Global Economic Outlook

The global growth outlook has softened following the announcement of US tariff measures and retaliations

Global economy:

- Fundamentally, global growth would remain supported by positive labour market conditions and less restrictive monetary policy.
- However, the tariff measures announced by the US and retaliations have softened the outlook on global growth.
- The impact of trade tariffs would be partly offset by fiscal stimulus undertaken in several major economies.

Global trade:

- Global trade growth is expected to moderate for the rest of the year, as the dynamics of the trade tensions play out.
- Nevertheless, the continued demand for E&E is expected to remain supportive of overall global trade, alongside other structural drivers such as higher technology adoption, investments in low-carbon transition, and sustained intra-regional trade.

The outlook is subject to considerable uncertainties from trade negotiations and geopolitical tensions

- **Downside risks to growth** stem from fallout in trade negotiations and escalations in geopolitical conflicts. Such uncertainties could also lead to greater volatility in the global financial markets.
- **Upside risks to growth** could arise from the prospect of successful trade negotiations and pro-growth policies in major economies.

Domestic Economic Outlook

Escalation in trade tensions and heightened global policy uncertainties will weigh on Malaysia's 2025 growth outlook

- The escalation in trade tensions will affect the domestic growth outlook mainly through the trade channel as higher global policy uncertainty weigh on global demand.
- As a result, the Malaysian economy will likely grow slightly slower than the earlier forecast of 4.5%–5.5%. The high uncertainty surrounding outcomes of trade negotiations and how these will reshape global trade complicates a clear assessment of their impact on growth at this juncture. The new forecast range will be released once there is a greater visibility in these factors.
- However, the impact from the imposition of US tariffs could be partially cushioned by some front-loading of export activities such as in E&E ahead of implementation of the reciprocal tariffs, alongside higher tourist arrivals. In addition, support from resilient domestic demand will continue to anchor growth.

Source: Department of Statistics Malaysia and Bank Negara Malaysia Estimates

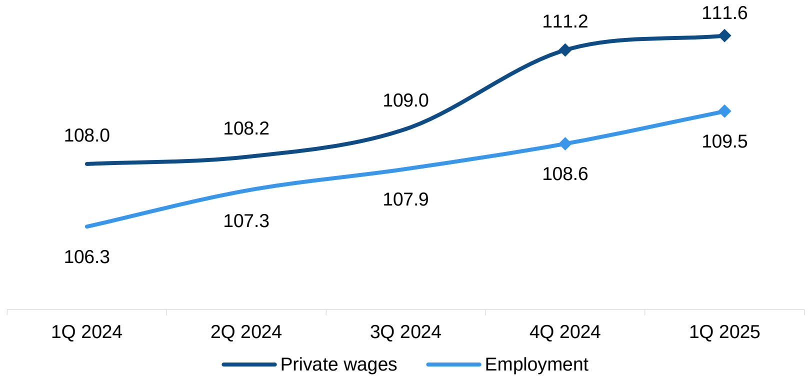
Risks tilted to the downside

- **Downside risks to growth** have increased. These include a deeper economic slowdown in major trading partners and weaker sentiment amid the higher uncertainties affecting spending and investments. Additionally, downside risks also could stem from lower-than-expected commodity production due to disruptions in the oil and gas subsector.
- **Upside risks to growth** includes higher external demand from favourable trade negotiation outcomes and pro-growth policies in major economies as well as more robust tourism activities.

Domestic Demand Conditions

Continued household spending amid sustained labour market conditions and higher policy support

Private Sector Wages and Employment
Index, 4Q 2019=100

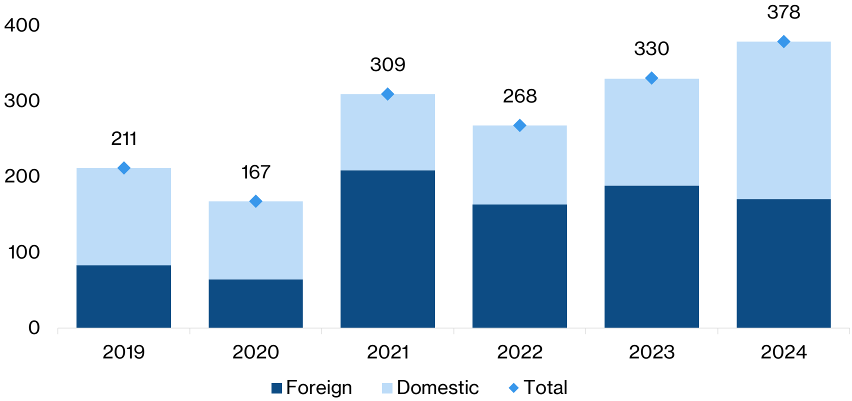


- **Household expenditure** is expected to continue expanding.
- The external headwinds may dampen income in export-oriented sectors. However, employment and income, particularly in domestic-oriented sectors are expected to continue expanding. Besides that, policy measures including salary increment for civil servants and the increase in minimum wage will provide support to overall income growth.
- Additionally, targeted cash transfers, such as Sumbangan Tunai Rahmah, will remain available to support lower income households.

Source: Department of Statistics, Malaysia

Further progress of multi-year projects to support investment growth

MIDA Total Investment Approvals by Foreign and Domestic Investment
RM billion



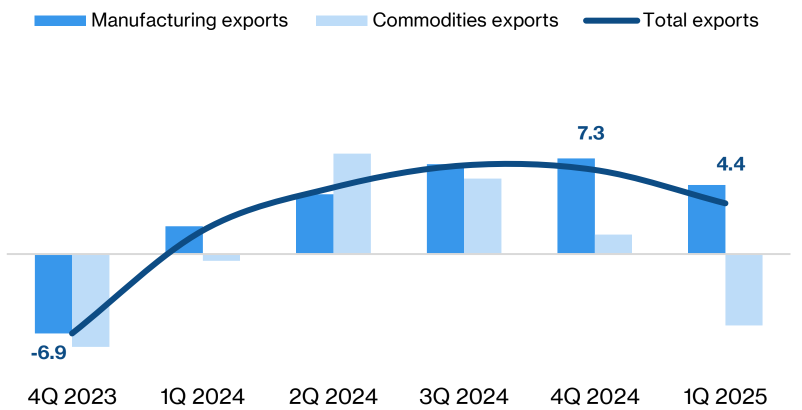
- **Investment outlook** to remain sustained, supported by the ongoing implementation of multi-year projects in both the private and public sectors.
- Further realisation of approved investment in 2024 with a larger share contributed by domestic players (2024: 55%; 2023: 43%) along with a robust investment ecosystem, would provide resilient support to investment activity.
- These factors are expected to partially cushion the impact from delays, postponements or cancellations of investment, mainly by the export-oriented firms amid rising global uncertainties.

Source: MIDA

External Demand Conditions

Export growth to moderate, but E&E sector will provide some support

Gross exports growth
Annual change, %

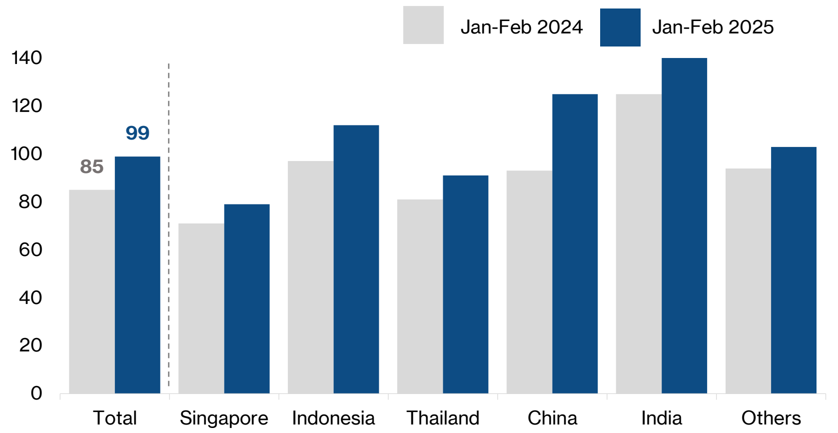


- **Outlook for exports has become more subdued** amid intensified trade tensions.
- In addition, commodity-related exports are anticipated to decline due to maintenance activities and lower commodity prices.
- Nevertheless, E&E exports is expected to support export growth, amid continued demand for E&E products, following tariff exemptions on semiconductors and AI-related demand. Furthermore, Malaysia's integral role in the global value chain will contribute to the resilience of the E&E sector.

Source: Department of Statistics Malaysia

Continued expansion in tourism is expected to support exports

Arrivals by nationalities
% of 2019



- **Inbound tourism to sustain support for exports in 2025,** driven by higher flight connectivity, visa exemptions as well as promotional activities leading to Visit Malaysia Year 2026.
- Tourist arrivals from China is expected to continue given visa liberalisation, recent MOUs on Malaysia–China tourism cooperation, and the introduction of new direct flight routes. However, downside risks remain amid potentially weaker income and demand from tourists due to the ongoing trade tensions.

Source: Tourism Malaysia

Inflation Outlook

Inflation in 2025 is expected to remain moderate

- Headline inflation is expected to remain moderate in 2025, averaging 2%-3.5% amid moderating global costs. Core inflation is also expected to remain contained within 1.5%–2.5% given the absence of excessive domestic demand. Similar to the economic outlook, any changes to earlier forecast range will be released once there is greater visibility on the external developments.
- Global commodity prices are expected to be lower, contributing to further downward pressure. The recently introduced wage-related policies will support demand, although the impact on inflation is expected to be limited.
- Going into the second half of the year, domestic policy measures such as fuel subsidy rationalisation, may contribute to some upward pressures on prices. Nevertheless, the overall impact is expected to remain contained.

Risks remain dependent on evolving global developments and domestic policy factors

- **The external environment** remains a key source of uncertainty. Risks to the baseline inflation outlook hinge on the trajectory of global developments.
  - **Upside risks** could emerge from heightened geopolitical tensions and renewed supply chain disruptions, which may elevate global cost conditions.
  - **Downside risks** may stem from weaker global growth and trade activity, contributing to lower commodity prices.
- **Domestically,** policy reforms could lead to temporary near-term price pressures and potential spillovers. However, the actual impact will depend on the timing, design, and presence of mitigating measures.