BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia In the First Quarter of 2025

Press Conference Presentation Transcript

Continued global growth in 1Q 2025

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Global growth continued in the first quarter of 2025 – supported by domestic demand as labour market conditions remained positive. Regional trade activity was mixed with some countries that benefitted from front-loading of purchases ahead of the rise in tariffs. Inflation moderated in emerging economies, but it rose slightly in advanced economies due to higher energy and food prices.'

Malaysia's economy expanded further by 4.4% in 1Q 2025

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, *"Pada suku pertama 2025, ekonomi Malaysia berkembang 4.4%. Peningkatan ini didorong oleh perbelanjaan isi rumah yang berterusan dengan pasaran pekerjaan yang positif dan sokongan langkah-langkah dasar; perkembangan aktiviti pelaburan yang stabil; pertumbuhan eksport yang berterusan serta kerancakan aktiviti pelancongan.*

"Dari segi pertumbuhan suku tahun ke suku tahun pelarasan musim, KDNK menunjukkan peningkatan momentum pertumbuhan yang lebih kukuh sebanyak 0.7%, berbanding -0.2% pada suku keempat 2024.

“Dari segi pengeluaran, sektor perkhidmatan meningkat sebanyak 5.0%, sektor Pembuatan 4.1%, sektor pembinaan meningkat 14.2%, sektor pertanian meningkat 0.6% dan sektor perlombongan & pengkuarian menyusut 2.7%.

“Sementara itu, dari sudut permintaan, perbelanjaan penggunaan isi rumah menunjukkan peningkatan sebanyak 5.0%, manakala perbelanjaan penggunaan kerajaan bertumbuh 4.3%. Pada suku tahun ini, pelaburan sektor swasta dan awam masing-masing meningkat 9.2% dan 11.6%.

“Eksport bersih negara kekal positif bagi dua suku tahun berturut-turut, berkembang 19.6 peratus.”

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, ‘In the first quarter of 2025, the Malaysian economy expanded 4.4%. This was supported by sustained household spending amid positive labour market conditions and policy measures; steady expansion in investment activities; continued export growth supported by E&E exports as well as vibrancy of tourism activities. On a seasonal adjusted quarter-on-quarter basis, GDP showed stronger growth momentum of 0.7%, higher than the -0.2% recorded in the fourth quarter of 2024.’

Growth underpinned by expansion in demand and most economic sectors
Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, ‘On the expenditure side, domestic demand was driven mainly by resilient private consumption and private investment.

‘Private consumption continued to be supported by positive labour market conditions and policy measures. Meanwhile, investment growth was driven by continued structures investment, as well as machinery and equipment spending. Net export growth was slower due to slower growth in exports of goods and services.

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‘On the supply side, all sectors continued to expand, except for the mining sector. Growth in the services sector was supported by higher growth in retail and wholesale segments amid a decline in motor vehicles sales. The manufacturing sector registered faster growth in export-oriented subsectors but was offset by contraction in motor vehicle production. The construction sector continued to record robust growth driven by non-residential and special trade subsectors.

‘On the commodities sector, the agriculture sector improved amid a stronger growth in fishery and other agriculture subsectors. However, the mining sector contracted further due to lower oil and natural gas output. In addition to today’s release, DOSM also published the annual GDP report for 2024 which includes the recently-updated GDP figures for the year 2022, 2023 and 2024 at 9%, 3.5% and 5.1% respectively. The revised data is also reflected across quarterly and monthly GDP time series based on latest data available.’

Larger current account surplus with continued foreign direct investment (FDI) inflows

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, ‘The current account of the balance of payments recorded a larger surplus of RM16.7 billion or 3.4% of GDP in the first quarter of 2025. Key drivers include higher goods account surplus supported by strong E&E export, as well as lower secondary income deficit.

‘FDI recorded an inflow of RM15.6 billion during the quarter, driven by equity injections, reinvestment of earnings and debt instruments. These FDIs were channelled mainly into the services sector, predominantly in financial activities and ICT sub-sectors. The FDI were primarily from Singapore, Hong Kong and Germany.

‘Meanwhile, Direct Investment Abroad (DIA) registered a lower net outflow of RM3.5 billion, mainly into the services sector, followed by mining & quarrying. Indonesia, Brunei Darussalam and Thailand were the main destinations of our DIA.’

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Global environment has become highly uncertain amid significant shifts in trade policies of major economies

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The global environment has become highly uncertain following escalating trade tensions and rapidly-evolving trade policies. In recent reports, multilateral agencies like the IMF, the World Bank, and the World Trade Organization have downgraded their global growth and trade outlooks accordingly, based on a range of assumptions for example on level of tariffs, goods covered and also others.

'Nevertheless, cyclical drivers will still continue to sustain global growth. These include stable labour market conditions, continued E&E demand, monetary policy easing and fiscal support in major economies. Additionally, longer-term structural shifts toward digitalisation, automation and lower-carbon transition will continue to provide further support to global growth.'

Malaysian economy to be affected by changes in global trade policies, though resilient domestic demand will anchor growth

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'In light of the heightened trade tensions and global policy uncertainties, growth for 2025 is expected to be slightly lower than the 4.5%–5.5% forecast range that we announced recently in March.

'Multilateral institutions have also revised their growth forecast for Malaysia slightly lower. For example, the IMF has revised their forecast from 4.7% to 4.1%. While we do have an internal view, the global environment is still very fluid – trade negotiations are still on-going and the outcomes remain uncertain, although we have seen positive outcomes, this can affect our outlook. As we get more clarity on the outcomes of the on-going trade negotiations, we will finalise the new forecast and announce it in one to two months time.

'It is important to note the positive developments surrounding global trade negotiations in recent weeks and if this continues, it will bode well for the global and Malaysian economy.

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‘Malaysia is facing the external headwinds from a position of strength. We had a good growth of 5.1% last year, as domestic demand remained resilient supported by household spending and investment activity. We expect the resilient domestic demand to continue. On the external front, the continued demand for E&E goods alongside higher tourist arrivals will also cushion growth from adverse shocks. Malaysian exports are also more diversified in terms of product and market.’

Escalation in trade tension and the heightened uncertainties to weigh on external trade and spill over to domestic demand

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said,

‘Nevertheless, as a trading nation, Malaysia will not be spared from the impact of US tariffs. Let me briefly describe the channels by which tariffs will affect the Malaysian economy. First, tariffs will affect our exports directly through lower demand from the US, and indirectly via lower global growth, especially from our major trading partners. Second, the more subdued trade activity will result in lower income for firms and households, especially in export-oriented sectors. Given weaker sentiments, these factors will weigh on domestic consumption and investment, with a feedback loop that may further dampen domestic demand. There are however, some factors that will help to cushion this impact in the near term.’

Impact of tariffs may be delayed, with E&E and tourism sectors providing some cushion

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said,

‘First, Malaysia clearly benefitted from front-loading of exports as businesses try to avoid higher tariffs.

‘Second, 32% of our exports to the US are exempted from tariffs, including key products such as semiconductors.

‘Third, our exports tend to be price inelastic, which means the quantity demanded for our exports will not drastically change in the short-term when

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prices increased due to tariffs. Examples of these products include electrical machinery, computer hardware and optical and scientific equipment.

‘Turning to the middle chart, we have already observed some signs of front-loading in E&E exports as firms try to soften the impact of tariffs. This underscores the strong underlying demand for E&E products. We expect demand for E&E to continue, supported by Malaysia’s entrenched position in global value chain and AI-related demand.

‘Tourism will also continue to play a significant role in 2025. 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.

‘Of course, we are vigilant to downside risks, particularly from higher trade restrictions and potentially weaker income and demand for international tourism, affecting Malaysia’s goods and services exports.’

Engagements with firms suggest that negative impact from tariff could be limited in the short-term

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘To complement our data assessments, BNM also engaged firms to collect on-the-ground insights on the tariff impact. In fact, we did this recently. These insights suggest that in the near term, less than one-third of surveyed firms indeed expect to be negatively impacted by the tariff measures.

‘However, most firms foresee limited impact or even positive impact in the next three months. This stems from several factors. As mentioned earlier, some of our exports to the US are currently exempted from tariffs. In some cases, orders have already been secured for the upcoming months, providing a buffer against any immediate disruptions.

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‘Firms have also confirmed the presence of front-loading activity by their overseas clients, as observed from the macro data. Inventory building by these clients has led to a surge in demand for Malaysia’s exports.’

Household spending continues to anchor growth

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘While the external environment is uncertain, domestic consumer spending remains as the anchor of growth for the Malaysian economy, supported by positive labour market conditions.

‘Moving forward, household spending is expected to remain resilient supported by continued employment and wage growth, particularly within domestic-oriented sectors, as well as income-related policy measures by Government.

‘Additionally, sound household balance sheet and larger disbursement of targeted cash transfers will also support household spending.’

Investment growth underpinned by forthcoming investment intentions and stronger domestic participation amid rising global uncertainties

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Apart from consumption, growth will also be supported by continued expansion in investment activity. Overall investment grew by 9.7% in the first quarter of 2025 (4Q 2024: 11.8%), supported by both structures and machinery & equipment.

‘Going forward, the investment momentum is expected to be sustained by the progress of multi-year projects in both private and public sectors, despite rising global uncertainties.

‘Furthermore, the continued high realisation of approved investments especially among domestic players will help cushion the impact from external shocks, making the investment landscape more resilient.’

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Overall balance of risk to growth is tilted to the downside

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The economy remains subject to risk from both external and domestic factors, with the balance of risk tilted to the downside. Downside risks include a deeper slowdown in major trading partners as a result of trade restrictions, 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 if trade negotiations are successful and pro-growth policies are pursued in major economies, as well as more robust tourism activity. We will monitor developments very closely.'

Headline and core inflation remained moderate in 1Q 2025

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Headline and core inflation trended below long-term averages, averaging 1.5% and 1.9% respectively in 1Q 2025.

'The moderation in headline inflation is broadly in line with the overall easing cost environment. Moreover, the moderation also reflected dissipated effects of past domestic policies, which resulted in lower utility inflation, as well as lower inflation for mobile services amid price reductions for selected postpaid plans. Conversely, core inflation edged higher during the quarter due to higher rental inflation.'

Going forward, the inflation outlook is projected to remain moderate, amid more benign global cost conditions and absence of excess demand

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'For 2025, headline inflation is expected to remain moderate, below 3%, given further easing in global cost conditions and the absence of excessive demand conditions. However, a new inflation forecast range will likely be announced as we review the updated GDP projections in the near future.

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‘Sustained moderation in global commodity prices will likely contribute to continued moderate cost conditions. Within this benign cost environment, the overall effect of the announced domestic policy reforms on inflation is expected to be limited.

‘Externally, risks to inflation may stem from uncertainties in global developments surrounding global commodity prices, financial markets and trade policies among key economies could shape the path of inflation. Domestically, the outlook remains subject to the overall impact of domestic policy reforms, particularly subsidy rationalisation.’

The OPR was maintained at 3% at the May MPC meeting

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Turning to monetary policy, the OPR was maintained at 3% at the recent May MPC meeting. We acknowledge that changes in global trade policies and the uncertain global environment will weigh on Malaysia’s economic outlook. But, the extent of impact, including on our external sector, remains subject to the outcome of trade negotiations that are taking place globally.

‘As I explained earlier, we are facing these external challenges from a position of strength, and our resilient domestic demand would continue to anchor economic activity. Inflation will also remain manageable.

‘The MPC assesses that the current monetary policy stance is consistent with domestic inflation and growth prospects. We recognise the downside risks to our economic growth. Given the fluidity of the current situation, the MPC remains vigilant to incoming information to inform our assessment of Malaysia’s economic outlook, which will guide our monetary policy path going forward. We will ensure that our monetary policy stance remains conducive to sustainable economic growth amid price stability.’

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Ringgit remained broadly stable against currencies of major trade partners in the first quarter of 2025

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'In the first quarter of 2025, the ringgit remained broadly stable, with a marginal increase of 0.01% on a nominal effective exchange rate basis, or nominal effective exchange rate (NEER), against the currencies of Malaysia's major trade partners. The ringgit also recorded an overall appreciation of 0.8% against the US dollar. Overall year-to-date as of 14 May 2025, the ringgit has appreciated by 3.6% against the US dollar and 0.7% on a NEER basis.

'This movement was primarily driven by a broad-based weakening in the US dollar, as growing uncertainties over US trade policy led to increased investors' expectations for slower US economic growth.

'The ringgit's value continues to be market-determined. BNM remains committed to ensure an orderly functioning of the domestic foreign exchange market, supported by ongoing initiatives to encourage flows into the market.'

Resilient domestic macroeconomic prospects expected to continue supporting the ringgit amid external challenges

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Going forward, foreign capital inflows amid narrower interest rate differentials between Malaysia and the advanced economies are expected to lend support to the ringgit.

'However, downside risks, particularly from larger negative spillovers driven by the impact of US trade policies on global growth outlook, could weigh down the ringgit.

'Despite the continued influence of external factors on the ringgit's trajectory and the heightened volatility in the short term, Malaysia's favourable economic prospects and domestic structural reforms, complemented by ongoing initiatives to encourage flows, will continue to cushion the ringgit against these external shocks.'

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Credit growth increased amid higher growth in outstanding corporate bonds

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The growth in credit to the private non-financial sector increased to 5.5% in the first quarter of 2025 (4Q 2024: 5.2%), amid higher growth in outstanding corporate bonds.

'Outstanding business loans expanded by 4.8% (4Q 2024: 5.1%), supported by an increase in growth of working capital loans. For households, outstanding loans grew by 6.0% (4Q 2024: 5.9%) amid broadly steady growth across most loan purposes.

'The demand for both business and household financing remained forthcoming, with sustained levels of loan applications for the quarter.'

Banks remain supportive of SME business activities in 1Q 2025

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Financing by banks and DFIs remains supportive towards SMEs' business activities in the first quarter of 2025, with moderated outstanding financing growth at 7.4%.

'In this quarter, we saw an increase in financing demands particularly for working capital purposes to further support SMEs' business operations.

'Financing approvals and disbursements remain forthcoming for both purposes, which is due to the improved business conditions and a positive economic outlook.'

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The banking system continued to play an important role in supporting economic growth during the quarter. Banks' strong financial position, including capital and

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liquidity buffers, ensures that they remain well-positioned to support 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 have sufficient buffers to absorb any losses.’

Summary

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘In summary, the Malaysian economy expanded by 4.4% in the first quarter of 2025, driven by the steady expansion in domestic demand alongside continued exports growth. Growth was affected by lower oil and gas production and normalisation in motor vehicle sales and production.

‘With the escalating trade tensions and associated uncertainties, growth in 2025 is expected to be slightly lower than 4.5%–5.5% range. We will announce a new forecast soon.

‘The balance of risk to the growth outlook is currently tilted to the downside. Meanwhile, headline inflation is projected to remain moderate. Overall, while we see risks and uncertainty, we are vigilant and ready to tackle these challenges. We are in a position of strength, and we have the policy instrument and policy space to act if we need to.’

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