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CHAPTER 3

Macroeconomic Outlook

Overview

Malaysia's economy remains strong, having grown by a steady 4.4% in the first six months of the year. Growth is projected to continue within the range of 4% – 4.8% in 2025 and 4% – 4.5% in 2026. These projections are consistent with the International Monetary Fund (IMF) in the World Economic Outlook Update, July 2025, which forecasts Malaysia's growth at 4.5% for 2025 and 4% for 2026.

The growth will mainly be underpinned by strong domestic demand, moderate inflation, favourable labour market and proactive policies undertaken by the Government. The performance will also be supported by the ASEAN-Malaysia Chairmanship 2025 and Visit Malaysia 2026 (VM2026). The economy continues to be steered by the Ekonomi MADANI framework and the Government remains committed to positioning Malaysia as an attractive destination for quality investments. At the same time, ongoing improvements in the wage-setting mechanism and rising business efficiency are expected to strengthen the wage structure, thus contributing to a higher labour income share.

Economy In 2025

Sectoral

Services Sector

Maintaining the growth

The **services** sector grew by 5% in the first half of 2025 and is expected to expand by 5.1% in the second half, underpinned by resilient household spending and higher visitor arrivals leading to robust domestic tourism activities. Overall, the sector is estimated to grow 5.1%, with all subsectors registering positive growth.

TABLE 3.1. *Gross Domestic Product by Sector, 2024 – 2026*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2025 ¹	2024	2025 ¹	2026 ²
Services	59.7	5.3	5.1	5.2
Manufacturing	23.0	4.2	3.8	3.0
Agriculture	6.1	3.1	1.2	2.2
Mining	5.8	0.9	1.1	-1.0
Construction	4.2	17.5	10.1	6.1
GDP	100.0	5.1	4.0 – 4.8	4.0 – 4.5

¹ Estimate

² Forecast

Note: Total may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.2. *Performance of the Services Sector, 2024 – 2026*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2025 ¹	2024	2025 ¹	2026 ²
Wholesale and retail trade	29.8	4.3	4.4	5.0
Finance and insurance	10.8	4.9	2.1	2.8
Information and communication	10.7	3.4	3.6	4.3
Real estate and business services	8.0	9.5	7.3	6.7
Transportation and storage	7.3	10.7	8.4	7.1
Food & beverages and accommodation	5.3	6.2	9.5	6.6
Utilities	4.2	3.6	0.8	1.7
Other services	8.0	5.7	4.7	4.6
Government services	15.7	4.8	7.0	6.8
Services	100.0	5.3	5.1	5.2

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

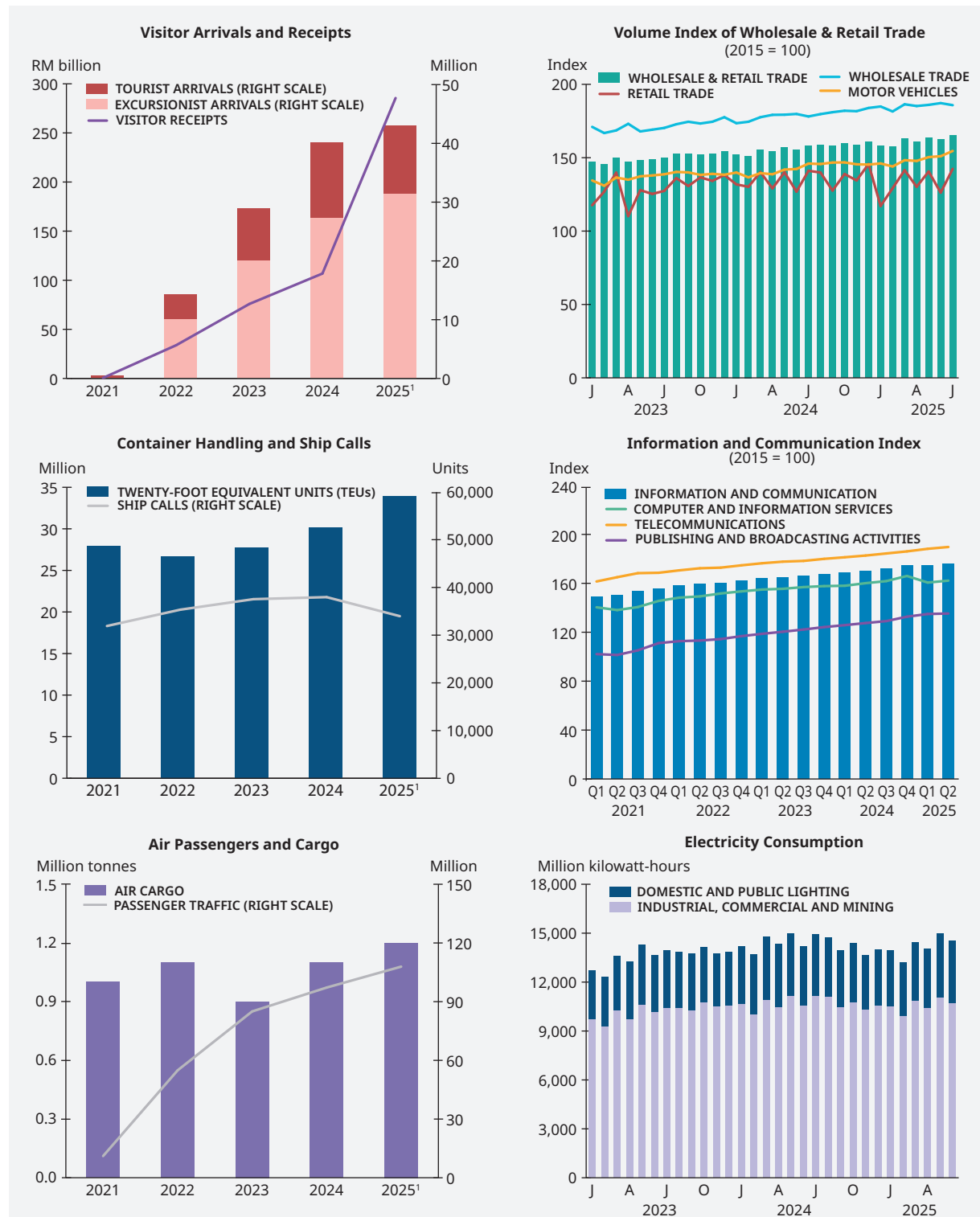
The wholesale and retail trade subsector grew by 4.3% in the first half of 2025, with sustained performance observed, particularly in the wholesale and retail trade segments. The subsector is anticipated to expand by 4.4% in the second half of the year, driven by retail trade segment attributed to higher domestic consumption and visitor spending. Meanwhile, steady income growth, expansion of initiatives under Payung Rahmah as well as the Penghargaan Sumbangan Asas Rahmah (SARA) RM100 One-off, will further spur household spending. Meanwhile, the motor vehicles segment is estimated to experience a marginal contraction due to normalisation of total industry volume (TIV) for new vehicle sales following all-time high sales of 817,955 units recorded in 2024¹. Despite the slowing

down in sales, the demand for national cars remain sizeable and orders for electric vehicles (EVs) continues to rise. Therefore, in line with continuation of high order books for the whole year, the automotive industry is expected to support the performance of the segment. Overall, the subsector is forecast to maintain growth of 4.4% in 2025.

The transportation and storage subsector expanded by 9% in the first half of 2025, attributed to vibrant trade, business and leisure activities, as reflected by the increase in various segments, mainly the land and air transport segments, as well as supporting activities related to highway and airport operations. The subsector is expected to grow by 7.7% in the second half of 2025 supported by positive growth in all segments. Under the land transport segment, growth in traffic volumes on toll highways and ridership of rail transport will be driven by additional extended weekends. The air transport segment is expected to expand with new direct flight services to various destinations in Malaysia by several international carriers, including from China and Sri Lanka. The water transport segment is anticipated to grow amid trade uncertainties which might affect trade flows and shipping services. Overall, the subsector is estimated to expand by 8.4% in 2025.

The real estate and business services subsector increased by 8.8% in the first half of 2025 supported by strong professional, scientific & technical activities under the business services segment. This growth was underpinned by construction-related activities, particularly from the increasing demand for data centre and renewable energy-related projects. The subsector is expected to grow by 5.8% in the second half of the year attributed to continued demand for professional services. The housing

¹ The automotive sector's TIV for new vehicle sales is expected to normalise at an average level of 750,000 units, with the Malaysian Automotive Association (MAA) projecting 780,000 units for 2025.

FIGURE 3.1. Selected Indicators for the Services Sector¹ Estimate

Note: Visitor consist of tourists and excursionists

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching, Penang and Tanjung Pelepas)

incentives given under Budget 2025 and reduction of the Overnight Policy Rate (OPR) are also expected to stimulate demand for properties, thereby supporting the subsector's growth. For the year, the subsector is forecast to grow by 7.3%.

For the first half of 2025, the finance and insurance subsector expanded 2.1%, attributed to moderate growth in credit and fee-based income in the finance segment as well as increased claims offsetting gains from higher premium income in the insurance segment. In tandem with ongoing economic activities, the subsector is anticipated to increase at 2.2% for the second half of the year. For the whole year, the subsector is projected to grow by 2.1%.

The information and communication subsector expanded by 3.5% in the first half of 2025 attributed to increasing demand for digital connectivity and data services in the telecommunication segment. The subsector's growth is projected to increase by 3.6% in the second half of the year, leading to an overall growth of 3.6% in 2025.

The food & beverages and accommodation subsector expanded by 8.4% in the first half of 2025, spurred by higher hotel occupancy rates and increased patronage at restaurants. Building from the notable surge in visitor arrivals by 17.9% in the first half of the year, the subsector is expected to expand by 10.5% in the second half of the year. This improvement is expected to be buoyed by an influx of visitors for both business and leisure purposes along with numerous meetings, incentives, conferences and exhibitions (MICE) events in conjunction with ASEAN-Malaysia

Chairmanship 2025. The upward momentum is boosted by improved accessibility through progressive visa policies and continuous improvement in regional connectivity as well as intensified promotional activities for VM2026. The subsector is forecast to register a growth of 9.5% in 2025.

The utilities subsector contracted marginally by 0.01% in the first half of 2025 due to lower electricity consumption from the industrial segment following cautious stance stemming from tariff uncertainties. Nevertheless, the subsector is estimated to grow by 1.7% in the second half of the year, supported by steady demand for electricity, water and gas in the industrial and commercial segments following improved production activities. For the year, the subsector is expected to grow marginally by 0.8%.

The other services subsector grew by 5.1% in the first half of 2025, mainly supported by the private healthcare and other private services segments. The subsector is projected to grow by 4.4% in the second half of the year driven by the growth in the community, social and personal services as well as other private services segments in line with increased tourism activities. Overall, the subsector is anticipated to expand by 4.7% in 2025.

The government services subsector is expected to expand by 7.8% in the second half of 2025 after recording 6.2% in the first half. This growth is mainly fuelled by the implementation of phase one of the salary increment for civil servants under the Public Service Remuneration System (SSPA). The subsector is expected to register a growth of 7% for the year.

Manufacturing Sector

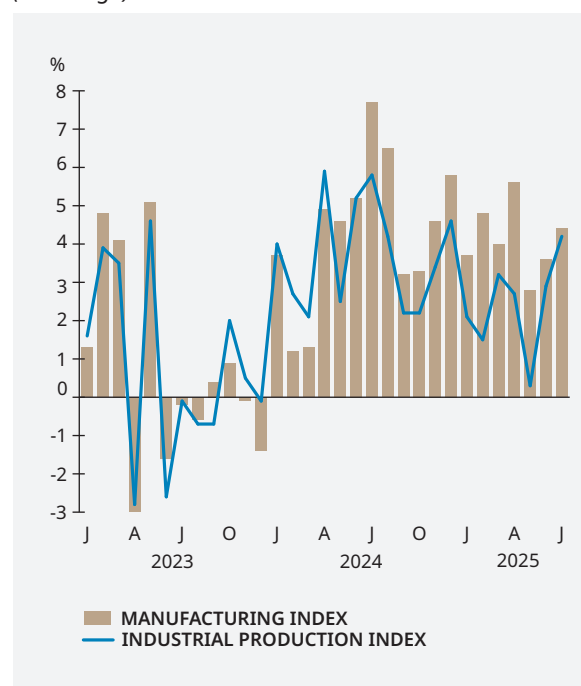
Resilient growth trajectory

The **manufacturing** sector grew by 3.9% in the first half of 2025, supported by expansion in both export- and domestic-oriented industries. The export-oriented industries dominated the first half performance, recording a steady growth of 4.8%, primarily driven by strong gains in the E&E segment. This growth is on the back of demand for data centre-related components and the emergence of initial artificial intelligence (AI) edge applications. Meanwhile, the domestic-oriented industries registered a growth of 2.2%, contributed by continued household spending and construction-related activities.

For the second half of the year, the sector is projected to record a growth of 3.6%, in line with steady performance in all subsectors. Within the export-oriented industries, higher investment in the semiconductor segment and continued implementation of initiatives under existing policies, among others the New Industrial Master Plan 2030 (NIMP 2030) and National Semiconductor Strategy (NSS), will further enhance competitiveness through stronger industrial clusters and greater digital adoption. In addition, an upsurge in activities of mining-related clusters are anticipated to bolster the industries' growth. Meanwhile, robust domestic consumption in the consumer goods and construction

segments is anticipated to support the domestic-oriented industries. The demand for consumer-related products, particularly in the food and beverages as well as transportation segments, will be underpinned by higher tourism-related activities. On the other hand, building materials such as metal and cement are expected to record higher production, in line with the steady performance of the construction sector. Hence, the manufacturing sector is projected to register a growth of 3.8% in 2025.

FIGURE 3.2. *Output of Manufacturing Sector (% change)*



Source: Department of Statistics, Malaysia

TABLE 3.3. Manufacturing Indices by Export- and Domestic-Oriented Industries, January – July 2024 and 2025
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2024	2025	2024	2025	2024	2025
Export-oriented industries	142.1	148.6	3.1	4.6	67.2	67.5
Manufacture of vegetable and animal oils and fats	94.9	106.4	1.6	12.1	3.6	3.9
Manufacture of textiles	118.1	114.3	3.9	-3.3	0.7	0.7
Manufacture of wearing apparel	125.9	127.3	2.2	1.1	0.8	0.8
Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	117.7	120.5	2.7	2.4	1.7	1.7
Manufacture of coke and refined petroleum products	122.2	120.2	3.5	-1.6	11.8	11.2
Manufacture of chemicals and chemical products	130.4	133.1	2.1	2.1	8.6	8.4
Manufacture of rubber products	189.2	193.4	6.8	2.2	4.3	4.3
Manufacture of plastics products	130.2	132.9	4.8	2.1	3.0	3.0
Manufacture of computer, electronics and optical products	170.6	184.2	2.9	8.0	24.4	25.4
Manufacture of electrical equipment	145.8	153.0	-1.0	4.9	3.3	3.3
Manufacture of machinery and equipment n.e.c. ¹	152.9	164.3	3.8	7.4	3.4	3.5
Manufacture of furniture	135.2	142.5	8.2	5.4	1.5	1.5
Domestic-oriented industries	141.5	145.9	6.2	3.1	32.8	32.5
Manufacture of food processing products	170.8	186.5	4.7	9.2	6.5	6.8
Manufacture of beverages	140.3	150.9	6.0	7.5	0.9	1.0
Manufacture of tobacco products	141.8	141.9	10.6	0.1	0.8	0.7
Manufacture of leather and related products	165.5	177.8	4.6	7.5	0.3	0.3
Manufacture of paper and paper products	147.8	146.0	4.0	-1.2	1.8	1.7
Printing and reproduction of recorded media	135.5	146.3	7.9	8.0	1.3	1.3
Manufacture of basic pharmaceuticals, medicinal chemical and botanical products	176.1	187.9	6.3	6.7	0.7	0.7
Manufacture of other non-metallic mineral products	122.1	125.0	8.5	2.3	3.7	3.7
Manufacture of basic metals	128.5	134.5	5.2	4.7	3.1	3.1
Manufacture of fabricated metal products, except machinery and equipment	130.6	136.3	10.4	4.4	5.1	5.1
Manufacture of motor vehicles, trailers and semi-trailers	159.3	148.0	3.8	-7.1	5.2	4.7
Manufacture of other transport equipment	105.8	104.5	4.4	-1.2	1.3	1.2
Other manufacturing	124.4	128.2	3.9	3.0	1.0	0.9
Repair and installation of machinery and equipment	144.9	157.2	5.9	8.5	1.1	1.2
Manufacturing	141.9	147.7	4.1	4.1	100.0	100.0

¹ Not elsewhere classified

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

Agriculture Sector

Slight expansion in the horizon

The **agriculture** sector increased by 1.4% in the first half of 2025. During the period, the oil palm subsector, the major contributor in the agriculture sector, grew by 1.4%, supported by higher production of crude palm oil (CPO), in particular from Sabah and Sarawak. The better fresh fruit bunches (FFB) yield from oil palm estates also boosted the subsector's performance, buoyed by improved labour market and agronomic management as well as increased mechanisation in harvesting and FFB collections. In addition, the other agriculture subsector expanded by 2.1% mainly contributed by higher output in paddy, vegetables and fruits segments. The livestock subsector grew moderately by 2%, partly owing to better production of egg and cattle segments. Furthermore, the fishing subsector increased by 2.8% as a result of favourable performance in both marine fishing and aquaculture segments. In contrast, the rubber subsector fell marginally by 0.5% due to lower production in the smallholdings segment. Similarly, the forestry and logging subsector contracted by 7.6% as all regions recorded lesser output.

TABLE 3.4. *Performance of Agriculture Sector, 2024 – 2026*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2025 ²	2024	2025 ²	2026 ³
Oil palm	36.8	5.1	1.4	3.4
Other agriculture ¹	29.0	1.3	2.1	2.0
Livestock	16.9	3.3	1.5	1.8
Fishing	11.5	2.9	2.0	1.1
Forestry and logging	4.1	-5.4	-5.2	-4.4
Rubber	1.7	10.5	-6.7	7.0
Agriculture	100.0	3.1	1.2	2.2

¹ Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple

² Estimate

³ Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

For the second half of the year, the sector is forecast to increase by 1% following growth in most subsectors, except rubber as well as forestry and logging. The oil palm subsector is anticipated to expand mainly attributed to continued improvement of FFB yield following favourable weather conditions and better operational efficiencies. The other agriculture, fishing and livestock subsectors are expected to grow underpinned by better production in the paddy, fruits, aquaculture and cattle segments. In addition, efforts to strengthen the food supply chain and improving resilience in agrofood industry are expected to provide additional support to these subsectors. Furthermore, the intensification of the Program Penanaman Padi Lima Musim dalam Tempoh Dua Tahun which aims to increase national rice production, will further fortify the agriculture sector to strengthen food security. Overall, the agriculture sector is estimated to grow by 1.2% in 2025.

Mining Sector

Better prospects ahead

The **mining** sector contracted by 3.9% in the first half of 2025 with subdued performance in all subsectors. The natural gas subsector declined by 5%, weighed down by lower output across all regions. The crude oil and condensate subsector fell by 3.1% stemming from supply disruptions particularly in Sabah. Meanwhile, the other mining & quarrying and supporting services subsector shrank marginally by 0.5%, mainly reflecting weaker activities in the supporting services segment.

The mining sector is forecast to rebound by 6.2% in the second half of 2025, driven by higher production in the natural gas subsector. This will be contributed by a spike in production attributed to the stabilisation of operations at the Kasawari and Jerun gas fields in Sarawak. Additionally, the crude oil and condensate subsector performance is envisaged to grow following higher output from Sabah and Sarawak. The other mining &

quarrying and supporting services subsector is also anticipated to expand on the back of increased supporting services activities. The sector is estimated to grow by 1.1% for the year. In terms of price, the average Brent crude oil is expected to be around USD70 per barrel, amid greater geopolitical uncertainties.

Construction Sector

Strong foundation for growth

The **construction** sector expanded strongly by 13.1% in the first half of 2025, supported by solid performance across all subsectors. The non-residential buildings subsector recorded robust expansion, driven by acceleration and realisation of private investment in industrial facilities, commercial complexes and data centres, reflecting sustained business activities and rising digitalisation. The residential buildings subsector also posted a steady growth, supported by continued demand for affordable housing and government initiatives to promote home ownership. In addition, the specialised construction activities subsector recorded stable growth, driven by telecommunications infrastructure projects and coastal reclamation activities. The civil engineering subsector sustained its positive performance, underpinned by ongoing works on infrastructure projects, such as the Pan Borneo Highway Sabah and Rapid Transit System Link (RTS Link).

For the rest of 2025, the sector is expected to grow by 7.3%. The civil engineering subsector is anticipated to expand, supported by continued rollout of large-scale public infrastructure projects towards the end of the Twelfth Malaysia Plan, 2021 – 2025 (Twelfth Plan) period. Ongoing projects, including the Sarawak Sabah Link Road (SSLR), will continue to drive momentum in the subsector. The non-residential buildings subsector will continue to gain from investment in commercial and industrial facilities, including data centres development in Johor and Selangor. In

addition, the residential buildings subsector growth is expected to be bolstered by new launches in the affordable and mid-market housing as well as integrated township development in key growth corridors amid favourable financing conditions. Overall, the construction sector is projected to record a steady growth of 10.1% for 2025.

Domestic Demand

Firm domestic demand to anchor expansion

Domestic demand, driven by the private sector, remains firm and continues to anchor overall economic performance. The growth in the first half of 2025 was recorded at 6.5% and is projected to expand by 5.8% in the second half of the year. It will be driven by an expansion in private sector expenditure, which is forecast at 6.1% in 2025, contributing 4.7 percentage points (ppt) to GDP growth. Meanwhile, public sector expenditure is projected to increase by 6.3%, contributing around 1.1 ppt to GDP growth.

TABLE 3.5. *Gross Domestic Product by Aggregate Demand, 2024 – 2026 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2025 ²	2024	2025 ²	2026 ³
Domestic demand	96.7	6.5	6.1	5.4
Private expenditure	78.3	6.6	6.1	5.7
Consumption	60.9	5.1	5.0	5.1
Investment	17.4	12.3	10.0	7.8
Public expenditure	18.3	6.3	6.3	4.4
Consumption	13.1	4.7	4.0	3.2
Investment	5.2	11.1	12.7	7.3
External sector¹	3.4	9.2	-15.0	-32.0
Exports	66.4	8.3	1.9	3.8
Imports	63.0	8.2	3.1	5.8
GDP	100.0	5.1	4.0 – 4.8	4.0 – 4.5

¹ Goods and non-factor services

² Estimate

³ Forecast

Note: Total may not add up due to rounding and excluding change in stocks component

Source: Department of Statistics and Ministry of Finance, Malaysia

In the first half of 2025, **private consumption** expanded by 5.2% and is projected to maintain this momentum, with an estimated annual growth of 5%. Household spending is expected to benefit from higher disposable income amid sustained domestic economic activities, favourable labour market and easing inflation. Income growth has been further reinforced by wage-related policy measures, including salary adjustments for civil servants under the SSPA and the implementation of a higher minimum wage. In addition, the Government has provided further support to consumer spending through the Penghargaan SARA RM100 One-off as well as the expansion of initiatives under Payung Rahmah. Major national and regional events such as the ASEAN-Malaysia Chairmanship 2025, Langkawi International Maritime and Aerospace Exhibition (LIMA) 2025 and promotional campaigns in preparation for VM2026 are anticipated to further stimulate tourism-related activities and boost consumption.

Private investment recorded a growth of 10.6% in the first half of 2025 and is expected to sustain the pace, expanding by 10% for the year. Growth will be underpinned by the realisation of multi-year projects of substantial approved investments in the pipeline (2023: RM329.5 billion; 2024: RM384.4 billion), with robust inflows into semiconductor and data centre projects. These investments are predominantly concentrated in strategic hubs across key states, particularly Bayan Lepas in Penang, Cyberjaya in Selangor and Iskandar Puteri in Johor. Further momentum is expected from the Government-linked Enterprises Activation and Reform Programme (GEAR-uP), which has mobilised RM11 billion up to June 2025 in high growth high value (HGHV) projects. In addition, strategic developments such as the expansion of the Kulim Hi-Tech Park (KHTP) and establishment of the Johor-Singapore Special Economic Zone (JS-SEZ) are expected to further strengthen Malaysia as a

preferred investment destination in the region. These initiatives, alongside the implementation of strategic national policies, will reinforce the private investment growth trajectory in the years ahead.

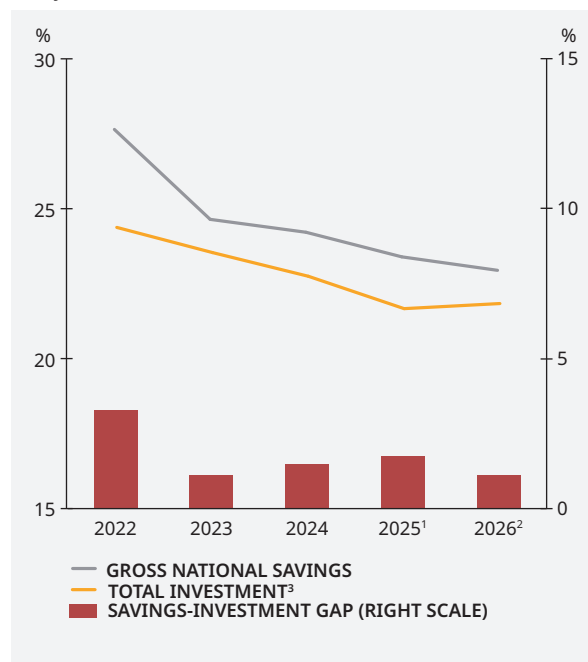
Public consumption expanded by 5.3% in the first half of 2025 and is projected to increase moderately at 4% for the year. The growth will be primarily driven by higher expenditure on emoluments following the implementation of SSPA. Expenditure on supplies and services also supported the growth, ensuring the continued efficiency of public service delivery. Importantly, the enactment of the Government Procurement Bill 2025 reflects the Government's commitment to strengthening governance, enhancing transparency and embedding value-for-money principles primarily in procurement practices. These efforts, coupled with ongoing optimisation of procurement processes, underscore a disciplined and prudent fiscal approach in balancing the need for operational efficiency and sustainable public finances.

Public investment recorded a robust 12.6% expansion in the first half of 2025 and is expected to sustain a double-digit growth of 12.7% for the year. This performance is largely underpinned by continued capital spending, mainly by both non-financial public corporations (NFPCs) and the Federal Government. Key drivers include continued progress in major infrastructure initiatives, such as the East Coast Rail Link (ECRL), Pan Borneo Highway Sabah, Central Spine Road and SSLR, which are integral to improving connectivity and supporting long-term economic growth. NFPCs continue to sustain investment in oil and gas, with a notable increase in the energy sector. Investments in the oil and gas sector are focused on major projects in gas and maritime, downstream and clean energy. Furthermore, the energy sector is prioritising renewable energy initiatives,

including large-scale solar, hydropower and Hybrid Hydro-Floating Solar (HHFS) Photovoltaic systems. Together, these efforts aim to strengthen the nation's energy security and support Malaysia's transition to a low-carbon economy. These initiatives collectively reflect a deliberate strategy to leverage public investment as a catalyst for sustainable and inclusive growth.

The gross national income (GNI) at current prices is anticipated to post a growth of 5% in 2025, reflecting the continued expansion of domestic economic activity. Subsequently, gross national savings (GNS) and total investment are anticipated to record 23.4% and 21.7% of GNI, respectively. The **savings-investment gap** is expected to remain in surplus at RM34.3 billion or 1.7% of GNI, allowing the country to finance investment, primarily from domestic sources.

FIGURE 3.3. Savings – Investment Gap (% of GNI)



¹ Estimate

² Forecast

³ Including change in stocks

Source: Department of Statistics and Ministry of Finance, Malaysia

Income

Sharing benefit of growth remains challenging

In 2024, GDP at current prices expanded strongly by 5.9% to reach RM1,932.3 billion, following positive growth in all income components. The **compensation of employees²** (CE) component improved by 6.1% to RM648.5 billion, driven by strong employment and wage growth momentum, in tandem with productivity gains and the early rollout of progressive wage initiative. The share of CE to GDP increased to 33.6%, although remaining below the 40% target stipulated under the Twelfth Plan. In 2025, the CE is expected to strengthen by 7.1%, underpinned by the implementation of wage-related policies, namely the RM1,700 minimum wage, broadening uptake of the Progressive Wage Policy and adjustment of the civil servants salary, which will substantially uplift income. The overall labour income share is expected to reach 34.4%, driven by income from services (62.5%) particularly from wholesale & retail trade, food & beverage and accommodation; and other services (including public services) industries. Meanwhile, the manufacturing sector, mainly from electrical, electronic and optical products, contributes 22.1%.

² Includes remuneration, in cash or in-kind as well as employer's social contribution payable for employees.

TABLE 3.6. *Gross Domestic Product by Income Components, 2023 – 2026*

	SHARE (%)				CHANGE (%)			
	2023	2024	2025 ¹	2026 ²	2023	2024	2025 ¹	2026 ²
Compensation of employees	33.5	33.6	34.4	34.9	4.6	6.1	7.1	6.9
Gross operating surplus	64.3	63.7	62.2	60.8	-2.1	5.0	1.8	3.1
Operating surplus	48.9	48.3	45.8	43.6	-5.7	4.5	-1.0	0.5
Mixed income	15.4	15.5	16.4	17.2	11.1	6.6	10.4	10.6
Taxes less subsidies	2.2	2.7	3.4	4.3	215.4	29.3	30.4	33.5
GDP at purchasers' prices	100.0	100.0	100.0	100.0	1.6	5.9	4.3	5.5

¹ Estimates² Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.7. *Gross Domestic Product by Income in Selected Countries, 2022 – 2024*

	COMPENSATION OF EMPLOYEES			GROSS OPERATING SURPLUS			TAXES LESS SUBSIDIES		
	2022	2023	2024	2022	2023	2024	2022	2023	2024
	SHARE OF GDP (%)								
Malaysia	32.5	33.5	33.6	66.7	64.3	63.7	0.7	2.2	2.7
Philippines	36.1	35.2	34.6	55.4	57.0	56.7	8.5	7.8	8.7
Singapore	34.9	38.8	37.8	59.8	54.6	54.9	5.3	6.6	7.3
Republic of Korea	47.5	48.6	48.2	43.0	43.0	43.5	9.5	8.4	8.4
Australia	46.0	45.9	47.4	45.2	44.8	43.0	8.8	9.4	9.6
Netherlands	45.8	45.9	46.3	44.4	44.5	43.9	9.8	9.7	9.9
Canada	48.6	50.3	50.9	41.3	39.3	38.9	10.1	10.4	10.2
United Kingdom	49.2	49.4	49.8	39.6	40.2	39.4	11.2	10.4	10.8
United States	51.6	51.7	51.9	41.8	41.8	41.7	6.6	6.5	6.5
Germany	52.8	53.3	54.7	38.0	38.5	36.3	9.2	8.2	9.0

Source: Department of Statistics, Malaysia

Gross operating surplus³ (GOS) rebounded 5% and remained the largest income component totalling RM1,231.5 billion despite the share of GDP decreased further to 63.7% in 2024. Improvement in income growth for capital owners was attributed to recovery in profit margin from commodity-related industries, construction and manufacturing sectors as well as stable services sector. Likewise, mixed-income⁴ also registered an encouraging growth of 6.6%, supported by strong domestic demand as well as greater economic participation of self-employed, including unincorporated enterprises. Profit earnings in 2025 will be supported by lower financing costs, strong private consumption and vibrant investment

activities under national strategic initiatives. Meanwhile, the enactment of the landmark Gig Workers Bill 2025 is set to provide a more enabling environment, offering protection and broadening earning opportunities for self-employed groups. As a result, the share of mixed-income is expected to increase to 16.4%. Overall, the share of GOS is expected to record 62.2% in 2025.

The **net taxes⁵** component contributed 2.7% of GDP in 2024, attributed to a notable increase of 13.8% in tax receipts compared to smaller increases (0.2%) in subsidy and incentive expenditures. In 2025, SST expansion and more efficient tax management, particularly through

³ Consists of operating surplus for capital owners and mixed-income.⁴ Mixed income includes an unknown element of remuneration for work done by the owner of the enterprise, or other members of the household, as well as operating surplus accruing from the production.⁵ Consists of taxes on products and other taxes on production less subsidies on products and other subsidies on production.

e-invoicing, are expected to further increase revenue on production and imports. Meanwhile, a significant reduction in expenditure for subsidies and incentives by 18.8%, mainly on fuel subsidies, is expected to increase net taxes by 30.4% in 2025. Hence, the overall share of net taxes on production and imports is projected to record 3.4% of GDP.

External Sector

Resilient growth

Trade Performance

Total trade is expected to expand by 3.9% to RM2,991.5 billion in 2025. The expansion will be supported by steady global trade conditions and Malaysia's resiliency of exports amid trade and geostrategic vulnerabilities.

Gross exports are estimated to grow by 3.3% in 2025, underpinned by the continuous global technological upcycle, anchored by E&E products and sustained demand from advanced economies. Exports of manufactured goods are projected to rise by 4.1%, following high demand in E&E products, which

increased by 11.3%, attributed to strong demand for semiconductor and front-loading activities induced by the imposition of tariffs. Semiconductor accounted for more than 60% of E&E products, followed by automatic data processing equipment and telecommunication equipment parts. In contrast, exports of non-E&E products are estimated to contract by 2.3%, particularly in petroleum products; chemicals and chemical products; as well as iron and steel products, owing to slower demand from major trading partners.

In addition, exports of agriculture goods are projected to expand by 5%, buoyed by higher demand, mainly for palm oil and palm oil based agriculture products at 5.1% and other agricultures at 7.5%. Increasing demand, particularly from Afghanistan, the Philippines, Mauritania, Sri Lanka and Kenya, is expected to raise exports of palm oil by 3%. Conversely, exports of mining goods are estimated to decline by 9.9%, as a result of deteriorating global demand for LNG and crude petroleum by 11.2% and 17.5%, respectively, due to market diversification and product substitution by major trading partners.

TABLE 3.8. *External Trade, 2024 – 2026*

	RM MILLION			CHANGE (%)		
	2024	2025 ¹	2026 ²	2024	2025 ¹	2026 ²
Total trade	2,879,528	2,991,500	3,090,832	9.2	3.9	3.3
Gross exports	1,509,291	1,558,664	1,602,556	5.8	3.3	2.8
<i>of which:</i>						
Manufactured goods	1,289,189	1,341,511	1,381,521	6.0	4.1	3.0
Agriculture goods	105,786	111,026	114,703	11.6	5.0	3.3
Mining goods	103,892	93,593	93,238	-2.1	-9.9	-0.4
Gross imports	1,370,237	1,432,836	1,488,276	13.1	4.6	3.9
<i>of which:</i>						
Intermediate goods	749,247	737,976	768,613	20.7	-1.5	4.2
Capital goods	166,098	206,851	215,654	29.0	24.5	4.3
Consumption goods	117,414	118,440	123,079	12.8	0.9	3.9
Trade balance	139,053	125,828	114,280	-35.4	-9.5	-9.2

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

TABLE 3.9. *Gross Exports,
January – August 2024 and 2025*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2024	2025	2024	2025	2024	2025
Manufactured goods	848,127	892,269	6.0	5.2	85.4	86.5
Agriculture goods	66,976	71,806	9.5	7.2	6.7	7.0
Mining goods	71,034	59,220	3.1	-16.6	7.2	5.7
Others ¹	6,592	8,392	20.0	27.3	0.7	0.8
Gross exports	992,729	1,031,687	6.1	3.9	100.0	100.0

¹ Including gold scrap and waste; worn clothing; and special transaction not classified

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

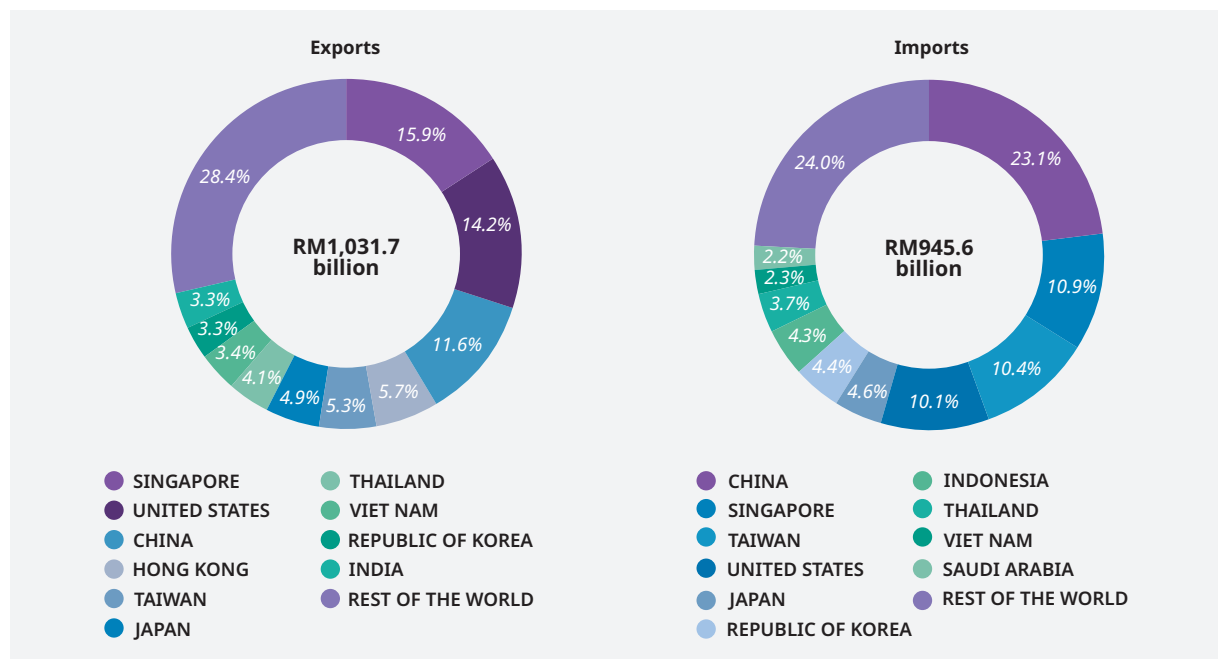
TABLE 3.10. *Exports of Manufactured Goods,
January – August 2024 and 2025*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2024	2025	2024	2025	2024	2025
E&E	384,142	446,931	0.9	16.3	45.3	50.1
Non-E&E	463,985	445,338	10.6	-4.0	54.7	49.9
Petroleum products	90,938	68,697	-5.8	-24.5	10.7	7.7
Chemicals and chemical products	49,088	43,782	4.5	-10.8	5.8	4.9
Manufactures of metal	41,582	41,461	10.6	-0.3	4.9	4.6
Machinery, equipment and parts	45,139	51,778	24.1	14.7	5.3	5.8
Optical and scientific equipment	39,525	40,958	11.2	3.6	4.7	4.6
Palm oil-based manufactured products	23,236	26,568	13.4	14.3	2.7	3.0
Rubber products	17,134	16,463	22.5	-3.9	2.0	1.8
Processed food	22,719	25,768	19.2	13.4	2.7	2.9
Iron and steel products	23,445	18,038	16.5	-23.1	2.8	2.0
Transport equipment	12,485	12,628	10.8	1.1	1.5	1.4
Textiles, apparels and footwear	11,785	10,949	11.7	-7.1	1.4	1.2
Manufactures of plastics	11,587	11,484	10.8	-0.9	1.4	1.3
Wood products	10,257	9,816	8.5	-4.3	1.2	1.1
Non-metallic mineral products	8,402	9,294	3.7	10.6	1.0	1.0
Jewellery	5,998	6,852	20.1	14.2	0.7	0.8
Paper and pulp products	9,450	8,609	30.6	-8.9	1.1	1.0
Beverages and tobacco	2,009	1,890	-0.8	-5.9	0.2	0.2
Other manufactures	39,205	40,303	35.9	2.8	4.6	4.5
Exports of manufactured goods	848,127	892,269	6.0	5.2	100.0	100.0

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

FIGURE 3.4. Top 10 Trading Partners, January – August 2025 (% share)



Gross imports are estimated to accelerate by 4.6% in 2025, mainly contributed by capital and consumption goods, particularly for data centre- and transportation-related activities as well as robust private spending. Imports of capital goods, which represents 14.4% of total imports, are estimated to surge by 24.5%, underpinned by ongoing industrial and infrastructure investments, partly driven by

growing demand for data centres. Similarly, consumption goods, which account for 8.3%, are projected to increase marginally by 0.9%, following shifting consumer preference and higher demand for local products. In contrast, imports of intermediate goods, which constitute the largest share at 51.5%, are expected to shrink by 1.5% as industry players utilise existing inventories.

TABLE 3.11. *Gross Imports by End Use, January – August 2024 and 2025*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2024	2025	2024	2025	2024	2025
Capital goods	106,224	141,276	35.9	33.0	11.6	14.9
Capital good (except transport equipment)	100,934	131,266	43.0	30.1	11.1	13.9
Transport equipment (industrial)	5,291	10,010	-30.2	89.2	0.6	1.1
Intermediate goods	503,575	479,102	26.2	-4.9	55.2	50.7
Food and beverages, primary and processed, mainly for industries	21,890	25,305	8.7	15.6	2.4	2.7
Fuel and lubricants, primary, processed and other	80,587	62,947	17.8	-21.9	8.8	6.7
Industrial supplies, primary, processed and n.e.s. ¹	209,869	190,107	14.6	-9.4	23.0	20.1
Parts and accessories of capital goods and transport equipment	191,228	200,742	50.3	5.0	21.0	21.2
Consumption goods	78,646	77,912	17.3	-0.9	8.6	8.2
Food and beverages, primary and processed, mainly for household	36,636	35,047	18.0	-4.3	4.0	3.7
Transport equipment (non-industrial)	1,127	1,285	13.1	14.0	0.1	0.1
Other consumer goods	40,883	41,580	16.8	1.7	4.5	4.4
Durables	11,726	12,704	32.1	8.3	1.3	1.3
Semi-durables	12,837	13,007	14.1	1.3	1.4	1.4
Non-durables	16,321	15,869	9.8	-2.8	1.8	1.7
Others	32,697	22,557	20.7	-31.0	3.6	2.4
Re-exports	191,424	224,770	-9.1	17.4	21.0	23.8
Gross imports	912,565	945,617	16.7	3.6	100.0	100.0

¹ Not elsewhere stated

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

Balance of Payments

In the first half of 2025, the current account surplus of the **balance of payments** was recorded at RM17 billion or 1.8% of GNI. The surplus was attributed to a higher net inflow in the goods account as well as a narrowing deficit in the services and income accounts. The momentum is expected to continue in the second half of 2025, recording a surplus of RM17.3 billion or 1.7% of GNI. In 2025, the current account surplus is anticipated to improve to RM34.3 billion or 1.7% of GNI.

The goods account is expected to record a smaller surplus of RM112.5 billion in 2025, weighed down by escalating imports of capital goods and a marginal increase in consumption goods, despite a contraction in the imports of intermediate goods. The higher imports of goods will be mainly driven by steady performance in gross fixed capital formation (GFCF), following continuous industrial and infrastructure investments. Nevertheless, the accelerating imports will be cushioned by the increasing exports of manufactured and agriculture goods.

Meanwhile, the services account is estimated to register a smaller deficit of RM7.6 billion, resulting from vigorous performance in the travel account, which will counterbalance wider deficits in the transport and other services accounts. In this regard, the travel account is anticipated to register a higher surplus of RM48.7 billion, supported by various government strategies to boost tourism activities, leading to higher tourist arrivals, particularly in conjunction with the ASEAN-Malaysia Chairmanship 2025. Growing tourism activities are expected to positively impact the air travel industry through the increase in flight frequencies and new direct flight routes. Furthermore, domestic transport companies are projected to record higher earnings, following competitive air fares and freight charges as well as fees generated from airport

and port activities. Nevertheless, the growth of payments in the transport account is expected to outpace the growth of earnings due to continuous reliance on foreign transport providers. Thus, the transport account is anticipated to record a larger deficit of RM31.5 billion in 2025. Similarly, the other services account is expected to register a higher net outflow of RM24.8 billion in 2025, owing to increasing payments for manufacturing services on physical inputs owned by others; telecommunications, computer and information services; charges for the use of intellectual property; as well as other business services.

The primary income account is projected to record a lower net outflow of RM55.7 billion in 2025, on the back of a smaller deficit in the

TABLE 3.12. *Current Account of the Balance of Payments, 2024 – 2026 (RM million)*

	2024			2025 ¹			2026 ²		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	1,378,518	1,275,728	102,790	1,414,973	1,310,088	104,884	1,477,692	1,379,371	98,322
Goods	1,135,655	1,021,193	114,462	1,150,495	1,037,967	112,527	1,190,406	1,092,150	98,255
Services	242,863	254,535	-11,672	264,479	272,121	-7,642	287,286	287,221	65
Transport	34,631	64,828	-30,197	35,662	67,211	-31,549	37,123	69,893	-32,770
Travel	95,315	57,936	37,379	108,460	59,801	48,658	119,536	65,325	54,210
Other services	112,916	131,770	-18,854	120,357	145,109	-24,752	130,627	152,003	-21,376
Primary income	91,793	157,903	-66,111	87,976	143,691	-55,715	92,783	154,364	-61,581
Compensation of employees	7,353	17,294	-9,941	7,340	17,145	-9,805	8,959	20,633	-11,674
Investment income	84,440	140,610	-56,170	80,637	126,546	-45,910	83,825	133,731	-49,907
Secondary income	39,127	48,090	-8,963	36,465	51,383	-14,918	37,943	51,467	-13,523
Balance on current account	1,509,437	1,481,721	27,716	1,539,415	1,505,162	34,254	1,608,419	1,585,201	23,218
% of GNI			1.5			1.7			1.1

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

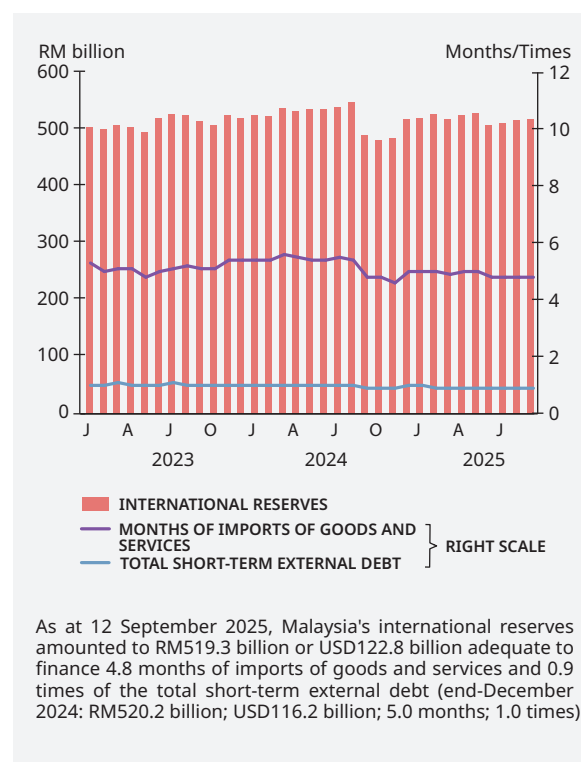
investment income account and compensation of employees. The lesser net outflow amounting to RM45.9 billion in the investment income account is primarily contributed by lower repatriation of profits and dividends by foreign investors in Malaysia in the direct investment account. Similarly, the deficit in the compensation of employees is expected to narrow to RM9.8 billion, following lower payments to non-resident professionals in Malaysia.

The secondary income account is anticipated to record a higher net outflow of RM14.9 billion in 2025. The widening deficit is owing to higher outward remittances by non-resident workers and entities, which are expected to reach RM51.4 billion. This is also in tandem with the implementation of minimum wages as announced under Budget 2025. However, earnings in the secondary income account are projected to decline to RM36.5 billion, due to lower inward remittances by Malaysians working abroad.

In the first half of 2025, the financial account registered a net outflow of RM22.5 billion. This deficit was due to a turnaround from net inflow to net outflow in the other investment and financial derivatives accounts. The other investment account registered a net outflow of RM4.5 billion, primarily due to interbank activities. Similarly, the financial derivatives account recorded a net outflow of RM0.4 billion. Nonetheless, the net outflow in the financial account was cushioned by improvements in both the direct investment and portfolio investment accounts. During the period, the direct investment account

registered a wider surplus of RM14.3 billion and the portfolio investment account recorded a smaller deficit amounting to RM31.9 billion. Meanwhile, Malaysia recorded a higher net inflow in FDIs amounting to RM17.2 billion, mainly channelled into the financial and insurance/takaful activities; information and communication; as well as transportation and storage sectors. The net outflow of direct investment abroad by Malaysian companies narrowed to RM2.9 billion, primarily directed into the financial and insurance/takaful activities; mining & quarrying; as well as construction sectors.

FIGURE 3.5. *International Reserves*



Source: Bank Negara Malaysia

FEATURE ARTICLE 3.1

The Unsettling Impact of the US Tariff on the Malaysian Economy

Introduction

As a small and highly open economy, Malaysia engages with approximately 90% of countries in international trade and investment flows. The nation's firm commitment to liberal and open trade policies has been a key driver of economic growth, attracting quality investment, generating employment opportunities and improving household incomes. Malaysia continues to leverage on the extensive network of trade agreements with major global and regional partners, supported by a dynamic and resilient economic structure. This outward-oriented approach has resulted in consistently high trade-to-GDP ratio of more than 100% over the years, highlighting the country's presence in the global economic landscape. A major advantage of Malaysia's trade profile is the diversity of export portfolio, which spans across multiple sectors and product categories. Strategically located in Southeast Asia, Malaysia maintains strong trade ties with two of the world's largest economies, China and the US. Hence, any trade policy change by either country will significantly impact the global and Malaysia's economy.

The US has long been a key player in global trade, exerting significant influence over international economic policies, trade norms and market access. As one of the world's largest economies and trading nation, the US shapes global trade trends through its multinational corporates, consumption appetite, trade agreement and regulatory frameworks. The re-elected US President Donald Trump has unveiled a slew of reciprocal tariffs on numerous countries, which have sent ripples throughout the global economy. The move triggered widespread response, amid geopolitical tensions, resulting in affected countries reassessing their trade strategies and several imposing retaliatory reciprocal tariffs. As such, Malaysia is experiencing both the direct and indirect repercussions, given the strong linkages in the global supply chain, particularly in the E&E industry. In light of the changing and challenging trade landscape, Malaysia views this new unfolding horizon as an opportunity to enhance economic structures while managing the challenges ahead.

The US Tariff Imposition on Malaysia: A New Trade Challenge

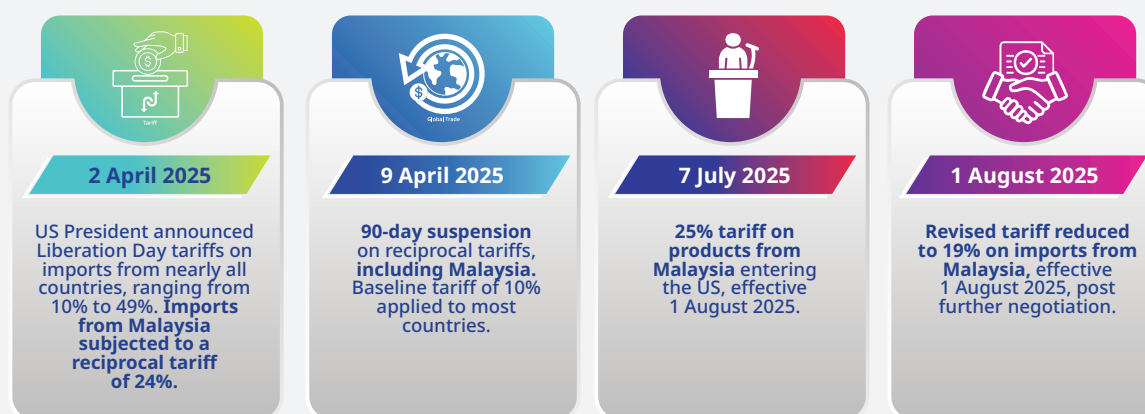
On the Liberation Day, the US President imposed new tariff rates ranging from 10% to 49% on a wide range of imports effective July 2025, citing concerns over trade imbalances, domestic industry protection and national security. This marked a significant escalation in global trade policies, especially for economies with growing trade surpluses with the US. As part of the broader 'America First 2.0' economic strategy, the tariff announcement targeted key products such as electronics, machinery, steel, agriculture goods and textiles. The US imposed an initial tariff rate of 24% on a range of exports from Malaysia, including E&E products, machinery, agriculture goods and textiles. The new tariff rate was disconcerting, especially for Malaysia's E&E products, which make up around 40% of the country's total exports.

Subsequently on 9 April 2025, the US Administration announced a 90-day postponement of the individualised reciprocal tariffs for most countries, including Malaysia, while imposing a baseline tariff rate of 10%. This decision was made to allow for negotiations with more than 75 economies expressing concerns over the new tariffs. Meanwhile, the US Administration announced additional tariffs on Chinese imports, bringing the total tariff rate to 145% on goods originating from China. The 90-day tariff truce, ending 8 July 2025, was extended to enable countries to engage and negotiate with the US. However, several countries were notified of revised rates, including Malaysia with a higher rate of 25% effective 1 August 2025.

In addition, the US may impose an additional 10% tariff to countries aligning with BRICS. Changes in the US tariffs on China also indirectly trigger negative impacts on Malaysian-made components that contribute to China's manufacturing processes. Furthermore, practices such as 'place-of-origin washing', whereby goods are rerouted through any third country, have raised red flags that may expose such countries to potential risk of trade penalties by the US authorities.

The US Administration revealed new tariff rates to be imposed on trading partners, effective 1 August 2025, with a reduced tariff rate for Malaysia from 25% to 19%. Among ASEAN member countries, rates ranged between 10% and 40%, with Singapore being levied the lowest, while Myanmar and Lao PDR were the highest charged. The timeline of the US tariff imposition on Malaysia is summarised in Figure 3.1.1.

FIGURE 3.1.1. *The US Tariff on Malaysia*



Source: The White House and Ministry of Investment, Trade and Industry, Malaysia

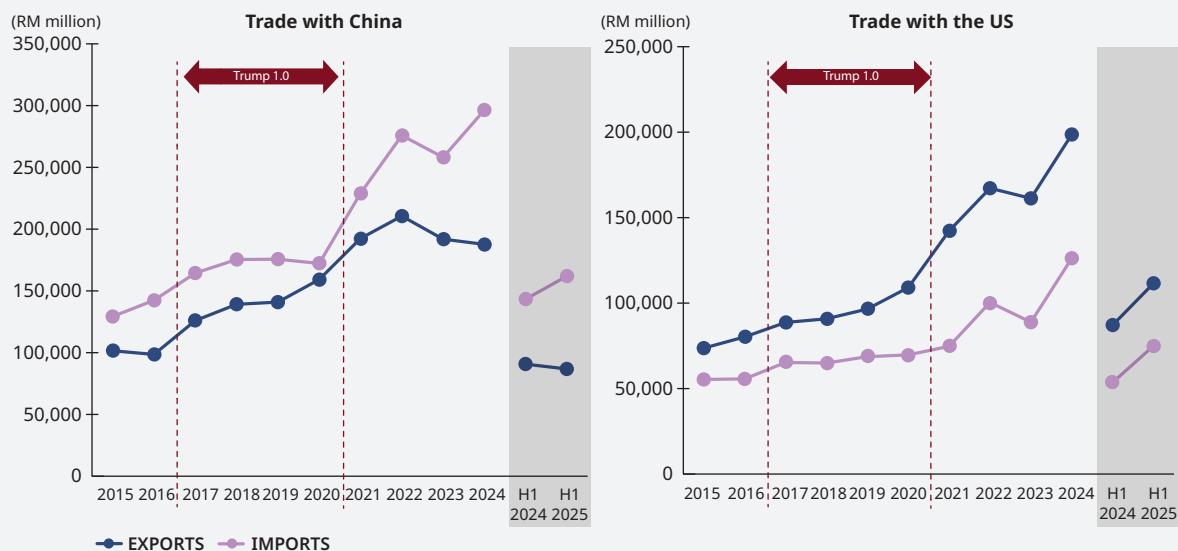
Malaysia's Trade Relations with China and the US

Malaysia and China have maintained strong economic ties over the decades, with China being Malaysia's top trading partner since 2009. Meanwhile, Malaysia is China's top 10 trading partner globally and the second-largest among ASEAN member countries. Malaysia's total trade with China expanded by 7.6%, to record RM484.2 billion or 16.8% of Malaysia's total trade in 2024. Malaysia is a net importer with China, as imports in 2024 registered RM296.5 billion, comprising mainly E&E products (40.3%); machinery, equipment and parts (12.5%); chemicals and chemical products (8.1%); and manufactures of metal (6.3%). Correspondingly, exports to China amounted to RM187.8 billion, which include E&E products (36.2%); chemicals and chemical products (9.7%); LNG (8.2%); and manufactures of metal (7.1%).

On the other hand, the US was Malaysia's third largest trading partner in 2024, with trade totalling RM325.2 billion or 11.3% of total trade. Malaysia is a net exporter to the US with total exports and imports at RM198.9 billion and RM126.3 billion, respectively, during the period. Major exports to the US were E&E products (60.4%); other manufactures (8.7%); optical and scientific equipment (6.5%); as well as machinery, equipment and parts (4.4%), highlighting the diversity and strength of Malaysia as a global advanced manufacturing hub. Meanwhile, major imports from the US were E&E products (43%); machinery, equipment and parts (15.5%); chemicals and chemical products (7.7%); as well as manufactures of metal (7.4%) to accelerate technological advancement and innovation in driving high value-added growth in industries.

During the first half of 2025 (H1 2025), Malaysia's total trade with China grew by 6.3% to reach RM248.8 billion, while trade with the US surged by 32.6% to record RM186.6 billion, as compared with the corresponding period in 2024. However, exports to China shrank by 4.3%, partly due to slower demand for mining goods, while exports to the US increased by 28%, attributed to higher demand for manufactured and agriculture goods. Meanwhile, imports from China and the US grew significantly by 13% and 40%, respectively. Trade performance with China and the US is as illustrated in Figure 3.1.2.

FIGURE 3.1.2. *Malaysia's Trade with China and the US*



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Tariff Impact on Malaysia's Economy

According to the World Economic Outlook Update, July 2025 by the IMF, the global economy is projected to expand by 3% in 2025 and 3.1% in 2026. This outlook factored in the stronger-than-expected front-loading of trade in anticipation of higher tariffs, revised US tariff rates than initially announced in April, improved financial conditions and fiscal expansion in several major economies. Global trade growth for 2025 was revised to 2.6%, largely due to the acceleration of certain trade flows amid heightened policy uncertainties and in anticipation of tighter restrictions arising from protectionist measures. However, these effects are expected to wane in the second half of 2025. In 2026, global trade is forecast to decelerate to 1.9% as most economies with current account surpluses are expected to adopt an expansionary fiscal policy, which is expected to contribute to a reduction in global imbalances. Meanwhile, the IMF projects Malaysia's GDP to grow at 4.5% in 2025 and 4% in 2026.

During H1 2025, Malaysia's GDP growth moderated to 4.4%, compared with 5% recorded in the corresponding period of 2024, owing to lower export performance by 3.1 percentage points (ppt), while imports eased by 2.2 ppt. The slower performance of external trade was partly as a result of subdued global demand in response to the imposition of the US tariffs. As such, countries registering trade surpluses with the US are expected to be impacted by these protectionist measures.

In this regard, the Ministry of Finance, Malaysia conducted an assessment to estimate the direct and indirect impacts of the imposition of the US tariff on Malaysia's GDP and external sector. Direct impact refers to the direct effects of US tariff on Malaysia's economy. Meanwhile, the indirect impact captures the ripple effect stemming from the impact of US tariffs on other countries' economy, which subsequently affect Malaysia's economic performance. Cognisant of the US Court of Appeals ruling dated 29 August 2025 on the illegality of the tariffs, this analysis is based on tariff rates effective 1 August 2025, as announced by the White House, and also takes into account reciprocal tariffs imposed by other countries.

Based on the analysis, the imposition of tariff is estimated to reduce Malaysia's real GDP by 0.38 ppt in 2025, with a direct impact of 0.07 ppt and indirect impact at 0.31 ppt. The indirect impact is poised to be bigger than the direct impact as trade with the rest of the world accounts for more than 80% of Malaysia's total trade. Furthermore, China, a key player in global manufacturing, may transmit stronger pass-through effects to other economies resulting from the higher tariff imposed on its exports. In this vein, Malaysia's exports of goods and services is expected to reduce by 0.71 ppt, while imports decline by 0.28 ppt. The impact of tariff is anticipated to be greater in 2026 as it will reflect a full-year effect compared with the five-month (August – December) effect in 2025. Malaysia's GDP growth is projected to be lower by 0.76 ppt in 2026, with a direct impact of 0.15 ppt and indirect effect of 0.61 ppt. Malaysia's exports and imports of goods and services is expected to decrease by 1.38 ppt and 0.64 ppt, respectively, as shown in Figure 3.1.3.

FIGURE 3.1.3. *Impact of the US Tariff on Malaysia's Gross Domestic Product, Exports and Imports*



Source: Ministry of Finance, Malaysia (estimates)

The E&E products remain Malaysia's export strength, contributing around 40% of total exports. In 2024, the US was Malaysia's largest export market for E&E products, representing about 20% of total exports of E&E products. In addition, being a significant player in the global semiconductor supply chain, Malaysia contributes around 7% to the overall global semiconductor market and is the world's sixth-largest semiconductor exporter. As of August 2025, imports of semiconductor by the US remain exempt from being levied, including from Malaysia, subject to ongoing US national security investigations. Any removal of this exemption could result in repercussions, reduce competitiveness and strain sectors that are closely integrated with the US supply chains.

Way Forward

In light of the unsettling impact of tariffs, given the pending outcome of the legality as well as possible imposition of levies on semiconductor and retaliatory policy responses, amid heightened global uncertainties, it is crucial for Malaysia to implement swift and proactive measures to mitigate these effects. Existing measures and initiatives outlined should be expedited to strengthen economic growth and further enhance trade performance.

The National Geoeconomic Command Centre (NGCC), a whole-of-government platform, chaired by YAB Prime Minister, was established to assess and coordinate responses to global trade disruptions, tariff shocks and non-tariff barriers. The platform also recommends comprehensive and multi-pronged strategies to mitigate the effects of tariffs on Malaysia's industries as well as safeguard economic competitiveness amid global uncertainties. Subsequently, in May 2025, the Government promptly responded and identified several measures to support Malaysian companies, especially SMEs, to adjust to this new tariff rate.

Moreover, the Government, through various policies including the National Semiconductor Strategy (NSS) and the New Industrial Master Plan 2030 (NIMP 2030), will continue to strengthen the resiliency of local industries. Initiatives under these policies will spur significant investments in workforce development, R&D and higher-value segments. Programmes outlined under the initiatives, including the NIMP Industrial Development Fund, Market Development Grant and Services Export Funds, will facilitate market access and further support domestic companies to transform operations by enhancing efficiency, embracing automation and boosting overall productivity.

Malaysia is well-positioned as a preferred investment destination, given its diversified and strong economic fundamentals. Hence, Malaysia may benefit from trade diversion as foreign companies pursue alternative manufacturing hubs beyond China. Initiatives such as the Johor-Singapore Special Economic Zone (JS-SEZ) could further attract investors seeking stable and competitive environments.

Furthermore, Malaysia is broadening export markets by prioritising high-growth regions and leveraging existing free trade agreements (FTAs), including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP). Malaysia's market diversification strategy focuses on reducing reliance on traditional trading partners by expanding its export footprint into emerging and high-growth markets across Asia, the Middle East, Africa and Latin America. Through active participation in regional and multilateral trade agreements, Malaysia aims to enhance market access and integrate deeper into global value chains. Emphasis is given through the National Trade Blueprint (NTBp) in supporting exporters, particularly SMEs, by facilitating trade missions, offering market intelligence and promoting high-value industries such as E&E, halal products and green technology.

Conclusion

While the tariffs pose short-term challenges, Malaysia remains committed to trade openness, policy adaptability and regional integration, which will be key to weathering the latest disruption in the global trade landscape. The proactive approaches complement Malaysia's economic resilience as well as position Malaysia as a niche market with a diversified trade portfolio amid volatile global trade environments. This will further enhance investors' confidence and reinforce Malaysia's role as a reliable trade and investment destination as well as to move up the global value chain.

Prices

Inflation stays moderate amid subsidy reforms

Headline inflation, as measured by the **Consumer Price Index (CPI)**, averaged 1.4% in the first eight months of 2025. This outcome was shaped by steady domestic demand, stable global cost conditions and improved policies aimed at supporting household purchasing power. The food & beverages category, which constituted the largest share of 29.8% from the CPI basket, increased by 2.2% during the period. Within this category, food away from home was the primary contributor (4.5%), driven by robust demand for dining out and prepared meals as well as ongoing wage adjustments. Furthermore, rising input and operating costs in the food services sector also contribute to higher prices. Conversely, prices for food at home remained broadly stable (0.1%), reflecting minimal price changes across fresh food and essential grocery items. In terms of services-related categories, personal care, social protection & miscellaneous goods & services led the increase (3.8%), followed by restaurant & accommodation services (3.2%), which also exerted upward pressure

on inflation. These increases were partially offset by price declines in the information & communication (-5.4%) and clothing & footwear (-0.2%) groups. While overall price pressures have eased, disinflationary momentum has been uneven, with inflation becoming increasingly concentrated in services-related segments.

The expansion of the sales tax and service tax (SST) as well as adjustments to the minimum wage and utility prices, could influence inflation through both cost-push and demand-pull channels. However, headline inflation is expected to remain contained within the 1% – 2% range in 2025. The main upside risks encompass potential changes in administered prices and global supply disruption. Meanwhile, downside risks consist of further moderation in global energy and food prices, as well as the possibility of weaker domestic demand. Despite the moderate headline inflation, core inflation remains higher, averaging 1.9% in the first eight months of 2025, signalling persistent underlying price pressures. This reflects firm domestic demand and the fluctuation of wage and input costs, even as global inflation eased.

INFORMATION BOX 3.1

Changes in Prices Towards Household Spending Patterns

Introduction

Concerns over the rising cost of living have become increasingly salient for Malaysian households. While headline inflation on average remains moderate over the years, aggregate figures do not reflect the actual cost pressures experienced by different segments of the population. Lower-income groups, rural households and larger families tend to face greater pressures, particularly in essential categories such as food & beverages; transport; and housing & utilities.

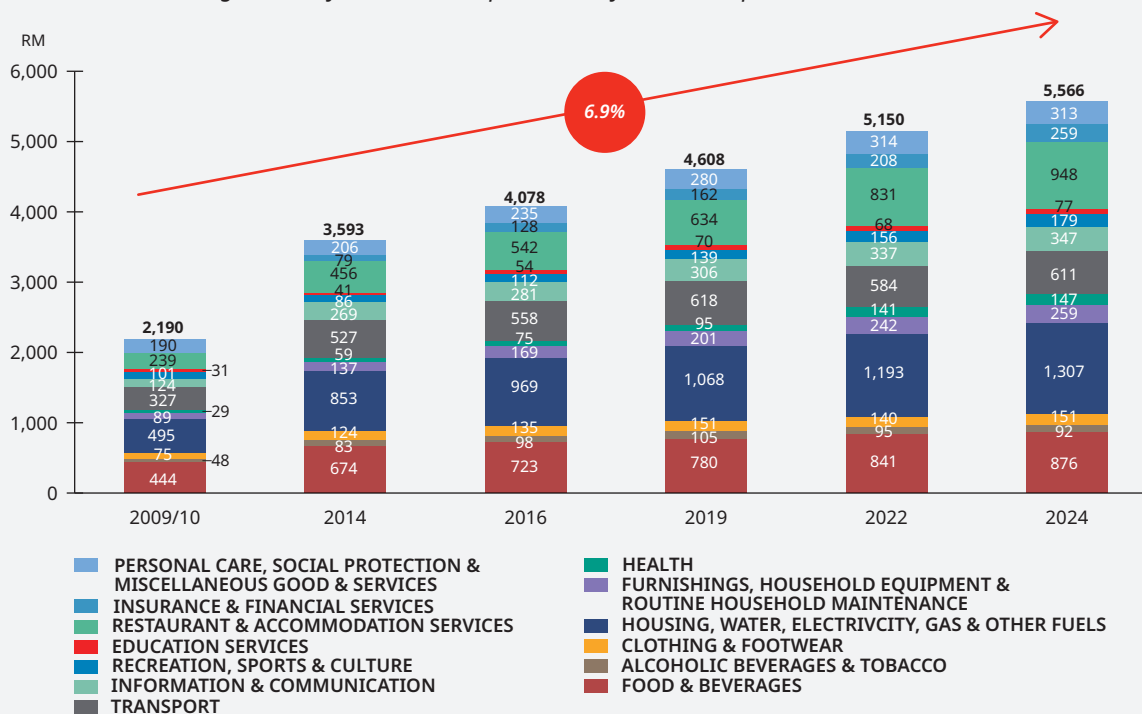
While headline inflation indices provide a broad macroeconomic overview, household spending trade-offs in response to price changes cannot be fully captured. Nevertheless, the Household Income and Expenditure Survey (HIES) can reveal the behavioral adjustments in household spending priorities. An understanding of these dynamics are necessary towards formulating more inclusive and targeted policy responses.

Hypothetically, households could choose to maintain spending levels by reducing consumption, switching to lower-cost alternatives, or deferring non-essential purchases of goods and services. This article examines how rising prices have reshaped household spending patterns across different income levels and demographic groups in Malaysia. By integrating price trends, income and expenditure data¹, the analysis offers a more granular understanding of how households adjust to price changes. These findings complement the effort of enhancing social mobility by managing cost of living under the Thirteenth Malaysia Plan (Thirteenth Plan).

Evolving Household Spending Patterns

Malaysian households have progressively adjusted their spending patterns over the past decade, reflecting evolving socio-economic conditions and shifting consumption priorities. A long-term pattern on household spending reveals broad structural shifts in consumption patterns as shown in Figure 3.1.1. Based on the Household Expenditure Survey (HES)², nominal household expenditure expanded at a compound annual growth rate (CAGR) of 6.9% from RM2,190 in 2009/10 to RM5,566 in 2024.

FIGURE 3.1.1. Average Monthly Household Expenditure by Main Group, 2009/10 – 2024



Note: Data for 2009/10 is based on COICOP 1999, while data for 2014-2024 is based on COICOP 2018

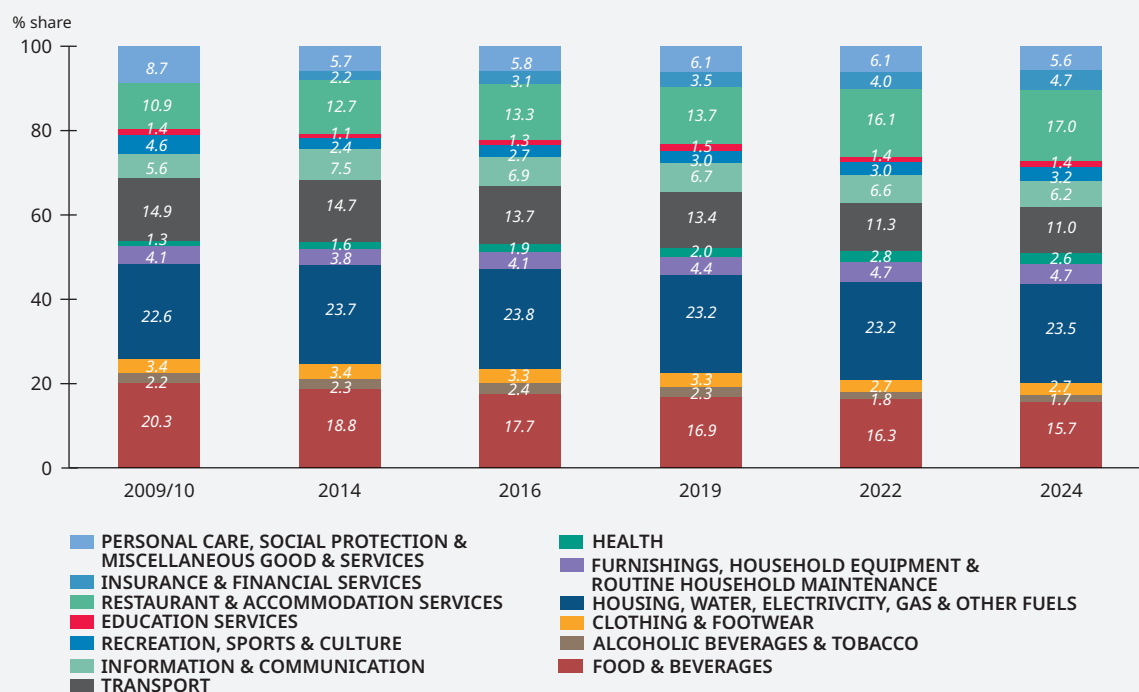
Source: Department of Statistics, Malaysia

¹ HIS 2009, 2014, 2016, 2019, 2022 & 2024 and HES 2009/10, 2014, 2016, 2019, 2022 & 2024.

² HES 2009/10, 2014, 2016, 2019, 2022 & 2024.

A gradual decline has been observed in the share of expenditure on necessities, namely food & beverages decreased from 20.3% to 15.7%, and transport groups decreased from 14.9% to 11% between 2009/10 and 2024. During the same period, household spending shifted more toward discretionary categories. This is including restaurants & accommodation services group which increased from 10.9% to 17%, communication (5.6% to 6.2%), as well as personal care & social protection as shown in Figure 3.1.2. The shift has been influenced by demand-side factors, such as changing lifestyle preferences and demographic transitions, as well as supply-side influences, including price changes, technological advancement, infrastructure development and urbanisation.

FIGURE 3.1.2. Composition of Mean Monthly Household Consumption Expenditure by Main Group, 2009/10 – 2024



Note: Data for 2009/10 is based on COICOP 1999, while data for 2014-2024 is based on COICOP 2018

Source: Department of Statistics, Malaysia

This transition towards more discretionary items reflect broader improvement in Malaysians' quality of life, as households tend to prioritise comfort, convenience and personal wellbeing. This mirrors structural shifts observed in high-income countries, where time constraints, ageing and evolving preferences drive greater discretionary spending. These patterns indicate a clear and consistent trajectory, therefore offering insight into the future direction of consumption.

Household spending has shifted increasingly toward services and lifestyle-related categories, reflecting evolving consumption priorities. Spending on housing & utilities has increased significantly, thus becoming the largest expenditure component since 2004. Spending on information & communication has risen sharply, reflecting the growing role of smartphones, internet access and digital connectivity as essential utilities rather than discretionary items. Meanwhile, higher spending on personal care & social protection, signals greater emphasis on wellness, lifestyle and self-expression, particularly among younger generation and urban

households. Collectively, these trends demonstrate a broader transition from subsistence-oriented consumption towards quality-of-life and aspirational spending, in line with Malaysia's ongoing socioeconomic development.

Income Gains Have Outpaced Inflation But Price Pressures Remain Uneven

Household incomes in Malaysia have risen steadily over the past decade, outpacing inflation and supporting broad-based improvements in household expenditure. Between 2009 and 2024, average household income grew at 5.6% per annum, while the headline inflation rate grew at an average of 2.2% as shown in Table 3.1.1. This resulted in an estimated annual real income growth of 3.4%, indicating households experienced improvements in spending ability. Comparing further, food & beverages (F&B), the largest component of the Consumer Price Index (CPI), rose by 3.3% during the period, indicating ability of households to meet essential needs. In addition, the D1³ category also recorded an improvement in income growth at 7.2%, outpacing the headline and F&B inflation for the income group of less than RM3,000.

TABLE 3.1.1. *Monthly Household Income, Household Consumption Expenditure and Inflation Rate by Selected Group, 2009/10 – 2024*

Items	RM		Growth, % p.a.	Headline Inflation, % p.a.	Inflation (F&B), % p.a.
Monthly Household Income, Consumption Expenditure and Inflation Rate					
	2009	2024	2010 - 2024		
Mean Monthly Household Income	4,025	9,155	5.6	2.2	3.3
Urban	4,705	10,145	5.3	2.2	3.5
Rural	2,545	5,669	5.5	1.9	2.7
Bottom 10% (D1*)	788	2,227	7.2	-	-
	2009/10	2024	2011 - 2024		
Mean Monthly Household Consumption	2,190	5,566	6.9	2.0	3.2
Urban	2,465	6,103	6.7	2.1	3.3
Rural	1,599	3,750	6.3	1.8	2.6
Bottom 10% (D1*)	733	2,186	8.1	2.1**	3.0**

Notes:

* D1 refers to households in the lowest 10% of overall income distribution

** Inflation for D1 is compared to the CPI for households earning less than RM3,000

Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

³ D1 refers to households in the lower 10% income group, defined as those with a monthly household income of less than RM2,890 in 2024. Household income comprises income received from paid employment, self-employment, investment income and current transfers. Current transfers received include cash, goods or services and may be received from other households, the Government or charities, both within or outside the country. Examples of current transfers received include remittances, pensions, alimony and other assistances received periodically.

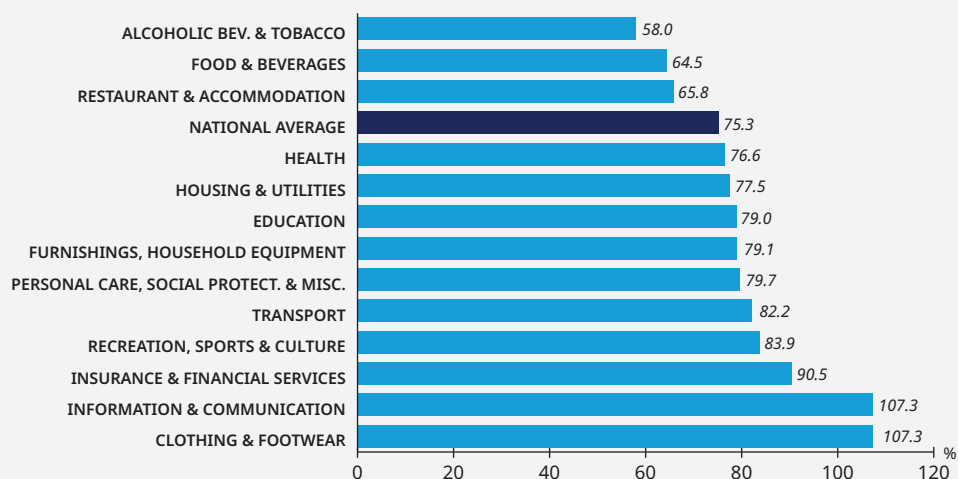
Meanwhile, interpreting cost-of-living pressures solely from the perspective of individual wages may overlook household-level dynamics. Household income, as measured by HIS, captures combined earnings from all household members, including paid employment, self-employment, property & investment, as well as current transfers as shown in Figure 3.1.3. Rising labour force participation, especially among women, and the growing prevalence of dual-income households have meaningfully raised aggregate household income over time (Goldin, 2006). These income gains have translated into stronger household consumption, which serves as an indicator of improved household welfare and economic participation.

FIGURE 3.1.3. Sources of Income by Income Class, 2024



Source: Department of Statistics, Malaysia

Nonetheless, in terms of price pressures, households continue to face challenges, particularly from uneven changes across spending categories. While long-term average of inflation was contained at 2% per annum, cumulative price increases between 2010 and 2024 have eroded the value of money. Spending RM100 on goods and services in 2024 is equivalent to spending RM75.30 in 2010, indicating a decline in purchasing power over the period as shown in Figure 3.1.4. This erosion is more pronounced in key categories, such as F&B and restaurants & accommodation services, where purchasing power declined by more than 60%, reflecting higher price growth. In contrast, categories such as communication and clothing & footwear recorded price decline, underscoring the uneven nature of inflation. While real incomes have improved over time, households remain exposed to varying degrees of price pressure depending on their consumption profile. This highlights the importance of targeted policy responses that consider the fragmented impact of inflation on different household groups and expenditure types.

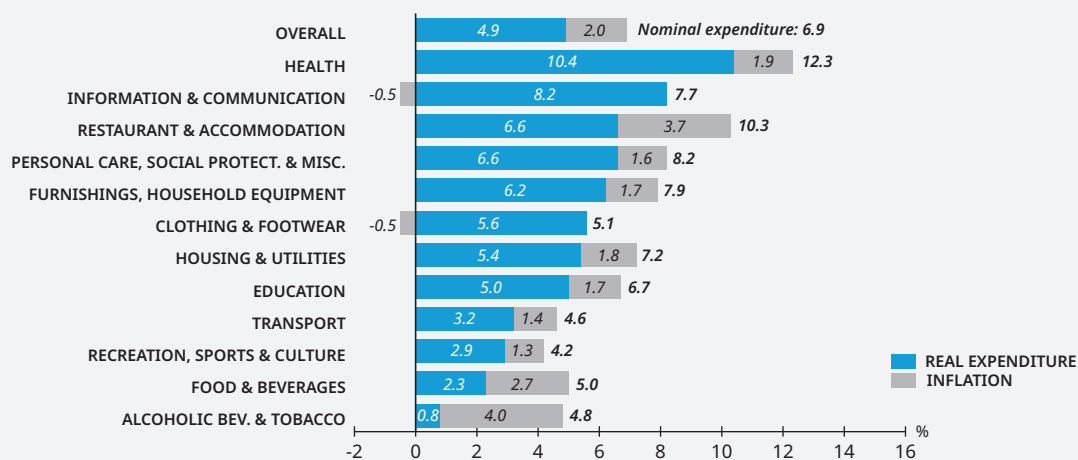
FIGURE 3.1.4. *Purchasing Power by Main Group, 2024, 2010=100 (%)*

Note: Based on the Department of Statistics Malaysia (2021), purchasing power is calculated by dividing the CPI of the reference year by the CPI of the current year and multiplying by 100

Source: Ministry of Finance, Malaysia (estimates)

Influence of Prices in Changing Household Consumption Patterns

Rising incomes and evolving lifestyles are seen to steadily reshape household spending patterns in Malaysia, with consumption shifting from necessities toward services and discretionary items. The data in Figure 3.1.5 shows that nominal household expenditure grew by 6.9%, in which real household spending rose moderately at 4.9%. The notable share of the increased spending is due to higher prices rather than larger quantities of goods and services consumed.

FIGURE 3.1.5. *Nominal Expenditure, Inflation and Real Expenditure Growth by Main Expenditure Group, 2009/10 – 2024*

Notes:

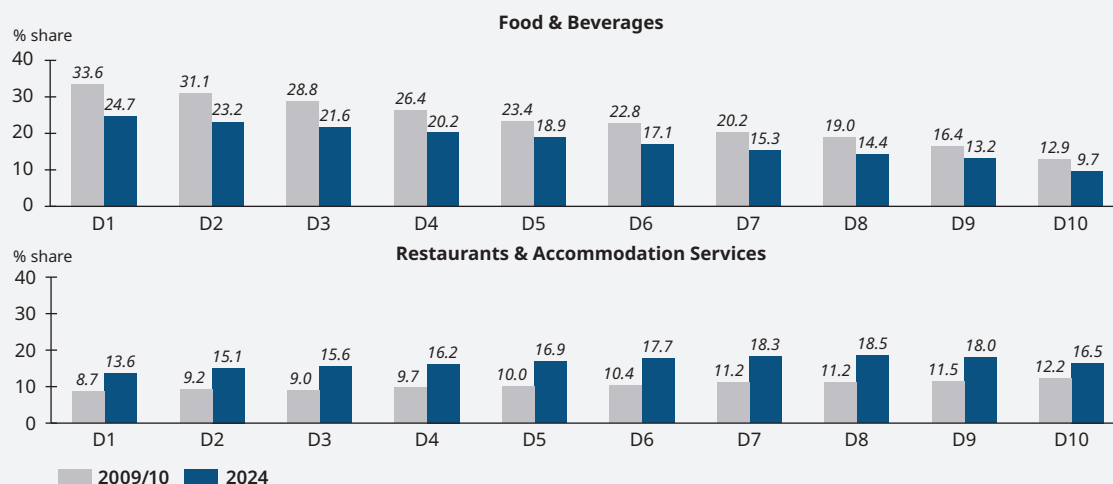
1. Insurance & finance has been grouped with personal care, social protection and miscellaneous in 2024 to align with earlier years where it was not reported separately, for consistency.

2. Inflation for food & beverages and restaurants & accommodation has been adjusted to reflect the reclassification of food away from home from the former to the latter, based on updated Household Expenditure Survey (HES) weights

Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

The share of F&B spending has declined across all income groups, signalling a transition towards discretionary items. Theoretically, food becomes a smaller portion of a household budget as income rises.⁴ This can be seen especially among the bottom decile (D1), where the share declined by 8.9 percentage points (ppt) as compared to top income decile (D10) by 3.2 ppt as shown in Figure 3.1.6. Based on the data, food at home is no longer a growing area of spending among higher-income households, underscoring its nature as a necessity that saturates with rising affluence. Once basic nutritional needs are met, households shift focus from necessities to preferences.

FIGURE 3.1.6. *Expenditure on Food & Beverages and Restaurants & Accommodation Services across Income Groups, 2009/10 and 2024*



Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

In terms of lifestyle, dining out has become a growing norm, particularly among urban households. Spending on restaurants & accommodation services has increased across all income groups as shown in Figure 3.1.6, of which both D1 and D10 increased by 4.9 and 4.3 ppt, respectively. This supports the findings by Khazanah Research Institute (2025) that expenditure related to dining out is growing robustly, reflecting a clear shift toward convenience and time-saving choices, despite steady price pressures at 3.7% annually as shown in Figure 3.1.5.

After household size adjustment, internal analysis⁵ reveals the top income decile D10 spent almost ten times more on food away from home than the D1. Study on per capita spending also suggests that dining out remains a preference regardless of income level. This can be concluded that eating out is no longer a luxury, but an embedded, aspirational part of modern household consumption. Even amid rising food away from home prices, many households continue to prioritise convenience, reflecting deeper lifestyle and cultural shifts behind cost-of-living concerns.

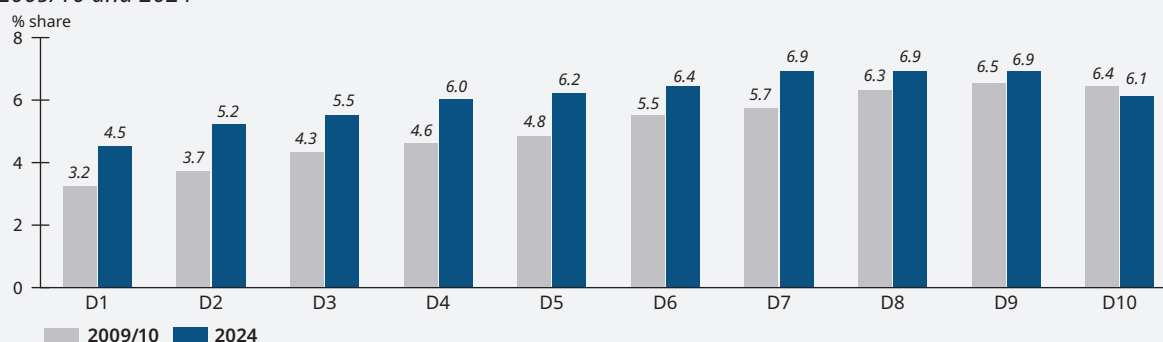
⁴ Engel's Law states that as household income increases, the proportion of income spent on food decreases, even though absolute expenditure/ amount spent on food increases (Chai & Moneta, 2010).

⁵ Based on the MoF study on household expenditure related to dining out across various income groups by household size using HIES 2022 data.

Beyond food, healthcare spending has become a growing priority across all income groups, with spending proportionately increase with rising income, especially among the middle income group. Between 2009/10 and 2024, health-related spending saw the fastest growth across most deciles, with annual increases exceeding 12%. In addition, the average income elasticity⁶ at below 1 across all income groups is aligned with the findings of Habib et al. (2016), indicating the necessity of healthcare. Despite this, the relative income elasticity of the middle- and higher-income working groups is lower, which could be due to employer-provided health benefits. Meanwhile, the growing share signals an increasing concern on long-term health well-being, ageing and access to public healthcare despite the increase in price of medicines & health products.

Similarly, as digital connectivity has become a necessity, the uptake among lower- and middle-income households has been rising driven by widespread access to smartphones and internet services. Among the D1, share of total consumption climbed from 3.2% to 4.5% as shown in Figure 3.1.7. This increase in spending was also supported by slight price deflation of 0.5% per annum as in Figure 3.1.5, partly due to competition among service providers. It is assumed that the lower- and middle-income groups predominantly consist of young and middle-aged working adults. The income elasticity of more than 1 for these groups reflect higher adoption of ICT product and services once the affordability thresholds are reached. This underscores the growing importance of digital access for education, work as well as social and financial inclusion.

FIGURE 3.1.7. *Expenditure on Information & Communication across Income Groups, 2009/10 and 2024*



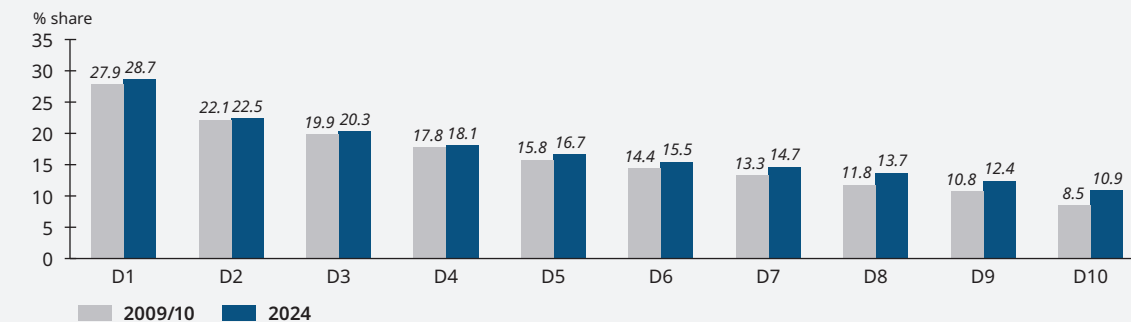
Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

Housing & utilities remains the biggest expenditure item, especially among lower-income households, which consistently exceeded 28% of total consumption since 2009/10. The percentage of housing & utilities⁷ for D1 comprises 28.7% of income, more than double the 10.9% recorded among the D10 as shown in Figure 3.1.8. This underscores the disproportionate burden of housing & utilities on lower-income groups. Despite moderate inflation at 1.8% per annum, real growth in housing & utilities spending was subdued at 5.4%, reflecting affordability constraints and limited scope for adjustment. Income elasticity remains below one across all deciles, indicating housing & utilities behaves as a necessity⁸.

⁶ Elasticity rules refer to income elasticity of demand, where necessities have elasticity between 0 and 1, while luxuries have elasticity greater than 1 (Frank, 2021).

⁷ The rental component account for 76.2% of total housing & utilities expenditure in 2024.

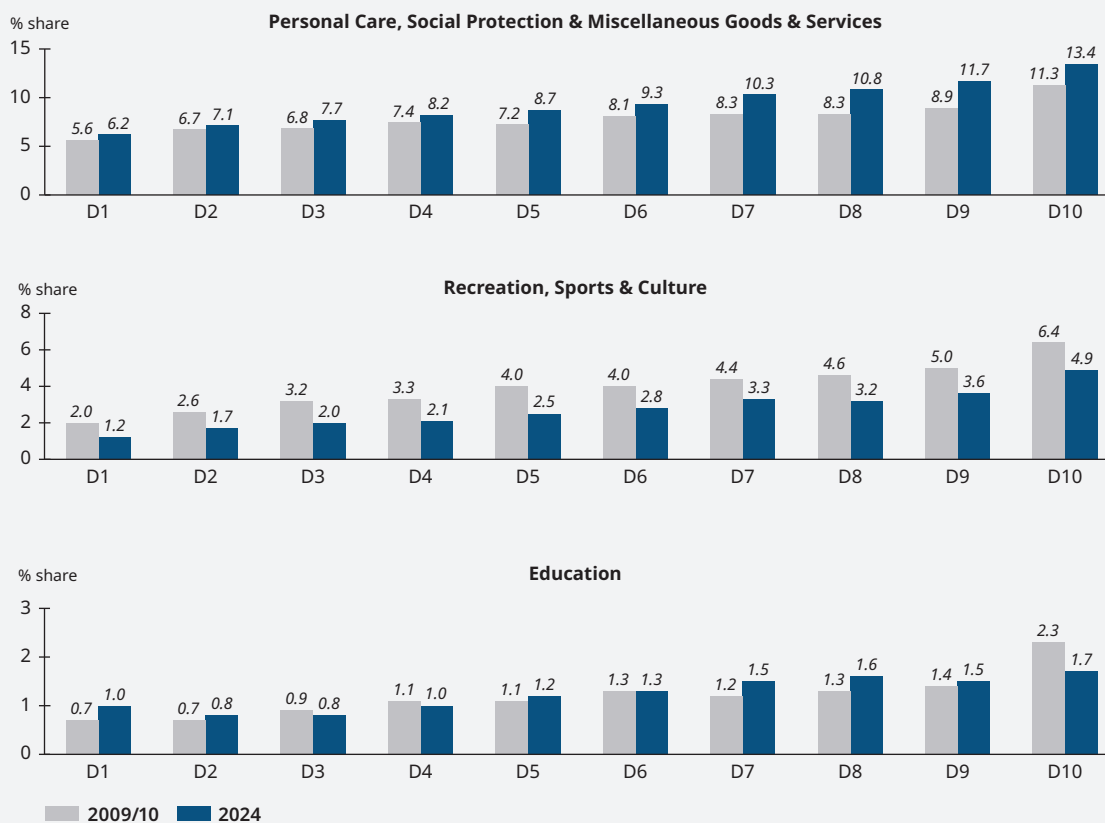
⁸ Explanation on the elasticity rules refer to income elasticity of demand, where necessities have elasticity between 0 and 1, while luxuries have elasticity greater than one (Frank, 2021).

FIGURE 3.1.8. *Expenditure on Housing & Utilities as a Percentage of Household Income across Income Groups, 2009/10 and 2024*

Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

Transport component remains a sizeable and essential cost, particularly for the middle- and lower-income households. While the share has declined modestly with the rise of flexible working arrangement since the COVID-19 pandemic, transport still accounts for over 10% of total household spending across most income groups. Despite an inflation of 1.4% annually, real spending has continued to rise, supported by income growth. The 1.4 income elasticity among the lower-income households indicates discretionary spending, beyond necessity. It is assumed that the additional income of these groups are spent to fulfil aspirations and lifestyle preferences. On the other hand, the elasticity among higher-income households plateaus between 0.7 and 0.8, suggesting transport consumption is less sensitive to income increases.

Spending on personal development reflects lifestyle shifts and affordability. Household spending on personal care, recreation and education has evolved in distinct ways, shaped by income, affordability thresholds and access to alternatives. Personal care and miscellaneous goods recorded steady growth across all income groups, with the share of D1 increasing from 5.6% to 6.2%, while the D10 rose by 2.1 ppt to 13.4%, as shown in Figure 3.1.9. Meanwhile, recreation, sports & culture spending remains responsive to income among middle-income households with income elasticity averaging at 1.3, highlighting rising demand for enrichment and leisure once basic needs are met. However, spending in education remained stagnant across all income groups, averaging approximately 1% of total household budgets due to subsidised education, particularly in government schools.

FIGURE 3.1.9. *Expenditure on Personal Care, Social Protection & Miscellaneous Goods & Services, Recreation, Sports & Culture and Education across Income Groups, 2009/10 and 2024*

Notes: Insurance & finance has been grouped with personal care, social protection and miscellaneous in 2024 to align with earlier years where it was not reported separately, for consistency

Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

Conclusion

Price changes affect households differently, reinforcing the need for targeted and data-driven policy interventions. While headline inflation serves as an important macroeconomic indicator, it may differ in terms of household-level inflation, particularly for low-income and vulnerable groups. These households typically allocate a larger share of their budgets for essential goods, such as food & beverages, health, housing & utilities and transport, with limited room for substitution when prices rise. Consequently, the impact of household-level inflation is not uniform and can differ significantly across income groups, locations and household preferences. In this regard, various ongoing initiatives continue to safeguard purchasing power of the rakyat and ease cost-of-living pressures, as captured in Figure 3.1.10.

FIGURE 3.1.10. Selected Initiatives & Assistances



Source: Ministry of Finance, Ministry of Economy and Ministry of Domestic Trade and Cost of Living, Ministry of Agriculture and Food Security, Malaysia

As Malaysia progresses towards a more targeted fiscal support, a granular understanding of household consumption patterns is critical. Integrating both price and expenditure data enable a more precise policy calibration, to provide measures in addressing actual household vulnerabilities. This underscores the importance of policies in line with the Ekonomi MADANI framework, which emphasise equitable and targeted measures to safeguard household welfare and ensure inclusive economic resilience. This patterns will continue to evolve as the country moves forward to achieve high-income nation status.

The **Producer Price Index (PPI)** registered a decline in the first eight months of 2025, averaging a decrease of 2.3%, after a marginal increase in the first two months of the year. This is reflected by persistent price declines in export-oriented sectors such as mining and manufacturing, against a backdrop of soft global energy prices and subdued external demand. The mining sector plummeted by 10.0%, reflecting a significant drop in prices for crude petroleum, natural gas and refined products, while the manufacturing sector fell by 2.6%. In contrast, electricity and gas supply increased by 0.8%, agriculture, forestry and fishing rose by 6.7% and water supply increased by 1.8%, providing partial offsets. By

stage of processing, prices for crude materials for further processing; intermediate materials, supplies and components; and finished goods fell by 4.1%, 2.2% and 1.3%, respectively, signalling broad cost containment along the supply chain.

These trends indicate persistent moderation in upstream input costs and subdued price pressures throughout the production chain. PPI growth is expected to remain manageable for the rest of the year, attributed to stable global commodity prices and resilient key domestic sectors. Malaysia's diversified economic base and proactive policy measures continue to offer buffers against external shocks.

TABLE 3.13. *Consumer Price Index,
January – August 2024 and 2025
(2010 = 100)*

	WEIGHT ¹	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2024	2025	2024	2025
Consumer Price Index	100.0	1.8	1.4	1.80	1.40
Food & beverages	29.8	1.8	2.2	0.54	0.66
Alcoholic beverages & tobacco	1.9	0.6	0.7	0.01	0.01
Clothing & footwear	2.7	-0.2	-0.2	-0.01	-0.01
Housing, water, electricity, gas & other fuels	23.2	2.9	1.9	0.67	0.44
Furnishings, household equipment & routine household maintenance	4.3	0.9	0.2	0.04	0.01
Health	2.7	2.0	1.2	0.05	0.03
Transport	11.3	1.1	0.6	0.12	0.07
Information & communication	6.6	-0.9	-5.4	-0.06	-0.36
Recreation, sports & culture	3.0	1.7	1.2	0.05	0.04
Education	1.3	1.5	2.1	0.02	0.03
Restaurant & accomodation services	3.4	3.2	3.2	0.11	0.11
Insurance & financial services	4.0	0.1	2.4	0.00	0.10
Personal care, social protection & miscellaneous goods & services	5.8	2.9	3.8	0.17	0.22

¹ Based on Household Income and Expenditure Survey 2022

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

TABLE 3.14. *Producer Price Index,
January – August 2024 and 2025
(2010 = 100)*

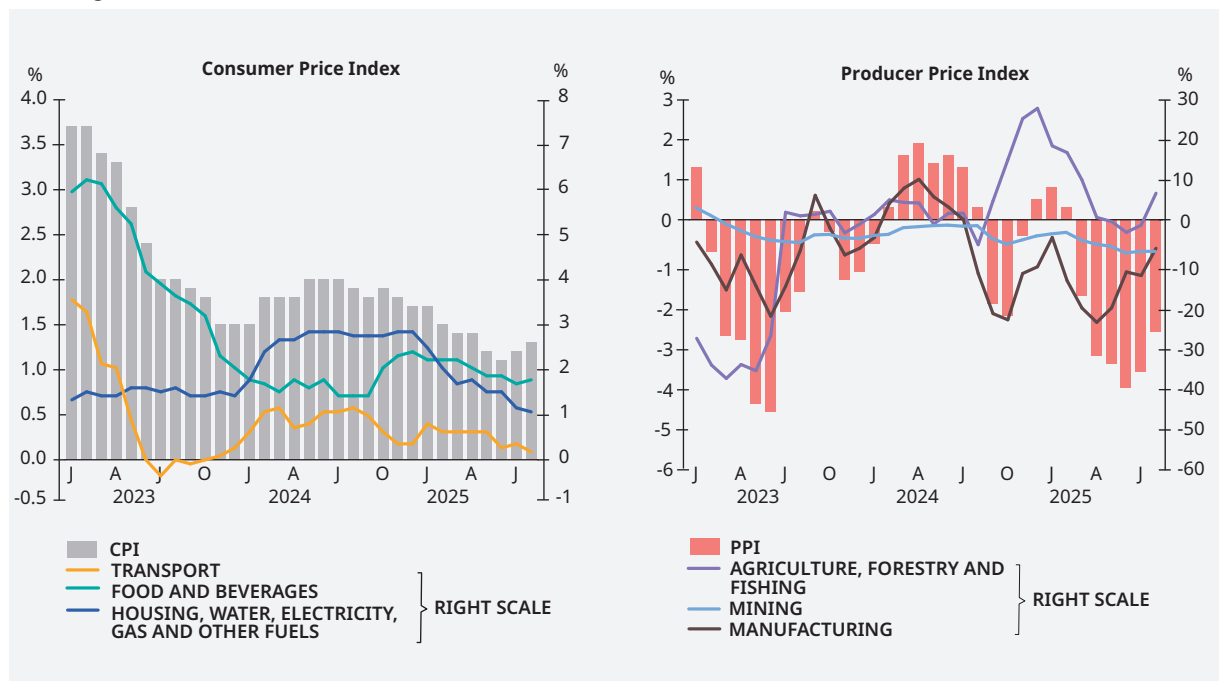
	WEIGHT ¹	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2024	2025	2024	2025
PPI by Sector	100.000	0.9	-2.3	0.90	-2.30
Agriculture, forestry and fishing	6.730	3.8	6.7	0.26	0.45
Mining	7.927	3.3	-10.0	0.26	-0.79
Manufacturing	81.571	0.4	-2.6	0.33	-2.12
Electricity and gas supply	3.442	0.5	0.8	0.02	0.03
Water supply	0.330	6.4	1.8	0.02	0.01
Producer Price Index by stage of processing	100.000	0.9	-2.3	0.90	-2.30
Crude materials for further processing	16.410	3.4	-4.1	0.56	-0.67
Intermediate materials, supplies and components	56.119	-0.4	-2.2	-0.22	-1.23
Finished goods	27.471	2.3	-1.3	0.63	-0.36

¹ Based on Economic Census 2016

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

FIGURE 3.6. Consumer Price Index and Producer Price Index Trends (% change)



Source: Department of Statistics, Malaysia

Labour Market

Optimistic labour market outlook

Malaysia's labour market remained strong in the first half of 2025, in line with steady economic performance. Robust domestic demand and sustained job opportunities attracted more new entrants into the market, resulting in the labour force participation rate recording 70.8%. The labour force expanded by 2.4% to 17.3 million persons, while the **total employment** grew higher by 2.6% to record 16.8 million persons. This growth contributed to a decline in the **unemployment rate** to 3% or 520,100 unemployed persons, the lowest rate in a decade. The services sector continued to be the dominant source of employment during the period with a share of 66%, followed by the manufacturing (16.2%) and agriculture (8.8%) sectors.

The significant improvements in the labour market were also reflected in the number of job **placements**, which rose significantly by 150%, with over 188,500 individuals securing positions in the first half of 2025. At the same time, **retrenchments** remained low at 34,005, indicating businesses are focusing on talent retention to support operations. Meanwhile, the number of **vacancies** registered as of June 2025 were over 108,500 positions, with 42.4% in skilled occupations and the remaining 57.6% in semi- and low-skilled roles.

The labour market for the whole year is poised to expand further, following increasing demand for talents as companies expand operations and investments. This is in tandem with increasing pace of digital integration, tourism-related activities and MICE events under ASEAN-Malaysia Chairmanship 2025. Hence, the **unemployment rate** for the year is expected to remain low at 3%.

TABLE 3.15. *Labour Market Indicators*

	('000)			CHANGE (%)		
	H1 ¹	2025 ²	2026 ³	H1 ¹	2025 ²	2026 ³
Labour force	17,270.4	17,309.2	17,707.3	2.4	2.4	2.3
Employment	16,750.3	16,795.0	17,181.3	2.6	2.6	2.3
Unemployment	520.1	514.2	526.0	(3.0)	(3.0)	(3.0)

¹ January to June 2025² Estimate³ Forecast

Note: Figures in parentheses refer to the unemployment rate

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.16. *Employed Persons by Sector*

	('000)			SHARE (%)		
	H1 ²	2025 ³	2026 ⁴	H1 ²	2025 ³	2026 ⁴
Agriculture, forestry and fishing	1,481.6	1,493.3	1,512.7	8.8	8.9	8.8
Mining and quarrying	90.8	91.1	92.9	0.5	0.5	0.5
Manufacturing	2,708.7	2,727.2	2,787.2	16.2	16.2	16.2
Construction	1,411.5	1,415.7	1,443.3	8.4	8.4	8.4
Services	11,055.8	11,066.4	11,343.1	66.0	65.9	66.0
Total¹	16,750.3	16,795.0	17,181.3	100.0	100.0	100.0

¹ Total includes 'Activities of extraterritorial organisations and bodies'² January to June 2025³ Estimate⁴ Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

As at end-August 2025, the number of registered low-skilled **foreign workers** decreased by 15% to 2.1 million persons compared to 2.5 million persons in the same period last year. The contraction was primarily attributable to the Government's decision to impose a freeze in foreign worker quota approval, which will remain in place until year-end 2025. The freeze, prompted by the foreign worker ceiling approaching the 15% threshold, reflects the continued commitment to gradually reduce the economy's dependence on low-skilled migrant labour while encouraging industries to shift towards high-value added activities, leveraged by automation and advanced technology. Foreign workers were sourced mainly from Bangladesh (37.4%), Indonesia (25.6%) and Nepal (15.5%). The manufacturing sector employed the highest

number of foreign workers with a share of 29.5%, followed by the construction (27.7%) and services (18.1%) sectors. Meanwhile, the number of **expatriates** increased by 6.9% to register 121,310 persons as at end-August 2025. The majority of expatriates were from China (26%), India (17.3%) and the Philippines (8.1%), and mainly employed in the information technology (40.8%), services (16.3%) and manufacturing (11.8%) sectors.

Labour productivity, measured by value-added per worker, improved by 2.7% to RM49,753 in the first half of 2025. The performance is mainly attributed to the double-digit productivity expansion in the construction sector, following efficient implementation of ongoing infrastructure-related projects, including the completion of the electric train

services (ETS) south bound rail track and system. Overall, labour productivity is expected to expand by 2.5% to reach over RM101,700 in 2025, following continued investment in skills development, adoption of digital technology, as well as modernisation of business models and regulations. The construction sector is projected to record the highest increase of 8.9%, followed by the manufacturing (2.8%) and services (2.4%) sectors.

Outlook For 2026

Sectoral

Services Sector

Looking forward to Visit Malaysia 2026

The **services** sector is projected to grow by 5.2% in 2026, with all subsectors contributing to the expansion. This growth will be led by increased tourism activities, driven by a surge in visitor arrivals and spending related to VM2026, alongside sustained consumer spending.

The wholesale and retail trade subsector will remain the key driver for the services sector, with a growth of 5% mainly attributed to the retail segment. Vigorous seasonal sales and promotional campaigns across stores as well as e-commerce and social media platforms will stimulate buying activities. In addition, initiatives such as product demonstrations and in-store placements as well as attractive pricing strategies will enhance sales of locally made products. Meanwhile, the motor vehicles segment is expected to rebound, supported by higher booking for new vehicles.

The transportation and storage subsector is forecast to grow by 7.1%, supported by all segments following the expansion in rail, highway, port and airport activities. The land transport segment is anticipated to be boosted by the commencement of operations of the Light Rail Transit 3 (LRT3) Phase 1 and ETS south bound as well as operationalisation of the East Klang Valley Expressway (EKVE).

Likewise, the air transport segment is expected to be driven by increased flight frequencies, expanded route connectivity and a surge in international passenger traffic in conjunction with VM2026. The targeted incentives and airport capacity upgrades will further support growth in both passenger and cargo segments. The water transport segment is projected to expand in tandem with encouraging trade activities.

The finance and insurance subsector is anticipated to expand by 2.8% with positive growth in all segments, supported by sustained economic activities. Under the finance segment, loan growth is anticipated to remain moderate amid steady credit demand from household sector. Meanwhile, the insurance segment is expected to remain modest with stable premium growth despite net benefit pay-outs remaining high, particularly for life insurance policies.

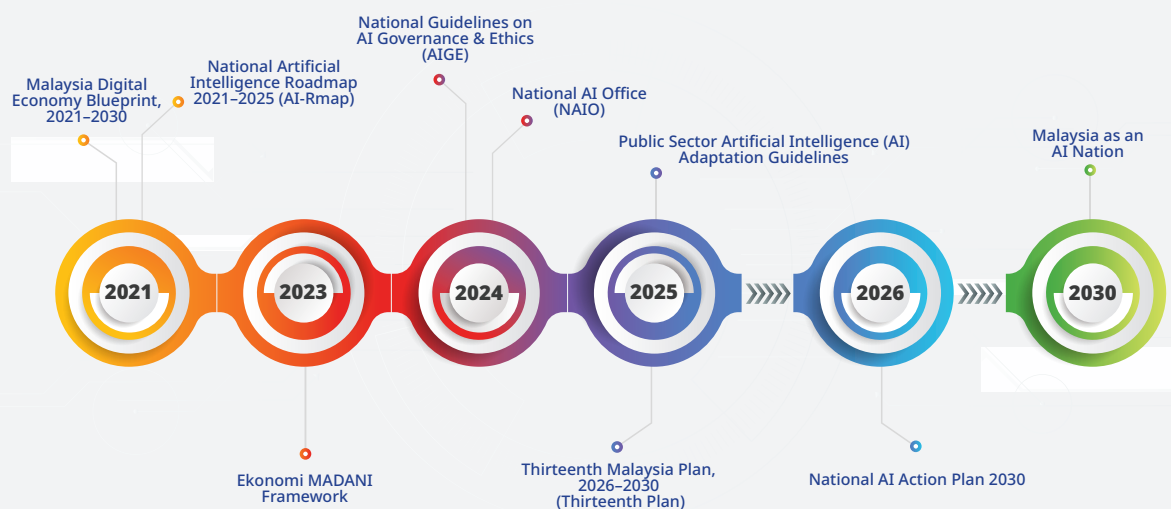
The real estate and business services subsector is projected to grow by 6.7%, driven by sustained demand for professional services. The growth is expected to be spurred by engineering-related services, benefiting from increased demand for logistic hubs, warehouses and ongoing development of industrial parks. This expansion is also anticipated to be fuelled by new demand from key projects, including the JS-SEZ and continuous construction activities for new data centres.

The information and communication subsector is expected to grow 4.3%, mainly driven by expansion in AI technologies, data centre and cloud computing capacities as well as continued government support through comprehensive digital policies and infrastructure upgrades. In addition, the subsector will be fuelled by higher social commerce activities via various social platforms as well as subscriptions of over-the-top (OTT) media services for e-sports and entertainment. Major sporting events such as the 2026 FIFA World Cup, BWF Thomas & Uber Cup 2026 and the 2026 Commonwealth Games will increase the number of subscribers, further boosting the subsector.

Information Box 3.2**Bridging the Artificial Intelligence Divide in Malaysia****Introduction**

Artificial Intelligence (AI) is a suite of technologies that enable machines to exhibit intelligence, adapt to changing circumstances and amplify human ingenuity and intellectual capabilities. These technologies encompass a broad spectrum of capabilities including learning, reasoning, problem-solving and decision-making. Consequently, AI is expected to rapidly reshape technological and innovation landscapes, while emerging as a critical enabler of progress and inclusive growth. The adoption of AI is anticipated to enhance competitiveness across socioeconomic activities by enabling businesses to operate more efficiently, creating new opportunities for employment and contributing to higher living standards. The integration of AI has the potential to contribute approximately USD115 billion or RM485 billion in value added to the national economy (Ministry of Digital, 2024). Thus, realising this potential requires not only accelerating adoption but also ensuring benefits are shared inclusively to prevent the incidence of an AI divide across society.

The Government has set a clear aspiration to become an inclusive and sustainable AI nation by 2030, as outlined in the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan). This is underpinned by national strategies and frameworks, including the Malaysia Digital Economy Blueprint, 2021 – 2030; the National Artificial Intelligence Roadmap, 2021 – 2025 (AI-Rmap); the National Guidelines on AI Governance & Ethics (AIGE) and the Public Sector Artificial Intelligence (AI) Adaptation Guidelines, as shown in Figure 3.2.1.

FIGURE 3.2.1. AI-related Policies and Guidelines

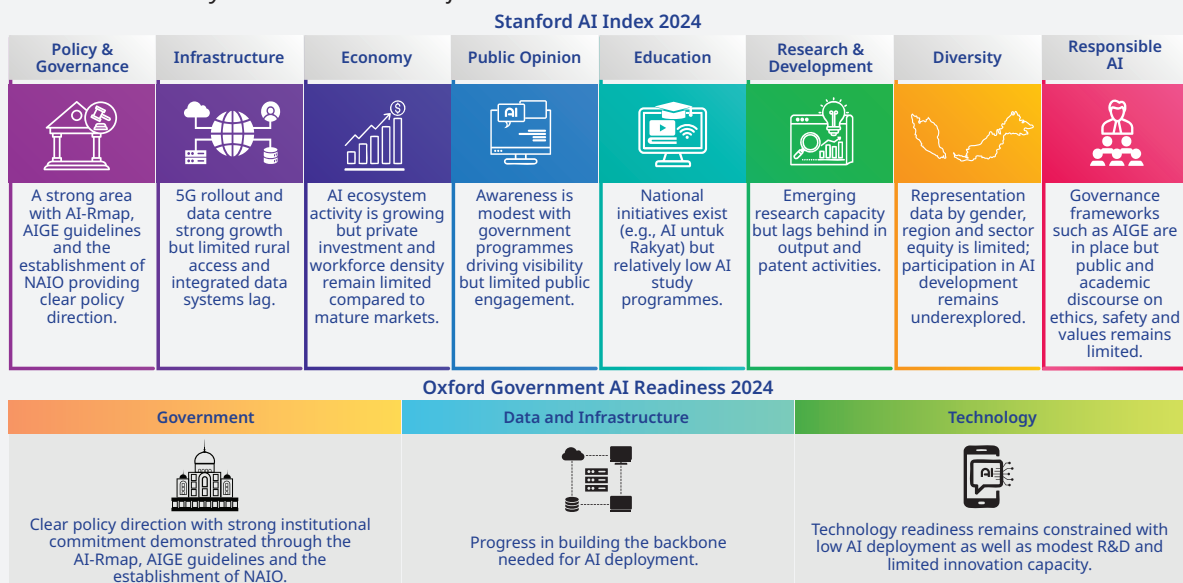
Source: Ministry of Digital; Ministry of Economy; Ministry of Science, Technology and Innovation; National AI Office and Prime Minister's Office of Malaysia

Malaysia's Current AI Readiness Landscape

Malaysia's current state of AI readiness reveals notable progress, while simultaneously highlighting the need for greater maturity and broader impact. Evaluations from leading global indices in 2024 provide a balanced perspective on the nation's standing. The Stanford University recognised the government's effort in charting the AI development in Malaysia as reflected in the Stanford AI Index¹ 2024. Similarly, the Oxford Government AI Readiness Index² highlights strong foundations in vision, governance, ethics and digital capacity. Both indices highlighted that Malaysia performed relatively well in building solid policy and institutional foundations, with initiatives reinforced by the establishment of the National AI Office (NAIO).

Although Malaysia's progress highlights institutional readiness and demonstrates strong policy and governance foundations, there are needs to strengthen ecosystem maturity through greater research, innovation and industry adoption. A moderate achievement in infrastructure is due to persistent gaps in internet connectivity such as limited rural network access and integrated data systems lag. In addition, low AI adoption and limited talent development remain as challenges for Malaysia. Summary of Malaysia's AI readiness are as shown in Figure 3.2.2.

FIGURE 3.2.2. Malaysia's AI Readiness Performance



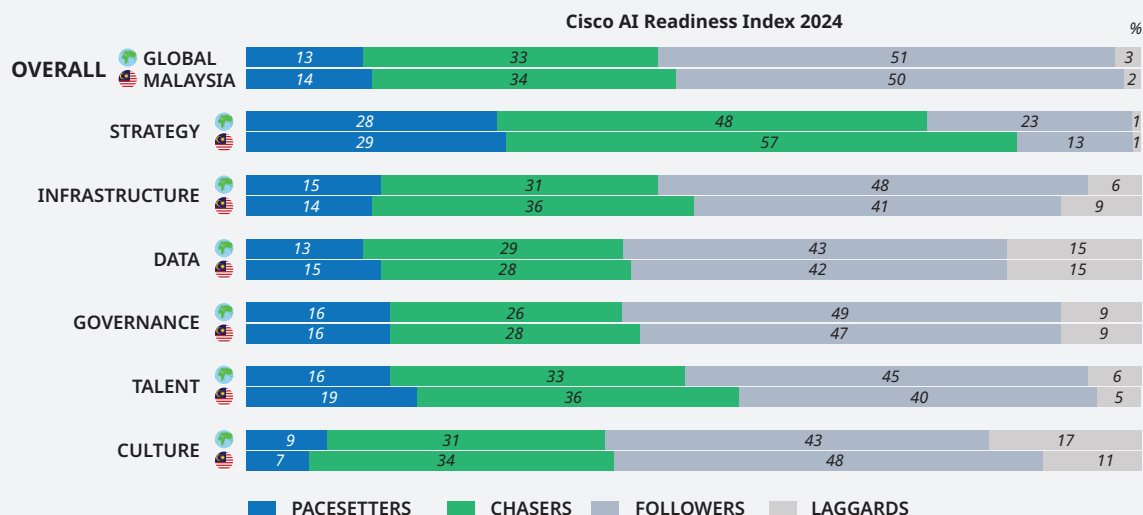
Source: Stanford University and Oxford Insights

¹ The Stanford AI Index assesses country-level AI vibrancy through eight key pillars, each representing a critical aspect of AI development. The pillars are Research and Development, Responsible AI, Economy, Education, Diversity, Policy and Governance, Public Opinion, and Infrastructure.

² The Oxford Government AI Readiness Index assesses how well-prepared governments are to implement AI technologies in public services across three pillars: Government, Data & Infrastructure and Technology.

Despite the Government's efforts, companies' ability and readiness to fully leverage AI is still limited as reflected in the Cisco AI Readiness Index³ 2024 report. This underscores the modest adoption of AI capabilities across the enterprise level as infrastructure readiness remains a major barrier. In addition, talent development, data management and governance need to be further emphasised to accelerate Malaysia's AI adoption. The findings of the Cisco AI Readiness Index 2024 are shown in Figure 3.2.3.

FIGURE 3.2.3. AI Readiness of Malaysia's Companies



Source: Cisco Systems, Inc.

The AI Divide Challenges

Efforts to bridge the AI divide are imperative in building a comprehensive ecosystem as Malaysia reaches the final year of the AI-Rmap. Despite strong policy direction, AI adoption particularly among SMEs remains uneven especially in the absence of SME-friendly AI platforms. Key barriers of AI adoption include limited expertise and knowledge of practical applications, uncertainty in investment returns and lack of customised AI-related financing. Reskilling and upskilling programmes also remain fragmented and insufficient to meet growing demand for AI competencies. In addition, digital infrastructure gaps, particularly in remote and rural areas, results in uneven access to reliable high-speed connectivity, further restricting the effective use of cloud-based services and real-time applications. These gaps, coupled with insufficient AI-ready datasets, hinders the potential benefits of AI.

Way Forward

As stated in the Thirteenth Plan, Malaysia aspires to become an inclusive and sustainable AI nation by 2030. Aligned with the policy to become a regional digital technology hub and to realise the 'Made by Malaysia' products and services, there is a need to strengthen innovation ecosystems, modernise infrastructure, future-proof the workforce and enhance governance.

³ The Cisco AI Readiness Index measures AI readiness of companies across six key pillars: Strategy, Infrastructure, Data, Governance, Talent and Culture.

Strengthening the Domestic Innovation Ecosystem

The domestic innovation ecosystem will be strengthened by providing facilities and targeted assistance to foster closer collaboration among researchers, universities and government research institutes. Emphasis will also be given to support the protection of intellectual property and drive homegrown innovations. Furthermore, a more prominent role by the private sector in providing incubation hubs and sandboxes is critical in bringing AI solutions to market.

Expanding Data and Digital Infrastructure

Expanding AI-ready datasets and developing national supercomputer facilities will accelerate AI capabilities. Moreover, nationwide rollout of 5G will ensure improved connectivity as well as expanding rural broadband and community access points. These efforts will enable industry-specific applications while safeguarding national digital sovereignty.

Enhancing Education and Training Systems

Embedding AI literacy across the education system is needed in preparing students for real-world applications. Meanwhile, the Government has introduced upskilling and reskilling programmes, particularly in AI-related field to further equip workers with AI knowledge and technical expertise.

Advancing AI-Ready Civil Service and GovTech Platforms

The Government will continue to improve the public service delivery system by leveraging AI towards enabling data-driven and more responsive decision-making. In this regard, the Government will expand the adoption of GovTech through a whole-of-government approach to transform the public sector, while streamlining operations and enhancing data sharing across ministries and agencies.

NAIO to Steer the National AI Agenda

NAIO is mandated to accelerate adoption, foster innovation and ensure faster development of AI towards enhancing Malaysia competitiveness and sustainable growth. This can be achieved through seven deliverables⁴, including formulation of the National AI Action Plan 2030 to ensure the adoption of AI across all sectors. Additionally, a dedicated AI framework will be introduced to enhance transparency, promote ethical practices and accelerate deployment of AI technology.

Conclusion

Advances in AI are rapidly transforming the dynamic of economies worldwide. Capitalising on advanced digital technologies, Malaysia seeks to harness economic opportunities that strengthen national resilience and promote inclusive growth. This reflects the aspiration to become an AI nation by 2030 through building a digitally empowered, future-ready economy that benefits all Malaysians.

⁴ Seven deliverables outlined by NAIO are the National AI Action Plan 2030, AI Adoption Regulatory Framework, Acceleration of AI Technology Adaptation, AI Code of Ethics, AI Impact Study for Government, National AI Trend Report and the development of datasets related to AI technology.

The food & beverages and accommodation subsector is poised to expand by 6.6%, in anticipation of higher visitor arrivals in conjunction with VM2026 as well as numerous business and leisure events nationwide. The development of Special Tourism Investment Zones (STIZ) in Johor, Melaka, Negeri Sembilan and Sarawak is expected to attract private investment and further boost tourism activities. The zones will showcase new tourism products focusing on arts, culture, heritage and natural attractions. In addition, visit state year programmes in Johor, Negeri Sembilan, Perlis and Selangor are expected to further promote domestic tourism activities and fuel the growth of the subsector.

The utilities subsector is projected to expand by 1.7%, driven by steady demand from industrial and commercial users for electricity and water services. This is in tandem with the increase in industrial production activities to meet domestic and external demand. In addition, the increasing number of data centres in operation will further support the subsector.

The other services subsector is projected to rise by 4.6%, driven by private health and education segments. In particular, the Malaysia Year of Medical Tourism 2026 (MYMT 2026) initiative, emphasising affordability and high-quality healthcare services will attract more healthcare travellers. The healthcare industry will continue to focus on a targeted marketing campaign, particularly in China, India and Indonesia. Meanwhile, the private education segment is expected to remain robust, anchored by ongoing initiatives to draw in students such as through educational tourism, international partnerships and mobility programmes.

The government services subsector is forecast to record a growth of 6.8% in 2026 attributed to the implementation of salary adjustment under Phase 2 of the SSPA. In addition, expenditure on supplies and services

is expected to remain steady following commencement of the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan).

Manufacturing Sector

Expansion remains favourable

Growth in the **manufacturing** sector is projected to remain steady at 3% in 2026, supported by both export- and domestic-oriented industries. The broader gains from the global technology upcycle is anticipated to continue supporting export-oriented industries. The E&E cluster is expected to remain the key driver, with sustained growth across semiconductor products, particularly in the chips segment, following robust demand for AI applications and digitalisation. These developments will further elevate growth prospects and strengthen Malaysia's position in the global E&E supply chain.

Meanwhile, domestic-oriented industries will be supported by higher output, attributed to stable investment and consumption activities as well as concerted government efforts to boost local production. A surge in visitor arrivals and rising gastronomic activities are expected to increase output in the consumer goods segment, particularly food and beverages. Furthermore, Phase 2 of the SSPA implementation is anticipated to boost household spending. The transportation-related industries will also benefit from increasing logistics and travel activities.

Agriculture Sector

Upward growth trend persists

The **agriculture** sector is forecast to expand by 2.2% in 2026, supported by all subsectors, except forestry and logging. The oil palm subsector is projected to produce higher CPO output attributed to increased FFB and oil extraction rate (OER). These improvements are mainly driven by expected favourable weather

conditions, expansion of matured plantation areas and further improvements in harvesting practices as well as continued adoption of mechanisation. Additionally, improved OER, owing to more frequent harvesting activities and better field management, is likely to enhance fruits quality and reduce losses. These developments will provide a lift to the overall expansion of the oil palm subsector during the year. In terms of price, average CPO price is forecast to range between RM3,900 and RM4,100 per tonne (2025: RM4,000 – RM4,300). This is in line with higher global CPO production and increased output of competing vegetable oils. Meanwhile, the rubber subsector is anticipated to rebound in line with higher production from both estates and smallholdings segments.

The output of livestock, fishing and other agriculture subsectors are also expected to expand, attributed to growing demand from household spending and tourism activities. In addition, the upcoming action plan under the national blueprint on food security is expected to propel the growth of subsectors. Furthermore, implementation of the Thirteenth Plan initiatives to modernise the agriculture sector by prioritising large-scale agriculture, accelerate modern rice farming and adopting latest technologies will further catalyse these subsectors.

Mining Sector

Muted outlook

In 2026, the **mining** sector is projected to contract by 1%, reflecting subdued performance across all subsectors. The natural gas subsector is projected to decline, primarily due to lower production in Peninsular Malaysia and Sabah as well as moderating demand from major importing countries such as Japan, China and the Republic of Korea. Overall, natural gas

production is expected to be slower, despite the scheduled commencement of several new projects, including Rosmari & Marjoram in Sarawak as well as Irong Timur and Kurma Manis in Terengganu. Meanwhile, the crude oil and condensate subsector is projected to decline, weighed down by lower output in Sabah. In terms of price, Brent crude oil is expected to average between USD60 and USD65 per barrel.

Construction Sector

Steady growth path

The **construction** sector is expected to remain stable in 2026 by recording a growth of 6.1%, underpinned by positive performance across all subsectors. The realisation of approved strategic investments under national policies and commencement of projects under the Thirteenth Plan, will further support the sector's performance. Within the subsectors, major infrastructure and utilities development such as LRT Mutiara Line, HHFS and ASEAN Power Grid will steer the civil engineering subsector's performance. In addition, the non-residential buildings subsector is anticipated to be driven by sustained demand for industrial facilities, logistics hubs and data centres, in line with the expansion of high technologies as well as digitalisation. Meanwhile, the residential buildings subsector is expected to benefit from government-led affordable housing programmes and targeted home ownership initiatives supported by policy measures under the Thirteenth Plan as well as new projects by private sectors. On the other hand, specialised construction activities subsector is projected to grow in tandem with other subsectors' performance supported by sustained demand for site preparation, mechanical and electricals, as well as finishing works.

Domestic Demand

Consumption and investment to propel economic activity

In 2026, **domestic demand** is expected to register a growth of 5.4%, steered by sustained private sector expenditure at 5.7%. Strong consumption and investment activities will keep the private sector's contribution significant at 4.5 ppt to GDP growth. Meanwhile, public expenditure is anticipated to rise by 4.4%, contributing 0.8 ppt to overall growth.

Private consumption is projected to grow by 5.1%, driven by sustained income growth and favourable employment prospects. In addition, spillover effects from the implementation of Phase 2 of the SSPA, STR and the BUDI MADANI RON95 (BUDI95) targeted subsidy programme are expected to provide further impetus to household spending, particularly among lower- and middle-income groups. Consumer spending will also be stimulated by higher tourism-related activities alongside major national and international events, including VM2026 and MAHA 2026 as well as 2026 FIFA World Cup and BWF Thomas & Uber Cup 2026.

Private investment is anticipated to register a growth of 7.8% in 2026, driven by increased capital spending on structures and machinery & equipment in technology-intensive manufacturing and services sectors. The large volume of approved investments is expected to be realised, particularly in semiconductors, renewable energy and data centres. This outlook is reinforced by the strong implementation track record, with the execution of 85.1% manufacturing projects approved between 2021 and June 2025. Strong global demand for E&E, coupled with automation and digitalisation is expected to further stimulate investment in high-value and innovation-led activities. At the same time, ongoing initiatives such as GEAR-uP and the rollout of national masterplans will strengthen investor confidence and Malaysia's position as a competitive investment destination.

Public consumption is projected to grow by 3.2% in 2026, primarily driven by increased spending on emoluments following salary adjustment under Phase 2 of the SSPA. Expenditure on supplies and services is expected to remain steady, ensuring the continued delivery of essential public services while aligning with the Government's fiscal discipline and value-for-money principles.

Public investment is anticipated to expand by 7.3% in 2026, mainly driven by increased capital spending by public corporations, which are estimated to account for about 70% of total public investment. Growth will be further underpinned by key developments in strategic sectors, including utilities, energy and transportation, to support economic resilience and future growth. This includes projects to enhance electricity generation capacity, upgrade railway networks, and public transport systems. Public investment is also expected to gain momentum in the first year of the Thirteenth Plan, driven by the implementation of new people-centric projects aimed at improving public wellbeing, such as the construction of a cancer centre in the northern region, the upgrading of the Miri airport terminal and a programme to strengthen national food security. These initiatives will be supported by GLICs' strategic investments in priority sectors. Overall, the public investment activities will further strengthen the national development agenda while promoting inclusive and sustainable growth.

In 2026, GNI in current price is anticipated to grow by 5.3% to RM2,064.2 billion. The share of GNS as a percentage of GNI remains high at 22.9%, primarily contributed by the private sector savings. Meanwhile, total investment is expected to increase by 6.2% to RM450.5 billion and account for 21.8% of GNI. The **savings-investment gap** is expected to record a surplus of RM23.2 billion or 1.1% of GNI, providing ample liquidity for long-term productive investment.

Income

Continuous reforms to boost income growth

The outlook for **CE** is expected to be more favourable in 2026, attributed to strengthened labour institutions and enhanced wage-setting mechanisms. The decent wage initiative under GEAR-uP may encourage other corporations to pay higher wages to their employees. Additionally, cyclical events, such as VM2026, are expected to drive tourism-related industries including wholesale & retail trade, food & beverages, accommodation, logistics and support services activities, further expanding job opportunities and wage growth. These developments will support higher labour income share to 34.9%, to gradually close the gap towards the longer-term target of raising the labour income share to 40% of GDP by 2030.

The **GOS** is projected to expand by 3.1%, contributing 60.8% share of GDP in 2026. Operating surplus growth will hinge on robust domestic demand as well as continued strength in services, in particular tourism-related industries and infrastructure-linked activities. However, rising input costs and external risks due to uncertain global trade conditions may constrain the profit margins on export-oriented firms. Meanwhile, mixed-income is forecast to rise by 10.6%, contributing 17.2% of GDP. The Gig Workers Bill 2025, will enable the establishment of a fair income framework, providing social protection for about 1.2 million individuals engaged in gig work, including e-hailing drivers and freelancers. The legislation, which also aims to integrate gig workers into the formal economy, is anticipated to boost motivation and more participation in self-employment as the main source of household income.

Income from indirect tax and non-tax revenue on production and imports is anticipated to increase by 7.9% in 2026, attributed to

ongoing reforms on revenue diversification and tax expansion. Meanwhile, expenditure on subsidies and incentives is expected to decline by 38.5% as the Government remains committed to implement subsidy targeting. Hence, the income share from **net taxes** on production and imports is projected to contribute 4.3% of GDP in 2026 in line with sustaining fiscal consolidation strategies.

External Sector

Steady external prospects

In 2026, **gross exports** are forecast to increase by 2.8%, particularly for manufactured and agriculture goods, backed by the continued expansion of the E&E sector, driven by higher demand for semiconductor and AI edge applications, as well as competitive commodity prices. The growth is also attributed to stronger external demand from trade expansion following market and product diversifications, on the back of Malaysia's comparative advantage, particularly in semiconductor. Additionally, intensified intra trade with ASEAN member countries as well as ventures into non-traditional markets will further strengthen exports.

Exports of manufactured goods are anticipated to expand by 3%, resulting from rising demand for both E&E and non-E&E products. These products constitute shares of total manufactured goods at 50.4% and 49.6%, respectively. The E&E products are projected to grow by 3.9%, buoyed by steady demand for semiconductor. This is in tandem with the continued technological upcycle, leading to a better performance outlook of the global semiconductor market at 9.9%, as reported by the World Semiconductor Trade Statistics. Concurrently, exports of non-E&E products are estimated to rebound by 2.1%, following higher demand, particularly for palm oil-based manufactured products; manufactures of metal; chemicals and chemical products; as well as machinery, equipment and parts.

Exports of agriculture goods are projected to grow by 3.3%, supported by sustained global demand for palm oil and palm oil based agriculture products, attributed to higher export volumes and competitive prices for agriculture goods. Conversely, exports of mining goods are estimated to contract marginally by 0.4% on account of lower exports of LNG and crude petroleum, partly due to slower demand from major importing countries.

Gross imports are forecast to increase by 3.9% in 2026, supported by growth in all components, reflecting Malaysia's steady performance in key economic sectors and strategic investment activities. Imports of intermediate goods are anticipated to expand by 4.2%, particularly for parts and accessories as well as industrial supplies, in tandem with increasing exports of manufactured goods. In addition, imports of capital goods are projected to expand by 4.3%, following continuous investment activities driven by data centre development, as well as increasing demand for lumpy items such as aircrafts and locomotives. Imports of consumption goods are anticipated to rise by 3.9%, indicating stronger household spending.

The **current account of the balance of payments** is forecast to register a lower surplus of RM23.2 billion or 1.1% of GNI in 2026, resulting from payments growing faster than receipts, following realisation of approved investments and ongoing project developments. The goods account is projected to record a narrower surplus of RM98.3 billion, contributed by strong imports, particularly for capital goods, which more than offset higher demand from major trading partners. Contrarily, the services account is expected to turnaround and register a slight surplus of RM0.1 billion, attributed to a higher net inflow in the travel account and a smaller net outflow in the other services account, while registering

a wider deficit in the transport account. Receipts in the travel account are expected to increase to RM119.5 billion, bolstered by higher tourist arrivals. Nonetheless, payments in the travel account are anticipated to increase to RM65.3 billion, following residents spending abroad for business, education and pilgrimage travelling activities.

Incomes from the transport account are projected to reach RM37.1 billion, contributed by higher earnings from air travel and cargo handling services provided by domestic companies. However, continuous dependency on foreign transport services is expected to increase payments in the transport account to RM69.9 billion, leading to a higher net outflow of RM32.8 billion in 2026. Meanwhile, the other services account is anticipated to register a smaller deficit of RM21.4 billion, supported by increasing earnings to reach RM130.6 billion, stemming from repatriation of profits on investment and ongoing strategic projects abroad. Nonetheless, payments in the other services account are expected to be at RM152 billion, due to higher payments for the telecommunications, computer and information services as well as charges for the use of intellectual property.

The primary income account is forecast to record a wider deficit of RM61.6 billion in 2026, owing to higher payments in the compensation of employees and investment income accounts. Payments in the investment income account are expected to increase, attributed to repatriation of profits by foreign investors, in tandem with robust investment activities, resulting in a higher deficit of RM49.9 billion. Similarly, compensation for foreign professionals is anticipated to register a larger net outflow of RM11.7 billion, following the ongoing development agenda for HGHV industries such as digital technology, including AI, cloud computing and automation. However,

a narrowing deficit of RM13.5 billion is projected in the secondary income account, mainly due to higher remittances by Malaysians working abroad.

Prices

Inflation to remain stable

Headline inflation is projected to range between 1.3% and 2% in 2026, reflecting a continued environment of manageable price growth. The outlook is shaped by steady domestic demand, stable labour market conditions as well as policies that support household purchasing power and market stability. Price pressures are anticipated to remain contained, supported by ongoing improvements in supply chains and productivity, with producer-price movements gradually passing through to consumers. Risks to the outlook are broadly balanced with upside risks include potential adjustments to domestically administered prices or higher global commodities. However, downside risks stemming from a stable ringgit, ongoing policy measures and any further easing in global food and energy prices would temper inflation.

Labour Market

Resilient labour market, future-ready workforce

In 2026, the labour market is expected to remain optimistic, underpinned by resilient domestic demand and the continued expansion in key sectors. It will also be supported by a boost in tourism following the VM2026 and the roll-out of strategic public investments under the Thirteenth Plan. Ongoing structural reforms, particularly the wage-setting mechanisms and efforts to enhance working conditions, are anticipated to encourage greater labour force participation and improve workers' well-being. While lingering uncertainties in global trade may weigh on hiring in export- and commodity-related

industries, robust growth in domestic-oriented sectors is expected to sustain employment and wage growth. Accordingly, the **unemployment rate** is anticipated to remain at 3% in 2026. Total **employment** is projected to expand by 2.3% to 17.2 million persons, driven largely by job creation in the services and manufacturing sectors, which are expected to continue accounting for over 80% of total employment.

The number of low-skilled **foreign workers** is expected to decrease in 2026, attributed to the strict approval of foreign worker quota applications on a case-by-case basis for specific approved sectors such as agriculture, construction and certain service industries. The Government also remains committed to reducing the dependency on foreign workers by limiting the hiring ceiling from 15% to 10% of total employment, as outlined in the Thirteenth Plan. The implementation of the multi-tiered levy mechanism in 2026 is also expected to further drive industries towards mechanisation and automation, thus further reducing demand for low-skilled foreign workers. On the other hand, continued demand for workers in the economy will be met through greater investment in automation and upskilling of local workers to support productivity gains.

Labour productivity is projected to increase by 2% to record RM103,700 in 2026, supported primarily by improvements in the construction and services sectors. This growth will be reinforced by ongoing efforts to strengthen skills development programmes to better align with industry needs, alongside greater investments in digital transformation and mechanisation to accelerate technology adoption across industries. Furthermore, strategies to improve regulatory and governance through digitalisation are expected to streamline service delivery and create a more efficient and productive business environment.

Conclusion

Malaysia's economy is expected to maintain resilient growth trajectory, anchored by a diversified economic structure and sound policy management against heightened global uncertainties, stemming from unsettled trade tariffs and prolonged geopolitical tensions. While Malaysia's export-oriented markets remain vulnerable, domestic demand will continue to provide a solid foundation, supported by a strong labour market and vibrant private consumption. The upcoming VM2026 is strategically positioned to act as a lever for the economy. With the target of attracting 47 million foreign visitors, VM2026 is set to boost the services sector including retail, transportation and hospitality, while the manufacturing sector and trade remain supportive. The combination of a robust domestic economy, enhanced trade diversification and a major tourism impetus, positions Malaysia to navigate global headwinds and sustain the nation's growth momentum.

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