Global Economic Outlook

Better global growth outlook amid lower tariffs and stronger tech spending

Global economy:

- Global growth for 2025 turned out higher than expected, due to lower-than-anticipated tariff rates and impact, stronger fiscal stimulus, and AI-led technology spending.
- For 2026, growth will be underpinned by resilient labour market conditions, moderating inflation, supportive fiscal and monetary policies, and continued robust tech investments.
- These factors are expected to offset the drag from higher tariffs and geopolitical uncertainties.

Global trade:

- Global trade growth is projected to weaken[10] as the temporary boost from front-loaded shipments dissipates and tariff impacts fully materialises.
- This slowdown will be partially cushioned by stronger demand for E&E products, especially AI-related components, alongside structural drivers such as rising digitalisation, increased investment in the low-carbon transition and sustained intra-regional trade.

[10] IMF's forecast on global trade: 2.6% in 2026 (2025: 4.1%)

Global growth continued to be subject to both upside and downside risks

- **Balance of risk remained broadly unchanged** from previous expectation, as new upside risk from tech spending is offset by higher risk of geopolitical escalation.
- **Downside risks** to growth could arise from potential higher tariffs, especially product specific ones and further escalations in geopolitical conflicts. Additionally, there are continued concerns over the elevated valuations in financial markets.
- **Upside risks** would stem from stronger tech spending, milder tariff impact as well as larger policy support in major economies.

Domestic Economic Outlook

Resilient domestic demand and exports will continue to support growth

- Growth projection in 2026 is expected to be within the range of 4%–4.5%. This will be driven by resilient domestic demand and exports.
- Household spending will be driven by positive labour market conditions and continuous policy support.
- The expansion in investment activity will be driven by further progress of multi-year projects in both the private and public sectors, continued realisation of approved investments and implementation of catalytic initiatives under national master plans and the Thirteenth Malaysia Plan (RMK13).
- The global technology expansion will underpin exports growth, especially for E&E goods. Nevertheless, growth will also be supported by expansion in tourism activities due to the launch of Visit Malaysia Year 2026.

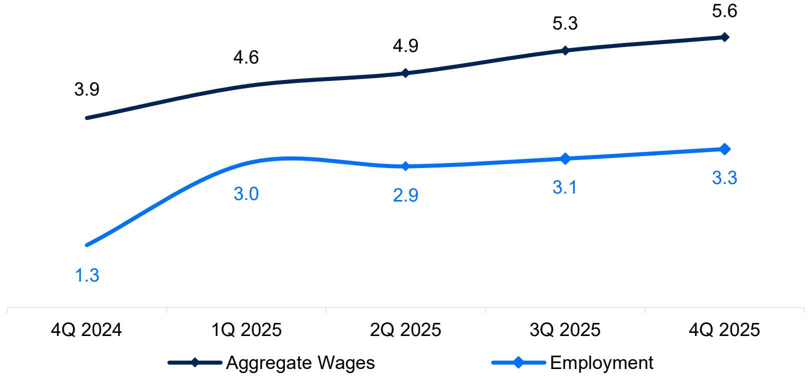
The growth outlook remains subject to uncertainties, in particular surrounding global developments

- **Balance of risks for the domestic economy remained unchanged** from previous expectation.
- **Downside risks to growth outlook** include slower global trade, weaker sentiment and lower-than-expected commodity production.
- **Upside risks to growth outlook** could arise from a better global growth outlook, stronger demand for E&E and more robust tourism activity.

Domestic Demand Conditions

Household spending will be underpinned by positive labour market conditions and continuous policy measures

Nominal aggregate wages[11] and employment
Annual change, %

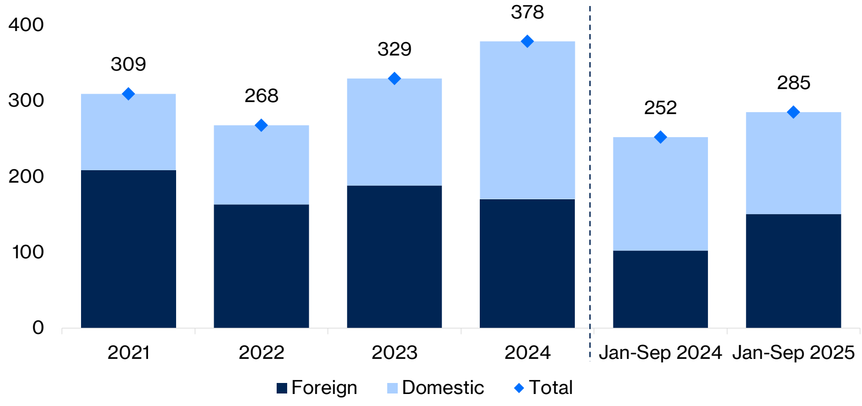


- **Private consumption is expected to continue expanding,** supported by continued growth in wages as well as sustained policy measures.
- Wage growth will be supported by resilient external sector as well as income-related policy measures including Phase 2 of the Civil Servant Salary Revision (CSSR).
- Additionally, cash transfers, such as Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) as well as BUDI95 would provide support to household spending.

[11] Refers to private and public sector wages. Private sector wages are derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics. Public sector wages refers to the salaries paid to civil servants.
Source: Department of Statistics, Malaysia

Investment activities remain forthcoming, with rising concentration in high-complexity sub-sectors

MIDA Total Investment Approvals by Foreign and Domestic Investment
RM billion



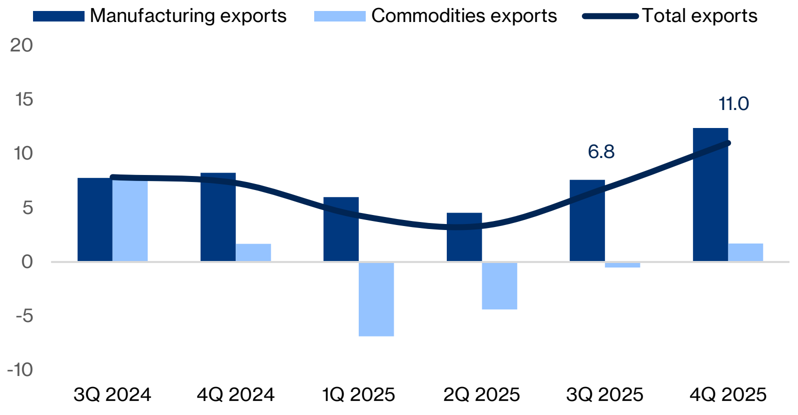
- **Investment intentions continued to remain forthcoming** with higher investment approvals recorded from Jan-Sep 2025 at RM285.8 billion, compared to RM252 billion during the same period last year, driven mainly by foreign investments.
- These foreign investments are increasingly concentrated in high-complexity subsectors such as ICT, E&E and chemical products which accounted for 66.1% of foreign investment approvals in January to September 2025. Within ICT, data centre investments remain a key contributor, reflecting strong demand for digital infrastructure.
- Meanwhile, the global technology expansion has also provided support to sustained investments in E&E and other manufacturing projects.

Source: MIDA

External Demand Conditions

Export growth to be supported by resilience of E&E sector

Gross exports growth
Annual change, %

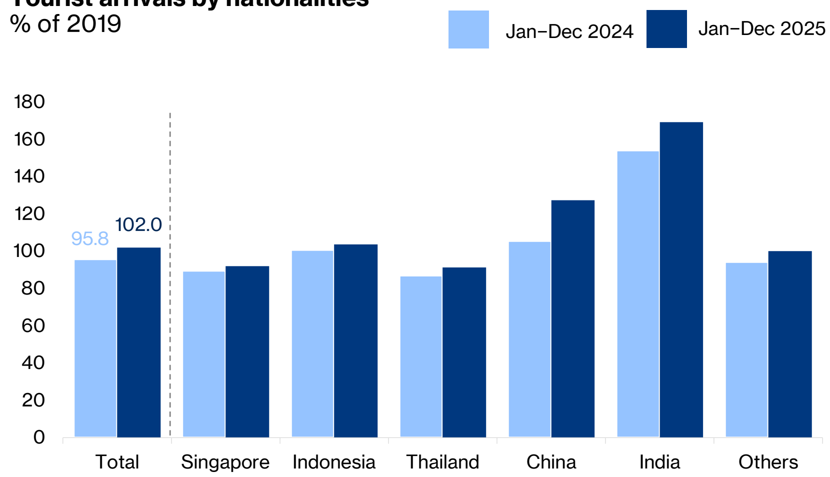


- **Resilience of the E&E exports** is underpinned by global technology expansion and Malaysia's integral role in the E&E global value chain, which will mitigate the impact from US tariffs.
- Mining-related exports are anticipated to continue to be impacted by maintenance activities and lower prices.

Source: Department of Statistics, Malaysia

Continued expansion in tourism is expected to support exports

Tourist arrivals by nationalities
% of 2019



- **Inbound tourism in 2025 has surpassed pre-pandemic levels (2019), primarily driven by higher arrivals from regional markets.**[12] Inbound tourism is expected to remain a key contributor to services exports in 2026, supported by improved flight connectivity, visa exemptions and promotional efforts under Visit Malaysia Year (VMY) 2026.

[12] Refers to China, India, Singapore, Indonesia, Thailand, Brunei, Vietnam and the Philippines which accounted for 82% of total tourist arrivals in 2025.
Source: Tourism Malaysia

Inflation Outlook

Inflation in 2026 is expected to remain moderate

- In line with earlier expectation, headline and core inflation averaged at 1.4% and 2%, respectively in 2025.[13]
- Going forward, headline inflation is expected to remain moderate in 2026 amid the continued easing in global cost conditions. The modest commodity price outlook would help contain cost pressures on inflation.
- Core inflation is expected to remain broadly stable and close to its long-term average in 2026, reflecting continued expansion in economic activity and the absence of excessive demand pressures.
- The domestic policy reforms implemented in 2025, such as the SST expansion and targeted RON95 subsidy rationalisation are projected to result in only modest effects on inflation in 2026.

[13]As published in previous QB publications, headline and core inflation were projected to average between 1%–2% and 1.5%–2.3% respectively, in 2025.

Inflation outlook will remain primarily dependent on external risks

- Since last quarter, upside risks to inflation from domestic policy measures are assessed to be contained.
- Nevertheless, **the external environment** remains a key source of uncertainty, with risks to the baseline inflation outlook largely hinging on the trajectory of global developments.
    - **Upside risks** to inflation may arise from higher external costs driven by trade uncertainties, geopolitical tensions (e.g. via commodity prices and supply disruptions) and adverse weather conditions.
    - **Downside risks** could stem from weaker-than-expected global demand and trade activity, leading to lower commodity prices and more moderate domestic demand conditions. Further downward pressure on inflation could also result from sustained easing in input costs, including from a stronger ringgit.