Socio-Economic Research Centre
SERC 社会经济研究中心

Bank Negara Malaysia (BNM)'s Economic and Monetary Review 2025 & Financial Stability Review, Second Half 2025

Navigating Malaysia's growth trajectory in a complex geopolitical landscape

31 March 2026

Key Messages

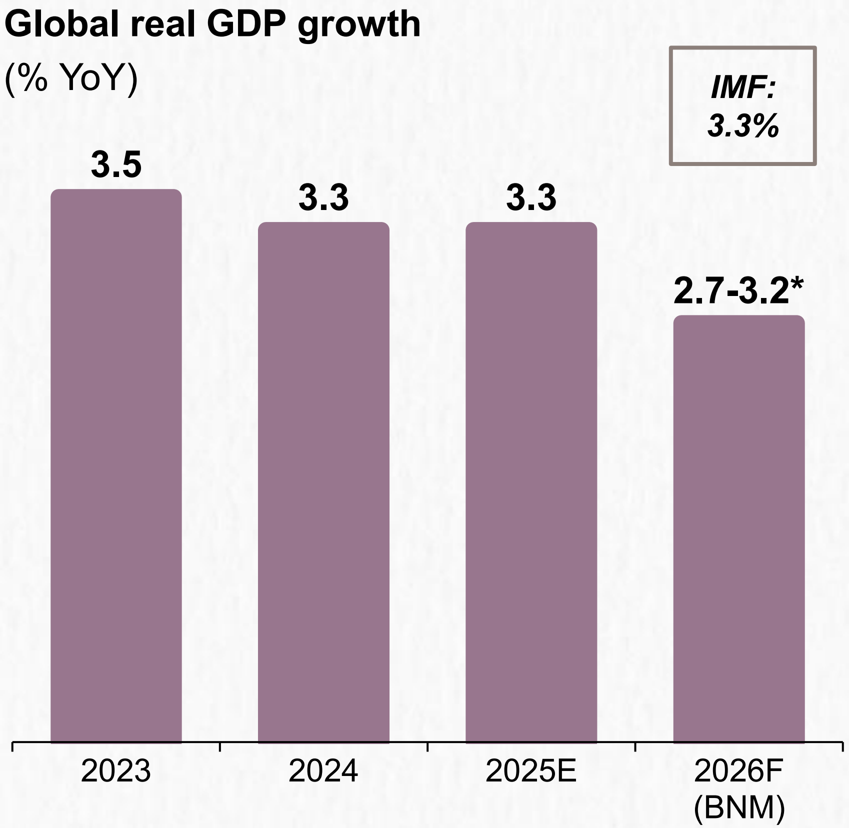
01 The global economy is expected to **expand at a more moderate pace (2.7%-3.2%) in 2026**, with risks tilting to the downside.

02 The Malaysian economy is projected to **grow by 4.0%-5.0% (mid-point estimates of 4.5%) in 2026**, anchored by domestic demand and still steadying exports.

03 Malaysia's financial system remains resilient in the face of shocks, with **the banking system is well-capitalised** with strong buffers.

04 **Household debt-to-GDP ratio was stable (84.8%) in 2H 2025**, with businesses and households' debt repayment capacity remained sound.

The global economy is expected to expand at a more moderate pace in 2026



Note: The projection for 2026 by BNM is based on purchasing power parity (PPP)-weighted basis.
Source: IMF; BNM

Global economic growth is expected to continue growing at 2.7%-3.2% in 2026, supported by resilient domestic demand, including robust investment in technology and digitalisation, particularly artificial intelligence (AI).

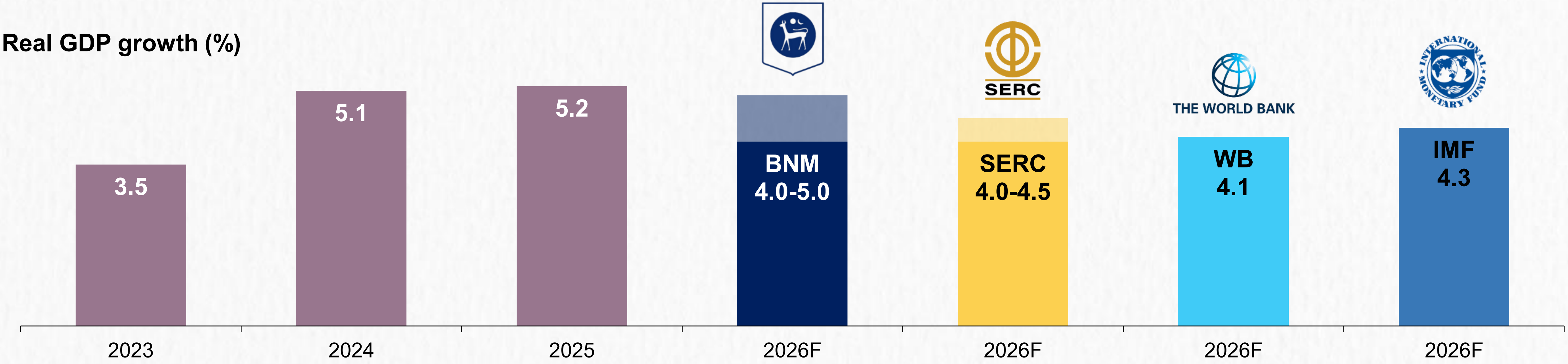
Global trade growth is expected to slow in 2026 due to fading 2025 frontloading, tariff impacts, and geopolitical conflicts, though demand for electrical products and electronics (E&E) and machinery and equipment (M&E) from tech upgrades and infrastructure investment provides some support.

Headline inflation faces higher uncertainty from the Middle East conflict-inflicted disruptions to energy and supply chains, with the US tariff pass-through keeping price pressures above those of other major economies.

Global growth risks are tilted to the downside

Upside risks	VS	Downside risks
Stronger-than-expected technology spending	01	Higher and more product-specific tariffs weigh on global trade flows
Milder tariff impact on economic growth	02	Prolonged and more destructive conflict in the Middle East push commodity prices higher
Greater policy support in major economies	03	Concerns over elevated financial markets' valuations increase the risk of corrections

Sustaining domestic demand anchors growth amid global headwinds



Source: DOSM; BNM; SERC; World Bank; IMF

Key drivers underpin sustained economic growth in 2026

01 Steady household spending

Private consumption is projected to grow by 5.0%, fuelled by strong labour market conditions and income-support measures, including civil servant salary hikes, cash transfers and targeted assistance (SARA + STR: RM15 billion).

02 Strong investment activity

A 7.5% expansion in investment is expected as high-value projects and the realisation of national masterplans (e.g. NIMP 2030, NETR), particularly data centres and high-tech manufacturing (e.g. E&E).

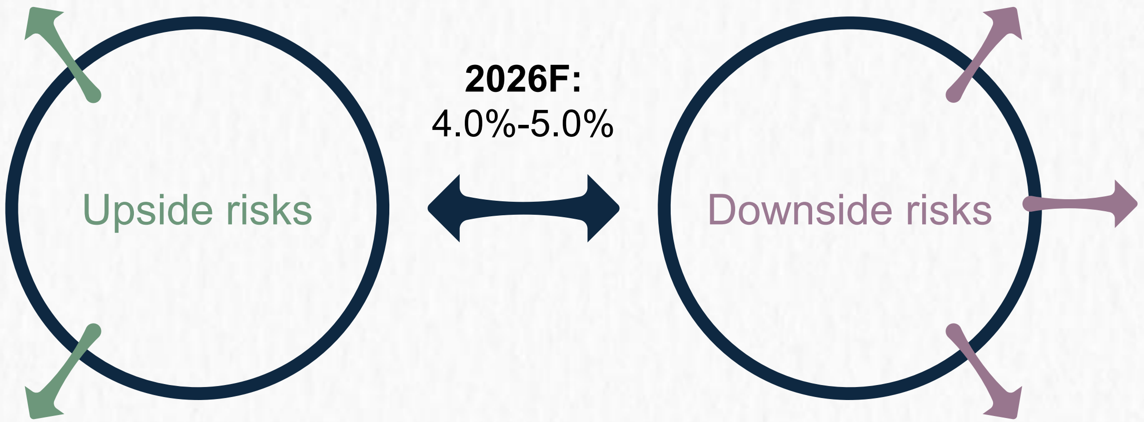
03 Continued exports

Malaysia's gross exports is set to sustained at higher rate, underpinned by a surge in global semiconductor demand (E&E), faster ICT and data centres rollout, as well as higher exports earnings of crude petroleum, and liquefied natural gas (LNG).

Upside vs Downside risks to Malaysia's economic growth outlook in 2026

Stronger global demand for E&E and robust tourism boosting export growth

Prolonged conflict in the Middle East affecting global inflation, economy and trade



Disruption in domestic commodity production

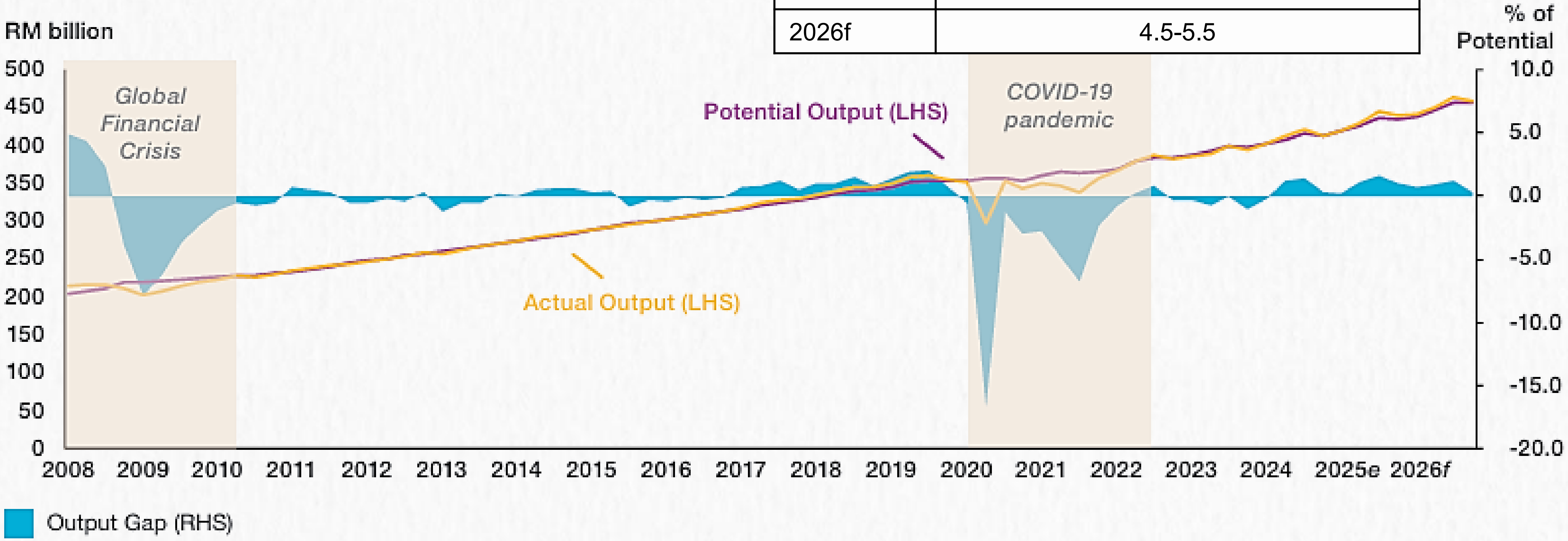
Higher external demand amid better-than-expected global growth

Sensitivity of the global AI cycle to market shifts

Malaysia's potential output and the output gap

- **The output gap is expected to narrow and trend towards neutral in 2026.** While potential output is projected to expand at an accelerated pace of 4.5%–5.5%, actual output growth is forecast to track closely at 4.0%–5.0%, driven by robust domestic demand.
- Over the medium-term, **the expansion of potential output is underpinned by high levels of investment in strategic sectors, namely ICT and E&E**. Furthermore, ongoing structural shifts and efficiency gains continue to enhance the nation's total factor productivity and long-term productive frontier.

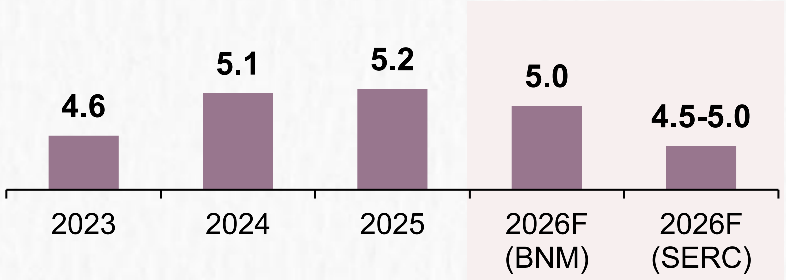
Year	Annual Growth in Potential Output (%)
2024	3.9
2025e	4.8
2026f	4.5-5.5



Source: DOSM; BNM estimates

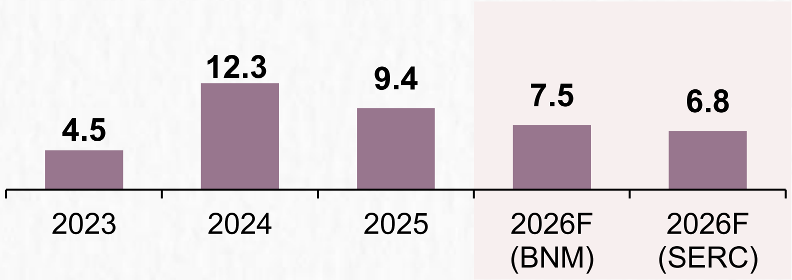
Resilient domestic demand continues to anchor growth

Private Consumption (%) [60.9% of GDP]



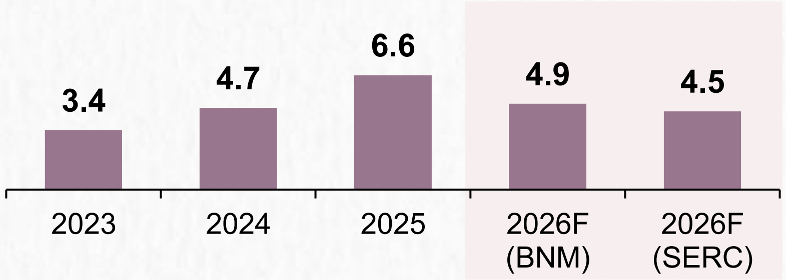
- Resilient labour market conditions and continued income growth
- Sustained household spending, supported by fiscal measures (e.g. cash transfers and BUDI95)

Private Investment (%) [17.7% of GDP]



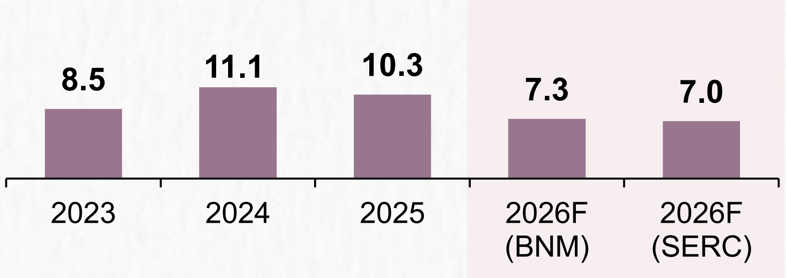
- Realisation of the high-level of investment approvals (84.9% of manufacturing projects in 2021-2025)
- Global technology expansion and advancements in automation and digitalisation
- Sustained early-stage construction activity

Public Consumption (%) [13.4% of GDP]



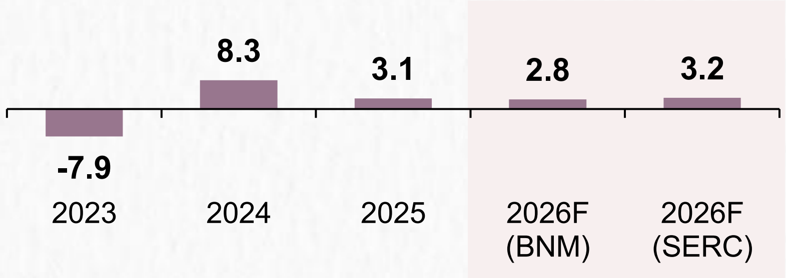
- Phase 2 of civil servant salary adjustment under the SSPA

Public Investment (%) [5.2% of GDP]



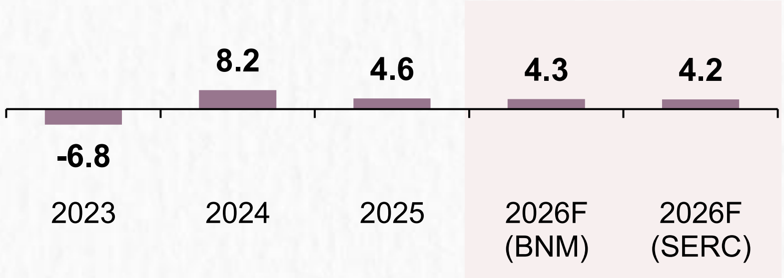
- Near completion of several major infrastructure projects
- Catalytic investments in strategic sectors such as utilities, energy, and transportation

Real Exports (%) [65.7% of GDP]



- E&E to benefit from strong semiconductor demand, amid digitalisation, and AI growth
- Non-E&E manufacturing export outlook mixed
- Recovery in mining exports; decline in agriculture exports

Real Imports (%) [63.4% of GDP]

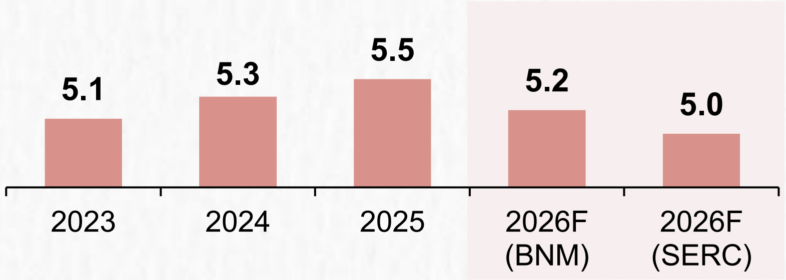


- Recovery in intermediate goods in line with expectations for continued growth in manufactured exports
- Normalisation of capital imports growth following strong expansion, while remaining elevated

Note: Figure in parenthesis [ ] indicates share of GDP in 2026
Source: DOSM; BNM; SERC

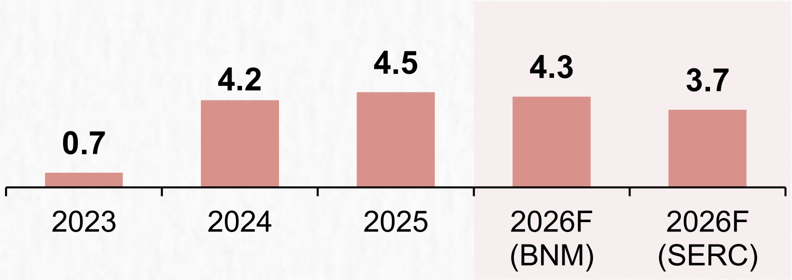
Expansion driven by the services and manufacturing sectors

Services (%) [60.0% of GDP]



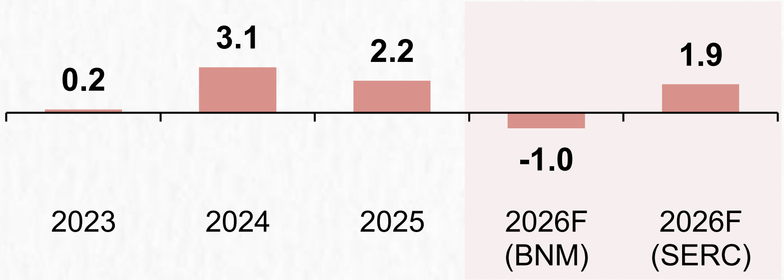
- Resilient consumer-related subsector due to sustained household spending
- Visit Malaysia 2026 campaigns
- Continued operationalisation of data centre activities support ICT subsector

Manufacturing (%) [23.0% of GDP]



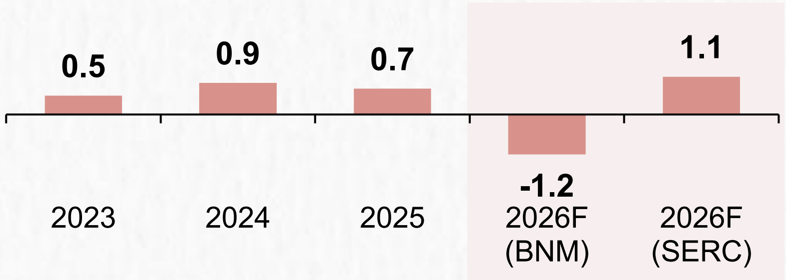
- Ongoing strong demand related to AI
- Consumer-related industries to benefit from resilient household spending
- Subdued in primary-related industry

Agriculture (%) [5.8% of GDP]



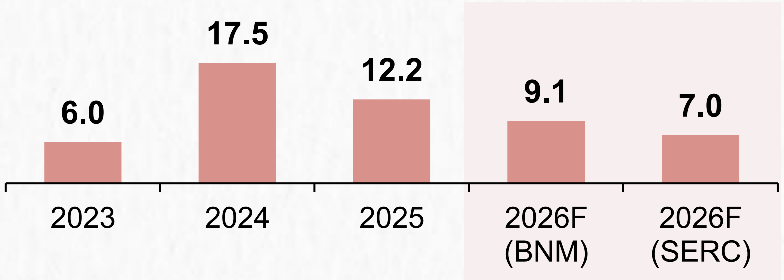
- CPO normalises following the strong yields recorded in late 2025; ongoing replanting in East Malaysia weigh on output
- Continued technological enhancements support production of other food crops

Mining and quarrying (%) [5.4% of GDP]



- Maturing fields continue to weigh on oil production
- Planned maintenance activities are expected to affect output

Construction (%) [4.5% of GDP]

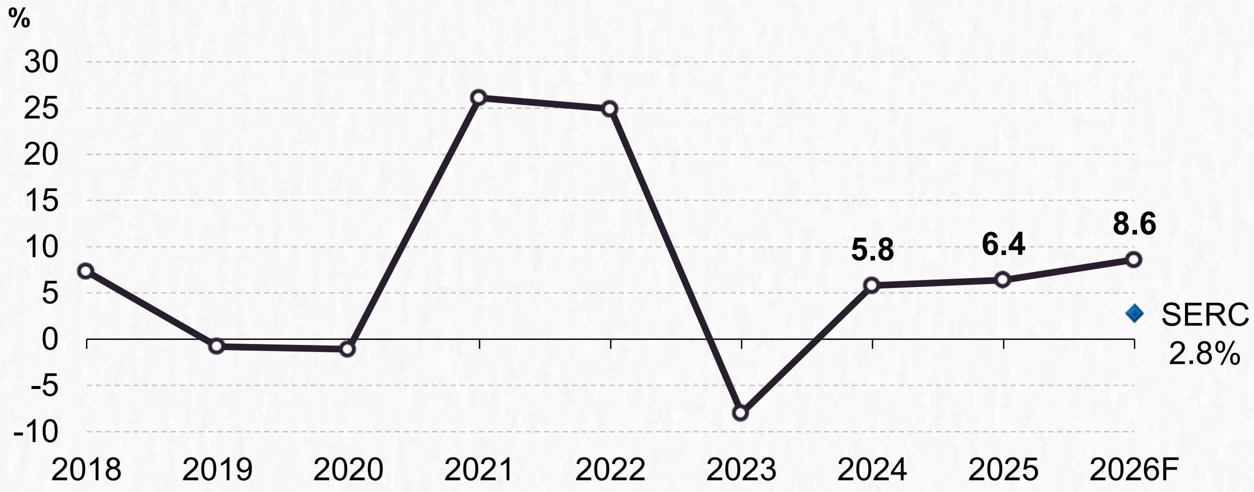


- Continued activities across all subsectors
- Sustained Government's development expenditure
- Strong demand for industrial spaces
- Launches of affordable new housing projects

Note: Figure in parenthesis [ ] indicates share of GDP in 2026
Source: DOSM; BNM; SERC

Higher exports; sustained current account surplus

BNM expects gross exports to register higher growth this year

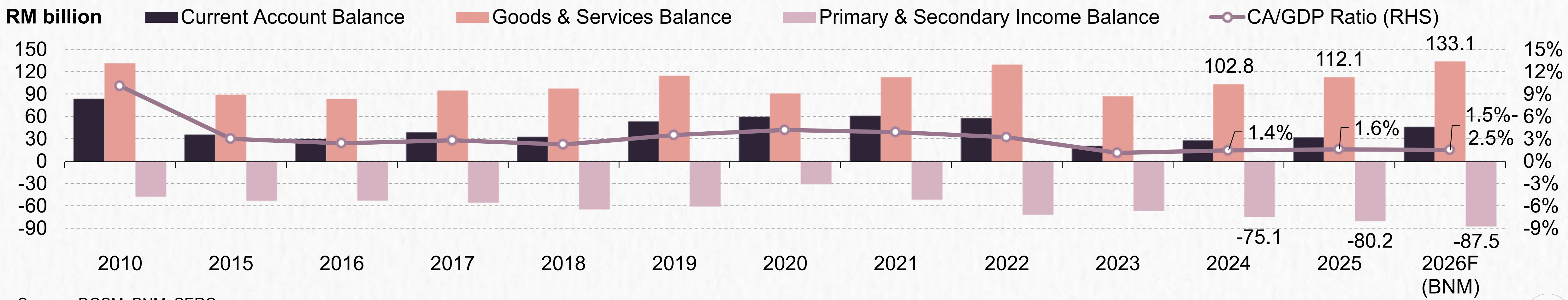


Expansion in major export products in 2025

Major export products	RM billion	% Growth
Electrical & electronic products [44.3%]	711.4	18.3
Petroleum products [6.4%]	103.6	-18.7
Machinery, equipment & parts [4.9%]	78.3	13.4
Palm oil [4.2%]	67.3	2.3
Optical & scientific equipment [4.1%]	65.6	10.9
Chemical & chemical products [4.1%]	65.2	-11.4
Manufactures of metal [3.9%]	63.2	2.7
Liquefied natural gas [3.2%]	51.6	-16.6

Note; Figure in parenthesis indicates % share of gross exports in 2025.

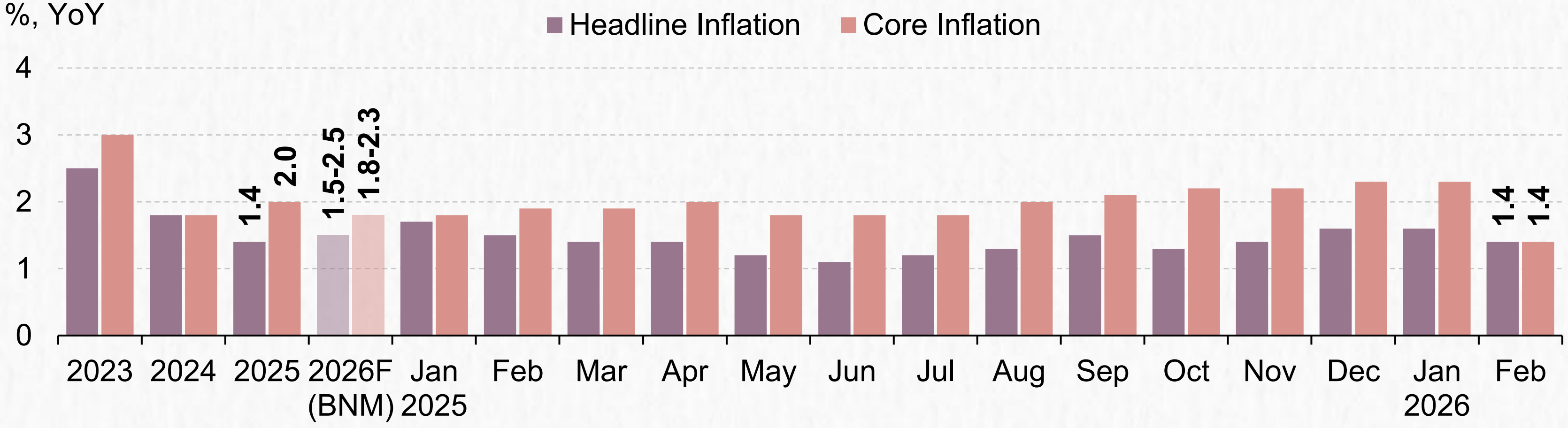
The current account will remain in surplus, driven by higher goods and services surplus despite a challenging external environment



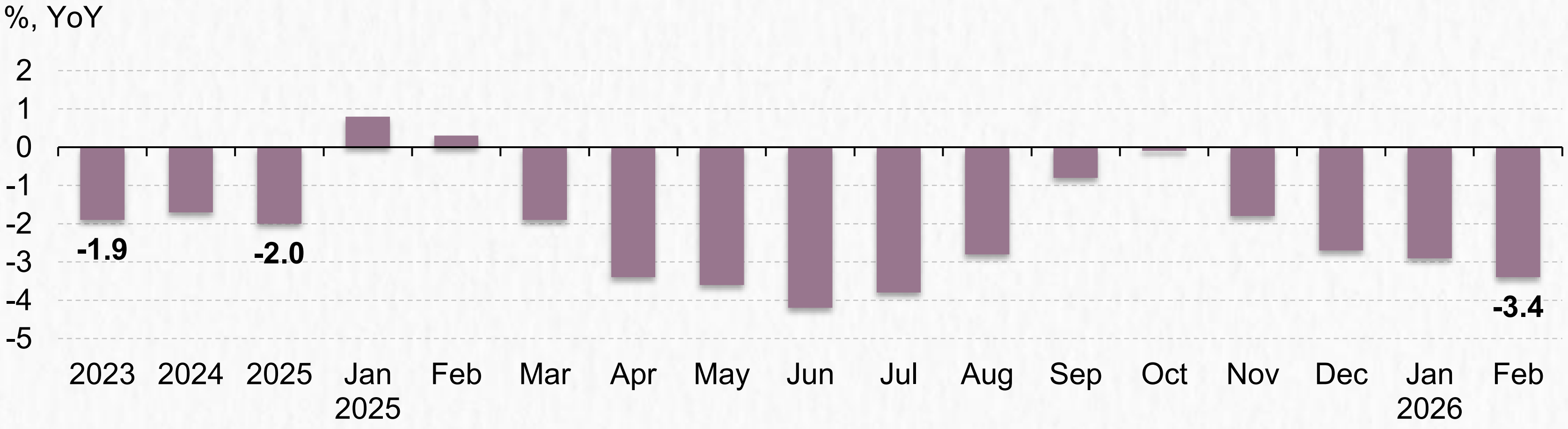
Source: DOSM; BNM; SERC

BNM expects headline inflation to contain between 1.5%-2.5% (core inflation at 1.8%-2.3%) in 2026

Headline and core inflation



Producer prices



Source: BNM; DOSM; SERC estimates

While domestic policy measures help mitigate the pass-through of global cost pressures, the inflation outlook remains primarily dependent on external risks.

Upside risks to inflation outlook

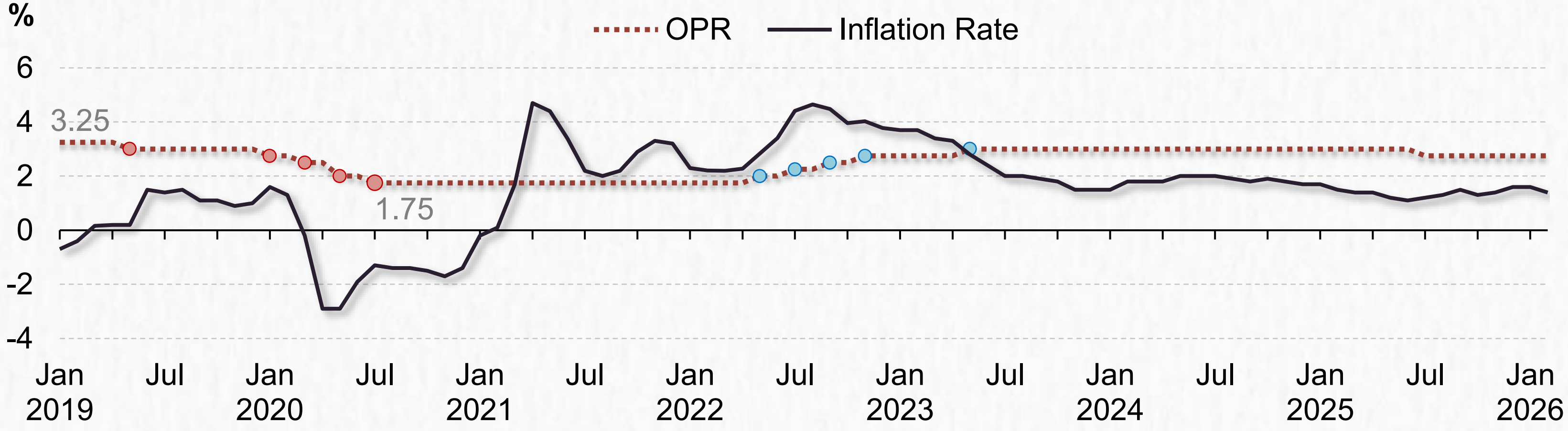
- Prolonged supply disruptions (higher input costs from elevated global commodity prices)
- Trade policy uncertainty
- Weather disruptions
- Some producers and retailers could also opportunistically raise prices

Downside risks to inflation

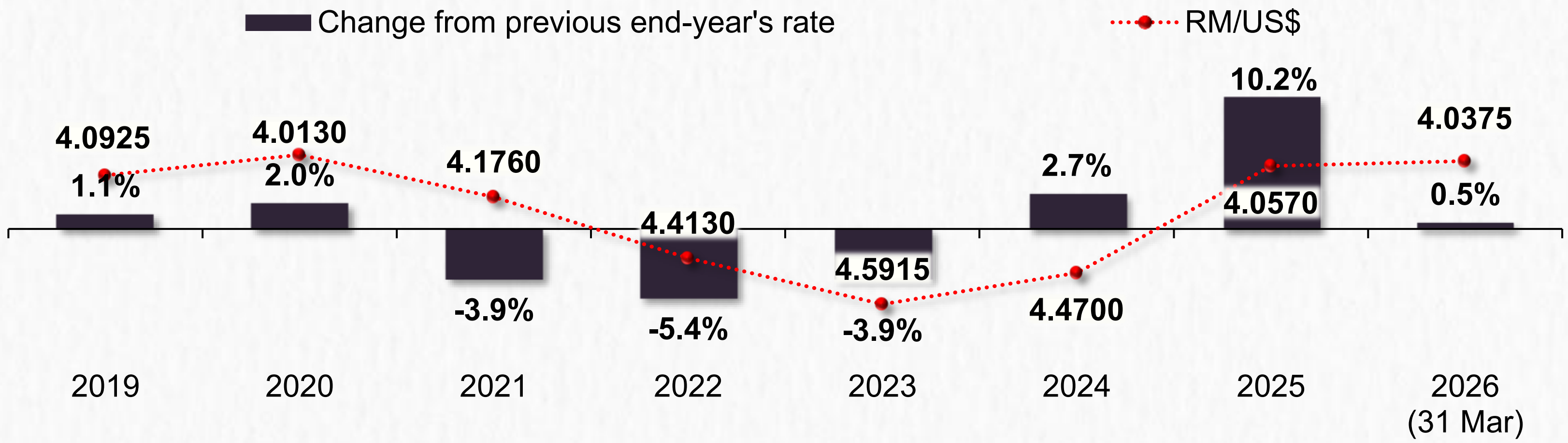
- Weaker global demand
- Softer global commodity price developments could lower imported costs

Monetary policy will focus on supporting growth while containing inflation

Overnight Policy Rate (OPR)



Exchange rates (RM/US)



Source: BNM; DOSM

Note: Exchange rate (12:00 rate) as at end-period

- In July 2025, the Overnight Policy Rate (OPR) was cut by 25 basis points to 2.75% to support growth amid a challenging external environment.
- The statutory reserve requirement (SRR) ratio was lowered from 2% to 1% in May 2025 to improve banks' liquidity management.
- **Monetary policy in 2026 will remain data-dependent and continue to be guided by the evolving balance of risks to Malaysia's inflation and growth outlook.**
- The Middle East conflict is a significant development, with the overall impact on Malaysia will depend on the duration and intensity of the conflict, as well as the degree to which it disrupts global energy production and logistics.

Drivers of Ringgit in 2026

▲ Positive economic prospects

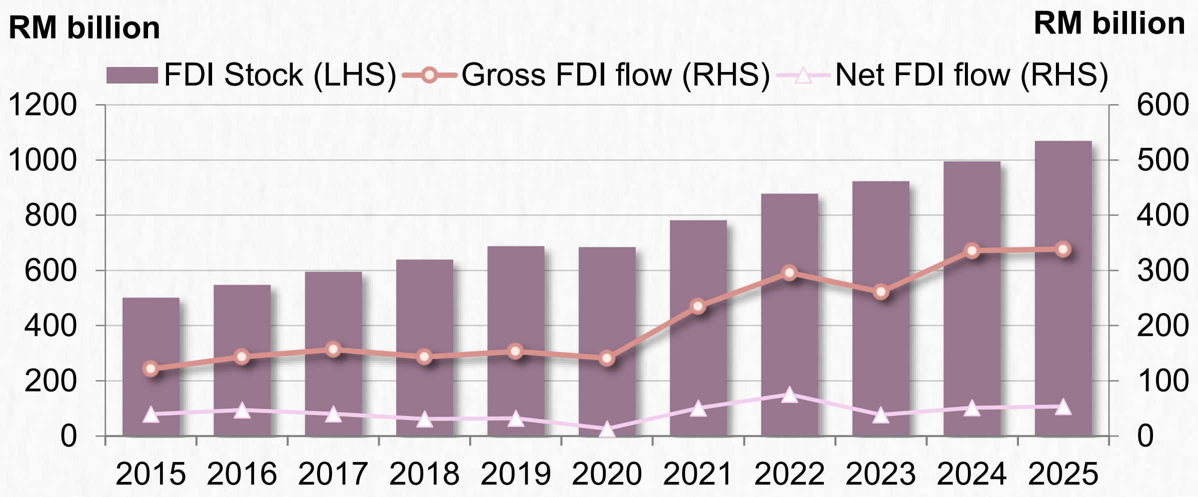
▲ Solid domestic fundamentals

▼ Global uncertainties

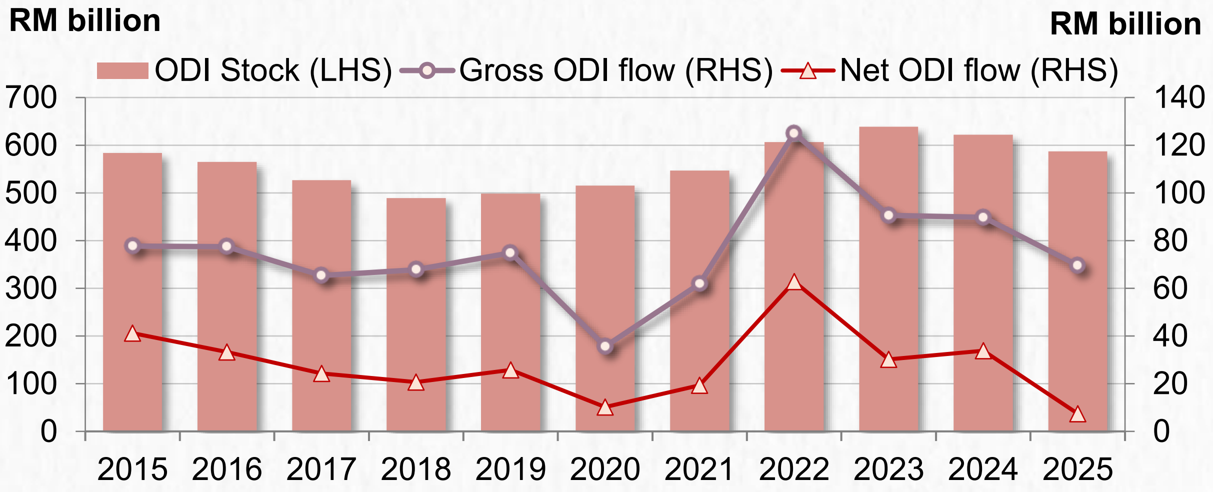
▼ Shifts in US monetary policy path

FDI remained strong, supported by continued foreign interest in Malaysia

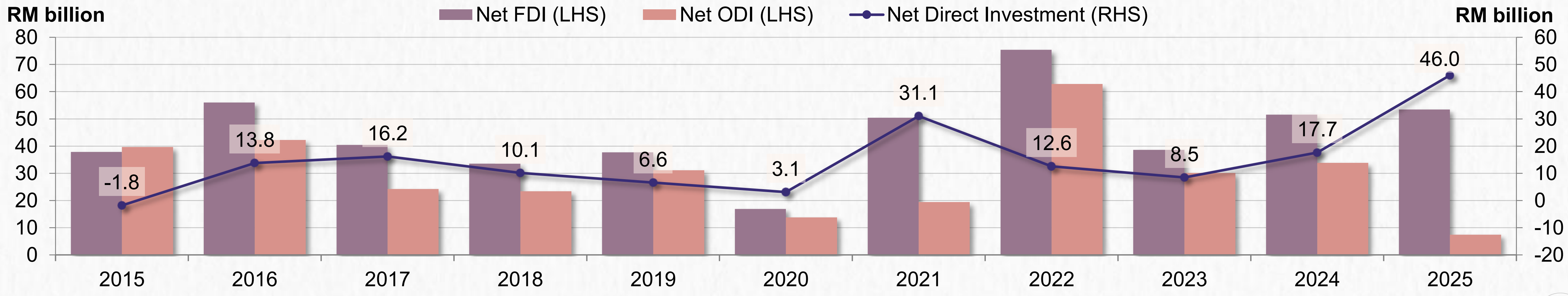
Net FDI inflows for the year were mainly channelled into the services sector, fuelled by global demand for data centre services



Lower outflows due to settlement of loans and suppliers' credits by foreign subsidiaries



Sustained net inflows reflected foreign investors' continued interest in expanding production in Malaysia through equity injections and M&A

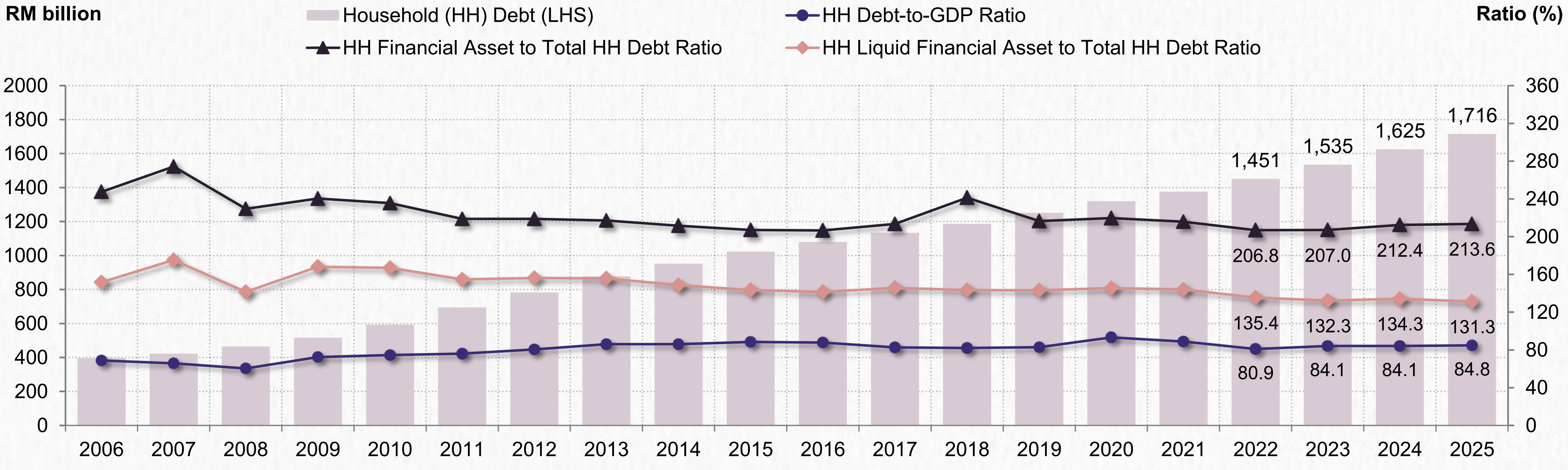


Source: BNM

FDI = Foreign direct investment; ODI = Outward direct investment

Household debt growth stabilised amid stronger asset growth

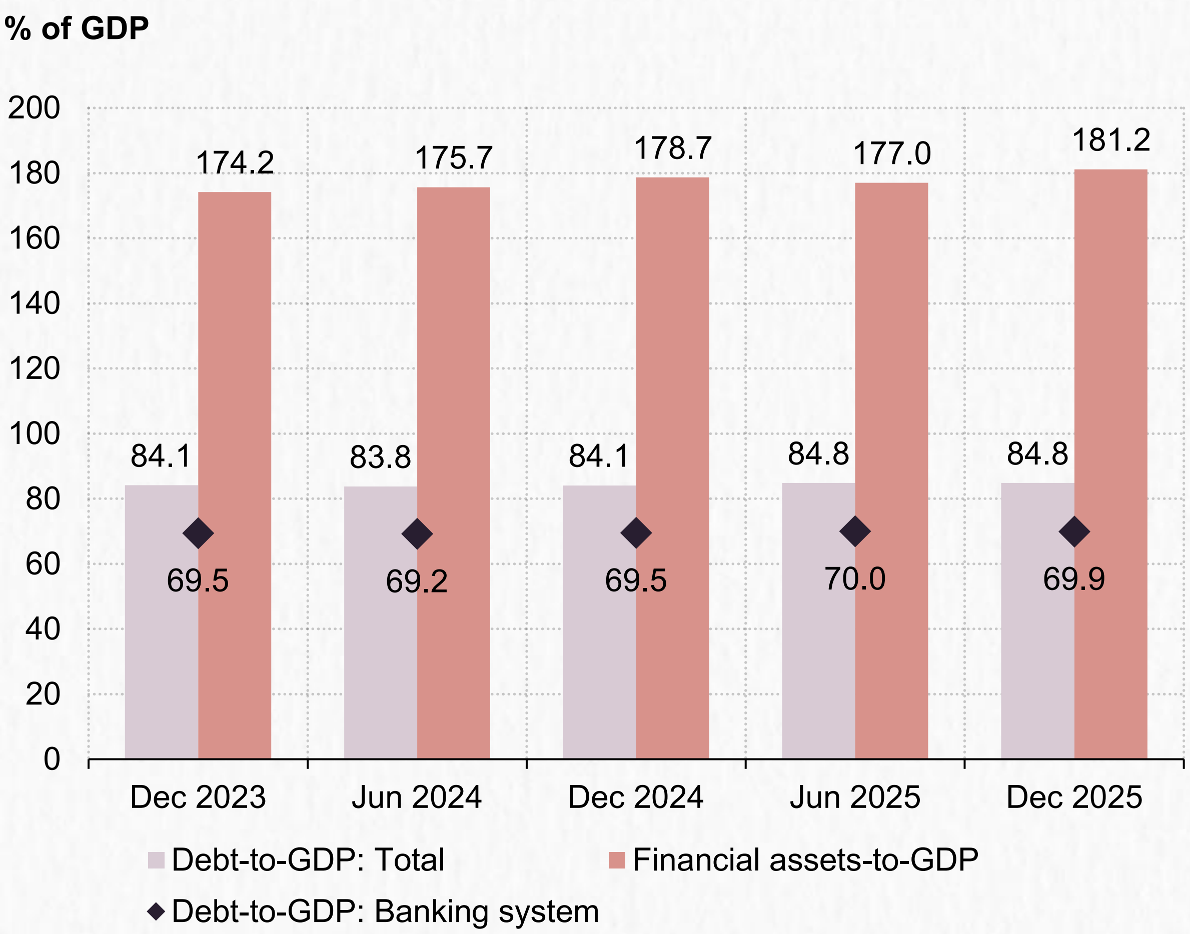
- **Household debt expanded at an annualised pace of 5.6% to RM1,715.6 billion in 2H 2025.** The growth aligns with pre-pandemic levels (2015-2019 average: 5.6%), and represents a slight moderation from the 5.9% recorded in 2H 2024. Growth remains primarily driven by **housing and car loans, which collectively made up 75.1% of total household debt**.
- **The household debt-to-GDP ratio stabilised at 84.8% at end-2025**, largely driven by strong nominal GDP performance rather than debt acceleration. Household balance sheets remain robust, with **financial assets in excess of debt by 2.1 times on an aggregate basis**.



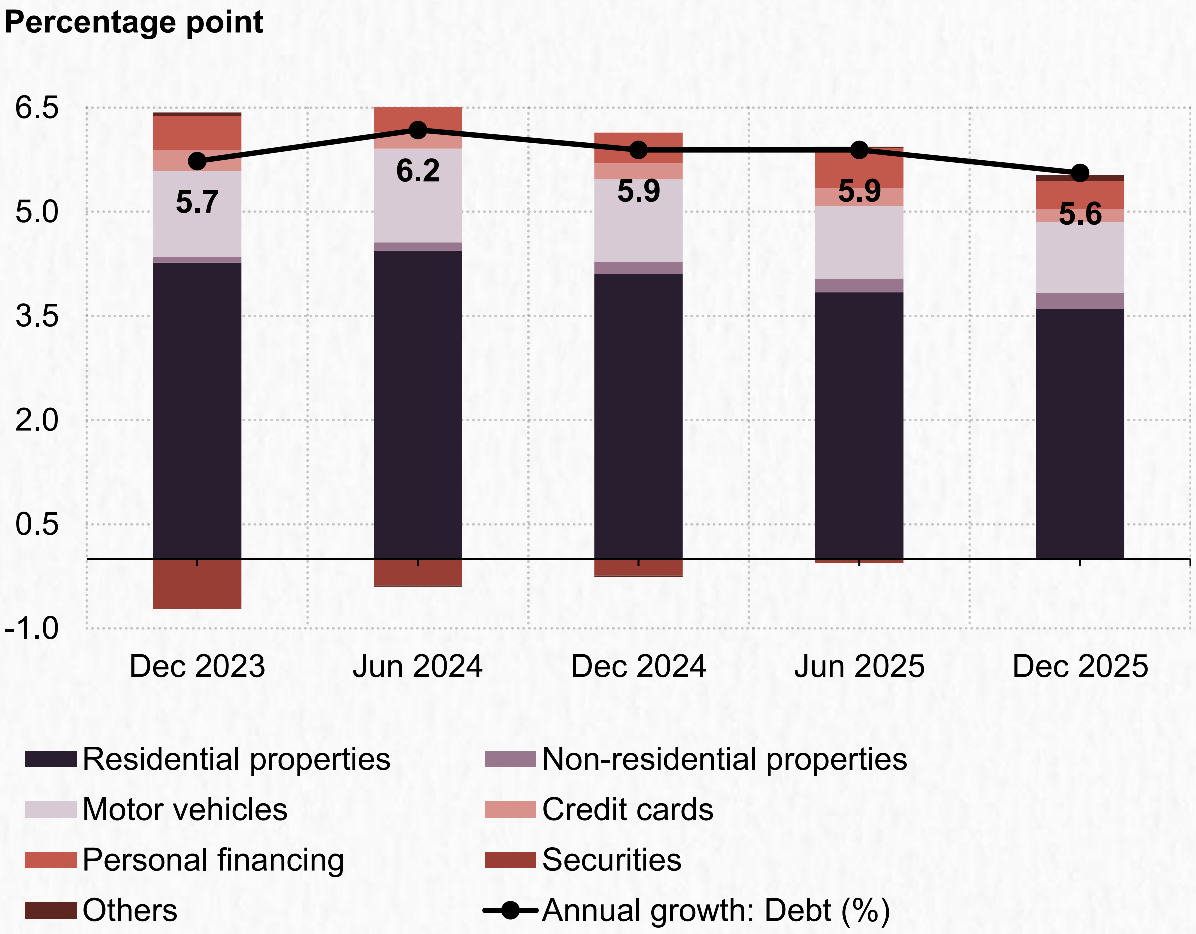
Source: BNM

Household sector debt conditions

Household Sector – Key Ratios



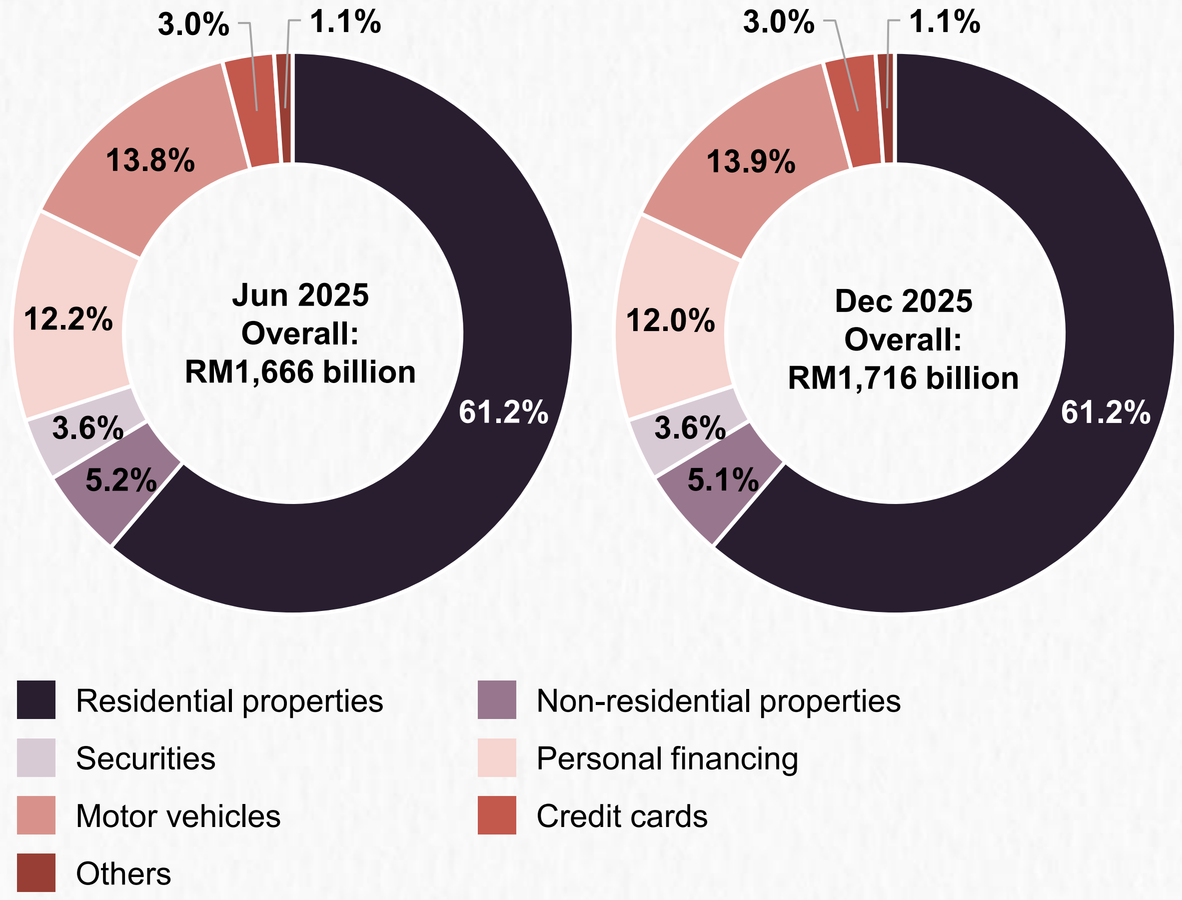
Household Sector – Annual Growth of Debt



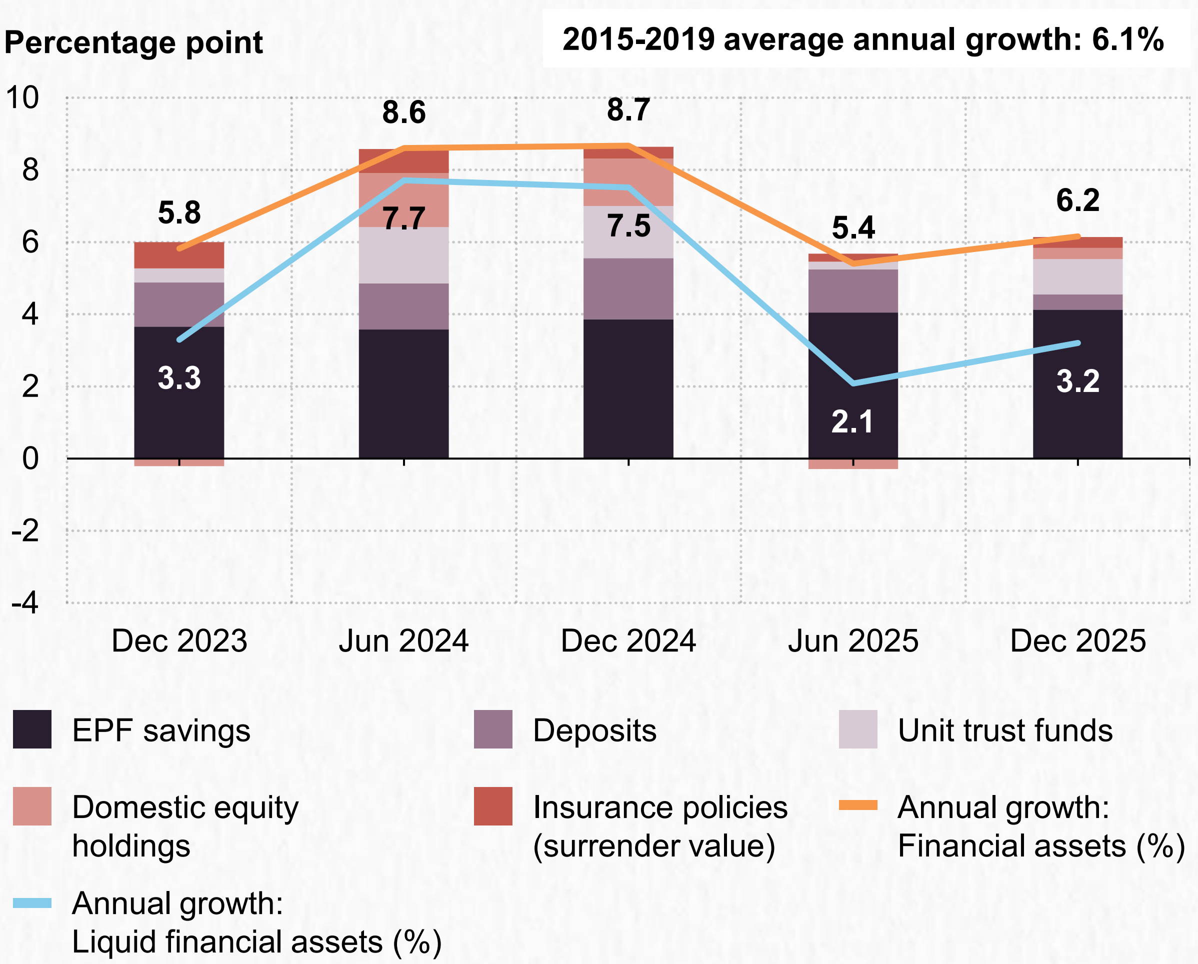
Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

Household sector debt conditions (cont.)

Household Sector – Composition of Debt by Purpose



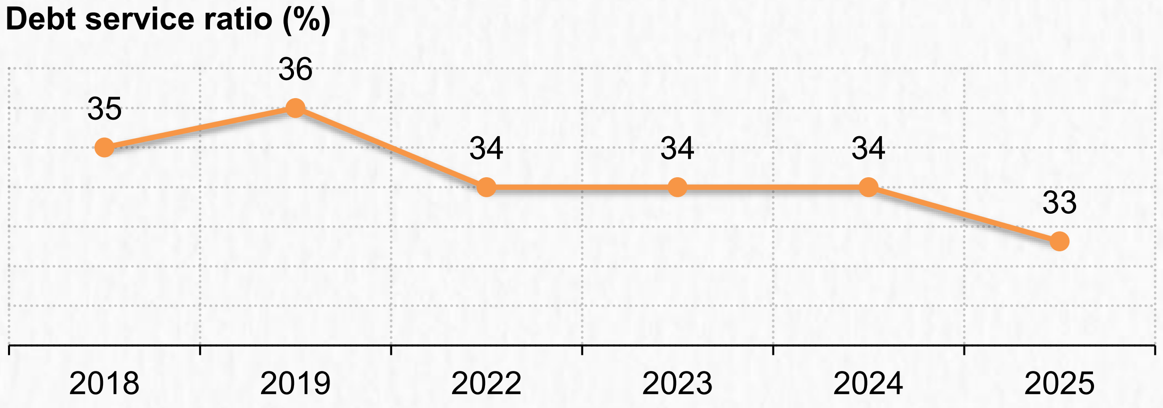
Household Sector – Annual Growth of Financial Assets



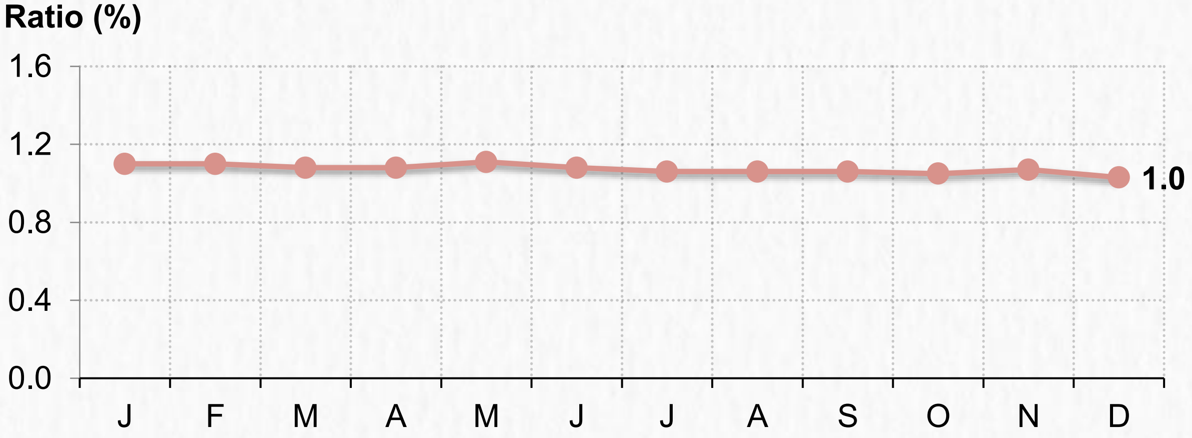
Source: BNM; Bursa Malaysia; DOSM; Employees Provident Fund; Securities Commission

Household sector debt conditions (cont.)

Household Sector – Median Debt Service Ratio of Borrowers with Outstanding Loans

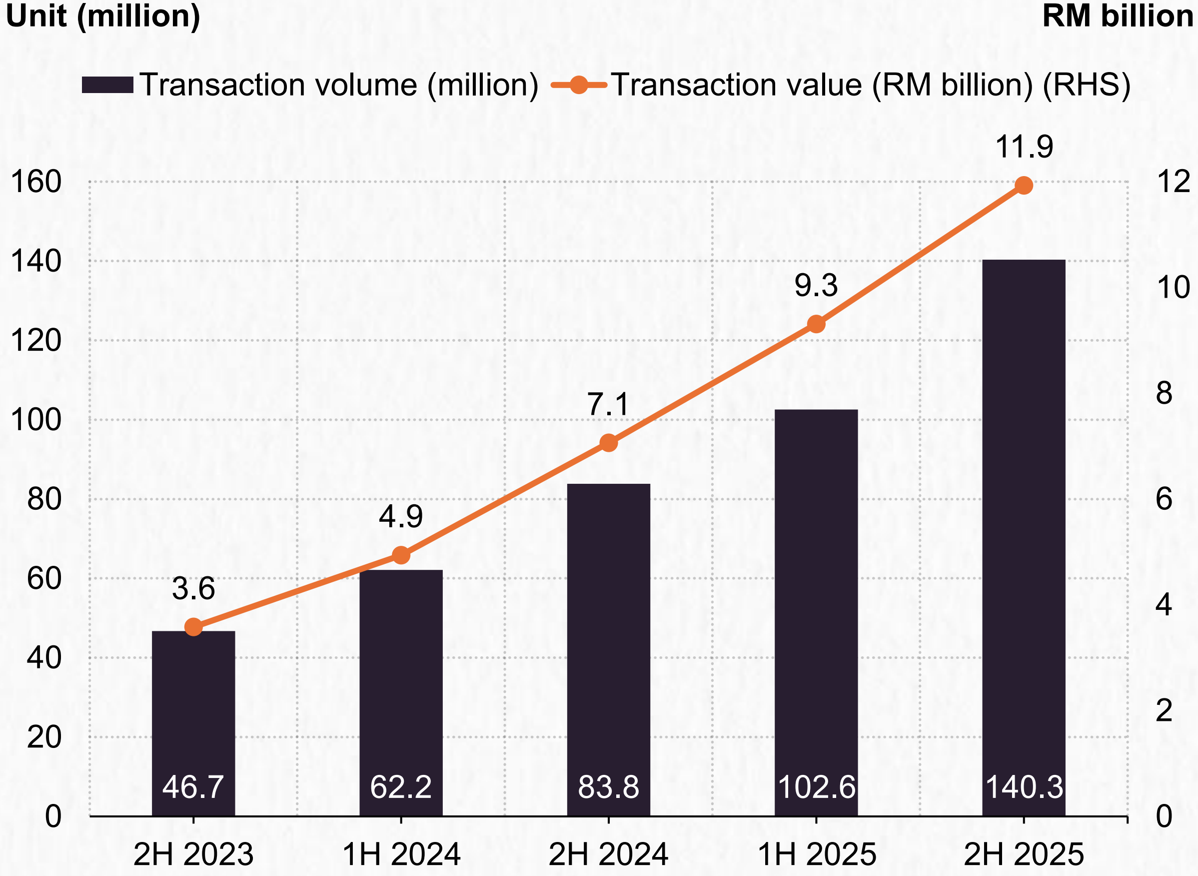


Household Sector – Loan Impairment Ratio in 2025



Note: Data refers to banking system and development financial institution (DFI) loans.
Source: BNM; Consumer Credit Commission

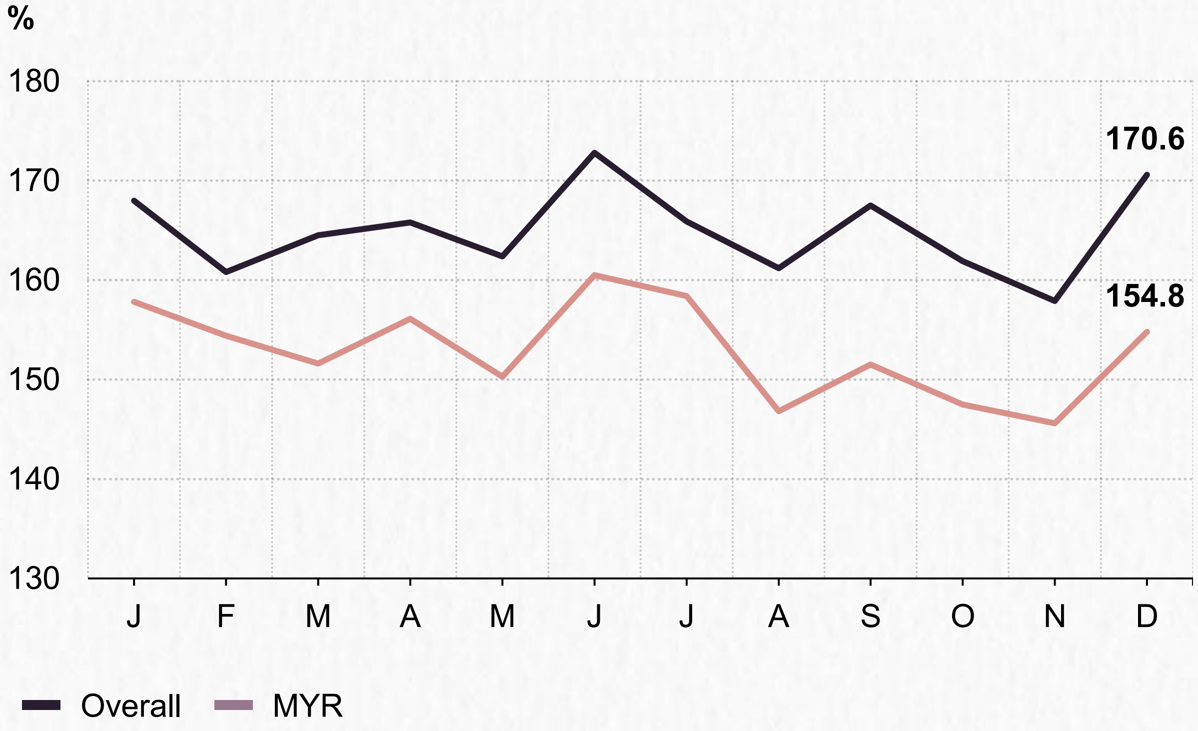
Household Sector – Buy Now Pay Later (BNPL) Transaction Volume and Value



Note: Data refers to BNPL transactions with non-bank providers.

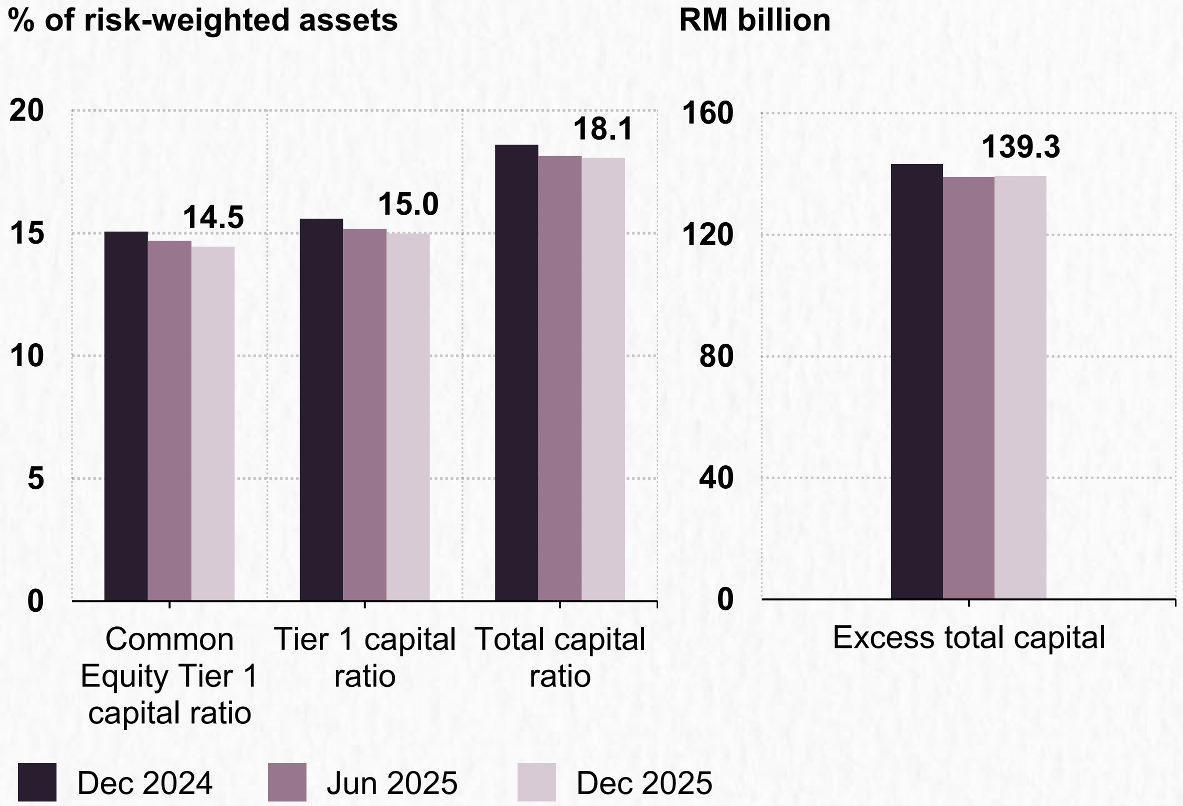
Ample liquidity buffers supporting financial intermediation

Banking System – Liquidity Coverage Ratio in 2025



Note: 1. MYR LCR is calculated based on high-quality liquid assets (HQLA) and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Banking System – Capitalisation

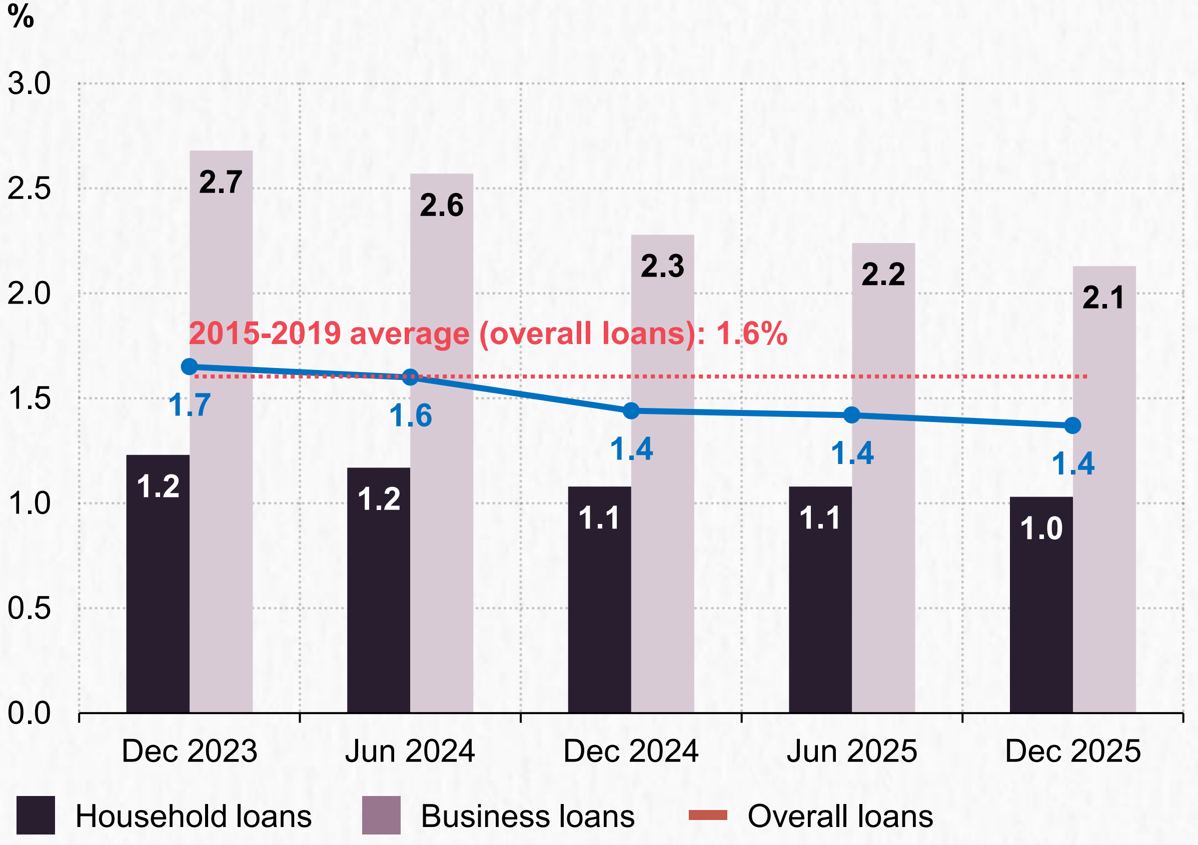


Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

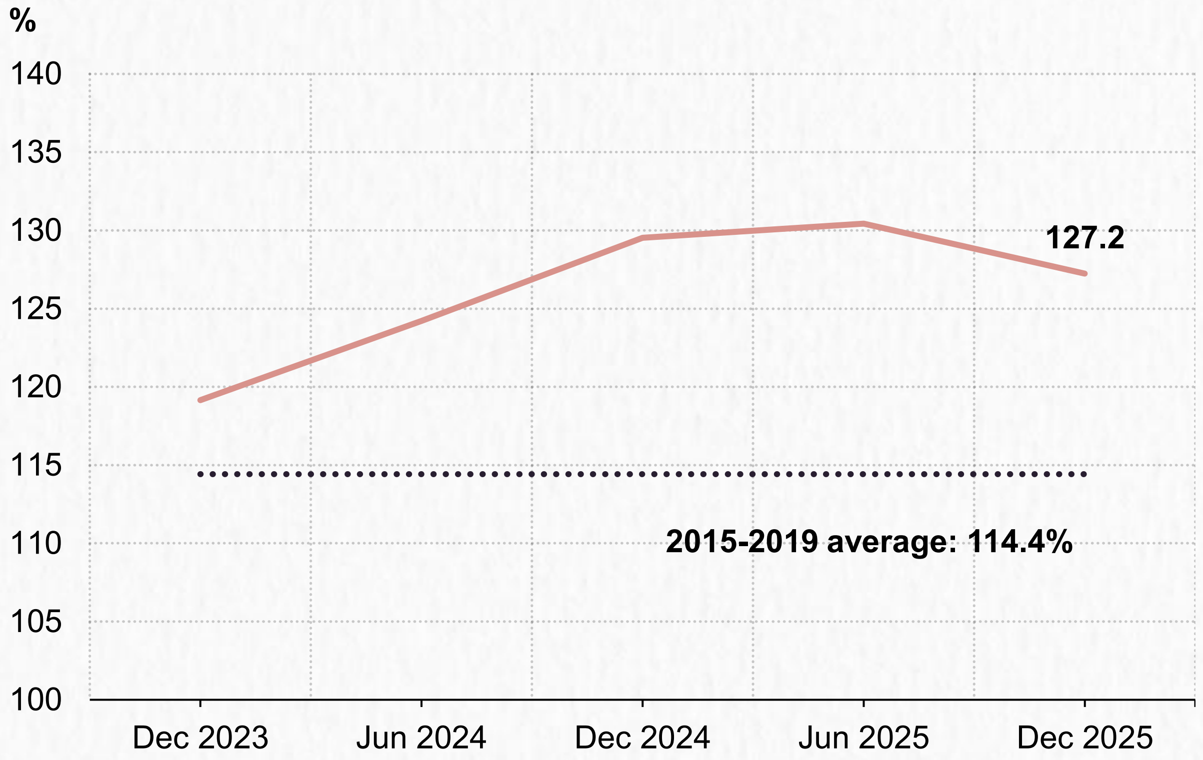
Source: BNM

Resilient credit quality

Banking System – Gross Impaired Loans Ratio



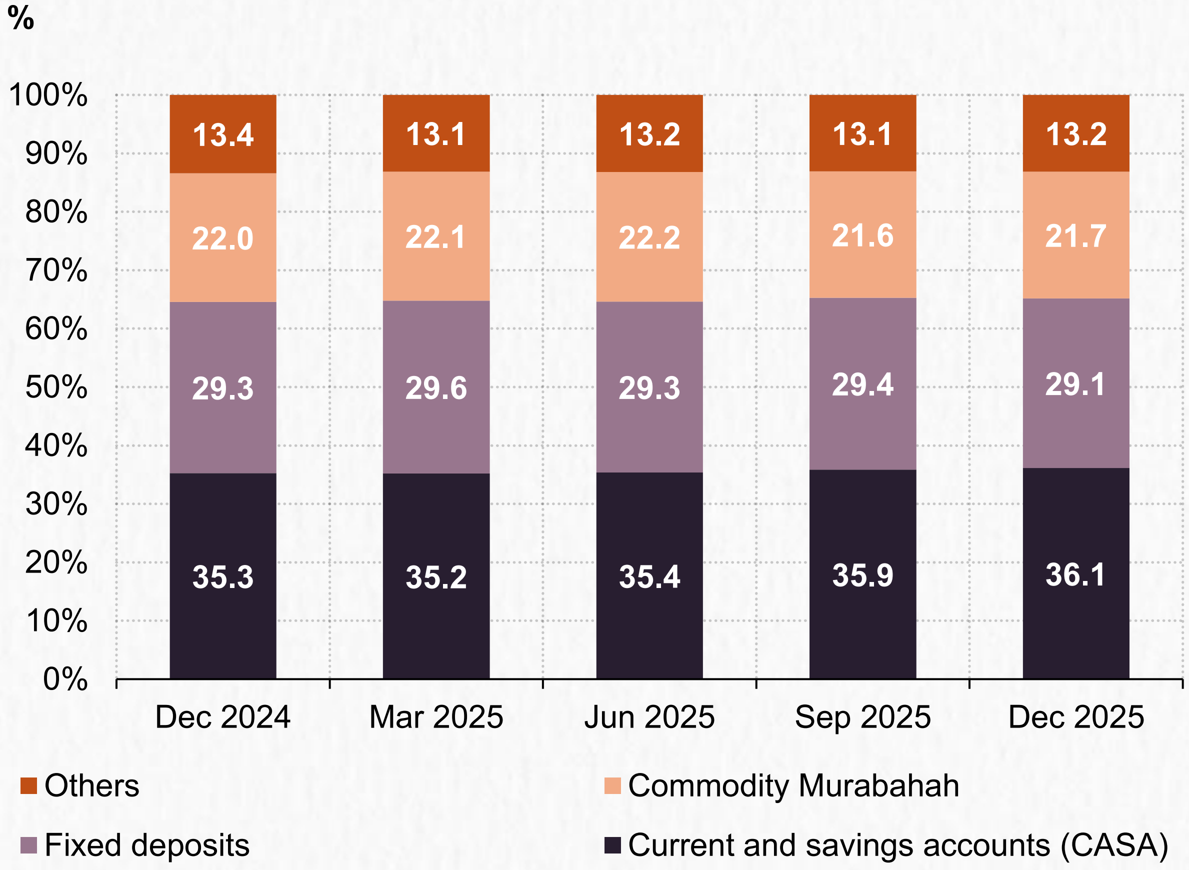
Banking System – Loan Loss Coverage Ratio (Including Regulatory Reserves)



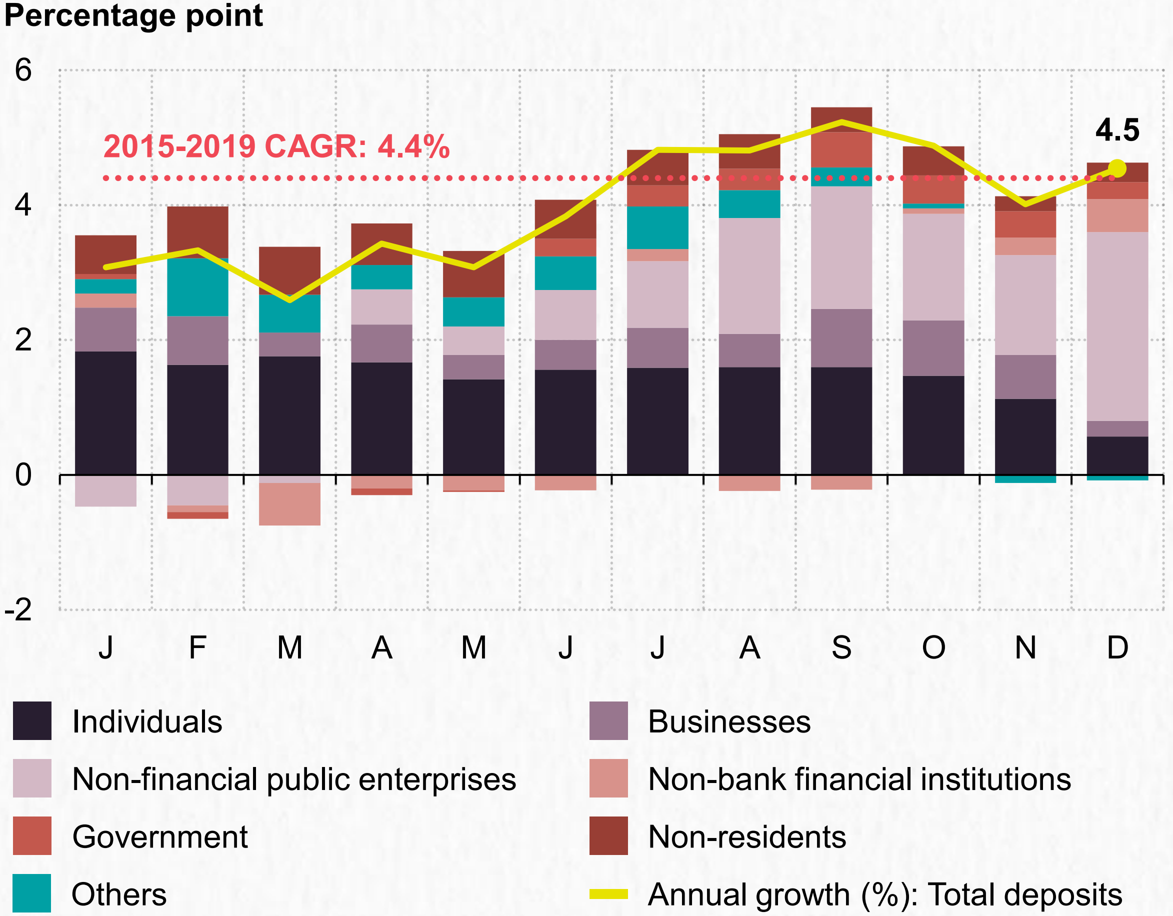
Source: BNM

Positive deposit growth amidst easing funding costs

Banking System – Composition of Deposits Accepted by Type



Banking System – Contribution to Growth in Deposits Accepted



Source: BNM

SERC’s commentaries

- Bank Negara Malaysia (BNM)’s baseline economic growth estimate (4.0%-5.0% in 2026) is more optimistic than SERC’s 4.0%-4.5%. BNM’s assumption of the war duration and crude oil price is in line with our assumptions (War duration: BNM’s 1-2 months, same as SERC; crude oil price: BNM’s USD70-USD90 per barrel (bbl) vs. SERC’s USD80-USD90/bbl).

- Given considerable uncertainties and evolving developments in the Middle East conflict, BNM has conducted two other scenarios to understand different levels of impact:
    - S1 scenario (Adverse) with 3-6 months war duration and oil price of USD90-USD110/bbl;
    - S2 scenario (Severe) with more than 6 months of war duration and oil price of more than USD110/bbl.

  These war duration and oil price scenarios almost matched our assumptions.

- Importantly, the key variables in transmitting an oil shock to a recession are the duration and magnitude of price surges, the central bank's monetary policy response, and pre-existing state of the economic cycle.

- While Malaysia is entering the oil shocks in a position of strength, it is not immune to the soaring energy prices impacting the global economy, commodity and financial markets, transmitting through domestic economy via trade, financial and price channels. The oil shocks-inflicted disruptions will affect economic growth via production, consumption and investment, consumer inflation, business operating costs, and fiscal budget.

- The Government has acknowledged that Malaysia is operating in “crisis” mode, and the situation should not be taken lightly, while the central bank’s guidance on this year’s economic outlook has cautiously taken into consideration the impact of a prolonged soaring oil price and supply chains disruption on the Malaysian economy.

- Private consumption is forecast to grow by 5.0% in 2026 (5.2% in 2025), in line with SERC's 4.5%-5.0%, supported by sustained domestic activity and income-related policies, such as the 2nd phase of the Public Service Remuneration System (SSPA) salary adjustments, full implementation of the RM1,700 minimum wage, and cash aids totalling RM15 billion under STR and SARA.

- BNM estimates private investment to grow by 7.5% in 2026 (9.4% in 2025), higher than SERC's 6.8% estimate. Private investment will be largely sustained by the high-tech manufacturing and services sectors, particularly data centres, which accounted for 51% of total net FDI in 2025. The implementation of MIDA-approved manufacturing projects remains robust, with 84.9% of projects initiated since 2021 already moving toward operational status.

- We caution that high operating costs driven by surging energy prices and persistent supply chain bottlenecks are severely impacting business sentiment, with many firms adopting a "wait-and-see" approach to investment.

- Increased energy costs and raw materials due to the supply chains disruption, higher shipping rates, insurance premiums, and logistic costs raise transportation and production expenses for firms, reducing output or delaying production and inducing inflationary pressure. Direct cost increases have knock-on impact on industries and sectors that fall outside "the fuel subsidy-quota" scheme, such as construction, aviation, plantation and manufacturing sectors.

- The affected industries include industrial products and consumer goods. Among the heavy users of gas and electricity in the manufacturing sector are iron and steel, textiles, cement, and glass products. The agricultural sector will also be impacted as crude oil is serving as a primary energy source for machinery fuel (diesel), transport, and the production of fertilisers, pesticides, and plastics.

Table 1: Ripple effects on raw material prices and business operation costs

PLASTICS	• Naphtha shortage → raw material costs +70% → plastic product prices +50% (Source)
AGRICULTURE	• Fertilizers & feed prices expected to rise (Source) • Vegetable prices to increase by 50% as early as next week (Source) • Local fruit prices up by 20% or more (Source)
CONSTRUCTION	• Building materials to increase +3%-20% while paint materials +5% (Source) • Thinner & oil-based paints +30%-40% (Source) • Raw materials & hardware products +10%-40% (Source)
POSTAL	• Fuel prices up → Pos Malaysia fuel surcharge 15%-40% (domestic & international), updated every Friday from 27 Mar (Source)
TOURISM & AVIATION	• Diesel prices up → tourism transport operators risk shutdown without government's intervention (Source) • Soaring fuel prices → higher airfares (Source)
MARITIME	• Maritime insurance premiums for war coverage for some ships surging > 1,000% → driving up cost of moving energy (Source)

- While the Visit Malaysia (VM2026) initiative aims to support tourism activities, the Middle East conflict-inflicted fuel costs, airspace restrictions, flights disruptions, higher airfares and weakening consumer sentiment would dampen the tourists' arrival from the Middle East, Europe and the US. For the period 1-26 March 2026, Malaysia recorded 2,835,724 international visitor arrivals, a 2.4% yoy increase. ASEAN remained the largest contributor with 2,093,096 arrivals (+0.6% yoy), followed by East Asia (+12.8% to 407,171 arrivals), driven by +22.7% rise in visitors from China. In contrast, arrivals from the Middle East fell sharply by 40.3% to 4,398, reflecting the impact of ongoing geopolitical tensions.

- Gross exports are anticipated to increase by 8.6%, supported by the global AI and semiconductor demand. Although commodities are set for a modest 1.6% recovery following a contraction (-2.4%) in 2025, non-E&E products such as petroleum and chemicals must contend with Chinese production surpluses.

- Headline and core inflation are expected to increase higher (1.5%-2.5% and 1.8%-2.3%, respectively, in 2026 (1.4% and 2.0%, respectively, in 2025), buffered by the targeted fuel subsidy and a strong Ringgit, which had appreciated by 10.2% in 2025 and further 0.5% as of end-March 2026, which provides a slight buffer against imported goods and services. SERC expects the inflation to increase by 2.5%-2.8%, depending on the duration and severity of the Middle East tension. Ballooning fuel subsidies amounting to between RM4.0 billion and RM4.5 billion per month could necessitate an upward adjustment of the subsidised RON95 price to shift consumer behaviour toward energy efficiency, sustainability, and fiscal responsibility.

- Given that fuel and transport account for 5.7% and 11.3% of the CPI basket, respectively, a 10%-15% increase in fuel prices could trigger a 0.6 to 0.9 percentage point direct increase in headline inflation, potentially dampening household purchasing power.

- Given that the expected increases in inflation come from a low level and supply shocks, we expect BNM to respond to oil-induced inflation by keeping the overnight policy rate unchanged at 2.75% in 2026, while continuing to closely monitor the transitory impact of oil shocks on economic growth and inflation. Higher fuel prices act like a tax on the economy as it increases cost, reduce consumer spending and dampens business investment.

- Lowering interest rates during an oil shock to support growth and boost aggregate demand could lead to "demand-pull" inflation, which compounds existing cost-push pressures from higher energy prices, risking elevating inflation.

- Financial resilience across the business sector has improved, with the proportion of "firms-at-risk" falling to 23.7% (vs 25.9% as at Jun 2025), while repayment stress remains confined to micro and small firms in the wholesale and retail trade, agriculture, construction, and food and beverage sectors.

- This repayment stress is expected to exacerbate in 2026 due to the high cost of the operating environment. According to the Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)’s Quick-Take Survey, 73.4% of respondents have perceived “moderate to significant deterioration” in business outlook over the next 3-6 months due to the oil shock in the Middle East. 31.0% and 17.7% of respondents can only maintain their operation for 3-6 months and 6-12 months, respectively, before requiring structural downsizing or seeking additional financing.

- These survey results highlight the importance of timely mitigation measures to help SMEs, especially by providing the Targeted Repayment Assistance Program, allowing a temporary suspension of loan repayment (principal and interest) to relieve financial burden.

- Household debt-to-GDP has stabilised at 84.8%, while though Buy Now Pay Later (BNPL) constituted 0.3% of total debt (RM11.9 billion) as at end-Dec 2025, its rapid growth has led to the formal establishment of the Consumer Credit Commission (CCC) to provide necessary oversight and mitigate systemic risks.

Structural reform priorities based on BNM's feature articles

1 **Building External Resilience**

Strengthening economic fundamentals and policy buffers to navigate global trade turbulence, Middle East conflicts, and tariff uncertainties.

2 **Labour Market Reforms**

Sustaining private consumption and income prospects through a stable labour market, addressing cost-of-living concerns, and transitioning the workforce towards high-technology services and advanced manufacturing.

3 **Advancing Social Protection**

Enhancing consumer resilience via the Consumer Credit Act and the National Financial Literacy Strategy 2026-2030.

4 **Financing New Growth Sectors**

Directing capital through the Digital Asset Innovation Hub and Climate Finance Innovation Lab to support SMEs, value-based Islamic finance, and the "green" transition.

Spotlights on Selected BNM's Feature Articles

1. Beyond the Headline: Inflation through the Eyes of Households

2. The Rise of Islamic Finance in ASEAN: Unlocking Its Growth Potential

3. Disentangling Malaysia's Value Chains in the Age of Turbulence

4. Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

1. Beyond the Headline: Inflation through the Eyes of Households

A. Inflation in Malaysia has eased to its lowest level in five years (1.4% in 2025). But many households continue to perceive the cost of living as high, which is due to:

Frequency bias

Households judge inflation based on items they buy most often (e.g. food and beverages). The Everyday Price Index (EPI) captures these regular purchases, and while it fell below headline inflation in late 2025, households remain sensitive to these specific price points.

Memory bias

Price increases leave a more lasting impression than price declines. The Perceived Price Index (PePI), which tracks only items with rising prices, remained elevated between 2.5% and 5% in 2025, suggesting that households focus more on past hikes than recent moderation.

B. The ability of households to afford goods depends on the relationship between price levels and wage growth.

Between 2019 and 2024:

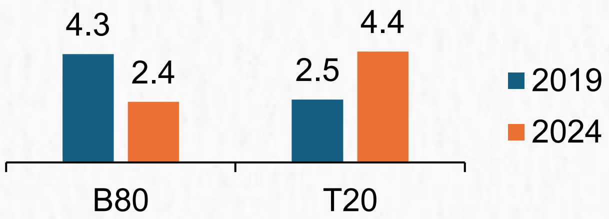
9.3%

Headline CPI

VS **7.2%**

Nominal Wage Growth

Working hours needed to afford monthly food expenditure



C. Sustaining purchasing power over the long term requires addressing the root causes of subdued wage growth.

Shortage of high-skilled jobs

In 2025, high-skilled positions accounted for only **26%** of new jobs, lower than the five-year average (2020-2024) of 30%

Skills mismatches

Persistent gaps between workforce skills and industry demands continue to limit access to better-paying opportunities.

D. Monetary policy alone cannot preserve purchasing power. A coordinated strategy is required, including:

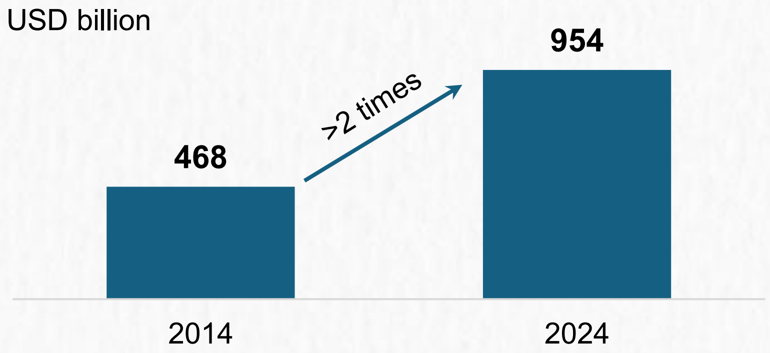
1 Structural reforms: Initiatives like the National Industrial Masterplan (NIMP 2030) to attract high-quality investment and create high-paying jobs

2 Supply-side reforms: Enhancing education, training systems (like TVET), and upskilling to meet rising skill demands

3 Targeted fiscal support: Providing aid to vulnerable groups to manage short-term cost-of-living pressures

2. The Rise of Islamic Finance in ASEAN: Unlocking Its Growth Potential

Islamic financial assets in ASEAN more than doubled in 2024 compared with a decade ago



By key segments:

USD billion	YR2014	YR2024	CAGR
Total Islamic Banking Assets	204	380	+6.4% pa
Total Sukuk Outstanding	186	452	+9.3% pa
Total Islamic Assets Under Management	19	40	+7.7% pa
Total Takaful Contributions	9	31	+13.2% pa

Malaysia's footprint in the region

% share and value out of total ASEAN

Islamic banking assets

82% (USD312 billion)

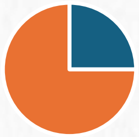
Takaful / retakaful assets

91% (USD28 billion)

Overall outstanding sukuk value

75% (USD340 billion)

ASEAN Green, Social, and Sustainability bonds and sukuk



25% (USD49.1 billion)

Malaysian industry players must continue to modernise and diversify products, enhance value propositions, and widen distribution channels

1. Advancing financial inclusion and sustainability

Expand Shariah-compliant solutions to address financing gaps for MSMEs, underserved communities, and climate-vulnerable sectors.

2. Deepening intermediation roles within the regional halal value chain

Enhance financing, protection, and integration across the halal value chain to support SMEs and cross-border activities.

3. Accelerating digitalisation of Islamic financial services

Leverage fintech and digital innovation to improve customer experience, efficiency, and outreach.

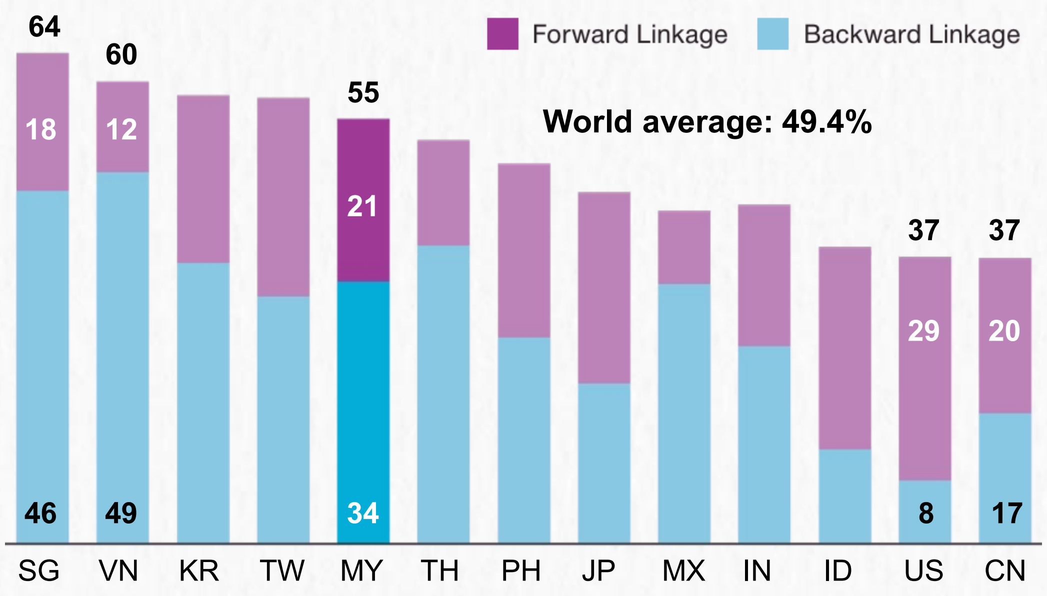
Source: London Stock Exchange Group (LSEG); Securities Commission Malaysia and Bank Negara Malaysia (data as of September 2025)

3. Disentangling Malaysia's Value Chains in the Age of Turbulence

1. **Malaysia's global value chains (GVC) participation supported productivity gains and income growth.**
2. **Malaysia's GVC-intensive model is shaped by strong inward foreign direct investment (FDI).**

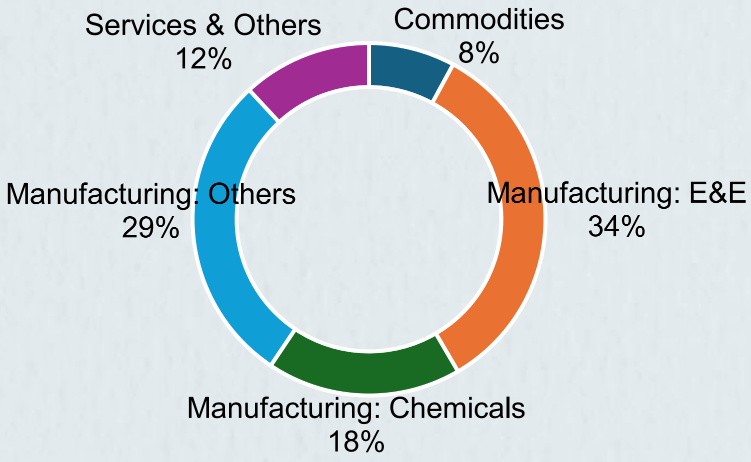
Forward and Backward Linkages in the GVC by Market

Share of gross exports (%)



Malaysia's global value chain participation is above average.

Foreign value added (FVA) in Malaysia's gross exports by sector (2022)



Forward linkages capture the share of domestic value added embodied in other countries' exports, indicating '*how much of our domestic inputs help other countries produce their exports*'.	**Malaysia (21%)** Forward linkages have increased steadily over the years, indicating a growing role for Malaysian value added in supporting production and exports in partner economies.
Backward linkages are gauged by the share of foreign value added (FVA) in its exports, reflecting '*how much of our exports are built using imported inputs*'.	**Malaysia (34%)** Backward linkages reflects the substantial use of imported inputs in Malaysia's export production, which are then further processed domestically.

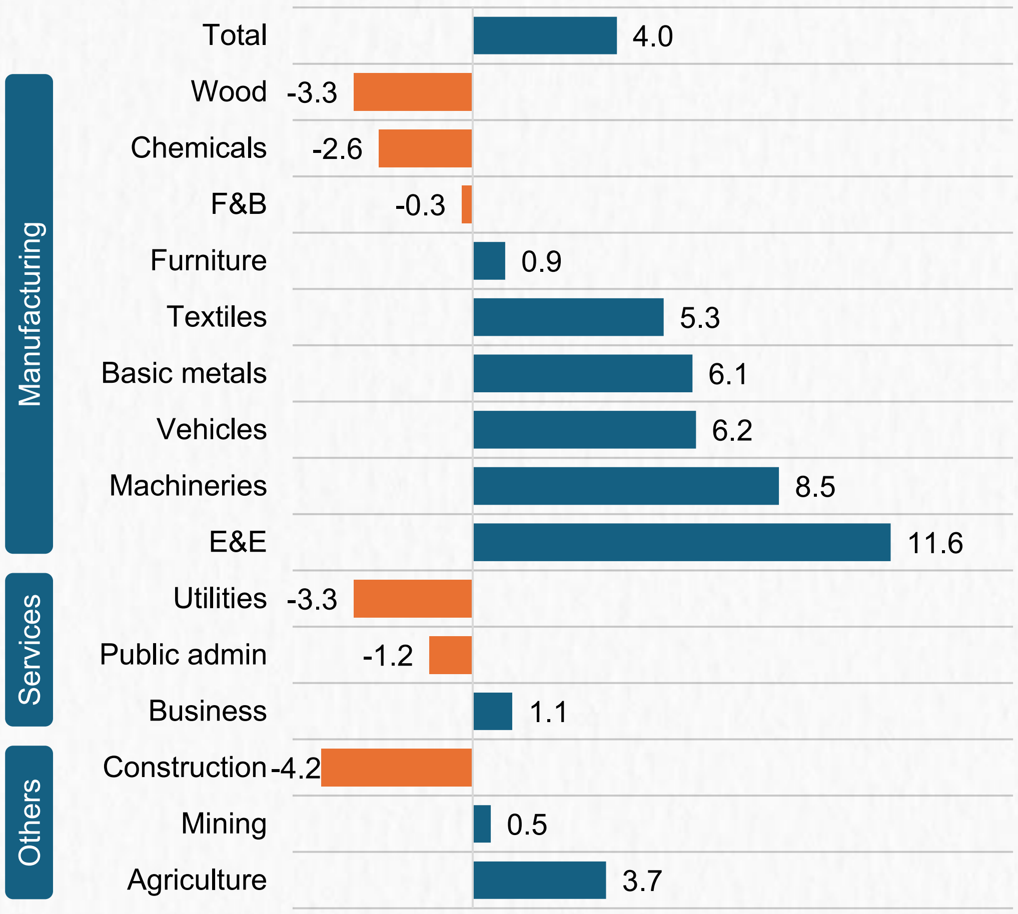
Malaysia's foreign input sourcing has become more regionalised, with over half of FVA from Asia, alongside rising dependence on China.

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

3. Disentangling Malaysia's Value Chains in the Age of Turbulence (cont.)

Nevertheless, Malaysia's ability to create domestic value added (DVA) within its exports has improved over time

Difference in DVA Intensity between 2010 and 2022 (percentage points)



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

Meanwhile, Malaysia faces broader economic risks amid seismic geoeconomic shifts

1. **Between two giants: Malaysia's demand exposure**

   Growing reliance on final demand from China and the US amplifies Malaysia's sensitivity to escalating geopolitical tensions.

2. **Shifting tides in global supply**

   China's export shifts support Malaysia's production but increase competitive pressure from lower-priced final goods.

3. **Risks from riding cyclical tailwinds**

   Malaysia's export gains are driven mainly by strong demand in E&E, but this reliance on cyclical tech sectors increases vulnerability to volatility and competition.

Policy considerations to cement Malaysia's position as the 'Indispensable Middle'

1. **Diversify trading partners: Expanding Malaysia's market reach**

   Beyond market diversification, Malaysia must also broaden the composition and origin of its imports.

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

   ASEAN's lower integration reflects an export structure characterised by countries producing more similar goods. Intra-regional FDI is crucial to promote more targeted investments.

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

   Elevating technical and vocational education and training (TVET) to genuine parity with degree-based pathways.

4. Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

Structural Drivers

1. **Economic transformation and income growth**

   Agriculture-led to manufacturing to services ➔ creation of higher-value added sectors and better-paying jobs ➔ lower poverty rate and income inequality

2. **Urbanisation, financial deepening and changing consumption habits**

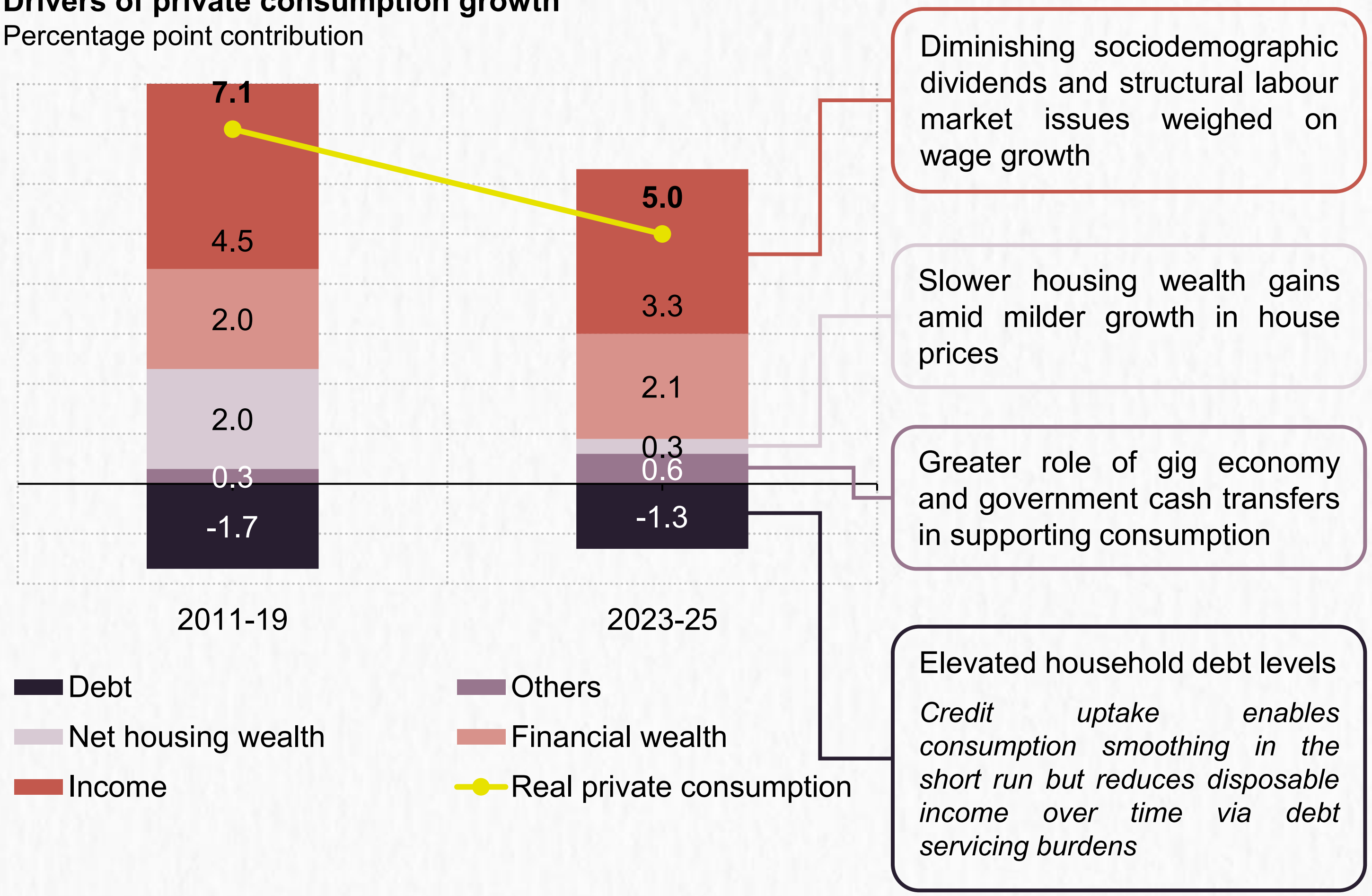
   Urbanisation rate more than doubled from 28% in 1970 to 80% in 2024; and greater availability of banking services and credit facilities.

3. **Demographic dividend and household structure**

   Better access to education, growing female workforce participation and lower fertility rates reduced total dependency ratio.

Dynamic Drivers

Drivers of private consumption growth
Percentage point contribution



Source: Bank Negara Malaysia estimates

4. Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth (cont.)

Emerging Challenges for Consumption Sustainability

1. Moderating structural tailwinds

Malaysia is approaching the end of its first demographic dividend (median age rises; total dependency ratio is bottoming-up); gain from urbanisation and improvement in inequality have moderated.

2. Slower wage growth

The economy has not generated enough high-skilled, high-paying jobs; heavy reliance on low-cost foreign labour suppresses wage growth; persistent skills mismatches and uneven access to opportunities; and employment preservation post-COVID-19 with dampened wage adjustments.

3. Cost of living pressure

4. Sustainability of fiscal support and its trade-offs

Prolonged household reliance on cash transfers complicate fiscal consolidation and retargeting efforts.

5. Moderation in accumulation of household liquid buffers

6. Elevated household debt

Debt service takes up a larger share of income, reducing flexibility to maintain spending.

7. The rise of gig worker and income volatility

Gig employment often substitutes stable and predictable wages with more volatile and uncertain earnings. Gig work also provides fewer opportunities for skill accumulation, career and wage progression, limiting upward mobility over time.

Policy imperatives

1. Raising household income

- Create high-paying jobs
- Strengthen wage institutions that shape how wages are set
- Further develop wage-setting institutions beyond the minimum wage

2. Maintaining low and stable inflation

- Time-bound and targeted food subsidies
- Supply-side policies to raise productive capacity
- Diversify sources of food products to mitigate future supply disruptions

3. Harnessing the 'Second demographic dividend'

- Enhance social support systems with broadening retirement savings coverage as well as the enablement and empowerment of older Malaysians to remain economically and socially active
- Increase investment in productive sectors to raise Malaysia's capital-to-labour ratio

Socio-Economic Research Centre

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