White Box

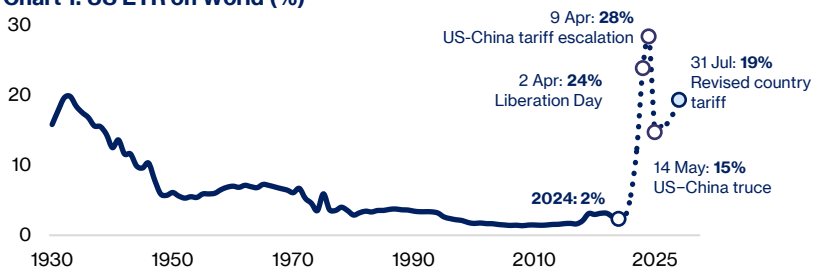
# Revised Growth Forecast: Resilience amid Global Headwinds

## Introduction

Since BNM's announcement of Malaysia's 2025 GDP forecast in the Economic and Monetary Review 2024, global trade landscape has changed significantly. The US administration imposed higher tariff rates on most countries, and on selected products. Global policy uncertainty was exacerbated by the speed and frequency of policy reversals, as well as retaliatory actions by some countries. Consequently, the US effective tariff rate (ETR) on global trading partners jumped to 19%, as of 31 July 2025 from 2% in 2024, the highest since 1938 (Chart 1). These developments will impact global growth, including Malaysia as a small open economy.

As such, Malaysia's 2025 growth forecast is revised down to 4%–4.8%, as announced on 28 July 2025, from 4.5%–5.5% in BNM's Economic and Monetary Review 2024. This article outlines the key assumptions underpinning the revised forecast and discusses the impact of the higher tariffs on the Malaysian economy.

**Chart 1: US ETR on World (%)**




Source: US Bureau of Economic Analysis, Global Trade Atlas and staff estimates

## More severe and elevated tariffs will weigh on global growth

BNM updated its global growth assumptions to reflect the higher tariff rate environment compared to that in BNM's Economic and Monetary Review 2024. The revised assumptions capture a range of tariff outcomes (Table 1). Since the release of the revised growth forecast on 28 July 2025, more trade negotiations have been concluded, including Malaysia's tariff reduction to 19% from 25%. These developments fall within BNM's range of assumptions.

**Table 1: Key tariff assumptions for revised growth forecast (July 2025)**

| Assumption | Low tariff outcome | High tariff outcome |
|---|---|---|
| **US ETR[1] on the World** | 13% | 29% |
| **Country tariff[2]** | 1. China: 30%[3]<br>2. Other countries: Tariff rates at the 'pause' rate of 10% | 1. China: 50%[4]<br>2. Other countries: Tariff rates at their 2 Apr rates (e.g. TW: 32%) or trade deals (e.g. MY: 25%; VN: 20%) |
| **Product tariff[2]** | 1. 50% on steel, aluminium and copper<br>2. 25% on auto<br>3. 0% on currently exempted items | 1. 50% on steel, aluminium and copper<br>2. 25% on auto<br>3. 25% on currently exempted items |

[1] Calculates revenue from US customs duties as a percentage of its imports.
[2] Additional tariff from 2024 levels.
[3] Assumes tariff announced during the US-China 90-day truce is permanent.
[4] Time-weighted rate assuming tariff rate reverts to 54% once the US-China 90-day truce lapses on 12 Aug.

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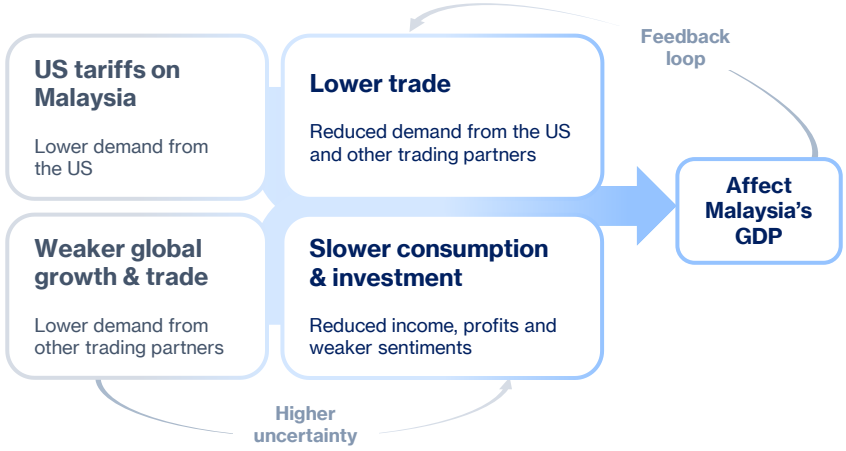
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## Trade tension impacts Malaysia mainly via the trade channel

Higher tariff rates impact Malaysia directly through lower demand from the US for Malaysian exports, and indirectly from lower global growth and trade, especially in major economies and trading partners.

As a result, trade activity is likely to moderate, with some adverse effects to firms and household income, especially in export-oriented sectors. Weaker consumer and business sentiment could also weigh on domestic consumption and investment, creating a feedback loop that could weigh down domestic demand (Diagram 1).

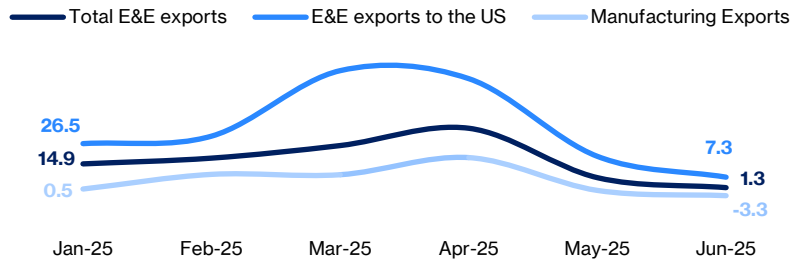
**Diagram 1: Transmission channels of tariffs on Malaysia's GDP**




## E&E goods demand, tourism activity and diversified export structure to partly mitigate impact on exports

Latest exports data have started to show signs of moderation (Chart 2). However, continued demand for E&E products has partly contained the moderation. Feedback from E&E firms indicates signs of steady order flows heading into 3Q 2025 driven by ongoing interest in AI and data centre-related demand. Malaysia's diversified export market would also provide some buffers against external demand volatility.

**Chart 2: Malaysia's manufacturing exports**
Annual change, %




Source: Department of Statistics, Malaysia

Tourism activity has also remained supportive to trade as strong tourist arrivals from ASEAN and East Asian markets help sustain exports in services. Tourist arrivals for Jan–May 2025 saw an 11% increase compared to the same period in 2024, reinforcing the sector's positive momentum.

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## Domestic demand remains a key contributor to Malaysia's economic outlook

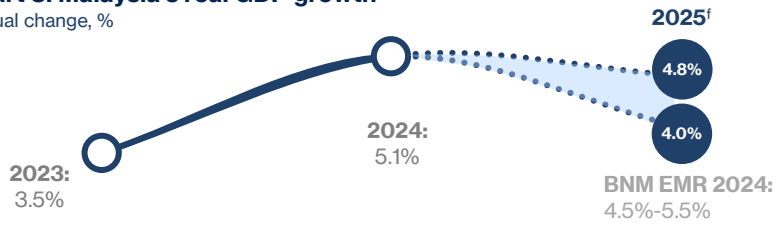
Resilient domestic demand will partially cushion the negative impact on Malaysia's growth. Positive labour market conditions, particularly in domestic-oriented sectors, will underpin domestic consumption. Meanwhile, investment activity will be sustained by the progress of infrastructure projects, continued high realisation of approved private investments and implementation of national master plans.

## The Malaysian economy is projected to grow between 4%–4.8% in 2025

Incorporating the latest economic data releases and more severe tariff assumptions as outlined in Table 1, Malaysia's growth forecast is revised to 4%–4.8%, below the 4.5%–5.5% announced in BNM's Economic and Monetary Review 2024.(Chart 3). This forecast still holds after the 31 July tariff announcements as the outcomes fall within BNM's range of assumptions (e.g. 19% on Malaysia).

**Chart 3: Malaysia's real GDP growth**

Annual change, %




Source: Department of Statistics, Malaysia and Bank Negara Malaysia

## Risks remain dependent on evolving global and domestic developments

With the finalisation of most trade negotiations, downside risks from global policy uncertainties have lessened. Nevertheless, further slowdown in trade from higher tariffs, weaker sentiments following the global uncertainty, as well as lower-than-expected commodity production could result in growth being closer to the lower end of the range.

Conversely, favourable outcomes from remaining trade negotiations, pro-growth policies in major economies, and more robust tourism activity could support growth towards the upper end of the range.

## Strategic policy responses are integral toward securing a resilient future for Malaysia

In an increasingly uncertain global environment, Malaysia's policy response must focus on building resilience from within, while strengthening ties beyond its borders. Deepening regional cooperation can help cushion external shocks, while greater economic diversification, particularly into high-value and sustainable sectors will reduce reliance on traditional growth drivers. Importantly, it is imperative for Malaysia to stay the course on the ongoing economic and fiscal reform agenda to build competitiveness, rebuild buffers and unlock long term growth.