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Economy seen to grow steadily

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2 | BUSINESS TIMES

AMID GLOBAL TRADE HEADWINDS

ECONOMY SEEN TO GROW STEADILY

UOB assessment underscores Malaysia's resilience in second half of 2025

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MALAYSIA'S economy is gearing up for a measured but steady climb through 2025 and into 2026, balancing persistent global tariff pressures with robust domestic policy support and fresh growth catalysts on the horizon.

UOB Global Economics & Markets Research's latest assessment strikes a cautious note, but underscores Malaysia's resilience in the second half of 2025 as the economy adapts to shifting trade dynamics.

A key shift came on Aug 1, when United States President Donald Trump confirmed reciprocal tariffs of 19 per cent on imports from Malaysia and most trading partners which took effect on Aug 7. The White House also extended the deadline for new China tariffs by 90 days to mid-November, providing breathing space for global supply chains.

Some US measures — including sector-specific duties under Section 232 and a 10 per cent levy targeting BRICS nations and their allies — remain pending, keeping global trade uncertainty in play.

But on the home front, Malaysia's pro-growth policies are expected to provide a buffer. Cash assistance to households, salary increases for civil servants, and ongoing infrastructure rollouts will continue to drive domestic demand, offsetting some of the external headwinds.

UOB noted that the introduction of fiscal reforms may temporarily temper business sentiment and spending in the second half. Meanwhile, the oil and gas sub-sector faces potential output disruptions, posing another downside risk.

Bank Negara Malaysia has kept its gross domestic product (GDP) growth forecast unchanged at between four per cent and 4.8 per cent. Central bank governor Datuk Seri Abdul Rasheed Ghaffour does not see the need to revise projections, as the completion of key tariff negotiations has helped reduce uncertainty.

UOB said on a seasonally adjusted basis, real GDP improved for the second straight quarter and the most in a year by 2.1 per cent quarter-on-quarter last quarter (from positive 0.7 per cent in the first quarter of 2025).

UOB said looking ahead, 2026 could mark a turning point. Growth is projected to pick up to 4.5 per cent, supported by a possible 25-basis-point cut in the Overnight Policy Rate (OPR) to 2.5 per cent by the end of the fourth quarter of 2025, an expansionary federal budget to be tabled on Oct 10, and the next phase of salary hikes for civil servants in January.

Tourism is set to be a major economic driver, with Visit Malaysia 2026 expected to draw strong arrivals from China thanks to visa exemptions, newly signed Malaysia-China tourism cooperation and expanded direct flight routes.

Malaysia's pro-growth policies are expected to provide a buffer for US tariffs. NSTP FILE PIC

Sector performance remains broadly encouraging. Hong Leong Investment Bank Bhd projects a healthy 4.3 per cent year-on-year expansion in the second quarter of 2025, following a 4.4 per cent rise in the first quarter, underpinned by a rebound in agriculture and sustained growth in services, manufacturing, and construction.

Fiscal and Monetary Policies to Spur Growth

Putra Business School's Prof Dr Ahmed Razman Abdul Latiff said the country's GDP growth trajectory will be shaped by how effectively fiscal and monetary policies are deployed.

He said in the short run, fiscal and monetary policies could influence GDP growth through cash stimulus packages, tax restructuring, calibration of the OPR and controlling the flow of money supply.

"In the long run, it is more on the policies that promote productivity, bringing in more investments, reform on business accessibility and the ease of doing business."

Meanwhile, the Socio-Economic Research Centre (SERC) said the interactions between monetary and fiscal policy are complex given their mutual influence and impact, particularly on economic growth, consumer demand and investment spending via lower interest rates, inflation and debt.

SERC executive director Lee Heng Guie said while interest rates could be lowered to make them less restrictive in supporting domestic demand amid current short-term economic uncertainties, the focus must remain on safeguarding price stability and preventing financial instability.