From the Desk of the
Chief Economist

BANK ISLAM

Economic Research

27 July 2026/ 12 Safar 1448H

Khayrin Farzana Fazli |Economist | kfarzana@bankislam.com.my

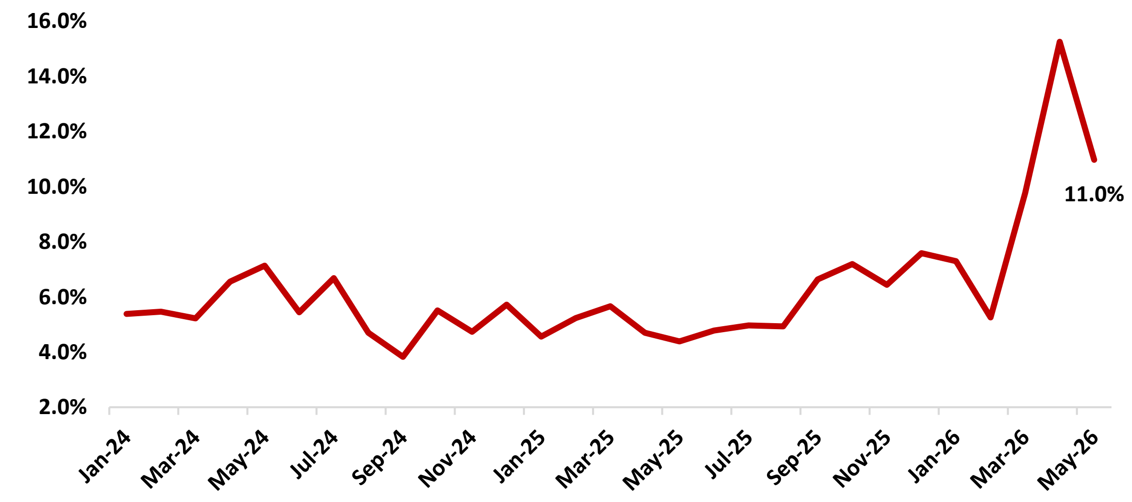
E-Commerce: The Ongoing Shift to a Structural Growth Pillar

- While persistent geopolitical tensions and supply-side uncertainties continue to dominate the global macroeconomic landscape, Malaysia's domestic economy paints a rosier picture. The economy expanded by 5.8% y-o-y in 2Q2026 (1Q26: 5.4%), underpinned by stronger activity in the mining and manufacturing sectors, alongside sustained resilience in the services and construction sectors. Together, these sectors more than mitigated the weakness of agriculture output, reinforcing the growth trajectory in 2026.
- While the global technology upcycle and AI boom could be highlighted as the major drivers of the latest outturn, domestic demand continues to emerge as a significant growth driver. Historically, domestic demand has acted as a key anchor during periods of challenging external conditions. The current cycle is no exception, with resilient household consumption enhancing Malaysia's broader economic momentum.

Wholesale and Retail Trade Remained Resilient, Diverging from Slowing Demand for Big-ticket Purchases

- Malaysia's distributive trade sector signals healthy underlying demand conditions thus far, beating the odds presented by rising energy-driven price pressures and heightened Middle East geopolitical risks. Wholesale and retail trade sales expanded by 11.0% y-o-y in May, significantly exceeding the average growth recorded between 2023-2025 (2023: 7.8%, 2024: 5.5%, 2025: 5.6%). The robust print highlights resilient domestic spending activity, supported by solid economic fundamentals.

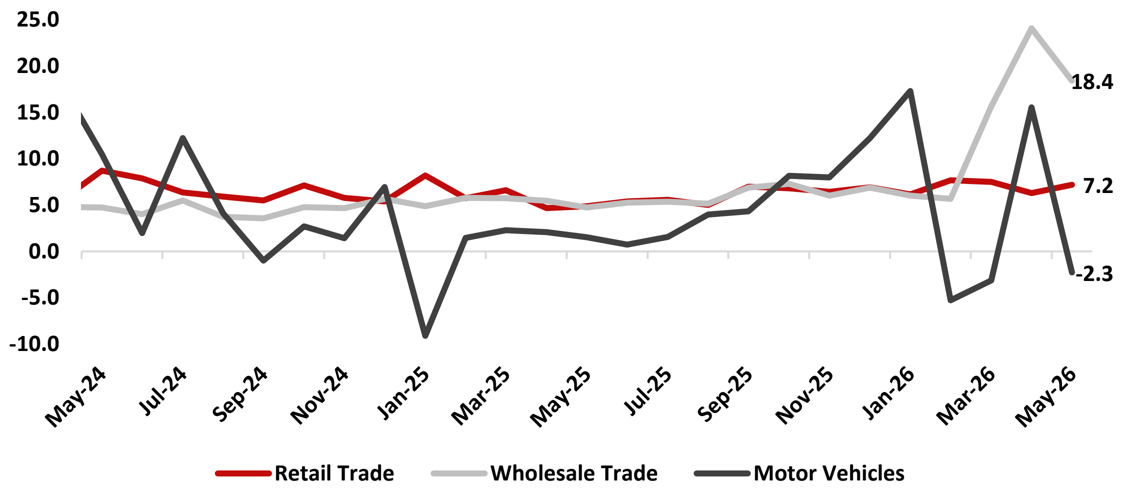
Chart 1: Distributive Trade Sales, y-o-y%



Sources: Department of Statistics Malaysia (DOSM), Bank Islam

- Looking closer, the growth was primarily driven by the Retail Trade (May: 7.2% vs. Apr: 6.3%) and Wholesale Trade (May: 18.4% vs. Apr: 24.1%) sub-sectors while the Motor Vehicle sub-sector contracted by 2.3% (Apr: 15.5%).
- The divergence reflects rising caution among households towards big-ticket purchases and long-term financial commitments, whereby mounting concerns over rising fuel and living costs have likely constrained demand. Additionally, the Motor Vehicle sub-sector is at risk of losing momentum following the sharp rebound in energy markets amid reescalation of U.S.-Iran tensions. This risk is further compounded by potentially weaker Electric Vehicle (EV) demand amid the implementation of the updated requirements for imports of completely built-up (CBU) EVs on 1st July. According to the Ministry of Investment, Trade and Industry, fully imported EVs must meet a minimum CIF value of RM200K and a minimum power output of 180kW, which would inflate the selling price of these vehicles and further weigh on demand.
- Nevertheless, day-to-day spending activity remains robust, suggesting that consumer demand has not weakened materially but became increasingly selective. Wholesale trade sales also remained firm, pointing towards sustained business confidence surrounding operating conditions and end-user demand, which continues to support inventory replenishment cycles at the production level.

Chart 2: Distributive Trade Sales by Sub-sectors, y-o-y%



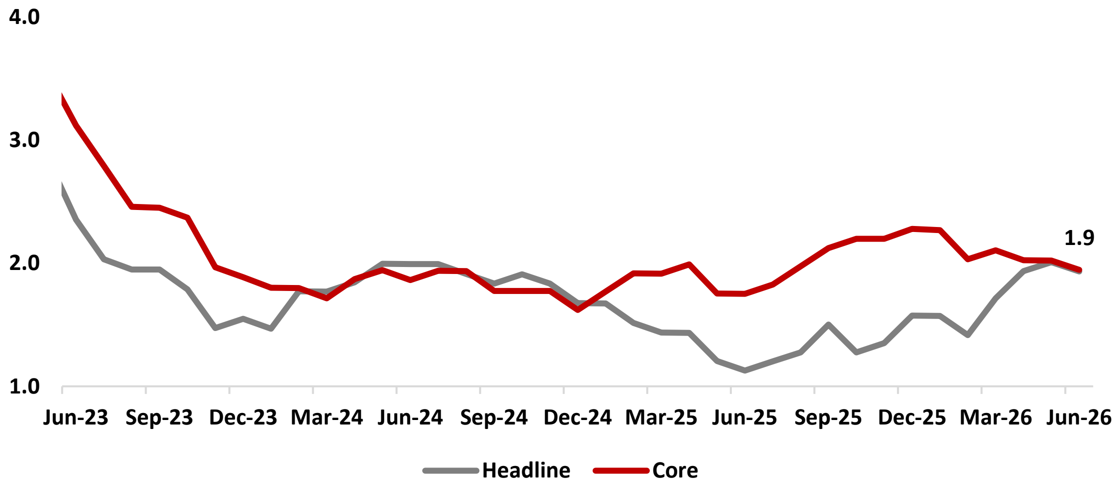
Sources: DOSM, Bank Islam

A Supportive Domestic Backdrop Drives Consumer Demand

- The resilience of household spending can be attributed to favourable domestic conditions amid an interplay of manageable inflation, solid labour market conditions and targeted policy support. Despite ongoing disruptions to the Strait of Hormuz and global trade routes, the resulting pressure has thus far been absorbed along the supply chain. Firms have largely acted as a buffer against these shocks, limiting the pass-through to consumers. Consequently, although geopolitical developments have heightened concerns over supply availability, the continued accessibility of goods and services has bolstered consumer confidence and supported retail spending activity.

- Moreover, elevated cost pressures typically materialize over a lagged period across consumer prices. As such, despite second-round effects persisting as a key upside risk to inflation, near-term price pressures appeared relatively contained, further encouraging household spending.
- Notably, headline Consumer Price Index (CPI) moderated to 1.9% y-o-y in June (May: 2.0%), reflecting easing transport costs (June: 2.8% vs. May: 3.8%) amid a decline across global oil prices. Underlying price pressures also pointed towards a gradual disinflation trend as core inflation eased to 1.9% in the same month (May: 2.0%), the lowest level since July 2025.
- In particular, inflation across several consumer-related categories remained subdued, including:
  - Clothing and footwear - June: 0% vs. May: -0.1%
  - Furnishings, Household Equipment & Routine Household Maintenance - June: 0.4% vs. May: 0.4%
  - Recreation, Sport and Culture - June: 1.1% vs. May: 1.1%
  - Medical Products, Appliances and Equipment - June: 0.9% vs. May: 0.9%
  - Information and Communication Equipment - June: -1.5% vs. May: -2.0%
- Additionally, inflation for the Personal Care, Social Protection and Misc. Goods & Services group slowed sharply to 3.4% in June from 4.8% in May. With price pressures across consumer goods remaining broadly contained, this has helped preserve household purchasing power.

Chart 3: Consumer Price Index (CPI), y-o-y%



Sources: DOSM, Bank Islam

- Targeted policy support, particularly fuel subsidies, also played a key role in cushioning households from the volatility of global energy markets. These initiatives include the BUDI MADANI RON 95 (BUDI95) program, which lowers the RON95 pump price at RM1.99 per litre for eligible Malaysians, up to a monthly limit of 200 litres per person, and the BUDI MADANI Diesel (BUDI Diesel) program, which was launched on 1 July. Under this program, private diesel vehicle owners across Peninsular Malaysia, Sabah, Sarawak and Labuan can purchase subsidised diesel at RM2.10 per litre.

- Commercial diesel vehicles and goods transport vehicles in Sabah, Sarawak and Labuan are also recipients of targeted fuel subsidies. Businesses and logistics operators can purchase diesel at RM2.15 per litre under the Subsidised Diesel Control System (SKDS), limiting the effects of input cost pass-through on broader consumer prices.

- Bank Negara Malaysia (BNM)'s steady policy stance further uplifts domestic demand. The central bank has kept the Overnight Policy Rate (OPR) unchanged at 2.75% thus far, ensuring that financing conditions remain supportive. The stable policy backdrop offers keeps financing repayments manageable and predictable for households, which provides greater certainty over debt-servicing obligations and cash-flow planning.

- BNM also reaffirmed that this OPR level remains consistent with maintaining price stability while supporting sustainable economic growth, which is further reinforced by recent data highlighting firm macroeconomic conditions and manageable inflation. As such, the OPR is widely anticipated to be kept unchanged in 2026, with a bias to the upside, continuing to remain supportive of household spending.

The Convenience of Spending: Expansion of the E-Commerce Ecosystem

- While supportive macroeconomic conditions underpinned the solid retail sales momentum, a steadily growing support pillar emerges from the rapidly maturing e-commerce ecosystem in Malaysia. The National E-Commerce Strategic Roadmap (NESR) 2021-2025 highlighted three key targets to be achieved by 2025, which focuses on market expansion, MSME participation and integration into global e-commerce value chains.

Table 1: NESR Performance by Key Objectives

Main Targets	*2025 Target*	*Current Achievement as of 2024*
E-Commerce Market Size	*RM1.65 trillion*	*2023: RM1.18 trillion*
Number of MSMEs Adopting E-Commerce	*1,148,000 establishments*	*2,425,874 establishments*
Number of Businesses Using E-Commerce for Export	*84,000 establishments*	*277,233 establishments*

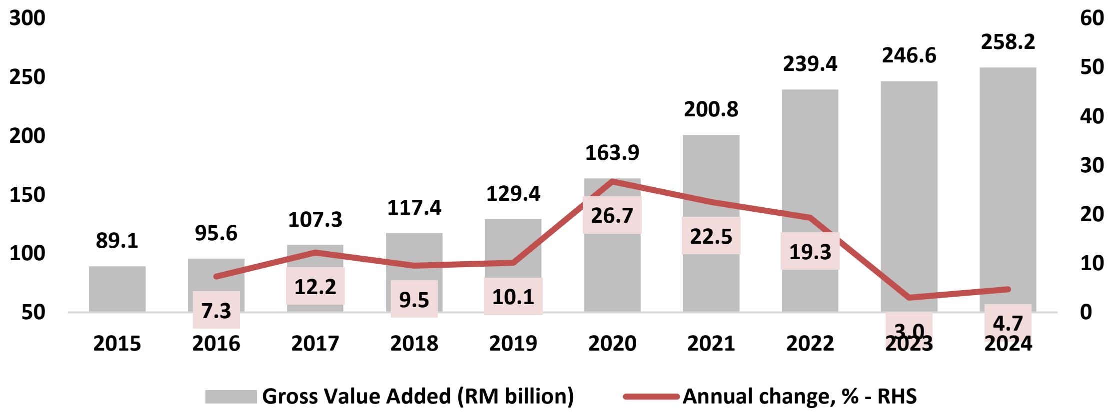
Sources: Malaysia Digital Economy Corporation (MDEC), DOSM, Bank Islam

- E-commerce market size has increased to RM1.18 trillion by 2023, on track to reach the target of RM1.65 trillion by 2025 as underlined in NESR. E-commerce adoption among Micro, Small and Medium Enterprises (MSMEs) has also been steadily growing with over 2.42 million MSME establishments participating in the ecosystem, overshooting the target of 1.148 million. Businesses adopting e-commerce channels for export purposes had significantly surpassed target with more than 277K establishments recorded as of 2024.

- With the sector's steady expansion, it is becoming an increasingly significant contributor to

Malaysia's economy. According to the Department of Statistics Malaysia, the gross value added (GVA) of e-commerce rose by 4.7% y-o-y to RM258.2 billion in 2024 from RM246.6 billion in 2023. Most importantly, the GVA has expanded by 57.6% between 2020 to 2024, signaling broadening penetration of digital trade channels across both businesses and consumers.

Chart 4: Gross Value Added of E-Commerce

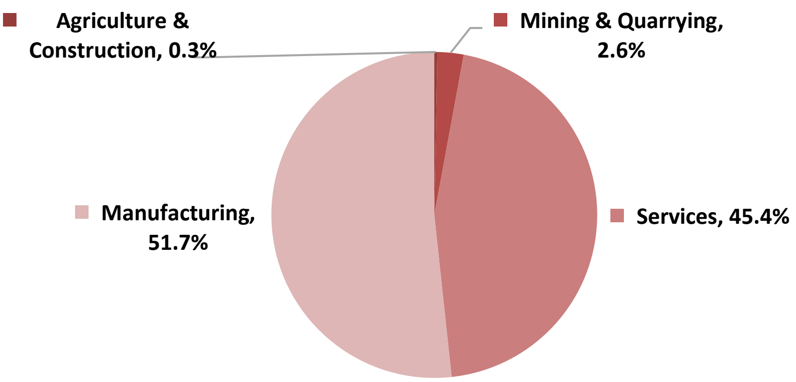


Sources: DOSM, Bank Islam

- Percentage share of e-commerce to GDP has grown from 8.6% in 2019 to 11.6% in 2020, reflecting the significant boost to the industry from the Covid-19 pandemic and related movement control orders (MCO), which accelerated the structural shift to online platforms. From 2021 onwards, the share to GDP ratio has remained broadly stable at around 13.0%.

- Based on the composition by major economic sectors, the manufacturing and services industries hold the largest share of e-commerce, reflecting how e-commerce transactions are heavily skewed towards consumer goods and services. Manufacturing accounts for the slim majority of e-commerce GVA, standing at 51.7% as of 2024, which is followed by Services at 45.4%. Mining and Quarrying comprises a marginal 2.6% while Agriculture and Construction combined contributes only 0.3% of value added.

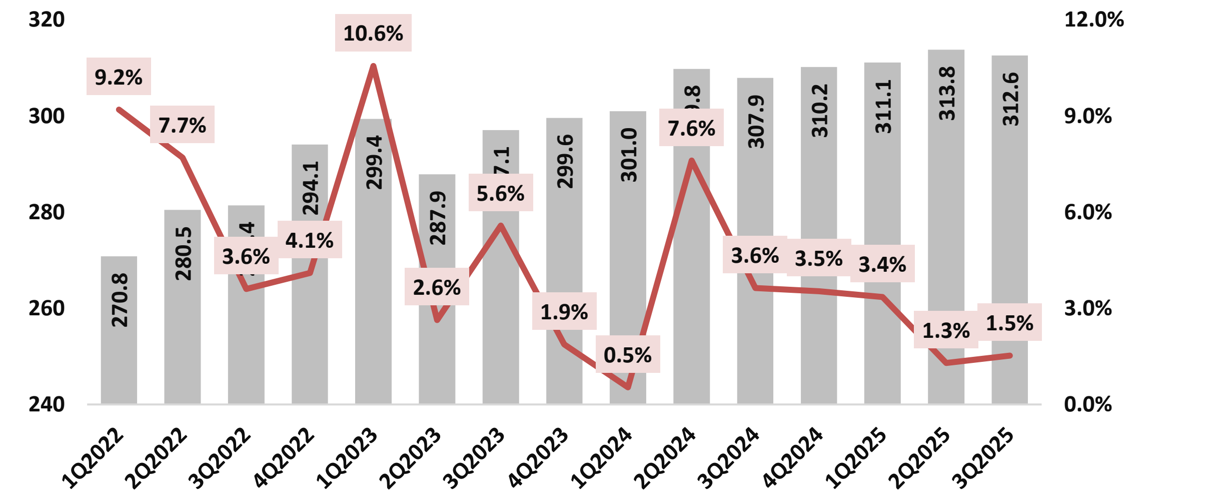
Chart 5: Composition of E-Commerce Gross Value Added, %



Sources: DOSM, Bank Islam

- E-commerce income climbed by 5.1% y-o-y to RM1,184.1 billion in 2023 (2022: RM1,126.9 billion) amid notable contributions by the manufacturing (RM587.3 billion) and services sectors (RM583.0 billion). By 3Q2025, e-commerce income has risen by 1.5% y-o-y to RM312.6 billion (2Q25: RM313.8 billion), reaffirming the growth momentum of the sector.

Chart 6: E-Commerce Income, RM billion

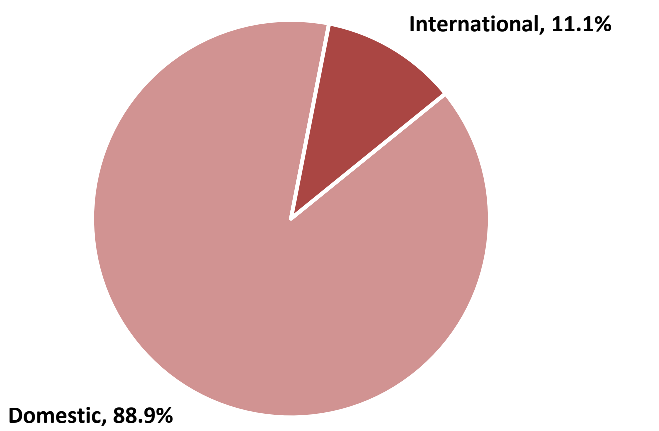


Sources: DOSM, Bank Islam

- Domestic market emerges as the primary driver within the sector, accounting for almost 89% of total e-commerce revenue in 2023. E-commerce income for domestic markets amounted to RM1,053.0 billion in 2023, an increase of 4.9% from RM1,003.5 billion in 2022.

- While the share of international market (11.1%) is marginal compared to that of the domestic market, the revenue has increased by 6.3% y-o-y to RM131.1 billion in 2023 (2022: RM123.4 billion), highlighting Malaysia's gradual integration into global digital trade networks.

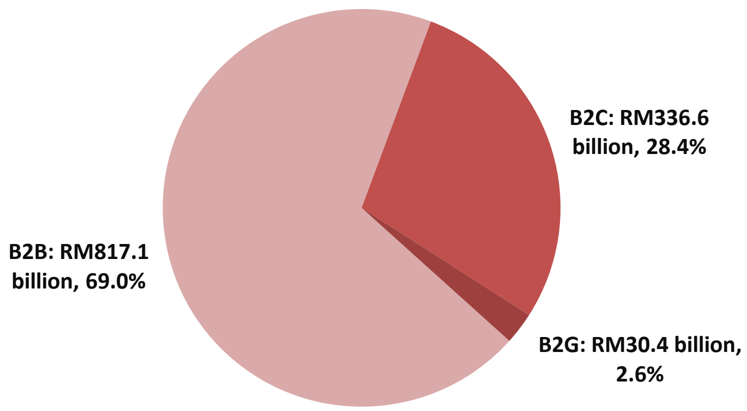
Chart 7: Composition of Total E-Commerce Income by Market, %



Sources: DOSM, Bank Islam

- Business-to-business (B2B) account for the largest share of Malaysia's e-commerce ecosystem, representing 69.0% of e-commerce income in 2023. B2B income expanded by 3.9% y-o-y to RM817.1 billion (2022: RM786.5 billion), primarily driven by manufacturing sales (2023: RM540.7 billion). The dominance of B2B activity underscores the importance of digital transactions in enhancing operational efficiency and streamlining procurement, production and distribution processes across supply chains.
- Meanwhile, business-to-consumers (B2C) make up 28.4% of total income, with an annual growth rate of 7.7%. B2C income rose to RM336.6 billion from RM312.6 billion amid the rising presence of online platforms as an alternative retail channel. The demand was underpinned by steady growth in the Services sector (2023: RM297.0 billion, +4.7% y-o-y) while the Manufacturing demand recorded a much sharper jump of 38.0% y-oy- (2023: RM 39.1 billion).
- Business-to-government (B2G) income (Share: 2.6%) saw an increase of 9.3% to RM30.4 billion in 2023 (2022: RM27.8 billion). B2G income was primarily driven by the construction sector (RM302.5 million), reflecting the concentration of government outlays on infrastructure and development projects.

Chart 8: Composition of Total E-Commerce Income by Market, %



Sources: DOSM, Bank Islam

- The continued expansion of Malaysia's e-commerce ecosystem reflects a structural shift in both business operations and household consumption patterns. While businesses may have shifted towards online transactions earlier to streamline and optimize supply-chain processes, the shift among households was significantly accelerated during the Covid-19 pandemic.
- The growing adoption of e-commerce is driven by several structural advantages. Primarily, digital platforms reduce transaction frictions by improving accessibility and convenience. Consumers are able to place orders remotely, reducing logistical barriers associated with conventional retail stores, such as commuting costs, time constraints and product availability. Amid the ongoing digitalization wave and broader 5G penetration, the expanding network infrastructure is making e-commerce transactions more accessible across households.

- Consumers can also browse a wider range of goods and services, compare products across multiple sellers and also source items from both domestic and international markets. Taken together, these factors considerably improve customer experience and encourage them to make purchasing decisions more efficiently.

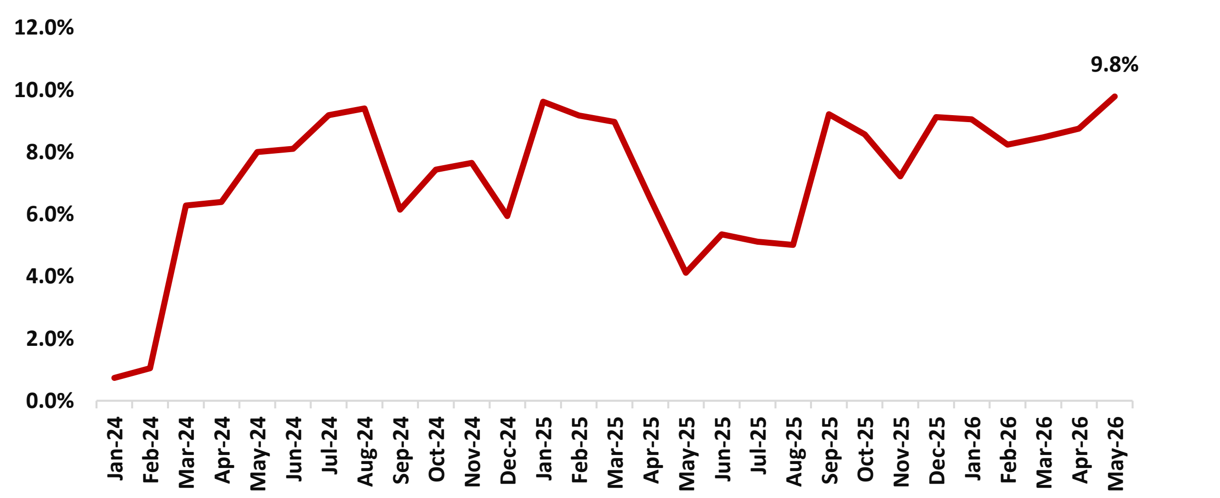
- Online shopping has also become more appealing amid relatively better value propositions and more competitive product prices. Compared to brick-and-mortar shops, e-commerce businesses oftentimes operate in a lower cost environment with lower overhead and rental costs. As such, these businesses have greater pricing flexibility, enabling them to offer more competitive pricing while still preserving profit margins.

- Additionally, e-commerce platforms are undertaking increasingly aggressive promotional campaigns, including discounts, cashback incentives and large-scale sales events. Thus, competitive dynamics within the digital marketplace have strengthened the attractiveness of online shopping and supports household demand.

- Another important catalyst for e-commerce growth is the increasing adoption of digital payment solutions, particularly the Buy Now Pay Later (BNPL) model. Platforms such as SPayLater, Atome, LazPayLater, and Grab PayLater have gained significant traction in recent years by offering flexible instalment plans, often with minimal or zero interest charges. By allowing consumers to spread purchases over several smaller payments, BNPL schemes make spending appear more affordable and manageable, thereby alleviating affordability constraints. This effectively lowers the financial barriers to consumption, especially for discretionary and higher-value purchases such as household appliances and consumer electronics, ultimately supporting stronger online retail activity.

- The growing prominence of non-traditional retail channels is also reflected in the sustained expansion of related retail trade activities. Retail trade not in stores, stalls, or markets – which encompasses e-commerce, direct selling, and teleshopping – grew by 9.8% y-o-y in May 2026 (April: 8.8%), the strongest increase since March 2023. The continued strength of this segment underscores the rising consumer preference for digital and alternative retail channels, reinforcing the structural shift towards online commerce.

Chart 9: Retail Trade Not in Stores, Stalls or Markets, y-o-y%



Sources: DOSM, Bank Islam

- Demand for alternative channels has also gained significant traction in the aftermath of previous health crises and broader macroeconomic uncertainties, underscoring the ongoing transition to e-commerce platforms.
- Prior to the COVID-19 pandemic, retail trade not in stores, stalls, or markets recorded an average annual growth of 6.2%, trailing the performance of overall retail trade. However, the onset of the pandemic accelerated the adoption of digital and alternative retail channels, leading to a sharp surge in non-store retail activity between 2020 and 2021, with growth significantly outpacing that of the broader retail sector. Although expansion moderated in subsequent years due to high-base effects and the normalisation of economic activity, the structural nature of this shift became increasingly apparent. Since 2024, non-store retail trade has consistently grown at a faster pace than overall retail trade, highlighting the enduring impact of pandemic-induced behavioural changes and suggesting that consumers have permanently embraced alternative retail channels, particularly e-commerce, as an integral part of their purchasing habits.

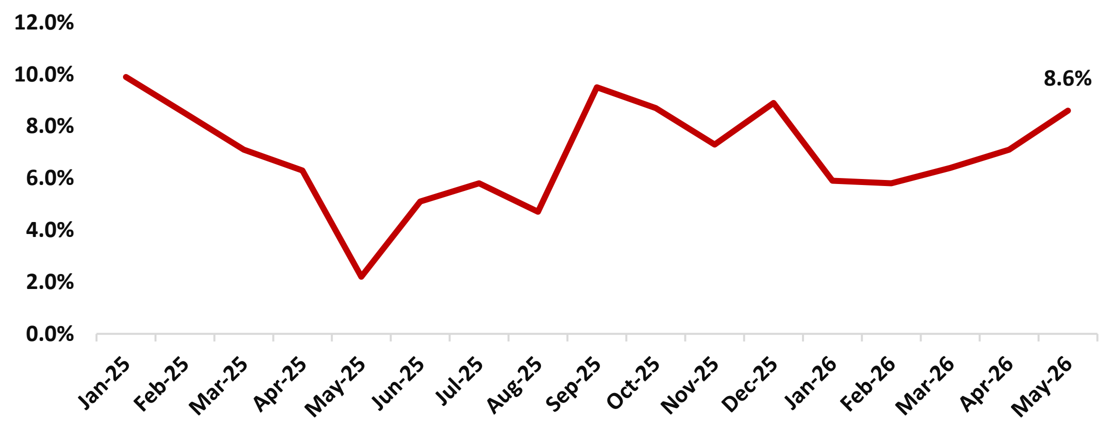
Table 2: Annual Retail Trade Growth, y-o-y%

	2019	2020	2021	2022	2023	2024	2025
Retail Trade	**7.5%**	**-5.1%**	**6.3%**	**24.2%**	**9.4%**	**6.1%**	**6.1%**
Retail Trade: Not in Stores, Stalls or Markets	**6.2%**	**8.3%**	**19.7%**	**23.9%**	**5.2%**	**6.4%**	**7.3%**

Sources: DOSM, Bank Islam

- Online retail sales continued to record robust growth, with the sales index expanding by 8.6% in May (Apr: 7.1%), marking the strongest increase so far this year. The acceleration suggests that the e-commerce segment remains resilient and continues to gain momentum despite heightened external uncertainties. The sustained growth reflects consumers' increasing preference for the convenience, accessibility, and value offered by digital shopping platforms. This, in turn, reinforces the role of e-commerce as a key driver of retail spending and provides continued support to overall retail trade performance.

Chart 10: Online Retail Sales, y-o-y%



Sources: DOSM, Bank Islam

Conclusion

- Malaysia's stronger-than-expected 2Q2026 growth emerged as a positive surprise, highlighting the economy's resilience against a challenging global backdrop, characterized by elevated supply-side pressures and persistent geopolitical headwinds. On the external front, the ongoing technology upcycle and AI boom have bolstered robust demand for E&E exports, uplifting the manufacturing sector.
- Domestic demand prevails as a significant growth pillar, with underlying indicators of private consumption pointing towards relatively sustained momentum. Household spending remains resilient, underpinned by a mix of manageable inflation, solid labour market conditions and supportive policy dynamics. With household purchasing power largely insulated from the effects of rising global price pressures, consumer confidence has remained steady, supporting retail sales activity.
- Notably, the resilience of consumer demand is reflected in robust online retail sales growth. The ongoing adoption of online shopping solutions is driven by the competitiveness of the e-commerce structure, which reduces transaction friction linked to conventional retail spaces and improves customer experience. With accessibility, convenience and price transparency becoming important spending considerations, households are steadily shifting towards digital platforms as an alternative retail channel. The strong performance of non-traditional retail channels, such as direct selling and tele-shopping, further demonstrates households' willingness to embrace alternative shopping solutions, facilitating the shift to e-commerce platforms.
- Looking ahead, the continued digitalization of the economy and ongoing expansion of network infrastructure are expected to further enhance the accessibility and reach of e-commerce platforms. Improved digital connectivity will enable deeper market penetration, particularly among consumers in previously underserved and rural areas, while supporting greater participation in the digital economy. As the customer base continues to broaden, the e-commerce ecosystem is likely to attract new market entrants and encourage existing players to intensify investments in digital innovation, logistics capabilities, and customer engagement strategies to maintain competitiveness.
- As digital commerce becomes increasingly integrated into everyday consumption patterns, its role in supporting household spending is expected to become more entrenched. Beyond serving as an alternative retail channel, e-commerce is gradually evolving into a structural pillar of domestic consumption by improving market efficiency, expanding consumer choice, and facilitating greater spending convenience. Over the longer term, the sector has the potential to emerge as a meaningful contributor to Malaysia's economic growth through its impact on private consumption, productivity enhancement, business digitalization, and broader digital economy development.