BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia in the Second Quarter of 2025

Press Conference Presentation Transcript

Global growth remained resilient in 2Q 2025, despite elevated uncertainty

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Global growth was resilient in the second quarter of 2025, supported by domestic demand as labour market conditions remained positive. Regional trade activity was broadly sustained, as the US-China tariff truce led to some further front-loading of both consumer and industrial goods. Inflation moderated in both advanced and emerging economies, due to lower energy and non-energy prices, such as food, metals and minerals.'

Malaysia's economy expanded by 4.4% in 2Q 2025

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, *"Pada suku kedua 2025, ekonomi Malaysia berkembang sebanyak 4.4%. Peningkatan ini didorong oleh perbelanjaan isi rumah yang lebih tinggi dengan pasaran pekerja yang positif, aktiviti pelaburan yang lebih kukuh, serta pertumbuhan eksport yang berterusan disokong oleh eksport* Electrical and Electronics *(E&E) dan kerancakan aktiviti pelancongan.*

"Bagi terma pelarasan musim suku tahun ke suku tahun, KDNK negara kita menunjukkan peningkatan yang lebih kukuh sebanyak 2.1%, berbanding 0.7% pada suku pertama 2025."

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'In the second quarter of 2025, the Malaysian economy expanded further by 4.4%. This was supported by higher household spending amid positive labour market conditions, stronger investment activities and continued export growth supported by E&E exports and robust tourism activity. On a seasonally adjusted quarter-on-quarter basis, GDP showed stronger growth momentum of 2.1%, higher than the 0.7% recorded in the first quarter of 2025.'

Growth driven by robust domestic demand and expansion in most sectors

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, *"Dari segi pengeluaran, sektor perkhidmatan meningkat 5.1%, sektor pembuatan 3.7%, sektor pertanian 2.1% dan sektor pembinaan 12.1%. Manakala, sektor perlombongan dan pengkuarian menyusut sebanyak 5.2%.*

"Sementara itu, dari sudut permintaan, perbelanjaan penggunaan isi rumah meningkat 5.3%, pelaburan sektor swasta dan awam masing-masing meningkat 11.8% dan 13.6%. Perbelanjaan penggunaan kerajaan bertumbuh sebanyak 6.4%. Namun, eksport bersih menyusut sebanyak 72.6%."

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'On the expenditure side, domestic demand was driven mainly by higher consumption and stronger investment activities. Private consumption growth was driven by higher discretionary spending, particularly in the restaurants and hotels segment, supported by positive labour market conditions and income-related policies. Meanwhile, investment growth was driven by continuous structures investments and higher investment in machinery and equipment, mainly for data centre and IT-related equipment and stronger capital expenditure by public corporations. The contraction in net export was due to a decline in mining-related exports and high capital imports, offsetting continued E&E exports.

'On the supply side, all sectors continued to expand, except for the mining sector. Sustained growth in the services sector was supported by consumer-related and government services. The manufacturing sector registered steady

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growth in domestic-oriented subsectors but was weighed down by disruptions in refined petroleum production. The construction sector continued to record robust growth driven by non-residential, residential and special trade subsectors.

'On the commodities sector, the agriculture sector improved amid stronger growth in oil palm production following favourable weather conditions. However, the mining sector contracted further due to lower oil and natural gas output amid planned maintenance activities.'

Current account remains in surplus with smaller FDI inflows

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'The current account of the balance of payments recorded a lower surplus of RM0.3 billion or 0.1% of GDP in the second quarter of 2025 (1Q 2025: RM16.7 billion; 3.4%). This was mainly due to a lower goods account surplus, reflecting weaker mining-related exports from planned maintenance activities, and higher capital imports driven by E&E products and data centre equipment.

'On the services account, the deficit continued to narrow, attributed to higher travel receipts. Additionally, the primary income registered a smaller deficit amid widening secondary income.

'FDI, during this quarter, recorded an inflow of RM1.6 billion (1Q 2025: RM15.6 billion), mainly due to sustained inflows in the equity injections and higher debt instrument inflows. The equity and debt inflows were, however, partially offset by outflows in reinvestment of earnings, given higher dividend payments and losses registered by some foreign companies in the manufacturing sector.

'These FDIs were channelled mainly into the services sector, predominantly in financial activities and ICT sub-sectors. The FDI were primarily from Singapore, Japan and the United Kingdom.'

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Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Before I move on to the economic outlook, allow me to reinforce Dato' Sri Dr. Uzir's point that the smaller current account surplus in 2Q 2025 was largely attributable to cyclical factors. These include disruptions in commodity production due to planned maintenance activities, resulting in a RM5.1 billion quarter-on-quarter decline of mining-related exports and a surge in capital imports in line with the realisation of data centre-related investments.

'It is worth reiterating that the increase in capital imports will strengthen our exports in the long term as the operationalisation of data centre investments is expected to contribute to services exports. In fact, we have seen some of this coming already.

'In addition, higher travel receipts (2024: RM95.3 billion; 2023: RM68 billion), driven by the continued rise in inbound tourism, are expected to contribute to the further narrowing of the services account deficit. This encouraging development is expected to continue into 2026, following Government initiatives such as enhancing flight connectivity and the Visit Malaysia 2026 campaign.

'Overall, the current account balance in the first half of this year remains healthy at 1.7% of GDP (1H 2024: 0.9%). For 2025 as a whole, it is still expected to remain in surplus within the range of between 1.5% and 2.5% of GDP. This is supported by the sustained global demand for E&E and the continued growth of inbound tourism and travel.'

Global growth and trade to moderate for 2025, as tariffs take effect and support from frontloading dissipates in the second half of 2025

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Let me now continue with the outlook of the economy. Global growth is expected to moderate in 2025. The conclusion of trade negotiations at the end of July would help reduce the degree of uncertainty on US tariffs. However, there remains uncertainty on some form of tariffs, especially product-specific ones.

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‘Tariffs are expected to weigh on global trade and growth in the second half of the year, as the current pause in tariff hikes lapses and the frontloading effect dissipates. Nevertheless, fundamental support to global growth remains, especially from positive labour market conditions, monetary policy easing and fiscal support in major economies.’

New forecast range of 4.0% – 4.8% for 2025 GDP growth amid challenging global environment

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘The Malaysian economy is projected to grow between 4% and 4.8% in 2025, compared to the 4.5% to 5.5% range that we forecasted in March this year. The revision is to take into account the more challenging external environment since March. Further details on the assumptions and the forecast revision can be found in the white box of the Quarterly Bulletin publication.

‘While the recent tariff reduction for Malaysia provides some certainty, the high tariff environment remains a notable headwind for a small open economy like Malaysia. The tariff impact will be partly cushioned by continued demand for E&E goods, robust tourism activity and resilient domestic demand. These will be explained further in the subsequent slides.’

Exports to moderate given challenging external environment, but partly cushioned by E&E and tourism

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘Malaysia’s trade performance in the first half of 2025 was partly supported by the frontloading of exports, particularly to the United States, as businesses sought to mitigate risks from the tariff increase. However, this has tapered off towards the end of the second quarter.

‘Therefore, export growth is expected to be more moderate in the second half of this year as tariffs take effect and the challenging external environment persists. Nevertheless, the continued demand for E&E goods, underpinned by resilient demand and emerging opportunities in the AI segment will continue to provide some support to exports in the second half of this year. Tourism activity

will also provide further support to export growth. Improved flight connectivity, the extension of visa-free policies, and promotional efforts leading up to Visit Malaysia Year 2026 are projected to boost both tourist arrivals and receipts.'

Household spending continues to anchor growth

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'In the domestic economy, consumer spending continues to serve as the backbone of Malaysia's economic growth, driven mainly by favourable labour market conditions.

'Looking ahead, household spending is expected to stay resilient, supported by steady employment and wage growth, particularly in domestic-oriented sectors, as well as income-related policy measures. Moreover, a healthy household balance sheet and increased distribution of targeted cash assistance will further support consumer spending.'

Investments remain strong in both private and public sectors, despite rising global uncertainties

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Growth will also be supported by continued expansion in investment activity. Recent trends continued to reflect strong investment growth across both structures and machinery and equipment.

'Forward-looking indicators from the latest investment approvals by MIDA point towards sustained investment momentum, underpinned by a healthy pipeline of planned investments despite rising global uncertainties. Furthermore, the continued implementation of multi-year public projects and high realisation of approved private investments will also help cushion the impact from external shocks, making the investment landscape more resilient.'

Overall growth is subject to both downside and upside risks

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Moving on to the balance of risk. The growth outlook is subject to both upside

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and downside risks. Downside risks include a deeper slowdown in trade as a result of higher tariffs, weaker sentiment amid higher uncertainties affecting spending and investment, as well as lower-than-expected commodity production.

'On the other hand, growth could be higher with a favourable outcome from remaining trade negotiations, pro-growth policies that are pursued in major economies, as well as more robust tourism activity. We will continue to monitor these developments very closely.'

Headline and core inflation remained moderate in 2Q 2025

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Let us now turn to inflation. Headline and core inflation remained moderate in the second quarter of 2025, averaging 1.3% and 1.8% respectively, below their historical averages.

'The moderation in headline inflation from the previous quarter was mainly driven by further declines in prices for non-core items, particularly fresh food and fuel. For example, prices for fresh vegetables and eggs remained on a downward trend, while fuel prices (RON97 and diesel) also declined. These movements reflect the ongoing pass-through of softer global commodity prices.

'More broadly, inflation has also been dampened by the waning effects of earlier adjustments in water tariffs and SST on electricity usage (in February and March 2024). Core inflation remained broadly stable during the quarter, as movements across items largely offset one another. Lower inflation for food away from home, for instance, was balanced by a slower price decline in mobile communication services.

'At the same time, inflation for high-weight items like rent has remained relatively steady, while food away from home has remained elevated above its long-term average. These items continue to contribute materially to core inflation due to their sizeable share in household spending.'

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Inflation outlook is projected to remain moderate

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Looking ahead, the inflation outlook for 2025 remains moderate. We have revised our forecast range for headline inflation to between 1.5% and 2.3%, down from the earlier projection of between 2% and 3.5%. This reflects more moderate cost and demand pressures than previously anticipated, alongside the Government's continued efforts to cushion the impact of domestic policy reforms on most households.

'The inflation outlook will depend on how global and domestic cost factors evolve. Upside risks could stem from a further escalation in trade uncertainties or geopolitical tensions, which could drive up global commodity prices and raise imported costs. There is also a risk of larger-than-expected spillovers from changes in domestic policy to broader prices.

'On the downside, inflation could ease further if global growth weakens, leading to softer commodity prices, weaker export demand and subsequently slower wage growth. In addition, a smaller cost pass-through from policy reforms would also help keep inflation contained.'

The OPR was reduced to 2.75% at the July 2025 MPC meeting

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Let me now explain our monetary policy. At the July MPC meeting, we assessed that while Malaysia's economy remained resilient, external uncertainties could affect domestic economic prospects. With inflation expected to stay moderate, the OPR was reduced to 2.75% as a pre-emptive measure to buffer our economy against these uncertainties and, importantly, to preserve Malaysia's steady growth path.

'Since then, we have seen some clarity in the external environment, particularly on the outcome of tariff negotiations recently, including for Malaysia. In this regard, our recent OPR cut would provide an additional lift to domestic growth amidst moderate inflation prospects, and we will continue to monitor the effect

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of the OPR reduction on the economy. While uncertainties surrounding sectoral tariffs continue to linger, what is important is that the Malaysian economy remains on a strong footing.

'Going forward, the MPC will continue to remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic growth and inflation.'

The ringgit continued to appreciate against currencies of major trading partners in 2Q amid challenging global environment

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'In the second quarter of 2025, the ringgit appreciated by 1.5% on a nominal effective exchange rate basis, against the currencies of Malaysia's major trading partners. The ringgit also strengthened by 5.1% against the US dollar.

'This movement was driven primarily by external factors, particularly a broad-based weakening of the US dollar. This reflects investors' concerns on US economic prospects in light of US trade and fiscal policy developments.

'The ongoing coordinated efforts with GLICs and GLCs and engagements with corporates and investors to encourage more consistent repatriation and conversion of foreign earnings continue to provide two-way flows in the domestic FX market.

'Looking ahead, Malaysia's favourable economic prospects and domestic structural reforms will continue to provide medium-term support to the ringgit. BNM will continue to ensure the orderly functioning of the domestic foreign exchange market.'

Broadly sustained credit growth following steady growth in outstanding loans

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'In the second quarter of 2025, credit growth to the private non-financial sector

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was broadly sustained at 5.2% (1Q 2025: 5.4%), amid a steady growth in outstanding loans for both businesses and households.

‘Outstanding business loans expanded by 4.5% (1Q 2025: 4.6%), following broadly stable growth in both working capital and investment-related loans. For households, outstanding loans grew by 6% (1Q 2025: 6%), with sustained growth in loans across most purposes.

‘Following the OPR reduction in July, we have seen interest rates on households’ existing floating-rate loans adjust accordingly, thus resulting in lower repayment amounts for these borrowers.’

Steady SMEs’ financing growth for 2Q 2025

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘SMEs’ financing activities in the second quarter of 2025 remain steady, with outstanding financing expanding at 6.9% (1Q 2025: 9.8%). In this quarter, we saw forthcoming financing applications and approvals for both working capital and investment-related purposes amid resilient business conditions.

‘More positively, banks and DFIs continue to support SMEs’ business needs with a steady growth of financing disbursement, particularly in services, construction and manufacturing sectors.’

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘The banking system continued to play an important role in supporting economic growth during the quarter. Banks' strong financial positions, including capital and liquidity buffers, ensure that they remain well-positioned to meet the domestic economy's financing needs.

‘The quality of business and household loans remains sound, with low and stable impairment ratios. Newly restructured and rescheduled (R&R) loans are also limited. This has been supported by prudent loan affordability assessments

and provisioning practices by banks, which help ensure banks maintain sufficient buffers to absorb losses.'

Summary

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'The Malaysian economy expanded by 4.4% in the second quarter of 2025, driven by the robust expansion in domestic demand alongside continued export growth. Overall growth in 2025 is expected to be between 4% and 4.8%, while headline inflation is expected to remain moderate.

'The external environment remains challenging. Tariff uncertainty continues to linger, and the impact will take time to fully materialise. Nonetheless, let me stress that Malaysia is facing these challenges from a position of strength. Our economy remains on a solid footing, supported by resilient domestic demand, continued demand for E&E goods and a diversified export structure.

'The steady rollout of structural reforms, such as the national master plans and fiscal reform measures, is critical to boost our resilience against future shocks.'

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