

ADDITIONAL POLICY MEASURES TO STIMULATE DOMESTIC DEMAND AMID GLOBAL UNCERTAINTIES

- The policies outlined by the Prime Minister in the recent announcement are expected to have short to medium term impacts on the country's economy, particularly in private consumption, inflation, and fiscal conditions. The government has introduced several measures to ease the cost of living and boost household disposable income. These initiatives are anticipated to support private consumption, which remains a key anchor of Malaysia's economic growth, contributing over 60% to GDP.
- We believe these timely interventions by the government come at a crucial time, as the economy faces mounting external headwinds, including the potential hike in the U.S. tariffs to 25%, disruptions to global supply chains from escalating trade tensions among affected countries and weakening global demand. At the same time, domestic consumption indicators have also begun to show signs of softening.
- The additional policy measures announced that will likely to support the economy:

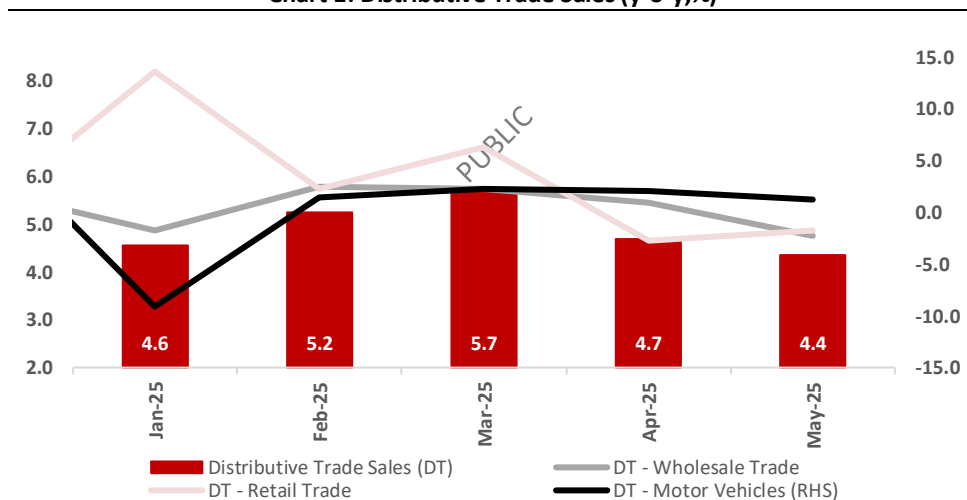
Table 1: Additional Policy Measures

Measure	Detail
Direct Cash Transfers : Sumbangan Asas Rahmah (SARA) for all	<ul style="list-style-type: none">• RM100 one-off cash aid for all Malaysian adults (18+), benefitting approximately 22 million people (Total allocation: RM2.0 billion)
RON95 Price Reduction to RM1.99/litre	<ul style="list-style-type: none">• Eligible for Malaysian and may benefit around 18 million vehicle users• More targeted approach by excluding foreigners to ensure subsidies reach those in need
Jualan Rahmah MADANI funding doubled to RM600 billion	<ul style="list-style-type: none">• Expansion of affordable goods initiatives by doubling the fund from RM300 million to RM600 million.• Covers all 600 state constituencies, with more product varieties.
Public holiday on September 15 (Monday)	<ul style="list-style-type: none">• This day is declared an additional public holiday in conjunction with Malaysia Day. This aims to celebrate national unity and encourage family bonding and local tourism.
Toll rates remain unchanged	<ul style="list-style-type: none">• The government has postponed toll hikes on 10 highways this year, including SDE, LPT2, SKVE, LLB, and MEX, covering over RM500 million in costs to maintain current rates.

Sources: Ministry of Finance (MoF), BIMB

- **Direct cash transfer to boost consumer spending.** The Sumbangan Asas Rahmah (SARA) program is the centrepiece of the stimulus package, providing a one-off RM100 cash assistance to all Malaysian adults. Notable to highlight, the cash aid is based on individuals approach rather than households. For example, a household consisting of a husband, wife, and two adult children would receive RM400 in total. The injection of RM2.0 billion or about 0.1% of GDP into household budget is expected to provide immediate support to consumer spending, particularly among the B40 category, where most spending goes toward essential goods.
- Assuming an average marginal propensity to consume (MPC) of 0.7 to 0.8 among the recipients, this could generate RM1.5 billion to RM1.8 billion in immediate consumption, contributing directly to GDP. However, the impact is predicted to materialize from September onwards, as spending permitted between 31 August and 31 December.
- The timing of this intervention is strategic, as recent data shows distributive trade sales growth slowing to 4.4% y-o-y in May 2025, marking its weakest performance since September 2024. With the cash assistance available from 31 August, retail sales figures are likely to improve beginning in September. This could help reverse the recent slowdown in consumer activity, with multiplier effects also expected to benefit businesses, possibly reflected in wholesale trade data in the same month.

Chart 1: Distributive Trade Sales (y-o-y,%)



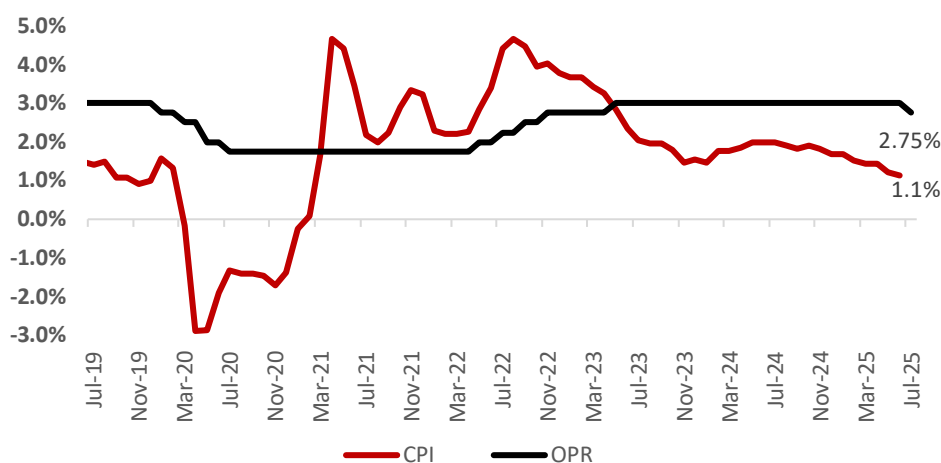
Sources: DOSM, CEIC Data

- **Strengthening the foundation for consumption growth.** The cash aid measures are believed to build upon earlier structural reforms to support sustainable consumption growth, including the hike in minimum wage to RM1,700 and the implementation of RM3,100 living wage standards by government-linked companies (GLICs). Complementing the cash transfers include the additional RON95 fuel subsidies for targeted group, a surprise public holiday on September 15, and the continued freeze on toll rate hikes, which are designed to further support domestic demand. The long weekend, in particular, is expected to provide a timely boost to Malaysia's tourism sector and improve consumer spending.
- **Targeted fuel subsidies to ease cost pressure?** In addition to the cash transfers, the government has announced a reduction in RON95 petrol prices from the current capped level of RM2.05/litre (or approximately RM2.50/litre without subsidy) to RM1.99/litre for eligible Malaysians. However, the 6 sen

reduction is less significant and likely to have a little impact on household spending shift to other items. Assuming the average family spending on fuel is RM300 per month with the current level price of RON95 at RM2.05/litre, the price reduction to RM1.99/litre could only save them about RM9.00 per month.

- **The demand-driven inflationary impact of these measures is expected to be modest**, with headline inflation likely to average at 2.0% this year, assuming the removal of fuel subsidies for the T15 income group and foreigners take effect in October 2025. However, if the removal is delayed, headline inflation could average between 1.5% and 1.9% instead. Additionally, the expansion of the Jualan Rahmah programme, now doubled to RM600 million and covering 600 state constituencies should provide more affordable essential goods, helping to mitigate inflationary pressures.

Chart 2: Headline Inflation (y-o-y, %) vs OPR



Sources: DOSM, CEIC Data

- **Short-term boost to domestic demand.** Overall, taken together with the recent 25bps cut in the Overnight Policy Rate (OPR), these measures are expected to support domestic demand over the short to medium term. If private consumption continues to hold up, and a positive outcome emerges from the U.S.-Malaysia trade negotiations, we expect Bank Negara Malaysia (BNM) to keep the OPR unchanged at 2.75% for the remainder of the year.
- **Balancing short-term stimulus with long-term fiscal sustainability.** While these newly announced initiatives are undoubtedly provide near term support to the economy, the government will continue to face the ongoing challenges in maintaining fiscal discipline, especially amid declining oil-related revenues and lower dividends from PETRONAS. The potential implementation of more progressive tax measures in the coming year may be necessary to offset revenues shortfalls. Strengthening tax collection will be crucial to achieving the medium-term fiscal target of 3.0% of GDP by 2028. Given the delay in SST reform implementation, coupled with increased fuel subsidies with a RON95 reduction price to RM1.99/litre and additional RM2.0 billion allocation for cash assistance, there is a risk that the 2025 fiscal deficit could slightly exceed the official target of 3.8%, potentially widening to around 4.0%.

- Although the one-off measures—including SARA (RM2.0 billion), targeted RON95 subsidies (RM1.2 billion), Rahmah sales (RM0.3 billion), and toll compensation (RM0.5 billion)—could result in additional fiscal spending of around RM4.4 billion, the fiscal deficit target of 3.8% for 2025 remains intact. This is supported by an expected RM5.0 billion uplift in revenue from the expanded Sales and Service Tax (SST), which should offset the additional outlays. As such, the impact on the gross issuance of Malaysian Government Securities (MGS) and Government Investment Issues (GII) is expected to be neutral.

Table 2: Additional Spending by Government

Measure	RM Billion
Sumbangan Asas Rahmah (SARA)	2.0
Targeted RON95 Fuel Subsidy	1.2
Jualan Rahmah MADANI	0.3
Toll Compensation	0.5
Total	4.0

Sources: Ministry of Finance (MoF), BIMB