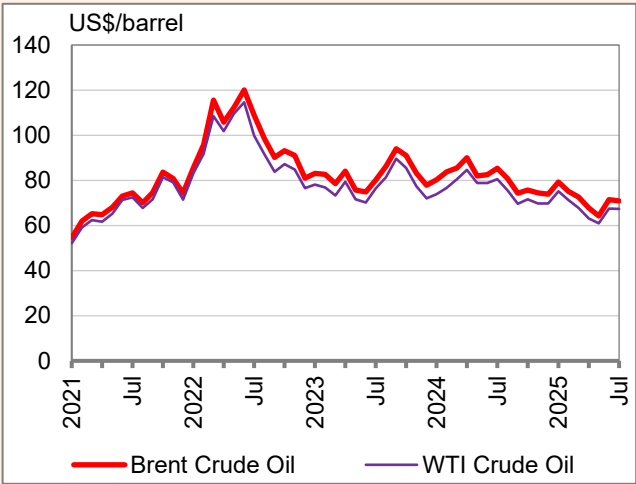
OECD Business Confidence Index



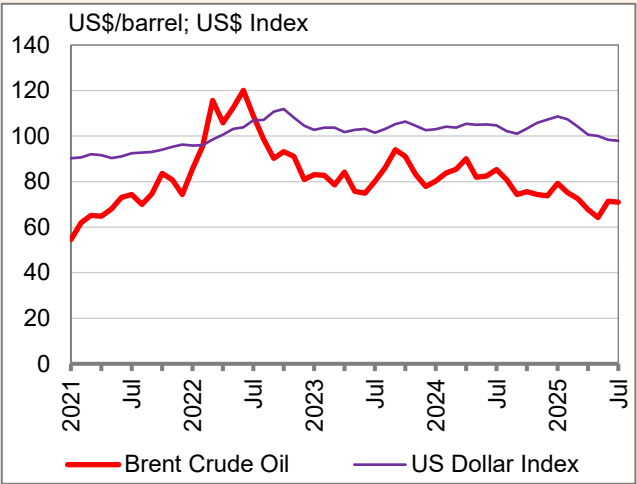
OECD Consumer Confidence Index



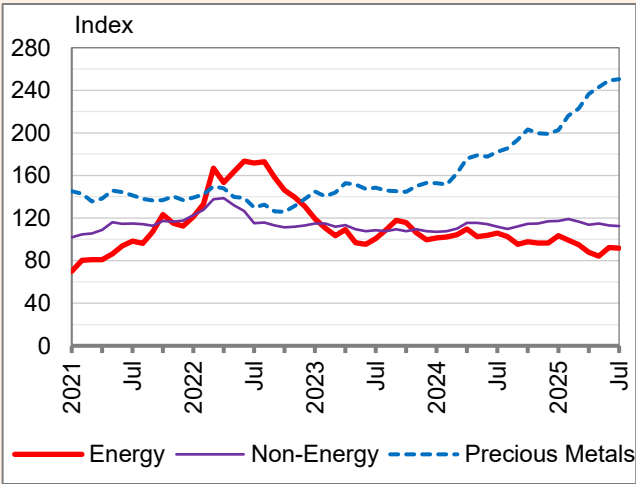
Crude oil prices suppressed as OPEC+ agreed to increase production



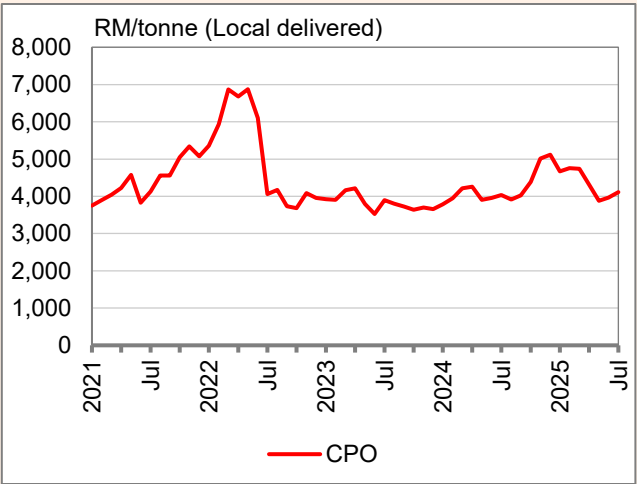
Brent crude oil price vs. the US dollar index



Gold prices continued to soar; prices for energy and non-energy softened from Q1



Crude palm oil prices softened to around RM4,000/tonne level



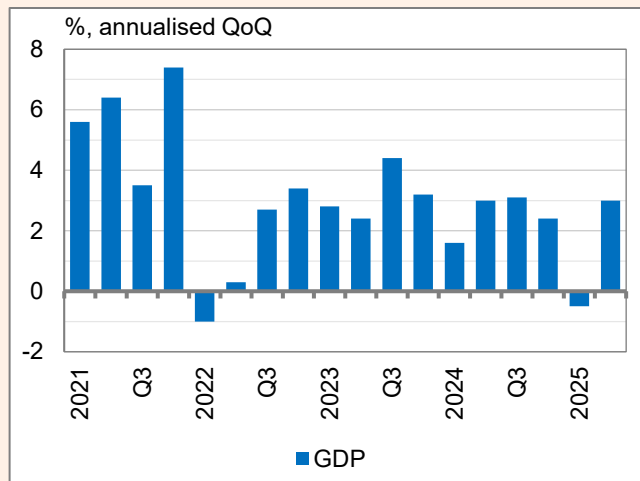
Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Worldwide Semiconductor Trade Statistics (WSTS); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)



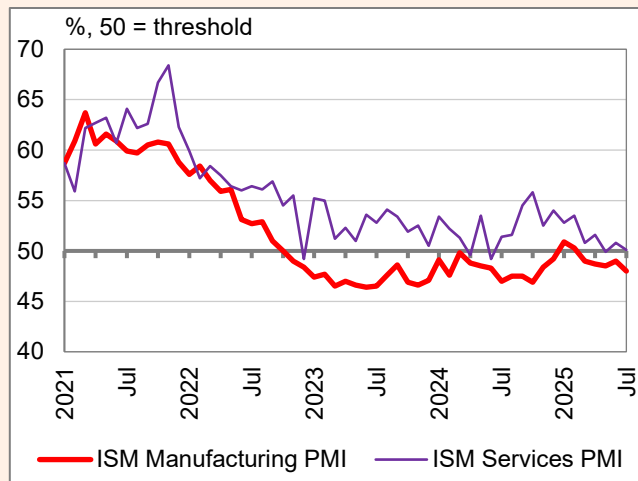


The US – Focus on the Fed's action

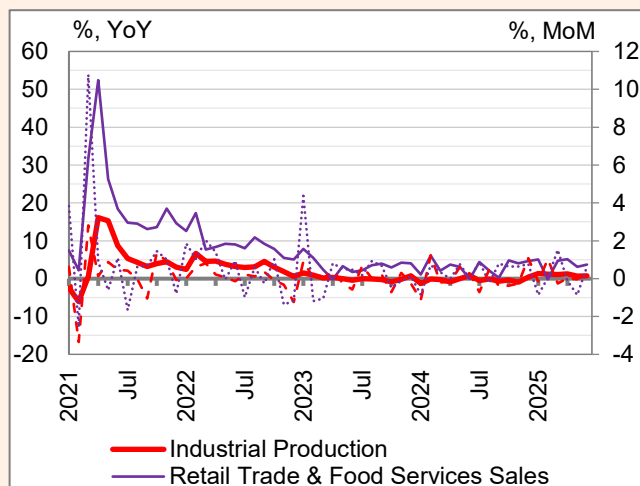
The US economy rebounded in Q2 on “economic mirage”; will weaken in 2H



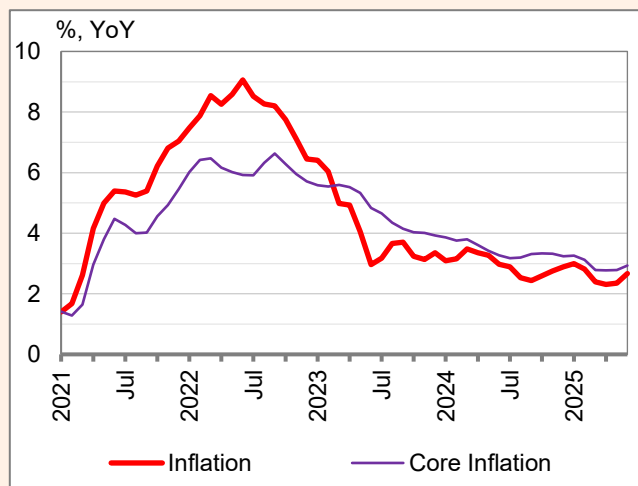
Manufacturing PMI indicated contraction for five straight months as at Jul



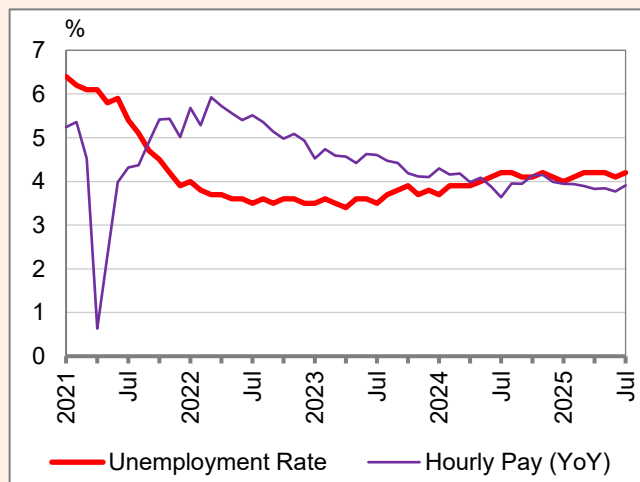
Industrial production growth was nearly flat in Q2



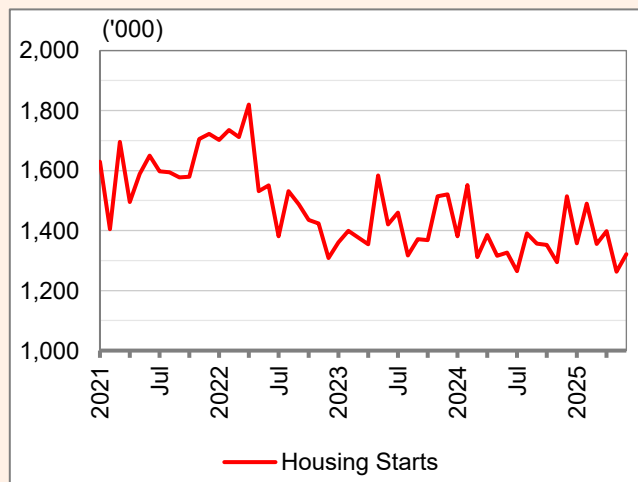
Inflation will kick in this Aug due to higher tariffs



Employment recorded slight gain in Q2; jobless rate held at 4.0%-4.2%



Housing starts recorded a 61-month low in May before rebounding slightly in Jun

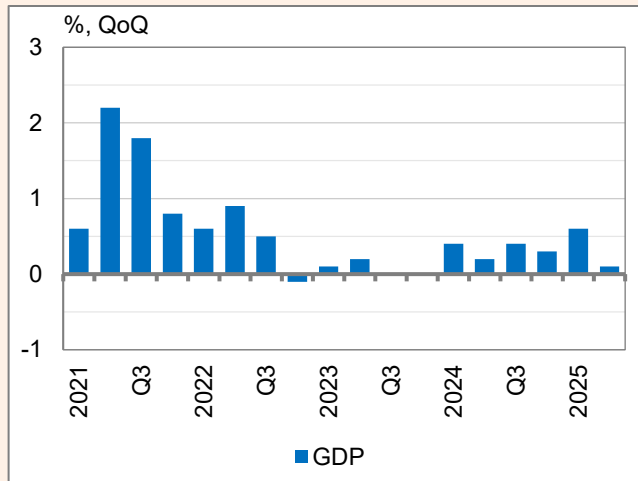


Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics

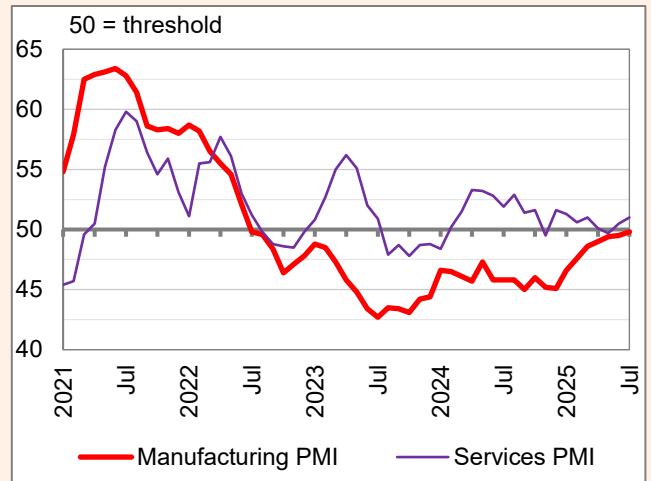


Euro Area – Facing up to tariffs uncertainty

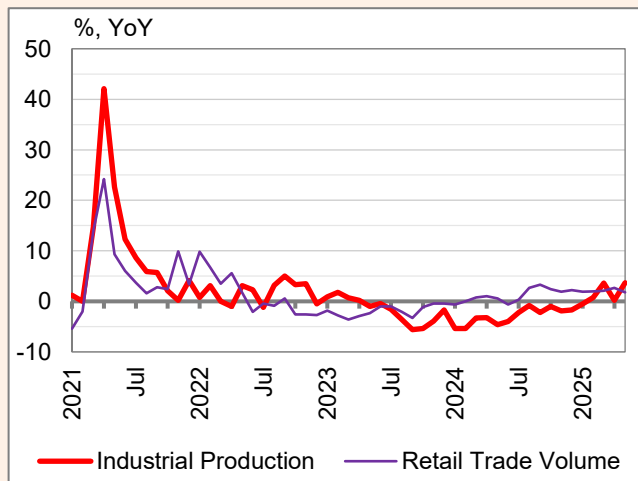
Eurozone economy expanded modestly as temporary exports boost faded



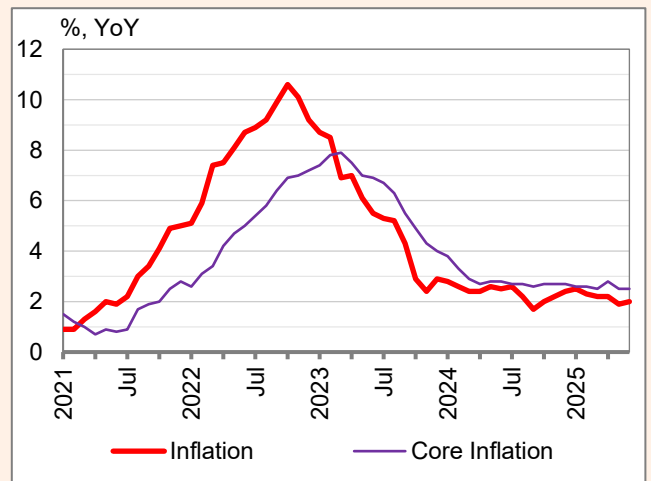
Manufacturing PMI nearly crawled back to positive territory in Jul



Industrial production growth remained uneven; retail sales growth softened



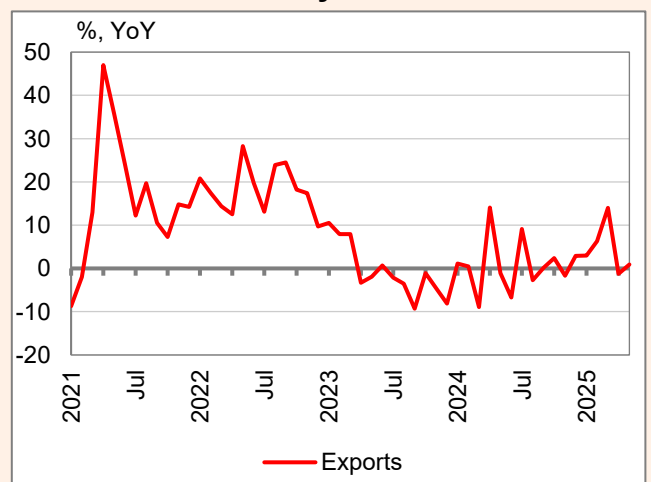
Inflation remained contained



Jobless rate stood at 6.2% for the third consecutive month in Jun



Exports have underperformed since the US tariffs uncertainty

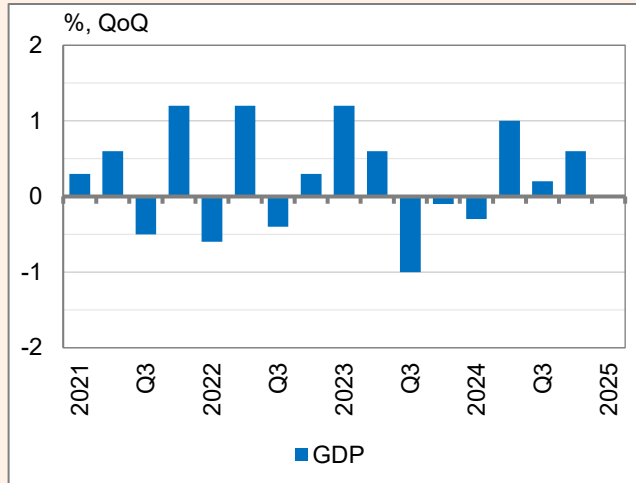


Source: Eurostat; S&P Global

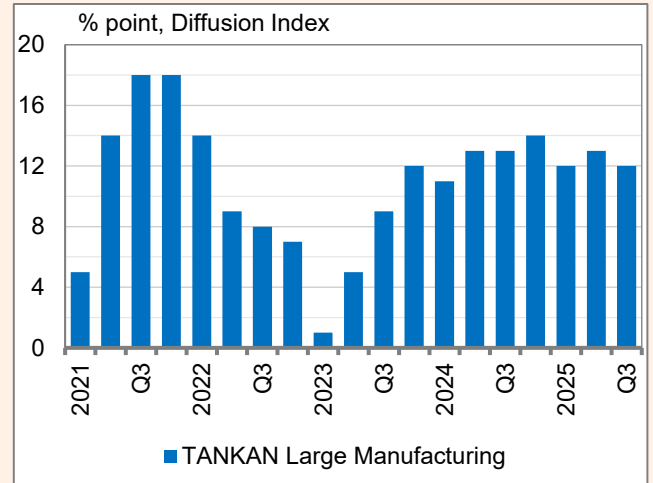


Japan – Struggling to find its footing

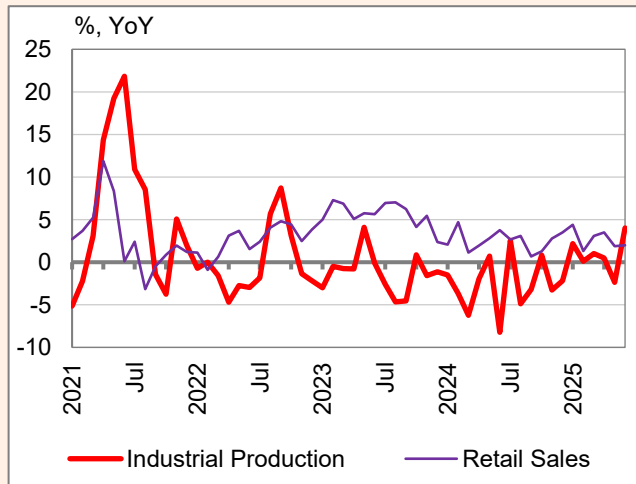
The Japanese economy registered flat growth in Q1



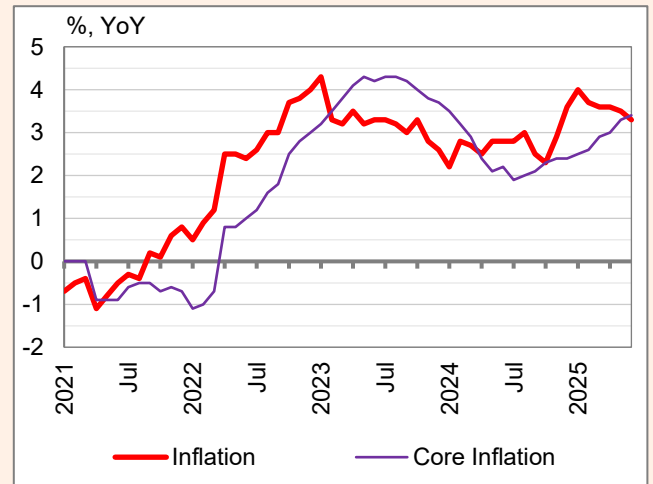
TANKAN survey signals continued expansion of manufacturing activity



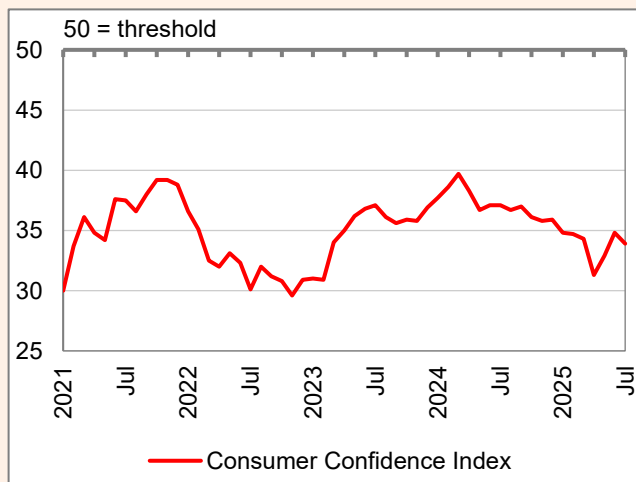
Industrial production rebounded by 4.0% YoY in Jun after a decline in May



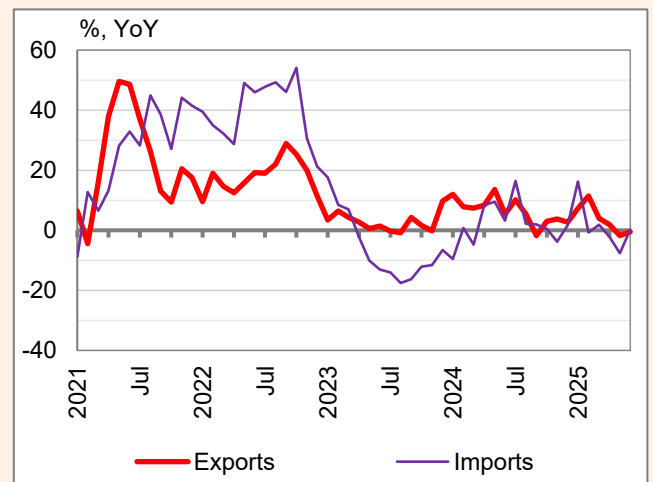
Inflation remains on the high side, despite easing slightly from the peak



Consumer confidence remains sluggish



Exports fell for second straight month in Jun, attributed to US tariff policy



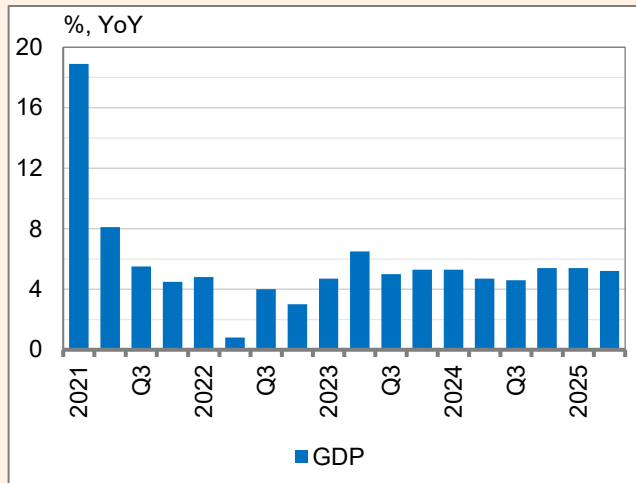
Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs

Note: Starting 2025, the retail sales growth (YoY) is calculated using the linked coefficient to adjust for discrepancies.

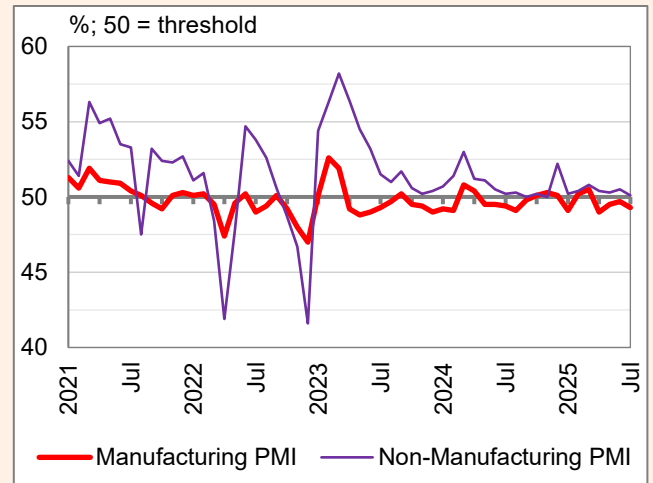


China – Steady growth amid lingering risks

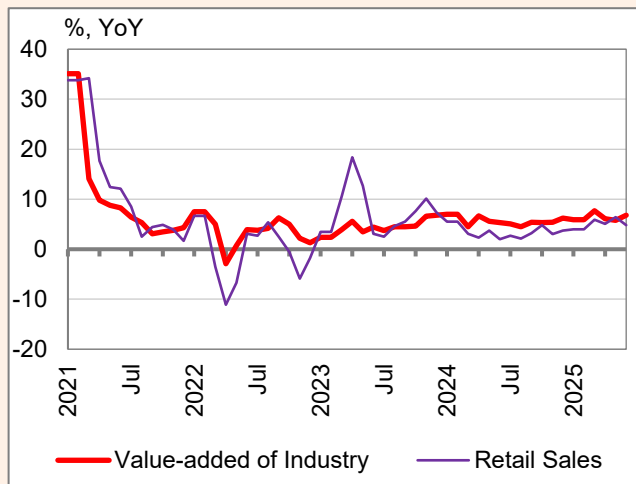
China's economy grew steadily in past few quarters



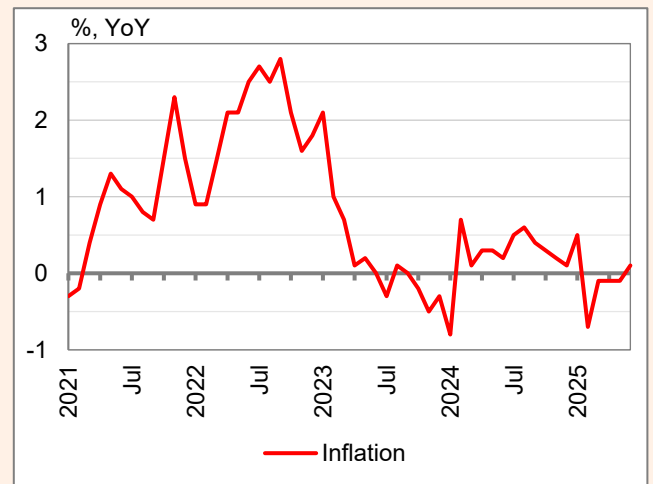
Manufacturing PMI stayed below threshold for four months since Apr



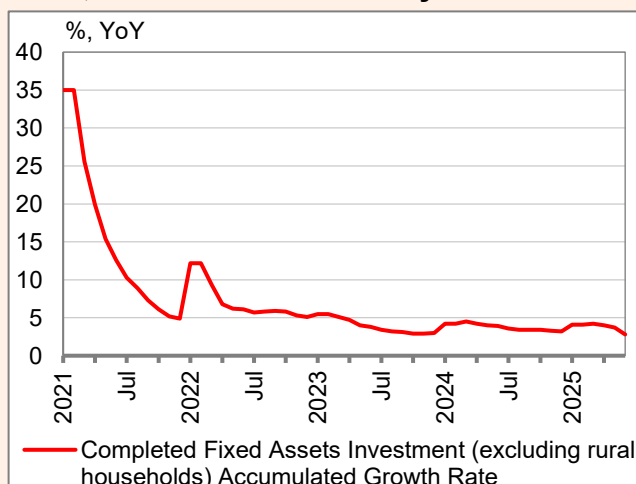
Industrial output and retail sales posted stable growth



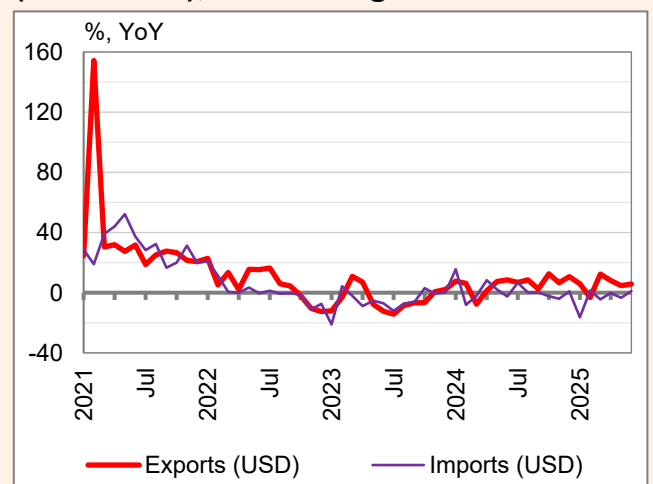
Prices returned to mild growth in Jun after four months of deflation



Manufacturing investment remained solid, real estate sector stayed weak



Exports increased by 6.2% YoY in Q2 (5.7% in Q1), with strong trade balance

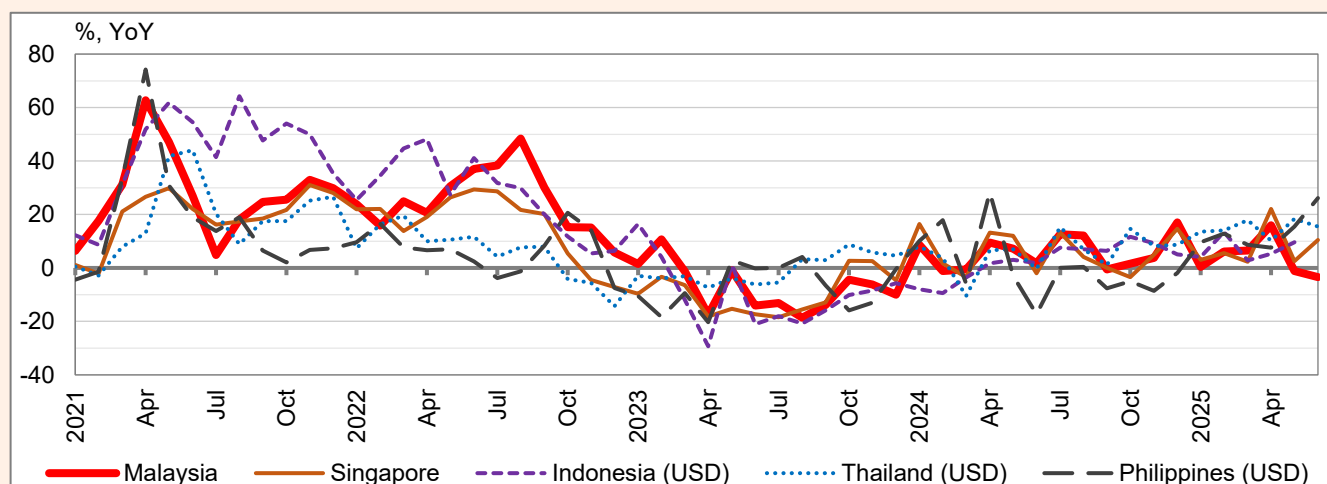


Source: National Bureau of Statistics of China; General Administration of Customs, China

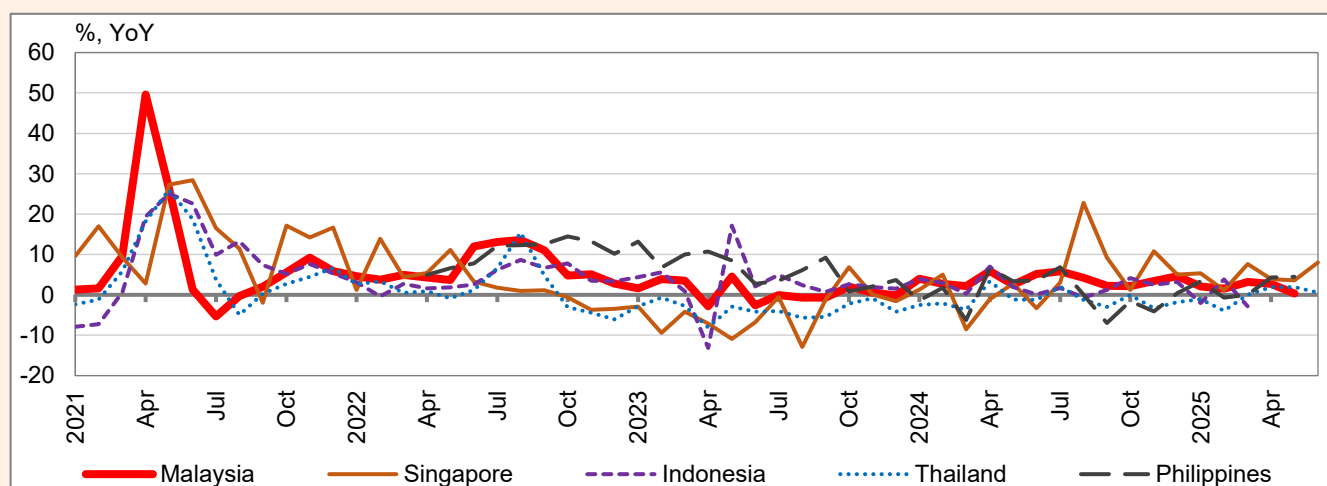


ASEAN Key Economic Indicators

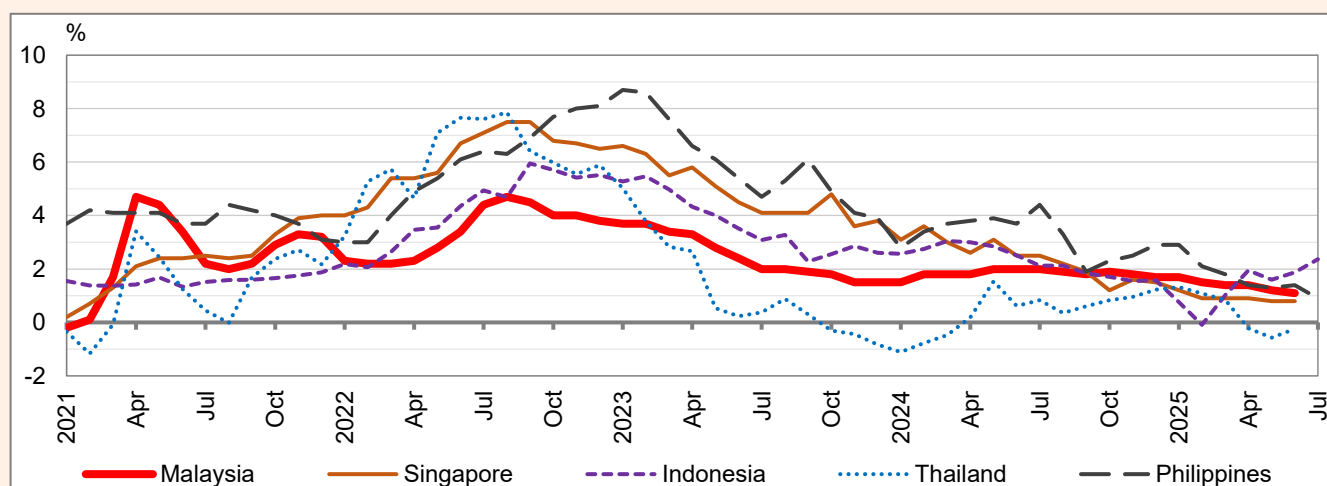
Export growth trend



Industrial production growth trend



Inflation trend



Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority

Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.



Malaysia Economic Outlook Update

MALAYSIA MUST STRENGTHEN ECONOMIC RESILIENCE

- **Economic growth sustained in 1H 2025.** Amid the slowing growth momentum, advance estimate for Malaysia's real GDP showed a 4.5% yoy growth in Q2 (4.4% in Q1). The growth was primarily driven by a robust performance in the services sector (5.3% in Q2 vs. 5.0% in Q1), still a double-digit growth of 11.0% in the construction sector (14.2% in Q1), and an improved growth of 2.0% in agriculture sector (0.6% in Q1). Growth in the manufacturing sector moderated to 3.8% in Q2 (4.1% in Q1) while output in the mining sector continued to decline sharply by 7.4% in Q2 (-2.7% in Q1).
- On 28 July 2025, **Bank Negara Malaysia (BNM) has revised lower this year's GDP growth estimate to 4.0%-4.8% from 4.5%-5.5% previously (5.1% in 2024), in line with SERC's estimate of 4.0%.** BNM said that the updated growth projections account for various tariff scenarios, ranging from a continued elevation of tariffs to more favourable trade negotiation outcomes. This forecast remains subject to uncertainties surrounding the global economy, both on the downside and upside. Favourable trade negotiation outcomes, pro-growth policies in major economies, continued demand for electrical and electronic goods, and robust tourism activity could raise Malaysia's export and growth prospects.
- **Slowing growth momentum in 2H 2025.** With the US tariffs uncertainty weighing on exports, we expect the economic growth to slow in 2H 2025, averaging between 3.5% and 4.0% yoy, largely anchored by domestic demand, though at a slower pace. Overall, given an average growth of 4.4% in 1H 2025, the Government can comfortably secure a full-year average growth of 4.0%, which is at the lower end of its target range, even if the growth slows to between 3.6% and 4.0% in 2H 2025.
- **A mixed set of economic data.** Recent economic indicators have presented a mixed picture, with some showing positive trends while others indicate a potential slowdown.
 - a) The **leading index (LI)**, an indicator used to forecast the economic direction for an average of 4 to 6 months ahead, signals that Malaysia's economic outlook remains positive, albeit still weak, with a marginal increase of 0.04% yoy in May (0.6% in Apr; 0.4% in Q1).
 - b) **Industrial production** growth gained traction to grow by 3.0% yoy in Jun, after hitting a 17-month low of 0.3% yoy in May (2.7% in Apr). The improvement was driven by a pickup in manufacturing goods at 3.6% (2.8% in May; 5.6% in Apr) and a turnaround in electricity output (4.1% in Jun vs. -0.1% in May and -1.7% in Apr), while mining output declined marginally (-0.01% in June; -10.2% in May; -6.3% in Apr;).
 - c) **Exports** declined for two consecutive months in May (-1.2% yoy) and June (-3.5%) after strong growth of 16.4% in April, with sharp declines in exports to China (-4.3% in May; -9.3% in Jun) and Singapore (-18.0% in May; -16.9% in Jun), partly offset by increased exports to the United States (16.1% in May; 4.7% in Jun).
 - d) **Manufacturing sales** rose by 3.3% yoy in Jun (2.4% yoy in May; 4.7% in Apr), supported by a boost in the food and beverages segment, sustained growth in E&E products, pharmaceuticals, and basic metals, as well as a turnaround in motor vehicle manufacturing.
 - e) **Wholesale and retail trade** (including motor vehicle) growth picked up to 4.8% yoy in June (4.7% in May; 4.7% in Apr), supported by both wholesale trade (5.2%) and retail sales (5.4%), but weighed down by motor vehicle sales (0.7%).

- f) The **labour market** remains intact, with the unemployment rate at 3.0% in April and May 2025, the lowest in about a decade. The number of unemployed persons was around 523,100 in May, close to the pre-pandemic level. The labour force participation rate stood at 70.7%, reflecting improving confidence in job prospects and continued recovery in economic activities.
- g) **Inflation** eased to 1.1% yoy in June, marking the lowest level since February 2021. The decline was driven by softer food inflation and a further slowdown in the “Housing, Water, Electricity, Gas & Other Fuels” group, which makes up 23.2% of the CPI basket. Core inflation remained steady, ranging between 1.8% and 2.0% since January.
- h) Total outstanding **banking loan** growth (excluding development financial institutions, DFIs) moderated to 5.1% yoy in June (5.2% in Mar; 5.5% in Dec 2024). Household loan growth eased slightly to 5.8% (5.9% in Mar; 6.0% in Dec 2024), while business and other sectors saw a further slowdown to 4.0% from 4.3% in March (4.8% in Dec 2024). Notably, growth in loan approvals, disbursements and repayments also declined in June, signalling broad-based moderation in credit activity.
- **Cautious discretionary consumer spending** is becoming more prevalent due to rising cost of living pressure and the expanded Sales and Service Tax (SST) implementation. Burdened with multi-costs increases, businesses would pass increased costs onto consumers through higher prices of goods and services. However, positive labour market conditions and moderate wage growth, lower interest rate, and continued higher amount of Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) totalling RM15.0 billion would aid consumption of the low-income households.
- **Private investment growth continued, albeit cautiously.** Private investment grew strongly by 9.2% in Q1 2025, reflecting the progress of the realisation of multi-year approved investment projects in the manufacturing sector as well as the ongoing implementation of catalytic initiatives under the national initiatives and various master plans.
- For the period 2021 to June 2025, MIDA has approved 3,494 manufacturing projects, of which 86.4% or 3,095 have already commenced operation. In Q1 2025, the manufacturing projects investment realisation rate was 49.8%, 79.2% in 2024, and 90.6% in 2023.
- Increased "bunching costs" stemming from various cost measures and tax changes, including higher minimum wage, employers' 2% EPF contribution for foreign workers, the restructured new electricity tariffs, the planned implementation of a multi-tiered foreign worker levy, as well as the forthcoming implementation of RON95 fuel subsidies rationalisation and 30% Port Klang tariff adjustment implemented in phases over a three-year period, starting 1 July 2025, would significantly burden businesses, especially SMEs.
- The concern is that these cost increases are coinciding with a challenging global and domestic economic environment, exacerbated by the uncertainty surrounding tariff policies and ongoing geopolitical risks, which together create significant economic headwinds. The effects of rising costs, which have been felt in 2025, are expected to persist or influence the business and economic landscape in 2026.
- Nevertheless, we remain positive on private investment over the medium-term due to the ongoing implementation of various initiatives and development plans (the MADANI Economy Framework, New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), National Semiconductor Strategy (NSS), and the 13th Malaysia Plan (2026-2030)), including the approved investment projects in 2023-2025.

An update of Malaysia-US trade deal

- On 31 July 2025, the **US imposed a 19% tariff on the Malaysian goods to the US with effect from 7 August**, via an Executive Order, marking a reduction of 6% from 25%.
- Most importantly, **the MITI said that Malaysia had stood firm on various ‘red line’ items**, and the 19% tariff rate was achieved **without compromising the nation’s sovereign right** to implement key policies to support the nation’s socio-economic stability and growth.
- **Malaysia does not relax any controls and conditions** that will affect the rights of the people and the survival of local industries as well as the country’s strategic policies, including:
 - a) **No blanket exemptions to the requirements of the importer's license** (or approved permit – AP) for products imported from the United States;
 - b) **No full liberalisation of the equity/foreign ownership requirements** in strategic sectors. Bumiputera equity requirements are also maintained for relevant sectors;
 - c) **Empowerment of local vendors and Bumiputera companies**;
 - d) **The participation of Small and Medium Enterprises (SMEs) in the supply chain**;
 - e) **Protection of sectors and industries that are critical** to the national economy;
 - f) **A complete opening of the automotive market**;
 - g) **Cloud service providers and social media platforms are still subject to criminal liability** under Malaysian law; and
 - h) **Government has the right to request access to or direct companies to transfer the source code of software used** in critical infrastructure, government procurement, financial services, licensing and judicial matters.
- Within ASEAN, Malaysia’s new tariff rate is on par with that of Indonesia (19%), Philippines (19%), Thailand (19%), and Cambodia (19%), marginally lower than Vietnam (20%) while it is markedly lower than Myanmar (40%), Laos (40%), and Brunei (25%), and higher than Singapore (10%).
- The US Executive Order also stated all goods that are considered to have been transhipped to avoid applicable duties will be subject to an additional 40% tariff. In this regard, it is relieved that the Ministry of Investment, Trade and Industry (MITI) has tightened rules to ensure exports to the US are properly documented, in a bid to curb illegal transshipment and ensuring the proper origin of goods. The MITI is now the sole issuer of non-preferential certificates of origin (NPCOs) for exports to the US, effective 6 May 2025. MITI is also enhancing audits and working with customs to investigate and take action against misdeclaration and illicit transshipment.
- On the issue of **restrictions on the export and transit of artificial intelligence (AI) chips from the United States to certain countries**, Malaysia agreed to **strengthen controls by enforcing Section 12 of the Strategic Trade Act 2010 (catch-all control), effective 14 July 2025**.
- MITI has outlined several key strategies to mitigate the impact of tariffs on exports, including promoting the use of Malaysia's 18 Free Trade Agreements (FTAs) to diversify markets, advancing industrial reforms under key policies like the New Industrial Master Plan (NIMP) 2030, Green Investment Strategy, and National Semiconductor Strategy (NSS) to enhance efficiency and productivity as well as exploring further government support for businesses, particularly small and medium enterprises, to adapt to the new baseline tariff rate.

What does Malaysia offer for the Reciprocal Tariff Agreement?

- **Tariff reduction/elimination (import duties) for 98.4% of total tariff line.**
- Provide a **sales tax exemption that discriminates against agricultural products** imported from the US. For example, fruits and seafood.
- **Allow the importation of meat and meat products as well as poultry and poultry products** into Malaysia that have obtained a Halal Certificate from the US halal certification body that complies with the halal standards and standards set by the Department of Islamic Development Malaysia (JAKIM).
- Accept the implementation of the **regionalisation method for animal disease control for the export of live poultry and poultry products** from the US.
- Facilitate the process of **standard recognition and marketing of industrial products** from the US, such as automotive products, medical devices and pharmaceuticals, based on established domestic regulations.
- Enhance commitment and enforcement on issues of **intellectual property rights, labour, environment and sustainable fisheries management** based on Malaysia's commitments in relevant international organisations.
- **Not impose a discriminatory Digital Service Tax (DST)** on US companies.
- **Abolish the requirement for social media platforms and Cloud Service Providers** from the United States to **contribute 6% of their total income** in Malaysia to the Universal Service Provision Fund (USP).
- **Abolish or permanently suspend the command for all Domain Name System (DNS) traffic** redirected to the local DNS service.
- **Not to impose any export restrictions on the supply of critical rare earth elements/minerals** to the US.
- The **commercial commitments** made are as follows:
 - Acquisition of Boeing aircraft by MAG worth USD19 billion
 - Procurement of goods by MNCs for the semiconductor, aerospace and data centre sectors worth USD150 billion over a period of five (5) years
 - Acquisition of Liquefied Natural Gas (LNG) by PETRONAS worth USD3.4 billion per year
 - Acquisition of telecommunications products by Telekom Malaysia worth USD119 million
 - Coal procurement by Tenaga Nasional Berhad (TNB) worth USD42.6 million per annum
 - Cross-border investments in the United States worth USD70 billion over a period of 10 years

The 13th Malaysia Plan (2026-2030) (13MP)

- The 13th Malaysia Plan (2026-2030), themed “Melakar Semula Pembangunan” (Reshaping Development) marks the last leg of transformation to realise Malaysia’s vision to become a high-income nation. The next five years are indeed a critical phase for achieving our vision.
- **The 13MP is comprehensive, strategic and transformative.** It provides a clear direction and certainty, anticipates future risks and improves the quality of decision-making process for all parts of government – Federal, state, local authorities and the private sector.
- We are now living in a world that is more uncertain and complex than before; a world where the environment in which we operate keeps changing around us. The rules of global trade have been turned on their head. New geopolitical realities are dawning. Artificial intelligence (AI), the energy transition, and demographic changes are fundamentally changing our economic activity, business landscape and workplace. The four mega trends are:
 - **Megatrend 1: Power Shifts and New Economic Blocs.** The rise of bipolarism, nationalism and protectionism has led to increased scrutiny of the positive impacts of globalisation. Economic blocs are experiencing significant shifts driven by factors like geopolitical tensions, geopolitical allies, technological advancements, and evolving national economic priorities, leading to increased trade within these alliances and potential shifts in global trade patterns, geopolitical allies, impacting global supply chains, investment and trade flows as well as technology restrictions.
 - **Megatrend 2: Technological and Digital Evolution.** As the world becomes increasingly powered by technology advancements in AI, big data, cloud technology, blockchain, cybersecurity, robotics and mechatronics as well as innovation, Malaysia must provide a supportive and facilitative business ecosystem to continue attract dynamic, renowned technology companies to invest in Malaysia – making it a leading regional digital and data hub.
 - **Megatrend 3: Demographic Shifts and Quality of Life.** Malaysia is experiencing a significant demographic shift towards an aging population, with those aged 60 and above will constitute over 15% of total population by 2030. By 2043, 14% of Malaysia’s population will be over 65 years old.
 - **Megatrend 4: Environmental and Climate Crisis.** The environmental and climate change-induced disruptions, such as floods and soil erosion, impacting human lives and health, and land degradation, directly threaten agricultural productivity, leading to crop failures, reduced livestock and fish availability, and potentially threatening food security.
- The 13MP has outlined strategies, initiatives and structural reforms to strengthen Malaysia’s competitiveness and social equity, ensuring policy alignment with the MADANI Economy framework for achieving sustainable and inclusive growth. A total of nine (9) focus areas have been identified across three (3) objectives of the MADANI Economy, namely: (1) Raise the Ceiling (Economic Restructuring); (2) Strengthen Good Governance (Public Service Reform); and (3) Raise the Floor (Improving the Rakyat’s Wellbeing).
- **Anchored on 4 Pillars, 27 Priorities, and 122 Strategies**, the 13MP is expected to strengthen economic resilience through initiatives securing quality investment in high value high growth sectors, accelerating technology and AI adoption, education reform, skilling of the workforce and empowering the rakyat, as well as embracing sustainable practices to build a sovereign and dignified nation.

- **The 13MP sets an economic growth target between 4.5%-5.5% per annum (pa) for 2026-2030** (estimated 5.1% in 2021-2025), driven by domestic demand, mainly private sector expenditure and sustained external demand. The services and manufacturing sectors will remain the key engines of growth. The Malaysian economy had grown by an average growth of 5.2% pa in 2021-2024, placing it at the lower end of the 12MP's targeted estimates between 5.0% and 6.0%. The economy is expected to slow to between 4.0%-4.8% in 2025, due to the US trade tariffs policy uncertainty-induced impact on global economic growth and trade flows, though domestic demand remains a key driver.
- The plan expects **private consumption to remain firm, growing by 5.5% pa in 2026-2030** (estimated 5.5% pa in the 12MP (2021-2025)), while **still strong private investment growth** (6.0% pa in 2026-2030 vs. estimated 6.5% pa in 2021-2025).
- **The fiscal consolidation path remains on track.** The Budget deficit to GDP ratio has been progressively reduced from 6.4% in 2021 to 4.1% in 2024 and 3.8% in Budget 2025, though higher than 12MP's target (-3.5% to -3.0% of GDP). In line with the Medium-Term Fiscal Framework (MTFF) 2025 – 2027, the fiscal deficit target is set at 3.0% or below of GDP by 2030.
- For the 13MP (2026-2030), **total development expenditure is set at RM430 billion, which is an increase of 3.6% from 12MP's RM415 billion.** Total development expenditure amounted to RM401.9 billion in 2021-2025B, making up 96.8% RM415 billion of 12MP's planned total DE allocation.
- **Overall, the plan is only as good as its implementation.** The implementation of national development initiatives and strategies require credible institutions and a commitment to political reforms to succeed as these reforms are essential for establishing good governance, fostering economic growth, and ensuring equitable outcomes.
- **Strong, effective, and accountable institutions are crucial** for societal well-being as they enhance public efficiency, combat corruption, and improve the capacity to address global and domestic challenges.
- **Effective implementation is crucial.** Evidence-based monitoring and evaluation is, therefore, a cornerstone of good development planning and effective implementation. It is essential to consistently monitor our progress and proactively identify any unexpected challenges or obstacles that could impede our progress.
- **Broad ownership in achieving our goals.** In order to ensure effective implementation of the plan, there must be a comprehensive ownership of the plan. The government, Ministries and implementing agencies must solve all the developmental challenges and fulfil the responsibilities and obligations to ensure a smooth implementation of the plan. It is also important that to the support and buy-in from all the stakeholders --- an effective partnership between the Government, the private sector as well as with the citizens.
- The Government relies on businesses and investors to do business and commit investing and grow the economy that is able to generate tax revenue for the Government. Hence, the Government must create a regulatory environment and competitive investment climate that is conducive to doing business. We must build a mutual trust in Public-Private Partnership in harmonising the different interests of Government, private sector and the people.
- **Good governance and accountability** is another important factor in the implementation of development plan. Effective governance is the bedrock of sustainable development. It revolves around the optimisation of our limited resources; the prioritisation of resources or the order in which to implement our priorities to achieve the outcomes.

The National Budget 2026's Priorities

- Set against the backdrop of global uncertainties and a slowing domestic economy amid rising business costs and cost of living pressures, **the National Budget 2026, which is slated to tabled in Parliament on 10 October 2025**, is expected to present **a framework for economic resilience and growth sustainability** --- providing a boost to domestic consumption, simplification of tax provisions and tax relief, sectoral reforms, investing in people, healthcare, education, technology and innovation as well as sustainable practices, supporting for MSMEs, promoting exports and critical infrastructure development.
- The **National Budget 2026** is expected to focus on these areas:
 - **Sustaining domestic demand, focusing on easing cost of living pressure**
 - **Spurring investment for securing future growth engines**
 - **Supporting micro, small, and medium enterprises (MSMEs)**
 - **Investing in people, technology and nurturing innovation**
 - **Investing in sustainable practices**
 - **Growing into export markets**

Real GDP growth (% , Y-o-Y)

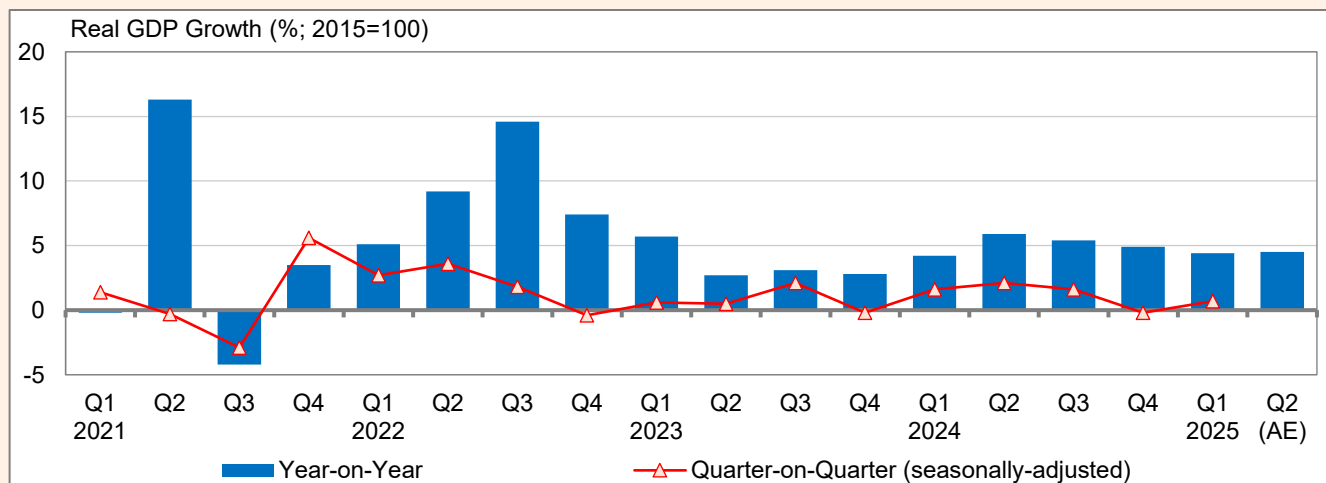
Economic Sector [% share to GDP in 2024]	2023	2024	2024 Q3	2024 Q4	2025 Q1	2025 Q2	2025F (SERC)	2025F (BNM)
By kind of economic activity								
Agriculture [6.3%]	0.2	3.1	3.6	-0.7	0.6	2.0	2.0	2.2
Mining & Quarrying [6.0%]	0.5	0.9	-2.8	-0.7	-2.7	-7.4	-0.3	-0.8
Manufacturing [23.1%]	0.7	4.2	5.6	4.2	4.1	3.8	3.3	3.9
Construction [4.0%]	6.0	17.5	20.0	20.7	14.2	11.0	11.0	11.0
Services [59.4%]	5.1	5.3	5.2	5.5	5.0	5.3	4.5	5.7
By type of expenditure								
Private Consumption [60.7%]	4.6	5.1	4.7	5.3	5.0	N/A	4.6	5.6
Public Consumption [13.2%]	3.4	4.7	6.0	4.0	4.3	N/A	5.5	4.9
Private Investment [16.5%]	4.5	12.3	15.6	12.7	9.2	N/A	10.0	10.1
Public Investment [4.8%]	8.5	11.1	14.4	10.0	11.6	N/A	5.8	6.4
Exports of Goods and Services [68.1%]	-7.9	8.3	11.7	8.7	4.1	N/A	3.0	6.5
Imports of Goods and Services [63.9%]	-6.8	8.2	13.0	5.9	3.1	N/A	3.9	6.6
Overall GDP	3.5	5.1	5.4	4.9	4.4	4.5	4.0	4.0-4.8

Source: Department of Statistics, Malaysia (DOSM); BNM; SERC estimates and forecast
Note: N/A = Not available; BNM revised its headline GDP growth forecast to 4.0%-4.8% on 28 July 2025 without providing a detailed breakdown.

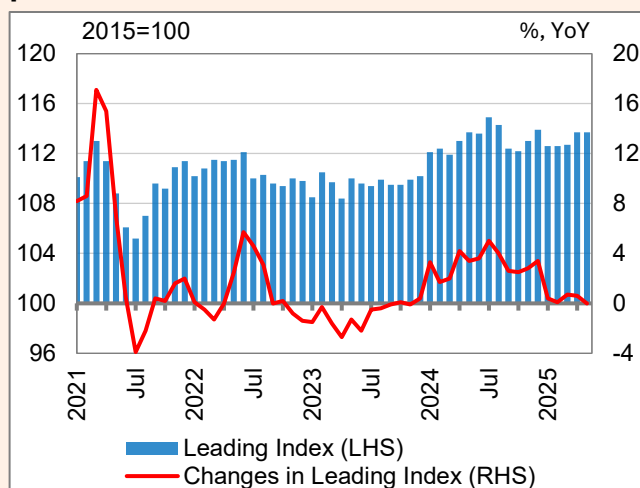


Spotlight on the Malaysian Economy

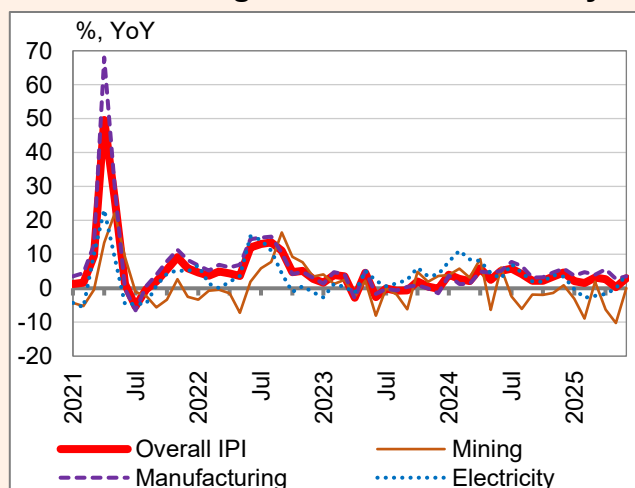
Malaysia's GDP is expected to grow 4.5% yoy in Q2 2025 (4.4% in Q1) based on advance estimates, while BNM has revised its 2025 forecast lower to 4.0%-4.8%.



Leading Index (LI) indicates a mildly positive economic outlook

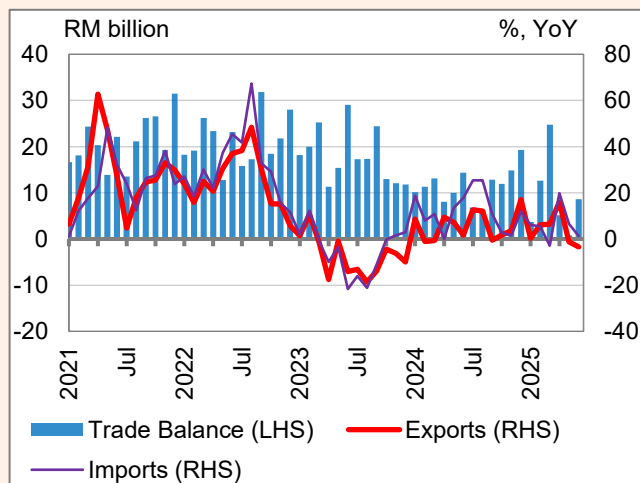


Industrial production increased higher in Jun after hitting a 17-month low in May

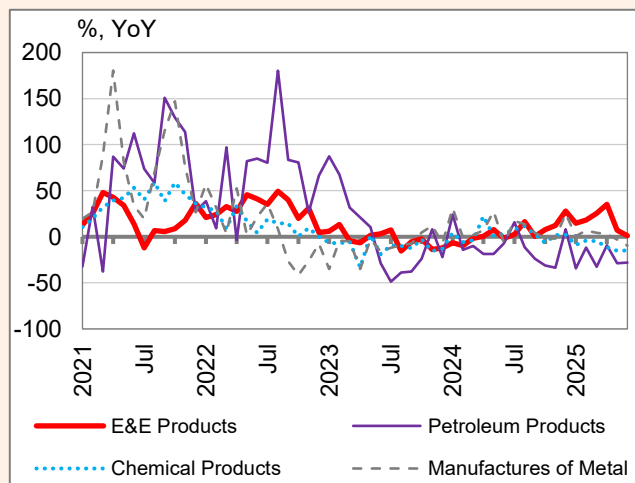


External Sector

Exports contracted for the second consecutive month in June

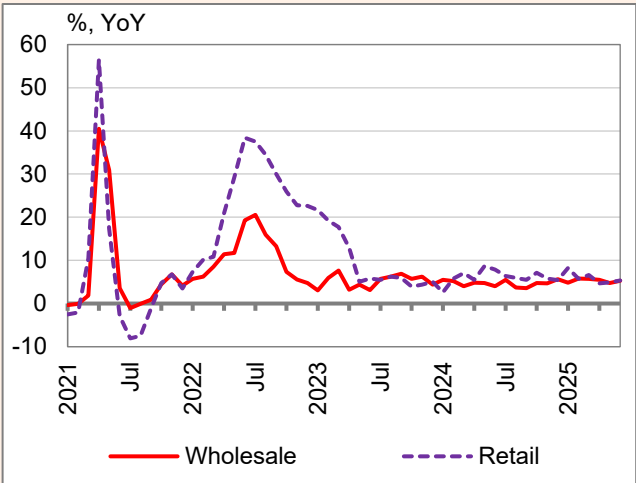


Exports by major products

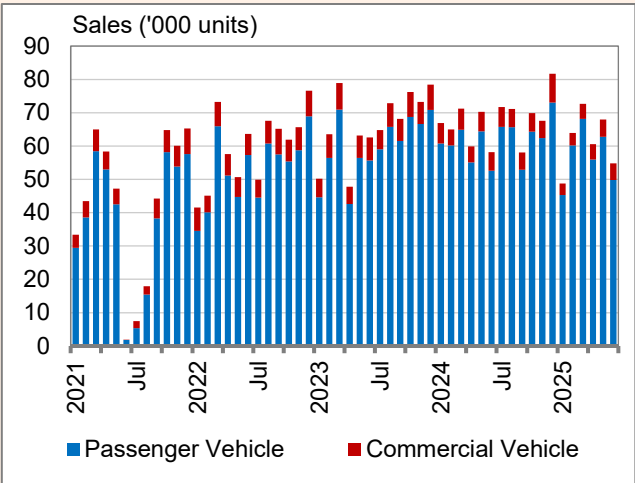


Domestic Demand

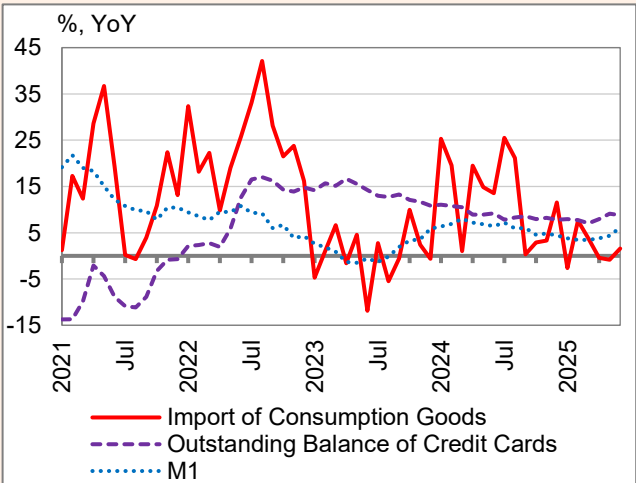
Wholesale and retail sales growth moderated in Q2 2025



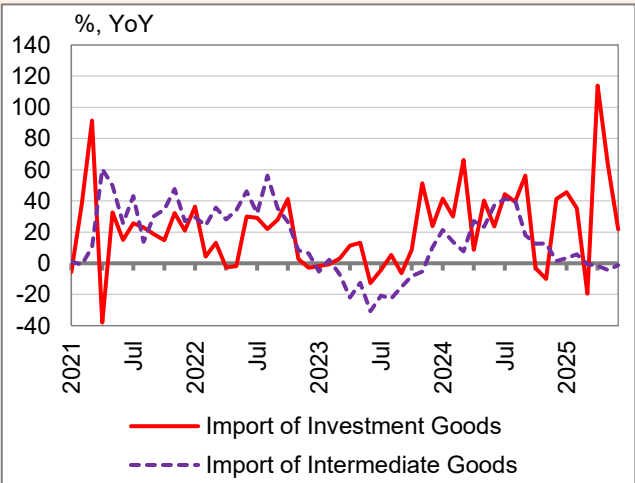
Total vehicle sales declined by 4.6% yoy in 1H 2025



Selected private consumption indicators

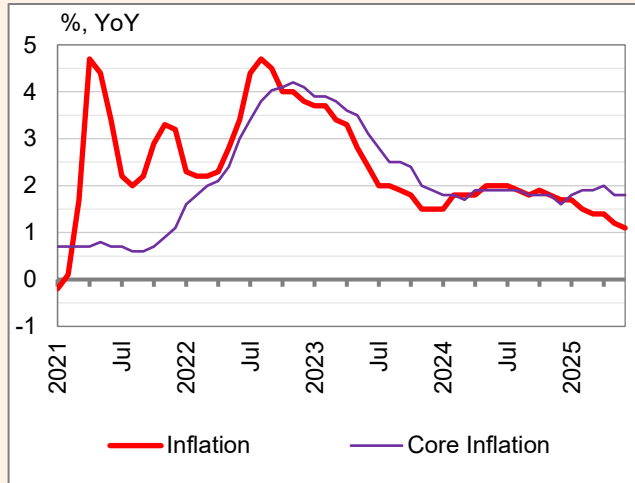


Selected private investment indicators

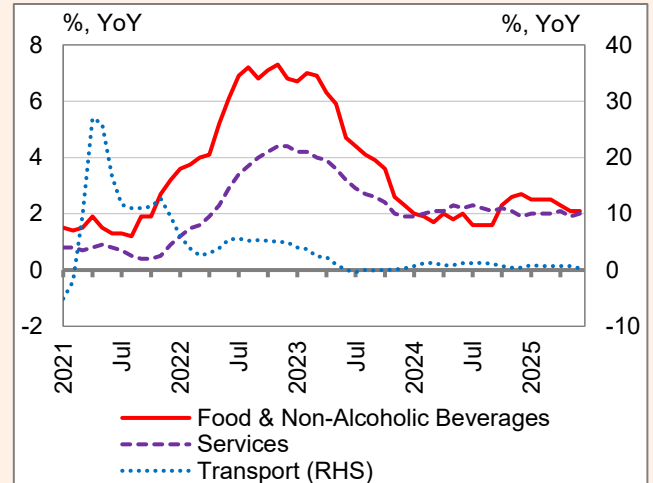


Price Indicators and Labour Market

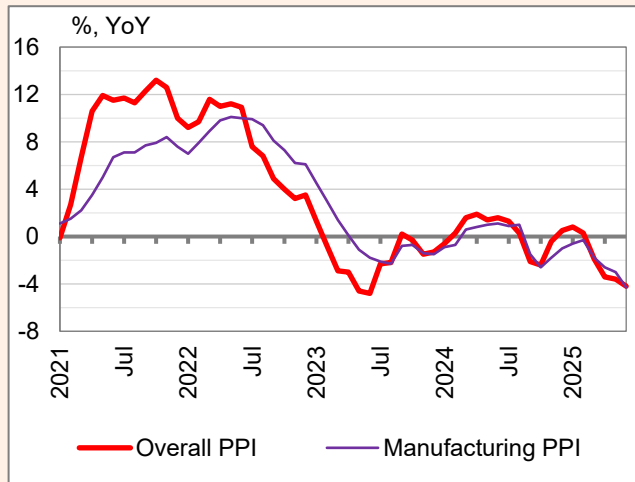
Inflation rate eased to 1.1% yoy in Jun, the lowest since Feb 2021



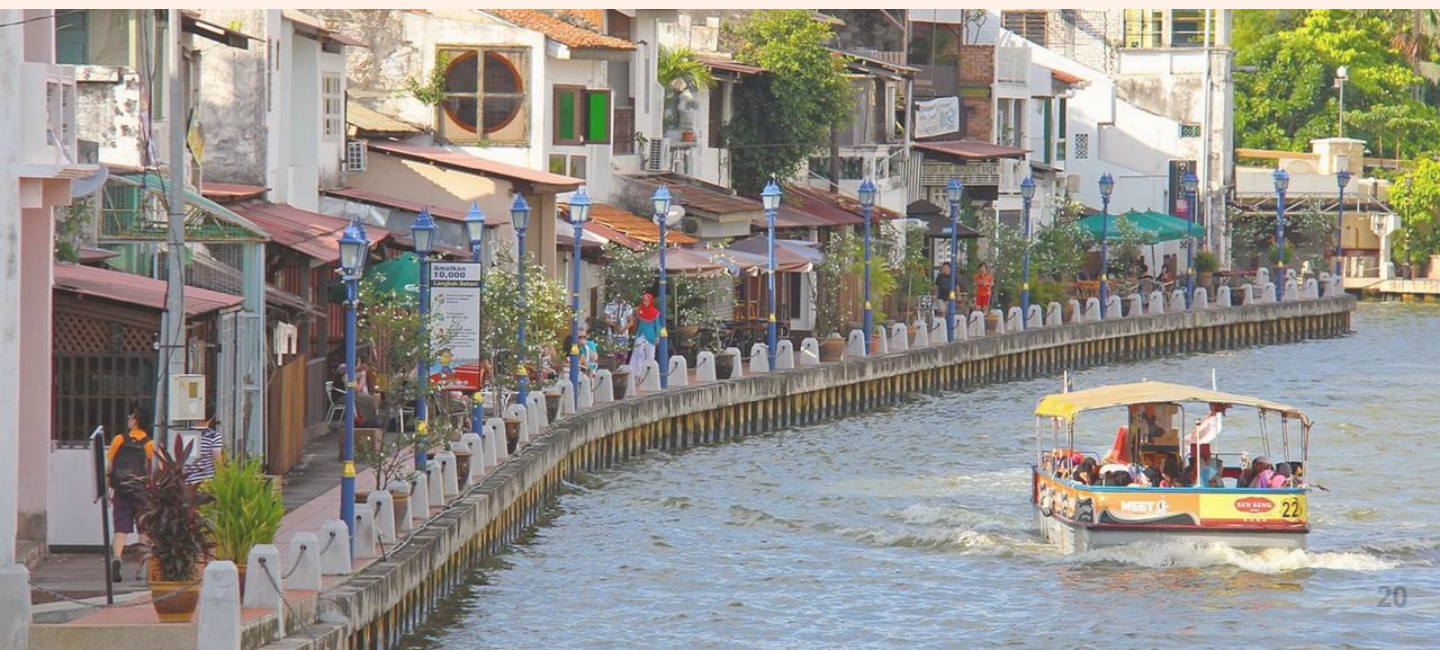
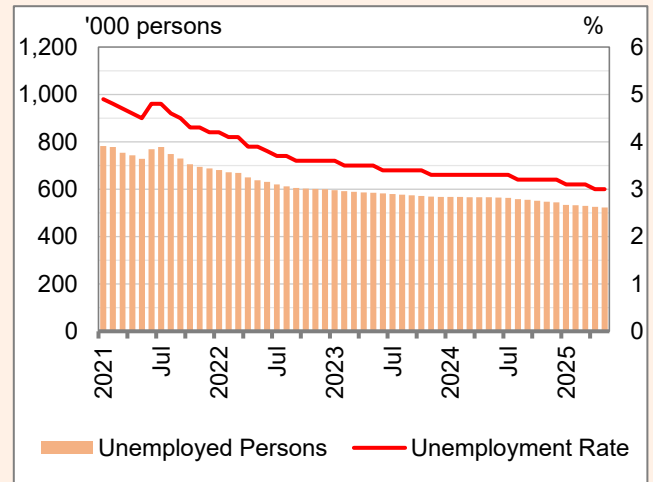
Food inflation softened in Jun; services inflation remained broadly stable



Overall producer prices in Jun declined for four months in a row

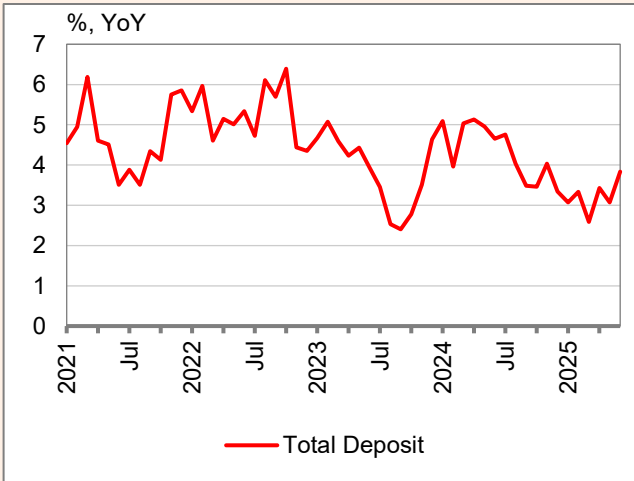


Unemployment rate further lowered to 3.0% in Apr-May

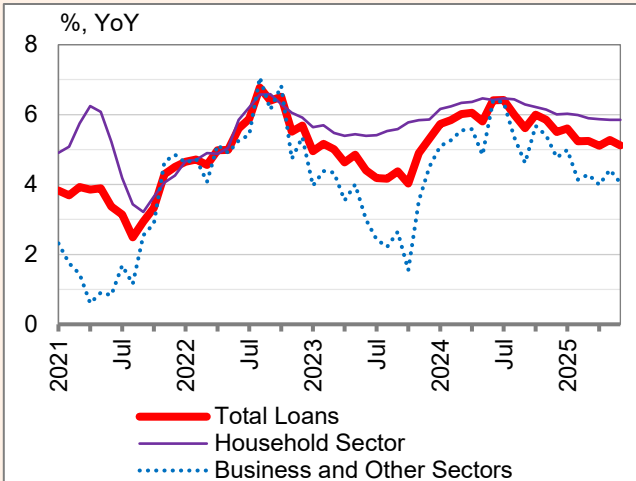


Banking and Financial Indicators

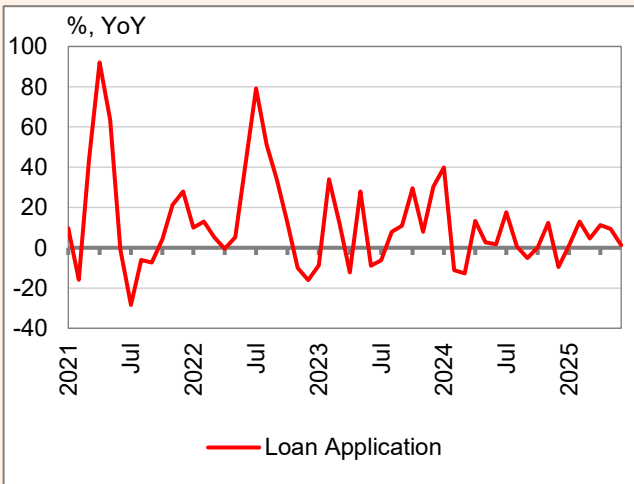
Banking deposit growth was on an upward trend



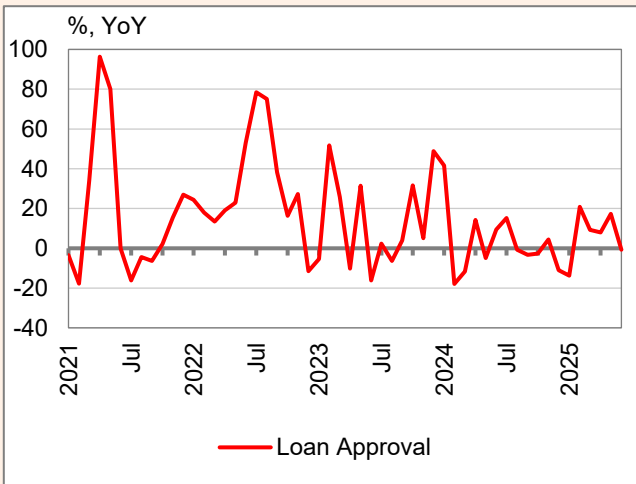
Overall banking loan growth continued to ease, indicating softer credit demand



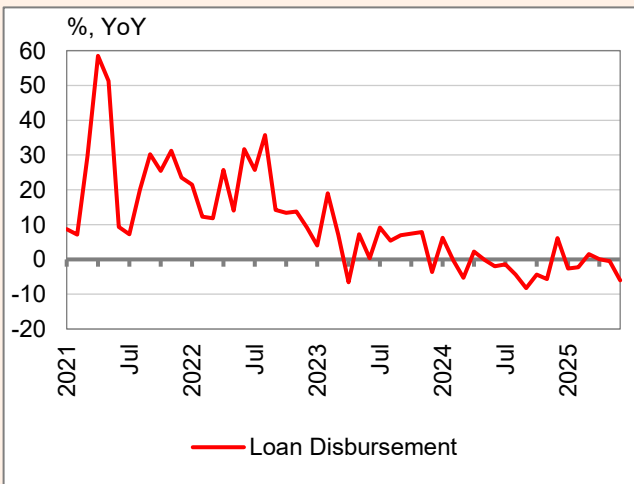
Loan applications growth



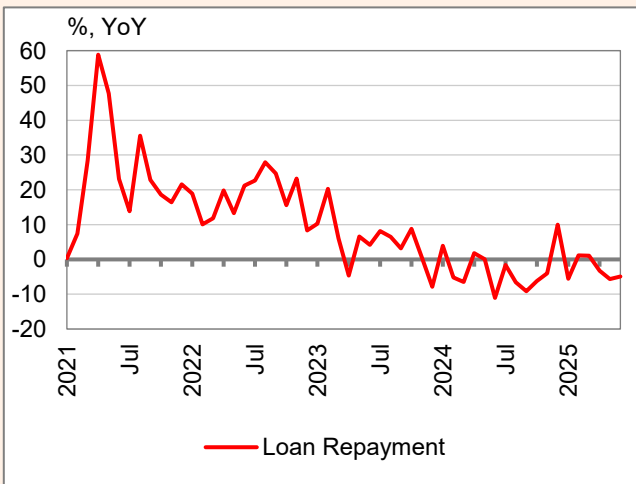
Loan approvals growth



Loan disbursements growth

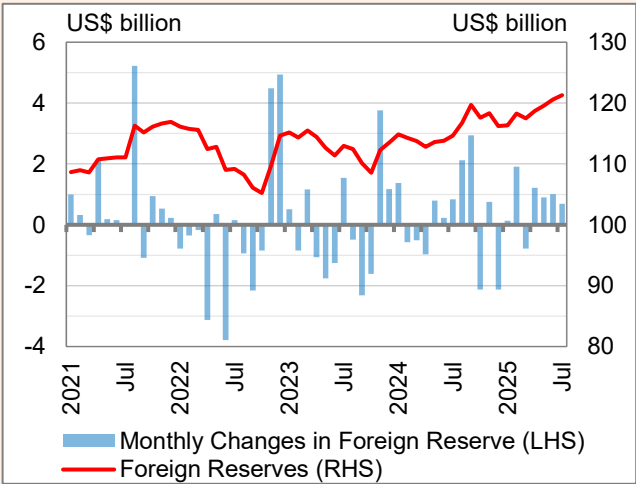


Loan repayments growth

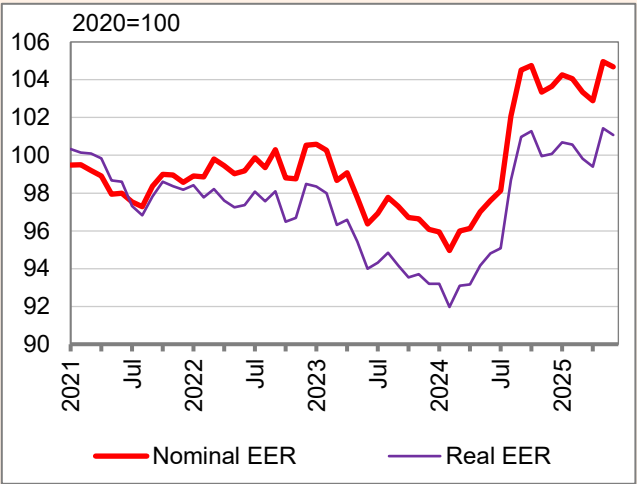


Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.

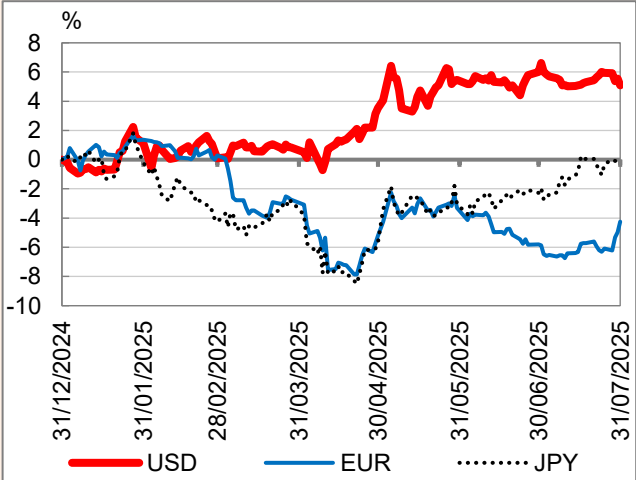
Foreign reserves improved to USD121.3 billion as at end-Jul 2025



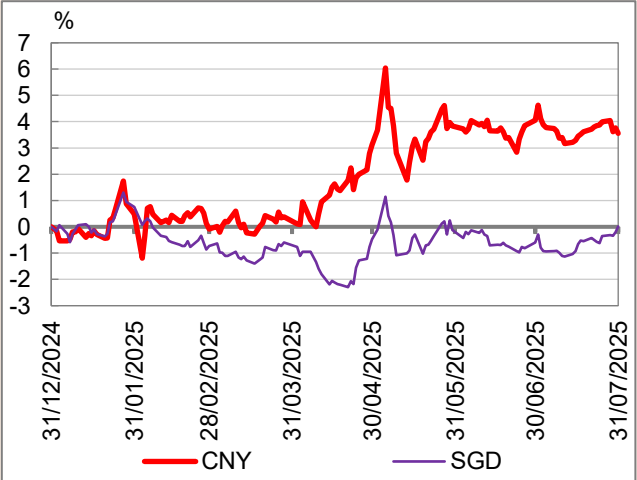
Ringgit's Effective Exchange Rate (EER)



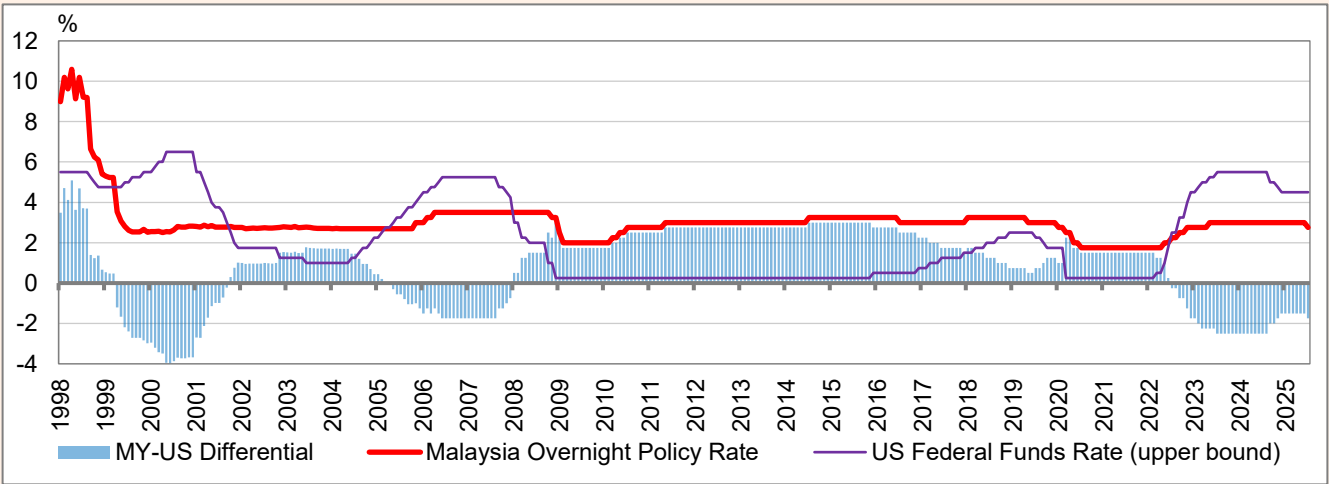
The Ringgit against the US dollar, euro, and Japanese yen (vs. end-2024)



The Ringgit against the Chinese renminbi and Singapore dollar (vs. end-2024)



Malaysia-US's interest rate differentials



Source: Department of Statistics, Malaysia (DOSM); Bank Negara Malaysia (BNM); Malaysian Automotive Association (MAA); Bank for International Settlements; Federal Reserve



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About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organisation will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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