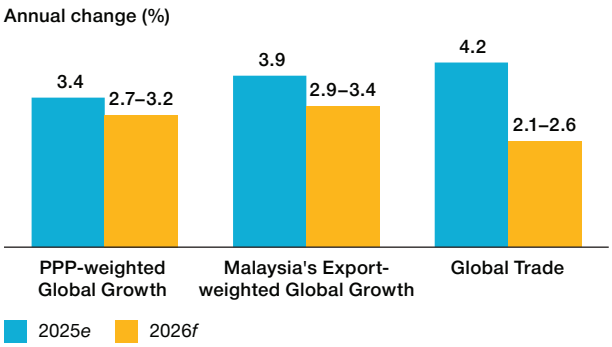
Outlook and Policy in 2026

2026: RESILIENT GROWTH DESPITE EXTERNAL HEADWINDS

Global growth is expected to expand at a more moderate pace in 2026

Global economic growth is expected to continue growing at a more moderate pace in 2026 (2.7%–3.2%; 2025: 3.4%), supported by resilient domestic demand including robust investment in technology and digitalisation, particularly artificial intelligence (AI). The prevailing monetary policy condition and fiscal support are expected to provide an additional lift to economic activity. Nonetheless, global growth is expected to face ongoing headwinds from the impact of higher tariffs, the uncertainty surrounding them, as well as heightened geopolitical conflict in the Middle East.

Chart 2.1: Global Real GDP and Trade Growth



e Estimate
f Forecast

Notes: 1. PPP-weighted global growth is the aggregate global growth weighted by the purchasing power parity (PPP) exchange rate, the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
2. Export-weighted global growth is the aggregate growth of Malaysia's key trading partners, as weighted by their shares in Malaysia's exports. This measure of global growth is more reflective of Malaysia's exports and growth prospects.

Source: International Monetary Fund (IMF) and Bank Negara Malaysia estimates

Growth in advanced economies is projected to remain resilient, underpinned by firm household spending amid broadly supportive monetary and fiscal policies. In the US, consumption will continue to drive economic activity despite recent signs of labour market softening, while the further pass-through from tariffs will be most pronounced in the first half of 2026 before tapering off thereafter. This will be supported by ongoing fiscal measures such as the extension of tax cuts, easing monetary policy and elevated household net wealth. Meanwhile, strong investment in technology and digitalisation, particularly in AI-related applications is expected to be a key growth driver. In the euro area, growth will be sustained by resilient labour markets and supportive fiscal measures. In particular, Germany's ongoing government spending on defence and infrastructure projects are expected to lend support to growth.

Regional economies are expected to grow steadily, supported by household spending and supportive fiscal and monetary policies. Investments will be supported by robust demand for AI, reflecting the region's central role in global semiconductor production. China, Chinese Taipei, Japan and Korea account for a large share of advanced fabrication capacity needed for the AI and electrical and electronics (E&E) supply chain.[1] Nevertheless, trade-reliant economies could face headwinds from slower global trade as the temporary boost from frontloaded shipments fades. In China, despite continued fiscal support, growth is expected to soften further, weighed down by prolonged property market weakness and tariff-related pressures.

Global trade growth is projected to slow in 2026 as the temporary boost from frontloaded shipments in 2025 fades and the impact of tariffs materialises, particularly in non-E&E product segment.[2] While the tariff rates are lower following the US Supreme Court ruling in February 2026,

[1] Based on OECD's 'The Chip Landscape' analysis, which indicates that these economies together account for approximately 78% of global in-production wafer capacity as of September 2025.
[2] Non-E&E products accounted for an average of 64% share of global exports in January to October 2025 (2024: 67%), while E&E goods and commodities accounted for 21% and 15% respectively (2024: 19% and 14% respectively).

tariff uncertainty has re-escalated, at least in the near-term. Geopolitical conflict will also weigh on supply chains and investment decisions, leaving global trade growth below its historical average. Despite these headwinds, trade will be supported by stronger demand for E&E and machinery and equipment (M&E), anchored by technological upgrades and infrastructure investment. With global AI spending projected to reach around USD2.5 trillion in 2026[3] (2025: USD1.8 trillion), export of AI-related products is also expected to support global trade. The high valuation of the technology companies and the attendant risk of a market correction pose a risk to this positive prospect. Meanwhile, steady growth in global tourism activity will provide a modest offset to weakness in goods trade.

The prevailing disinflationary trend in global headline inflation now faces greater uncertainty as the ongoing Middle East conflict disrupts energy markets and supply chains. This raises risks of higher inflation in 2026 through increased energy prices and transportation costs. Additionally, tariff-related measures could also exert upward pressure on prices, particularly in the US as tariff pass-through keep price pressures above those in other major economies. Services inflation in advanced economies may also remain sticky given persistent wage pressures.

Global financial conditions are expected to remain broadly accommodative in 2026, underpinned by generally supportive monetary policy. However, the pace and scale of policy normalisation are expected to slow, as central banks maintain a cautious stance amid more pronounced inflation risk from higher energy prices. In this environment, financial markets are likely to remain sensitive to shifts in expectations around the US monetary policy path. As a result, forthcoming US inflation and labour market data releases alongside ongoing geopolitical developments could continue to prompt bouts of volatility across global financial markets.

While progress on trade negotiations in 2025 has helped ease some global uncertainties, financial markets remain prone to episodes of elevated volatility. This reflects heightened sensitivity to changes in monetary policy expectations, evolving trade and geopolitical dynamics, and the risk of market corrections amid elevated asset valuations in segments linked to AI-related investments. Against this backdrop, a continued but modest narrowing of interest rate differentials between advanced economies and several emerging markets could support capital inflows. These inflows would be more pronounced for emerging markets with strong fundamentals and favourable economic prospects.

Global growth risks are tilted to the downside

Risks to the global growth outlook are tilted to the downside. Higher and more product-specific tariffs could weigh on global trade flows. Prolonged and more destructive conflict in the Middle East could further push commodity prices higher, affecting financial markets, global inflation and growth. Concerns over elevated financial markets valuations could also increase the risk of corrections, with potential spillovers to economic activity. On the other hand, stronger-than-expected technology spending, a milder tariff impact on economic growth and greater policy support in major economies could help cushion these risks.

The Malaysian economy is projected to grow between 4% and 5% in 2026

Malaysia's growth is expected to remain resilient in 2026 (Chart 2.2). Domestic demand will remain the main driver of growth, supported by steady private sector spending. Labour market conditions are expected to remain firm, as employment growth continues and the unemployment rate declines. Continued income, supported by steady economic growth and civil servant salary adjustment,[4] will support private consumption. Moreover, fiscal support in the form of cash assistance and measures announced in Budget 2026 are expected to further lift consumption, particularly among lower-income households.

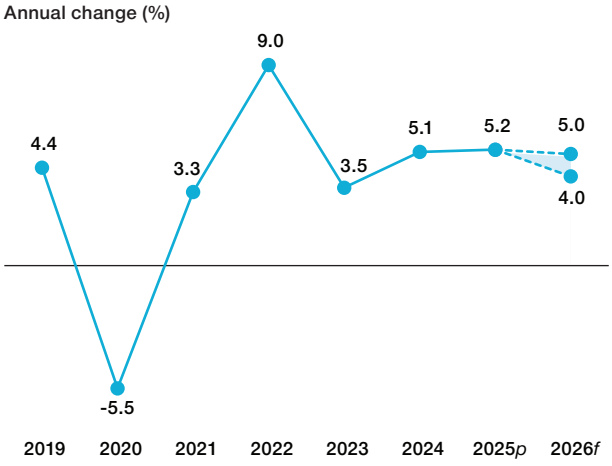
Investment activity is expected to maintain its momentum from the current investment upcycle, albeit expanding at a more moderate pace. The realisation of the high approved projects in 2025 will provide a solid foundation for continued growth. Malaysia's strong fundamentals, deep and extensive production ecosystem and supportive policy measures will sustain investor confidence. Hence, risks from reshoring of foreign investments in response to global trade pressure are likely to remain contained.[5] Strong global demand for AI-related technologies and services,

[3] Based on Gartner (2026).

[4] Refers to Phase 2 of the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA), which is effective in January 2026 with a 7% adjustment (8% adjustment for Phase 1 in December 2024).

[5] Based on BNM's Regional Economic & Industry Surveillance team engagements with some major exporters to US and their suppliers between October and November 2025.

Chart 2.2: Malaysia's Real GDP Growth



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Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

together with continued digitalisation and automation, will support investment growth in 2026. Capacity expansion in the private sector will be driven by E&E as well as information and communications technology (ICT) sectors. The continued implementation of national masterplans across both the private and public sectors, including initiatives under the Thirteenth Malaysia Plan (RMK-13) will also provide additional impetus to economic activity. Ongoing public investment projects, particularly in transport and energy-related projects, will continue to support growth throughout the year. These include PETRONAS's Kasawari Carbon Capture Storage (CCS) project, Tenaga Nasional Berhad's Hydro and Solar initiatives as well as the Mutiara LRT Line.

Malaysia's trade outlook is expected to remain challenging in 2026 as exporters contend with new developments and uncertainties surrounding tariff and geopolitical conflict. However, Malaysia's diversified export structure and several supportive factors are expected to cushion the impact. The E&E sector is poised to gain from strong semiconductor demand in 2026[6] amid the global technology expansion, digitalisation and acceleration of AI adoption. Robust E&E ecosystem and earlier investments to move towards higher value-added activities, such as advanced packaging, have enabled the sector to be in a prime position to capture these opportunities. The realisation of data centre investments, particularly those with AI capabilities will strengthen Malaysia's ICT ecosystem linkages and encourage more sophisticated manufacturing activities. Additionally, newly operational data centre facilities will also provide some support to ICT services exports.[7] It is recognised that the global AI momentum remains sensitive to shifts in global financial markets, which shape financing conditions and capital allocation to AI-related investments. A correction in the valuation of AI-linked equities, for instance, may lead to lower investment in AI companies and spillover to related production and trade activities.

Services exports will also benefit from steady inbound tourism during Visit Malaysia Year 2026. Tourist arrivals will be supported by visa exemption for visitors from China and India, continued international flight connectivity, as well as ongoing promotional efforts in conjunction with the Visit Malaysia Year 2026.

The outlook for non-E&E exports remains mixed, reflecting both persistent production surpluses in China and recent geopolitical conflict. The oversupply may keep competitive pressures elevated across selected non-E&E segments, while geopolitical conflict could affect price and demand conditions, especially in petroleum and chemical products.

Meanwhile, import growth is expected to pick up in line with the gradual recovery of intermediate imports to support the continued expansion of manufactured exports. This will be partly offset by the normalisation of capital import growth after a strong expansion in 2025.

The growth outlook for the Malaysian economy remains subject to uncertainties. Externally, downside risks stem from slower-than-expected global trade due to geopolitical conflict in the Middle East and tariffs. Domestically, lower-than-expected commodity production due to adverse weather conditions or unplanned maintenance could weigh on growth prospects. On the upside, better-than-expected global growth outlook, stronger demand for E&E and more robust tourism activity could boost Malaysia's export and growth prospects.

Inflation is expected to remain moderate and close to its long-term average in 2026

Headline inflation is expected to remain moderate, averaging between 1.5% and 2.5% in 2026. Global

[6] In its Autumn 2025 forecast, the World Semiconductor Trade Statistics (WSTS) projected that the global semiconductor market will grow further by 26.3% in 2026, following the 22.5% growth achieved in 2025.

[7] Based on BNM's internal Cash BOP data, data centre exports of services amounted to RM11.7 billion in 2025, significantly higher compared to RM2.8 billion on 2024. Currently, only about 26% of planned data centre capacity has come online, suggesting significant room to further support to services exports as more facilities are completed in the coming years (Source: DC Byte, as of January 2026).

commodity prices are projected to experience greater volatility amid the conflict in the Middle East. Nevertheless, the stronger exchange rate could provide some support in containing import prices. Domestic policy measures will also help mitigate the pass-through of global cost pressures to domestic prices. In turn, cost pressures faced by firms are expected to remain manageable, with pricing behaviour remaining generally cautious across the retail and services segments. Overall, these developments point to a relatively contained inflation path over the course of the year.

Underlying inflation, as measured by core inflation, is expected to remain close to its long-term average. This is consistent with expectations of economic activity remaining in line with potential, without generating material demand-driven inflationary pressures. Core inflation is projected to average between 1.8% and 2.3% in 2026.

The inflation outlook remains primarily dependent on external risks. Upside risks could stem from prolonged supply disruptions and trade policy uncertainty, including higher input costs from elevated global commodity prices which could be amplified by the conflict in the Middle East and weather disruptions. In such scenarios, sectors that are more sensitive to import prices, such as food, could face stronger cost pressures. Some producers and retailers could also opportunistically raise prices. On the downside, weaker global demand could weigh on domestic activity, while softer global commodity price developments could lower imported costs and ease inflationary pressures. Exchange rate developments would also have a bearing on imported cost pressures, which could affect inflation outcomes.

Domestic monetary and financial conditions are expected to remain supportive of economic activity

Developments in domestic financial markets are expected to remain broadly favourable. This is supported by generally accommodative global financial conditions and Malaysia's strong economic fundamentals. In the bond market, Malaysian Government Securities (MGS) yields are expected to remain broadly supported by the global interest rate environment and gradual foreign inflows. A more favourable exchange rate environment could lift currency-adjusted returns and attract investor interest in domestic bonds. Meanwhile, domestic equity market performance is expected to be underpinned by improving investor confidence, supported by Malaysia's positive growth prospects.

Financing conditions will remain supportive in 2026, underpinned by sustained credit growth amid continued economic expansion and conducive borrowing conditions. Banks remain well-positioned to provide credit, given their strong capital buffers, supportive liquidity conditions and manageable funding costs. As such, credit to the private non-financial sector is expected to remain forthcoming. On the demand side, credit growth will continue to be supported by steady economic activity, favourable labour market conditions, and ongoing domestic policy support measures. Business loan growth is expected to remain firm in line with sustained investment momentum, while corporate bond issuance is likely to remain attractive given competitive yields.

Risks to domestic financial conditions stem mainly from external developments. In particular, unexpected shifts in expectations around the US monetary policy path, market corrections amid elevated valuations of AI-related equities, and heightened geopolitical uncertainties, particularly in the Middle East, could prompt episodes of global financial market volatility. This may lead to periods of intermittent volatility in capital flows and exchange rates. Nevertheless, spillovers to domestic financial conditions are expected to remain manageable. This reflects Malaysia's strong economic fundamentals, a deep domestic institutional investor base, and a well-capitalised banking system with sufficient buffers. Asset prices are expected to adjust in an orderly manner, supported by healthy trading activity and broad-based investor participation. Bank Negara Malaysia (BNM) will continue to monitor developments and ensure adequate liquidity in the domestic financial system to support smooth market functioning. In the foreign exchange market, BNM will continue to maintain orderly conditions. This includes ongoing measures to encourage two-way flows through engagement with exporters and corporates, as well as the Qualified Resident Investor (QRI) programme.

Monetary policy will remain focused on fostering conditions that support sustainable economic growth while keeping inflation contained

In 2026, monetary policy decisions will continue to be guided by the Monetary Policy Committee's (MPC) assessment of risks to Malaysia's inflation and growth outlook. The MPC remains committed to supporting sustainable economic growth in an environment of price stability.

Domestic growth is expected to remain firm, supported by resilient domestic demand amid steady private sector expenditure. Nevertheless, external headwinds pose downside risks, including slower global trade amid geopolitical and tariff-related uncertainties. On the domestic front, lower-than-expected commodity production could also weigh on growth. On the upside, growth could benefit from stronger global activity, firmer demand for E&E goods and more robust tourism activity.

Inflation is projected to remain moderate. While global commodity prices may be subject to greater volatility given recent developments, the impact on domestic inflation is expected to be contained. Upside risks could stem from renewed external cost pressures, while downside risks may arise from softer global growth and more moderate domestic demand conditions.

The MPC aims to maintain a monetary policy stance that is supportive of economic activity, while preserving price stability. This is guided by the prevailing assessment on the balance of risks to Malaysia's inflation and growth outlook, taking into account underlying economic and financial conditions. As such, monetary policy will remain data-dependent, with the MPC closely monitoring developments and their potential spillovers to the Malaysian economy.

Domestic demand to remain the main driver of growth

In 2026, domestic demand, particularly private sector spending, will remain the anchor of growth for the Malaysian economy. The external sector will benefit from continued global technology expansion and steady tourism activity supported by Visit Malaysia Year 2026 amid challenges surrounding global uncertainties, including the conflict in the Middle East.

Table 1

Real GDP by Expenditure (2015=100)

	2025*p*	2025*p*	2026*f*	2025*p*	2026*f*
	% of GDP	Annual change (%)		Contribution to growth (percentage point)	
Domestic Demand*	**96.3**	**6.3**	**5.5**	**6.0**	**5.3**
Private Sector Expenditure	77.8	6.1	5.5	4.7	4.3
Consumption	60.6	5.2	5.0	3.1	3.0
Investment	17.2	9.4	7.5	1.6	1.3
Public Sector Expenditure	18.4	7.6	5.6	1.4	1.0
Consumption	13.4	6.6	4.9	0.9	0.7
Investment	5.1	10.3	7.3	0.5	0.4
Gross Fixed Capital Formation	22.2	9.6	7.4	2.1	1.7
Change in Stocks	**0.5**			**-0.1**	**0.0**
Net Exports of Goods and Services	**3.3**	**-19.3**	**-26.4**	**-0.8**	**-0.9**
Exports	66.8	3.1	2.8	2.1	1.9
Imports	63.5	4.6	4.3	2.9	2.7
Real Gross Domestic Product (GDP)	**100.0**	**5.2**	**4.0–5.0**	**5.2**	**4.0–5.0**

* Excluding stocks.

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Note: Figures may not necessarily add up due to rounding.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Private consumption is projected to grow by 5% (2025: 5.2%). Growth will be driven by firm labour market conditions and continued income growth. Employment will continue to expand, led by hiring in manufacturing and services sectors. The unemployment rate is expected to remain low at 2.9%. Income growth will also be supported by sustained domestic activity and income-related policies through the civil servant salary adjustment under Phase 2 of the Public Service Remuneration System (Sistem Saraan Perkhidmatan Awam, SSPA). Fiscal measures through cash transfers and BUDI95, alongside the Overnight Policy Rate (OPR) reduction in July 2025, will also be supportive to household spending.

Gross fixed capital formation (GFCF) is expected to expand by 7.4% (2025: 9.6%). Growth will be driven by multi-year projects across both structures, and machinery and equipment (M&E)-related investments, supported by the forthcoming realisation of investment approvals. As such, the investment upcycle is expected to extend into 2026, albeit at a more moderate pace.

Private investment is projected to grow by 7.5% (2025: 9.4%). The realisation of the high level of investment approvals in the past couple of years, particularly in the high-technology sub-sectors such as information and communications technology (ICT), and electrical and electronics (E&E) are expected to support capital expenditure by both domestic and foreign investors. Of significance, around 84.9% of manufacturing projects approved between 2021 and 2025 are in various phases of implementation. The global technology expansion and advancements in automation and digitalisation are expected to boost investment in high-value and innovation-driven activities. Additionally, sustained early-stage construction activity (2025: RM40.5 billion; 2024: RM33.9 billion) suggests positive investment prospects going forward. While the pipeline of new investments remains strong, the growth rate is expected to moderate on account of the large base effect from strong investments in prior years. This will result in some normalisation of private investment growth in 2026.

Public investment is expected to grow at a more moderate pace of 7.3% (2025: 10.3%). This reflects the near completion of several large infrastructure projects. Growth will be supported by catalytic investments in strategic sectors such as utilities, energy and transportation. The focus will be on projects to enhance electricity generation capacity, upgrade railway networks, and improve public transport services. The rollout of projects under the national master plans, including Budget 2026 and the Thirteenth Malaysia Plan (RMK-13), and the continued progress of existing projects will further support growth in public investment in 2026.

Public consumption is expected to expand by 4.9% (2025: 6.6%). Growth will be driven mainly by the Government's continued emoluments spending amid Phase 2 of civil servant salary adjustment under the SSPA. The supplies and services expenditure, however, is expected to grow more moderately. This is in line with the Government's commitment to improve spending efficiency while sustaining public service delivery.

Expansion in most economic sectors

Most economic sectors are expected to grow in 2026, except for the agriculture and mining sectors. The services and manufacturing sectors are expected to continue to drive overall growth.

Table 2

Real GDP by Kind of Economic Activity (2015=100)

	2025*p*	2025*p*	2026*f*	2025*p*	2026*f*
	% of GDP	Annual change (%)		Contribution to growth (ppt)*	
Services	59.6	5.5	5.2	3.3	3.1
Manufacturing	23.0	4.5	4.3	1.0	1.0
Agriculture	6.1	2.2	-1.0	0.1	-0.1
Mining and quarrying	5.7	0.7	-1.2	0.0	-0.1
Construction	4.3	12.2	9.1	0.5	0.4
Real Gross Domestic Product (GDP)	**100.0***	**5.2**	**4.0–5.0**	**5.2**	**4.0–5.0**

* Figures may not necessarily add up due to rounding and exclusion of import duties component.

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Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

The services sector is expected to grow at 5.2% (2025: 5.5%). The consumer-related subsector is expected to remain resilient as household spending remains forthcoming. Tourism activities will be lifted by the Visit Malaysia Year 2026 campaigns, notwithstanding some travel disruptions from the Middle East conflict. Continued operationalisation of data centre activities will support ICT subsector growth. Real estate and business services subsector are expected to strengthen, in line with continued growth in construction activities. The transport and storage subsector will benefit from air passenger traffic driven by tourist arrivals, commencement of LRT3 and new highways, as well as continued trade growth. Growth of the finance and insurance subsector will be underpinned by sustained loan demand and rollout of insurance products aligned with consumer needs. Meanwhile, the Phase 2 of civil servant salary adjustment under SSPA will continue support government services subsector.[8]

The manufacturing sector will continue to grow, albeit at a more moderate pace at 4.3% (2025: 4.5%). The E&E industry will be supported by the ongoing strong demand related to AI, while consumer-related industries are expected to benefit from resilient household spending. However, growth of primary-related industry would remain subdued. This reflects the stiff competition from lingering global excess capacity within the industry.

The agriculture sector is projected to contract by -1.0% (2025: 2.2%). Crude palm oil production is expected to normalise following the strong yields recorded in late 2025, while ongoing replanting activities in East Malaysia will also weigh on output. Meanwhile, innovative planting methods such as the Five Seasons in Two Years paddy planting program (Penanaman Padi Lima Musim Dalam Tempoh Dua Tahun) are expected to support paddy production. Continued technological enhancements would also support production of other food crops such as fruits and vegetables.

The mining sector is projected to contract by -1.2% (2025: 0.7%). Maturing fields continue to weigh on oil production. In addition, planned maintenance activities in oil and gas fields are expected to affect output.

Growth in the construction sector is expected to expand by 9.1% (2025: 12.2%), driven by continued activities across all subsectors. While some large infrastructure projects are nearing completion, growth in the civil engineering subsector will continue. It will be supported by the sustained development expenditure of the Government including for provision and upgrades of essential public infrastructure as announced under the Budget 2026. The non-residential subsector will continue to be buoyed by strong demand for industrial spaces, driven in part by steady pipeline of data centres projects. The residential subsector will continue to see launches of affordable new housing projects from both private and public developers. Activities in these three subsectors will also translate to more early-stage and finish work, boosting the special trade subsector.

[8] When civil servant salaries rise, the economic value of government services also grows because these are non-market services and are measured based on their cost of delivery.

Continued growth in exports and imports in 2026

Malaysia's gross exports are expected to grow by 8.6% in 2026 (2025: 6.4%). Manufactured exports, which accounted for 86% of total exports in 2025, will remain the key driver with a projected expansion of 9.6% (2025: 7.7%). Growth will be supported by robust E&E exports amid the global shift toward AI-related technologies. Malaysia's prominent role in the global E&E supply chain will benefit from the continued demand for semiconductors and advanced electronic components. Meanwhile, the outlook for non-E&E exports is expected to be more mixed. Exports of refined petroleum and petrochemical products may benefit from higher product prices amid the ongoing conflict in the Middle East, while other non-E&E products are likely to continue to be weighed by intense regional competition driven by higher exports from China.

Commodity exports are expected to recover slightly by 1.6% in 2026 (2025: -2.4%). This is mainly attributed to the recovery in mining exports which is projected to rebound by 13% (2025: -10.8%), following higher global prices of crude oil and LNG exports. Meanwhile, agriculture exports is expected to register a decline of -7.6% due to lower CPO production amid yield normalisation following exceptionally strong output in 2025 and ongoing replanting activities.

Potential upsides to the export outlook include stronger-than-expected tech demand, robust inbound tourism, as well as faster ICT and data centre rollout, which may provide additional support to overall export growth. At the same time, risks remain from potential disruption to global trade from the ongoing geopolitical and trade tensions, further payback from frontloading of exports to the US, and larger-than-expected impact of ringgit appreciation on Malaysia's export competitiveness. Supply disruptions from adverse weather conditions and unplanned maintenance could also affect commodity-related exports.

Gross imports are projected to grow by 9% in 2026 (2025: 6%). Capital imports are expected to moderate while remaining elevated, following the strong growth in 2025 due to data centre and E&E-related investments. Meanwhile, intermediate goods imports are anticipated to recover in line with expectations for continued growth in manufactured exports.

Table 3

External Trade

	2015–19 average	2025*p*	2026*f*
	Annual change (%)		
Gross exports	**5.6**	**6.4**	**8.6**
of which:			
Manufactured	7.6	7.7	9.6
Agriculture	-0.6	5.8	-7.6
Minerals	-3.1	-10.8	13.0
Gross imports	**4.7**	**6.0**	**9.0**
of which:			
Capital goods	1.2	29.0	2.3
Intermediate goods	3.1	-4.0	6.9
Consumption goods	8.4	1.8	7.3
Trade balance (RM billion)	**109.5**	**154.6**	**161.2**

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Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Sustained current account surplus

The current account of the balance of payments is expected to remain in surplus, ranging from 1.5%–2.5% of GDP in 2026 (2025: 1.6% of GDP). This is driven mainly by continued goods and services surplus despite a challenging external environment, which is partially offset by a widening of primary and secondary income deficit.

The goods account is projected to record a higher surplus of RM128.1 billion (2025: RM110.9 billion), as exports level continue to exceed imports. Meanwhile, the services account is expected to record a higher surplus of RM5 billion (2025: RM1.2 billion), supported by a larger surplus in the travel account, reflecting continued tourist arrivals, partly supported by the Visit Malaysia Year 2026 campaign. Additionally, newly operational data centre facilities will also provide support to ICT services exports.

The primary income account is projected to remain in deficit (-RM74.2 billion, 2025: -RM69.5 billion). This is driven by the continued income payment accrued to foreign investors in Malaysia amid continued profitability of multinational companies (MNCs) operating in Malaysia. Similarly, the secondary income account is also expected to remain in deficit (-RM13.2 billion, 2025: -RM10.8 billion), due mainly to outward remittances by foreign workers. Nevertheless, this is expected to be partly cushioned by inward remittances from Malaysians working abroad.

Table 4

Current Account of the Balance of Payments*

Item (Net)	2025*p*	2026*f*
	RM billion	
Goods	110.9	128.1
Services	1.2	5.0
Primary income	-69.5	-74.2
Secondary income	-10.8	-13.2
Current account balance	**31.8**	**45.6**
% of GDP	*1.6*	*1.5–2.5*

* In accordance with the Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6) by the International Monetary Fund (IMF).

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Note: Figures may not necessarily add up due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The economy remains near potential in 2026

Potential output reflects the amount of goods and services an economy could produce without generating excess inflationary pressures given the available factors of production (i.e. labour and capital) and productivity. The output gap is a measure of the difference between the economy's actual output and potential output. This relationship serves as a key indicator for monetary policy, as it is an estimate of spare capacity in the economy, provides early signs of inflationary pressures and supports more informed policy formulation.

As potential output and the output gap of the economy cannot be observed directly, they can only be inferred or derived from other information. Various techniques are used to estimate potential output, including statistical filters, econometric modelling of production functions, and dynamic stochastic general equilibrium (DSGE) frameworks. These estimates are therefore subject to a high degree of uncertainty.[9]

In 2025, Malaysia's potential output[10] is estimated to have expanded by 4.8% (2024: 3.9%; 2011–19 average: 4.9%). The expansion was attributed to higher capital accumulation, in line with robust investment activity (2025: 9.6%; 2024: 12%; 2011–19 average: 6.8%). Labour utilisation improved with the unemployment rate declining to below pre-pandemic levels while the labour force participation rate increased to 70.9% (2024: 70.5%; 2011–19 average: 67.3%). As the level of actual output was higher relative to the potential output, the output gap[11] is estimated to have been positive in 2025, at 1% above the potential output (2024: 0.6%).

Potential output growth can also be decomposed to capture both the availability of production inputs as well as how efficiently and intensively they are utilised when producing goods and services. Using the

[9] Refer to 'Estimating Malaysia's Potential Output' box article in BNM Annual Report 2012 for more information on the model-driven approaches to assess potential output and the output gap.

[10] Potential output is derived through an average of several methodologies including Production Function, Laubach-Williams model, Real Business Cycle model, Kalman Filter and Dynamic Stochastic General Equilibrium (DSGE) model.

[11] The output gap is formally defined as $\frac{\text{(Actual output level - Potential output level)}}{\text{Potential output level}} \times 100\%$.

production function modelling framework,[12] they can be indicated by the availability of labour, capital, and changes in total factor productivity (TFP). Between 2022 and 2024, Malaysia's potential output growth has been driven largely by capital accumulation, reflected in higher capital stock. The contribution from labour has also risen, returning to levels close to those observed prior to the COVID-19 pandemic.

Table 5

Decomposition of Estimated Potential Output Growth Using the Production Function Approach

	Annual averages			
	2008–24	2008–19	2020–21	2022–24
Annual potential output growth (%)	**4.2**	**4.6**	**2.5**	**4.1**
of which, potential labour supply growth	**0.9**	**1.0**	**0.2**	**1.1**
of which, average hours	-0.1	-0.2	0.0	0.1
of which, working population*	1.0	1.2	0.2	1.0
of which, capital accumulation**	**2.2**	**2.4**	**1.1**	**1.8**
of which, TFP***	**1.2–1.3**	**1.2–1.3**	**0.5–1.2**	**1.2–1.9**

Note: Contributions of respective components may not sum to the total due to rounding and the uncertainties surrounding the TFP estimates.

* Working population refers to the multiplication of working-age population (population between the ages of 15 to 64), labour force participation rate and 1-NAIRU (non-accelerating inflation rate of unemployment).

Working population = Working age population x LFPR x (1 - NAIRU)

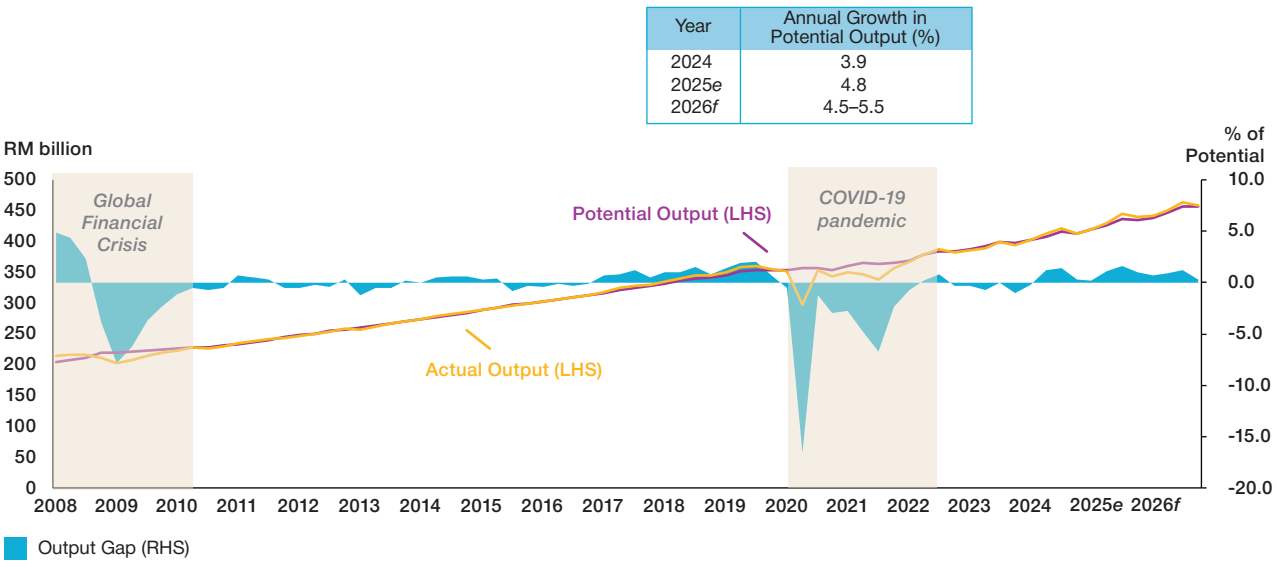
** Capital accumulation refers to the growth in net capital stock.

*** TFP denotes contribution to potential productivity growth arising from the efficiency in which capital and labour are utilised. The estimate is net of its cyclical component, capturing only the underlying trend component. Ranges indicate uncertainty of its estimate which can vary depending on methodology.

Source: Bank Negara Malaysia estimates

Going forward, the Malaysian economy is expected to remain close to potential, with a marginally positive output gap in 2026. Potential output is projected to grow at its pre-pandemic levels of 4.5%–5.5% while actual output growth is forecast to expand by 4%–5%, supported by domestic demand. In the near term, potential output growth is expected to be supported by capital accumulation and productivity gains amid higher investments in strategic sectors, particularly ICT and E&E.

Chart 1: Actual and Potential Output



e Estimate
f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

[12] Decomposition is undertaken using the production function methodology adapted from The Production Function Methodology for Calculating Potential Growth Rates and Output Gaps (Havik et al., 2014).

Oil price shocks from the conflict in Middle East: Implications to Malaysia's growth and inflation outlook in 2026

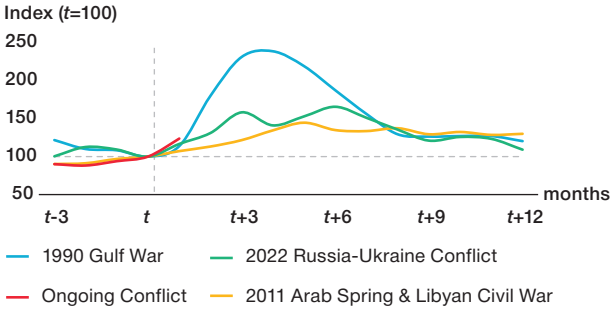
In late February 2026, geopolitical tensions in the Middle East escalated sharply following the onset of a military conflict, disrupting regional oil and gas production, as well as associated supply chain and logistics. Concerns over safety, rising insurance costs, and the subsequent withdrawal of major commercial shipping operators led to significant disruptions in maritime traffic through the Strait of Hormuz. The strait carries nearly 20% of the global oil supply daily. Beyond shipping disruptions, the conflict has also forced temporary closures of key oil production facilities across the Middle East region due to infrastructure damage and overfilled storage capacity, further constraining global supply. These combined factors sharply increased global oil prices[13] and raised concerns over spillovers to global inflation and growth. The conflict has also led to heightened volatility in the financial markets and tighter financial conditions in a large number of economies, which could further weigh on economic activity.

As a small open economy, Malaysia's growth and inflation outlook is sensitive to geopolitical and global energy price developments. The conflict transmits to the domestic economy mainly through three key channels. First, higher energy prices raise import costs and subsequently exert upward pressure on domestic production costs and consumer prices. These, in turn, could dampen household spending and business activity. Second, weaker external demand following oil price shocks could weigh on exports and overall growth. Third, elevated oil prices and heightened uncertainty increase risk aversion, prompting a shift towards safe-haven assets. This leads to more volatile capital flows across emerging markets, including Malaysia, with potentially adverse spillover on domestic financial conditions and exchange rate.

However, these effects may be partly mitigated by higher commodity-related export earnings, given Malaysia's position as a net energy exporter.[14] Existing targeted fuel subsidies would also help cushion the transmission of higher global energy prices to the domestic inflation and economy.

The overall impact on Malaysia will depend on how long the conflict lasts, how severe the disruption is, and how far it affects the global energy production and logistics. During previous episodes of military conflict, oil prices increased significantly for three to six months before gradually declining to its pre-conflict level (Chart 2). However, outcomes have varied across different episodes, and the current Middle East conflict could unfold differently. If hostilities remain contained and de-escalate gradually, disruptions may be short-lived, characterised by temporary production outages and partial shipping disruptions through the Strait of Hormuz, with strategic reserves helping to cushion near-term supply shortfalls. In such circumstances, oil prices are likely to settle at elevated but manageable levels, with limited spillovers to global growth, trade and inflation.

Chart 2: Monthly Average Brent Price Trajectory Following Military Conflict



Note: Time *t* denotes the month of the disruption events.

Source: Bloomberg, CEIC, newsflow and Bank Negara Malaysia estimates

[13] Following the escalation of the conflict, Brent crude oil price increased from USD71 per barrel on 27 February (pre-conflict) to USD77 per barrel on 2 March (first post-conflict trading day). Prices breached USD100 per barrel on 9 March, reflecting over 40% increase nine days since the start of the conflict. Since then, Brent price continues to trade in the USD85 to 105 per barrel range.

[14] As at 2025, Malaysia's status as a net energy exporter was mainly driven by sustained trade surpluses in LNG (+RM45.3 billion) and refined petroleum (+RM3.1 billion). This was partly offset by a trade deficit in crude petroleum (-RM29.9 billion).

By contrast, more persistent disruptions, could result in prolonged disruptions to maritime traffic, sustained damage to energy infrastructure, and extended production shutdowns across major Gulf producers. This would keep oil prices elevated for longer, dampen external demand, and weigh on global trade and growth. In this scenario, domestically, elevated energy and input costs could increase the likelihood of broader cost pass-through to consumer prices, posing risks of more persistent inflationary pressures. This would erode household purchasing power and amplify the drag on domestic demand.

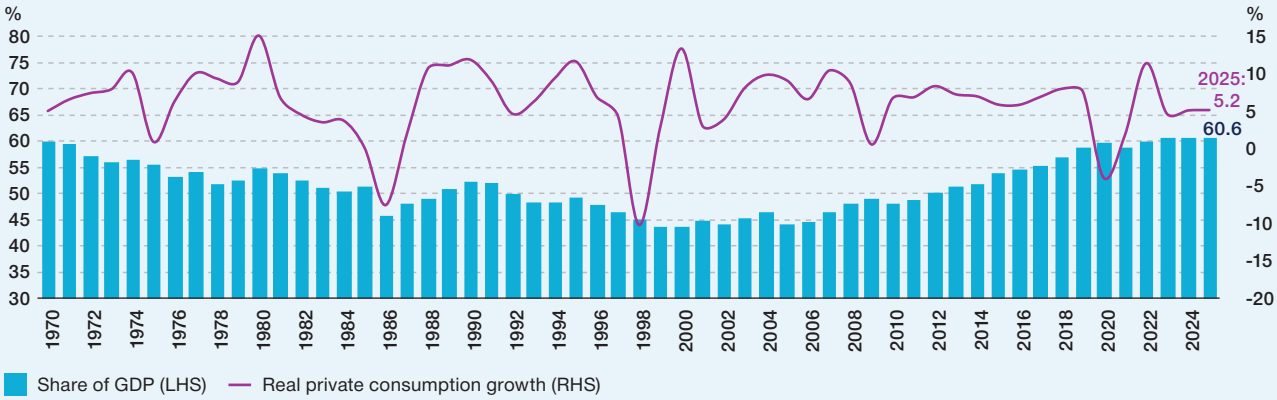
Of great significance, Malaysia is entering this period from a position of strength, supported by robust domestic demand, moderate inflation, a sound financial sector, and resilient external position. Our standing as a net energy exporter also provides some buffer against external headwinds. Nevertheless, BNM will remain vigilant to the rapidly evolving nature of this conflict and stand ready to ensure that monetary policy remains supportive of the economy while safeguarding price stability.

Sustaining the Engine: The Evolving Drivers behind Malaysia's Private Consumption Growth

Introduction

Malaysia's growth landscape has changed significantly over the decades. Malaysia transitioned from a consumption-driven growth model in the 1970s to an export-led industrialisation strategy from the mid-1980s to the early 2000s, with manufacturing and external trade becoming the dominant engine of expansion. From 2010 onwards, the growth engine turned inward again, with private consumption accounting for nearly 61% of GDP in 2025 (Chart 1).

Chart 1: Evolution of Real Private Consumption Growth and Its Share of GDP



Note: Pre-1990 data for real private consumpttion growth is sourced from World Bank and Post-1990 data is sourced from Department of Statistics, Malaysia. The share to GDP series is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Department of Statistics, Malaysia

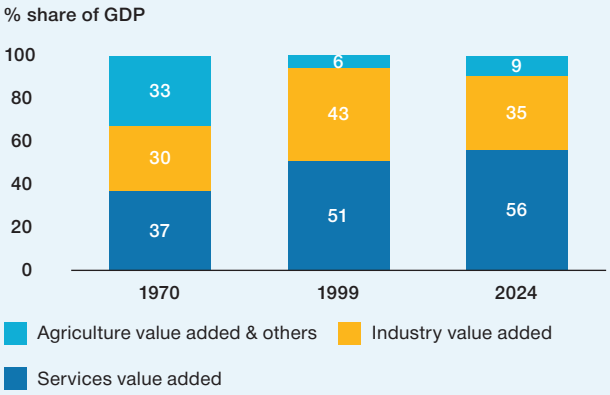
This article explores the evolution and sustainability of private consumption in Malaysia through two lenses. The first covers the major long-term structural factors such as the country's economic transformation and sociodemographic trends. The second perspective explores the underlying drivers of households' spending capacity such as income, wealth, debt and policy support. Finally, the article highlights challenges and policy priorities to ensure private consumption remains a sustainable engine of growth going forward.

Part 1: Structural Drivers of Rising Private Consumption

Economic Transformation and Income Growth

Since the 1970s, Malaysia's economy has steadily changed from agriculture-led to manufacturing and later, services (Chart 2). This shift created better-paying jobs and drew workers to higher-value added sectors. Productivity within these sectors increased, supported by a growing workforce and investments in equipment and infrastructure. These changes lifted output per capita and supported years of household income growth (Chart 3). In turn, this fuelled higher consumer spending.

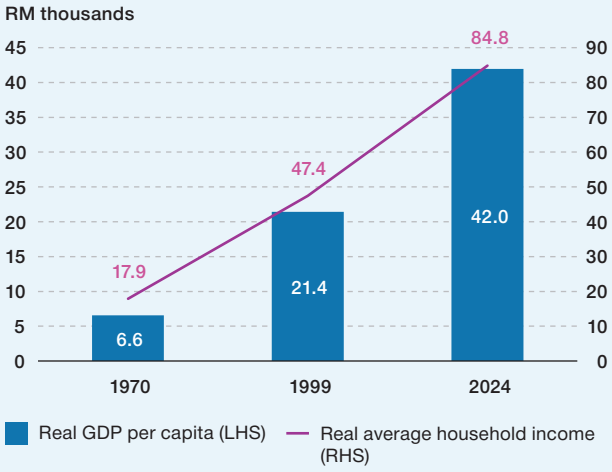
Chart 2: Sectoral Share of GDP



Note: Industry value added is the sum of manufacturing, mining and construction value added. For the year 1970, services value added is a residual of industry and agriculture, which means the estimate for services for that year incorporates import duties. For 1999 and 2024, import duties are considered under 'Agriculture value added & Others'. 1970 data is sourced from World Bank while 1999 and 2024 are sourced from the Department of Statistics, Malaysia.

Source: World Bank, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 3: Real GDP Per Capita and Real Average Household Income

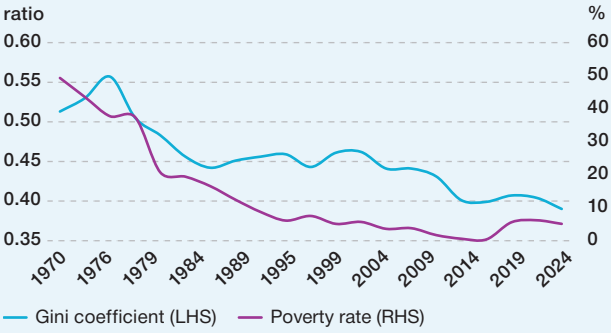


Note: Average household income is annualised and rebased to 2010 real terms using GDP deflator to standardise the frequencies.

Source: World Bank, CEIC, Household Income Survey by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

As household income rose, poverty and inequality declined sharply. The national poverty rate[1] fell from 49.3% in 1970 to 5.1% in 2024, while income inequality as measured by the Gini coefficient improved from 0.51 to 0.39 (Chart 4). Better income distribution also supported aggregate consumption, as lower-income households who have a higher marginal propensity to consume (MPC) gained more money to spend.[2]

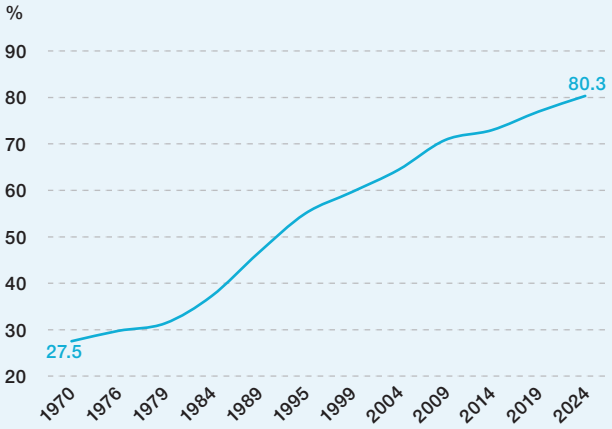
Chart 4: Poverty Rate and Income Inequality



Note: The increase in poverty rate in 2019 was due to a revision to Poverty Line Income. Further increase in 2020 reflected the impact from a sharp decline in income of vulnerable groups following the COVID19 pandemic.

Source: Household Income and Expenditure Survey by the Department of Statistics, Malaysia

Chart 5: Share of Urban Population to Total Population



Source: World Bank, CEIC

[1] The national poverty rate measures the percentage of Malaysian population living in households with total monthly gross income below the Poverty Line Income (PLI). In 1970, this was defined as RM25 per month; in 2024 it is RM2705 per month.

[2] Dhruva (2013) The Marginal Propensity to Consume Across Household Income Groups.

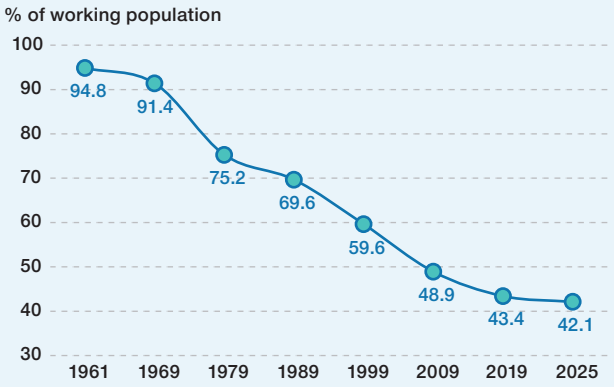
Urbanisation, Financial Deepening and Changing Consumption Habits

Alongside the sectoral shifts, Malaysia's urbanisation rate more than doubled from 28% in 1970 to 80% in 2024 (Chart 5). Higher paying jobs in the manufacturing and services sectors attracted families to cities, spurring demand for homes and dwelling and the related spending on furnishing. Urban living also increased demand for transportation, modern retail, and services such as dining out and entertainment, creating new spending habits.[3] In addition, financial deepening, through greater availability of banking services and credit facilities, enabled households to finance home purchases, consumer goods, and lifestyle services more easily.

Demographic Dividend and Household Structure

Rapid urban growth since the 1970s brought along challenges such as rising living costs and urban congestion. Meanwhile, better access to education, growing female workforce participation and lower fertility rates reshaped family structures, resulting in smaller families,[4] more dual-income households[5] and delayed marriage and childbearing.[6] These factors contributed to the increase in the share of the working age population relative to dependents, reducing the total dependency ratio (TDR) (Chart 6). Consequently, the effects of the first wave of the demographic dividend were amplified, with a larger workforce and fewer dependents boosting per capita income[7] and consumption[8] (Chart 7).

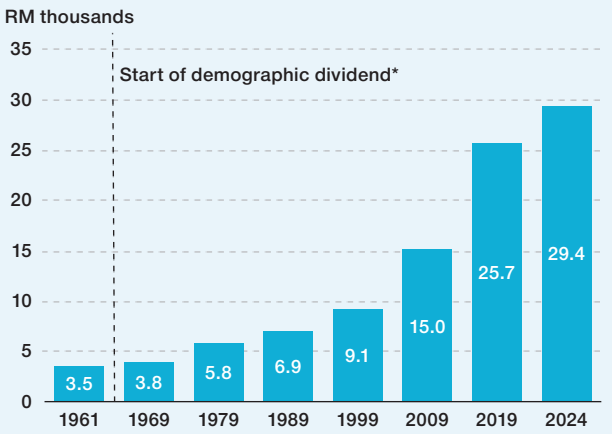
Chart 6: Total Dependency Ratio



Note: Total dependency ratio is a demographic measure that represents the combined number of children (under 15) and seniors (65 or older) relative to the number of working-age adults (aged 15-64). The pre-1990 series is taken from World Bank while the rest is sourced from Department of Statistics, Malaysia.

Source: World Bank, CEIC and Population Estimates by the Department of Statistics, Malaysia

Chart 7: Real Private Consumption per capita



Note: Real private consumption data prior to 1970 is sourced from World Bank while population data and post-1970 real private consumption data are sourced from the Department of Statistics, Malaysia.

Source: Department of Statistics, Malaysia, World Bank, CEIC, Bank Negara Malaysia estimates and *Ogawa et al (2021)

3 KRI (2024) The State of Households: Households and the Pandemic.
4 Population Census; Household Income Survey, Department of Statistics, Malaysia.
5 Zaimah, R., Sarmila, M.S., Selvadurai, S., Lyndon, N., Er, A. C., & Jamian, M. N. (2013). The History and Current Status of Dual-career Families in Malaysia.
6 Fertility Rate, Population Statistics, Department of Statistics, Malaysia.
7 Zélity, B. (2025). Estimating the Growth Effect of the Demographic Dividend. Macroeconomic Dynamics, 29, e127.
8 Cutler, D. M., Poterba, J. M., Sheiner, L. M., Summers, L. H., & Akerlof, G. A. (1990). An Aging Society: Opportunity or Challenge?. Brookings papers on economic activity, 1990(1), 1–73.

Part 2: Dynamics of Underlying Drivers of Private Consumption

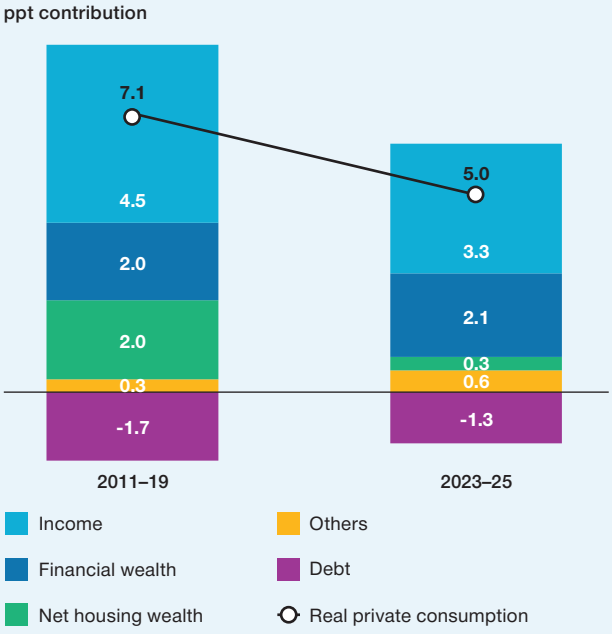
While structural forces shape the long-run potential for private consumption, they operate through more direct channels such as income, wealth, indebtedness and policy support. These drivers determine households' ability to spend and form the foundation of empirical consumption models. An error correction model (ECM)[9] is used to identify the key factors driving private consumption and to compare their relative strength. The study also compares the key drivers of consumption before and after the COVID-19 pandemic.

Income is the most fundamental and durable driver of private consumption

Income is the core driver of private consumption because it determines households' purchasing power. Most spending decisions depend on disposable income, which is generally stable and predictable, particularly from wages and salaries. This makes income a reliable basis for consumption planning, which also anchors households' expectations of future consumption.

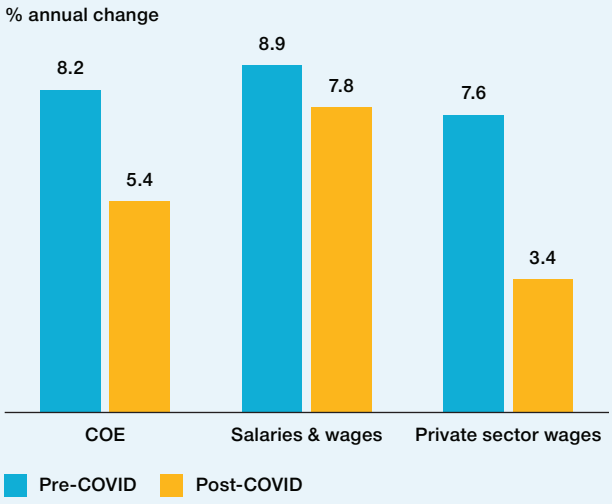
In the ECM, income measured by compensation of employees (COE), remains the main driver of consumption, accounting for more than 60% share of spending in both pre- and post-pandemic periods. However, income growth has been more moderate in the post-pandemic period, which has corresponded with a softer pace of private consumption growth (Chart 8). This is reflected across multiple income indicators,[10] including COE, private sector wages and overall salaries and wages, which show slower growth in the post-COVID period despite broader economic recovery (Chart 9).

Chart 8: Decomposition of Drivers of Private Consumption Growth



Source: Bank Negara Malaysia estimates

Chart 9: Compensation of Employees (COE) and Wages



Note: Pre-COVID is defined as 2011–19 for COE and salaries & wages, and 2015–19 for private sector wages (data started in 2013). Post-COVID refers to 2023–25 for private sector wages, and 2023–24 for COE and salaries & wages, based on the latest available data.

Source: Department of Statistics, Malaysia

[9] The error correction model estimates the long-run relationship between private consumption and its drivers, while capturing short-run dynamics around the equilibrium. The model includes labour income (proxied using compensation of employees), financial wealth (sum of deposits, unit trust funds, investment in equities, EPF savings and endowment policies), net housing wealth (number of owned residential units multiplied by the average house price, minus total outstanding housing loans) as well as non-residential debt. The 'Others' category captures the residual, reflecting factors not in the model such as government assistance and self-employment income.

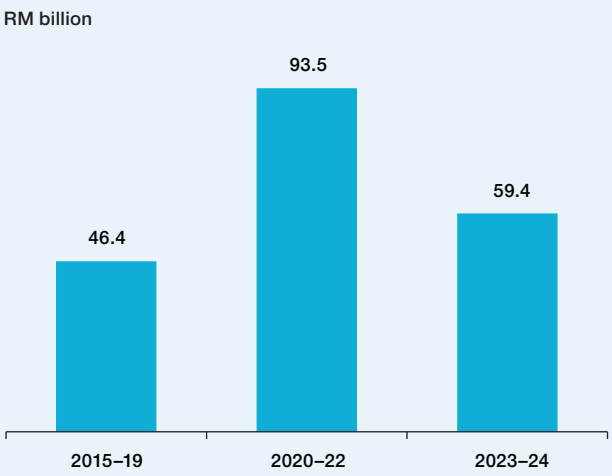
[10] COE is the most comprehensive measure of total remunerations to employees by producers, which includes salaries, wages, allowances, bonuses, commissions and payments in kind. Salaries & wages data covers all private and public sectors. Meanwhile, private sector wages data covers only services and manufacturing sector based on Quarterly Services Statistics and Monthly Manufacturing Statistics. Both COE and overall salaries & wages are only available on annual basis and published with a lag.

Wealth influences consumption through realised and unrealised channels

Both financial and housing wealth support consumption through realised and unrealised channels. The realised channel operates when households liquidate assets to meet spending needs. The unrealised channel materialises as valuation gains on assets strengthen household balance sheets and confidence, thereby supporting spending.

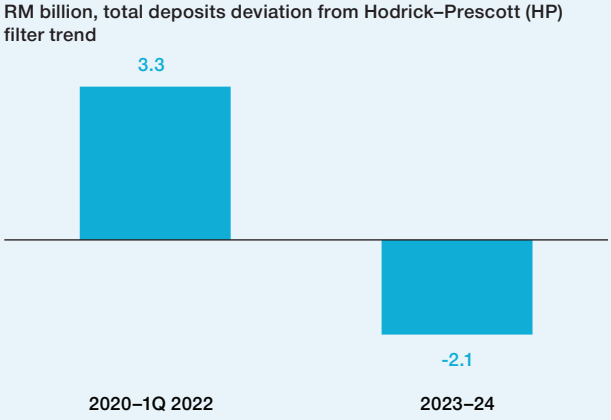
In Malaysia, financial wealth has provided relatively stable support for private consumption. Households' accumulation of deposits, retirement balances, alongside holdings of equities and unit trusts, support spending through wealth effects and serves as buffers during periods of weak income growth. This role was evident during and after the COVID-19 pandemic. Special Employees Provident Fund (EPF) withdrawal schemes played a critical role in sustaining spending during this period (Chart 10). In addition, excess savings[11] built up during lockdowns were drawn upon as the economy reopened to finance pent-up demand (Chart 11).

Chart 10: Average Annual EPF Withdrawals Across Period



Source: Employees Provident Fund

Chart 11: Excess Savings

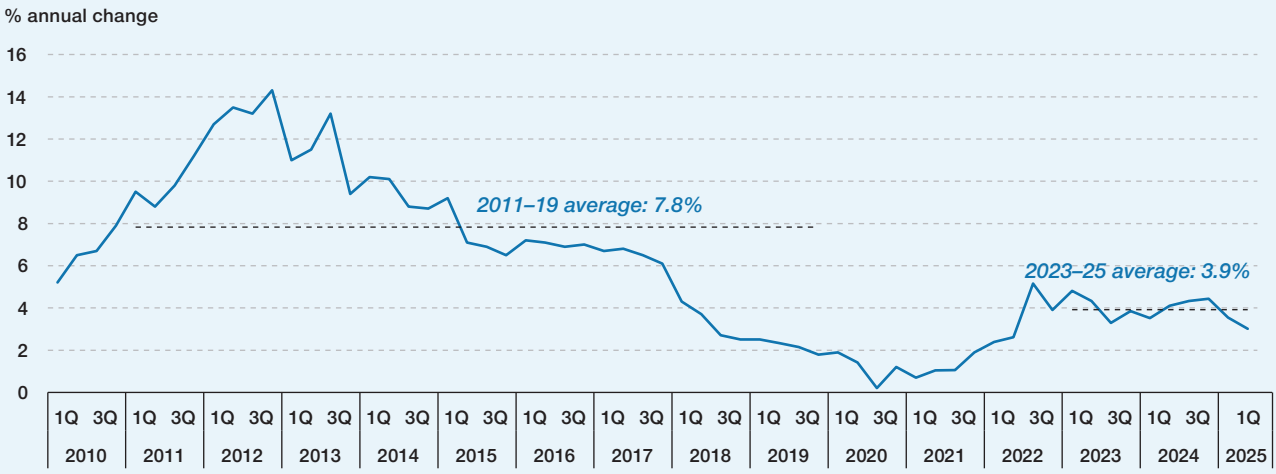


Note: Malaysia entered 'endemic' phase and fully reopened its economy in 1 April 2022.

Source: Bank Negara Malaysia estimates

By contrast, housing wealth, which contributed significantly to private consumption pre-COVID, has played a more limited role in recent years. In the early 2010s, strong house price growth (Chart 12) and robust transaction activity supported consumption through capital gains and sentiment effects. House price growth began to moderate from 2012 as housing demand cooled and speculative activities

Chart 12: Malaysia's House Price Index



Source: National Property Information Centre (NAPIC)

[11] Excess savings are measured as deviations of deposits from their HP-filtered long-term trend. Deposits comprise demand deposits, savings deposits, fixed deposits, tawarruq fixed deposits, special investment accounts and general investment accounts.

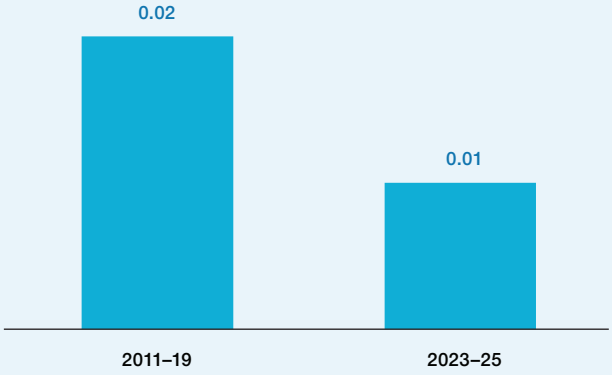
eased, alongside rising supply. Over time, the build-up of unsold units signalled emerging oversupply and placed additional downward pressure on prices. These developments dampened capital gain and softened the unrealised wealth channel. Although house prices growth picked up post-COVID, it has not returned to pre-pandemic average. Consequently, the marginal propensity to consume (MPC) out of housing wealth declined (Chart 13), reducing its contribution to consumption growth.

Credit uptake enables consumption smoothing in the short run but reduces disposable income over time via debt servicing burdens

Household debt plays a dual role in Malaysia's consumption dynamics. In the short term, access to credit enables households to smooth spending during income fluctuations and bring forward purchases of big-ticket items such as vehicles and durable goods. Over time, however, debt servicing obligations reduce disposable income, weighing on long-term consumption.

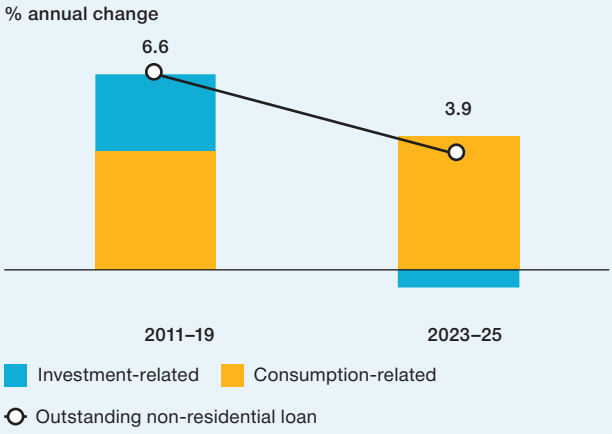
Before the pandemic, Malaysia's household non-residential debt[12] increased in tandem with economic activity, alongside wider and deeper financial access, reflecting broad-based growth in both consumption and investment-related borrowing.[13] As indebtedness increased, repayment burdens rose and weighed on spending. In recent years, growth in consumption credit has remained positive, even as borrowing for investment purposes, particularly for securities, has declined. Although outstanding household debt growth has eased slightly (Chart 14), the debt-to-GDP ratio has remained elevated at 84.8% as at end 2025 (2024: 84.1%; 2019: 82.8%). The slower pace of debt accumulation post-COVID has reduced the drag from debt, but debt-servicing burdens remains a factor weighing on private consumption growth.

Chart 13: Marginal Propensity to Consume Out of Net Housing Wealth



Source: Bank Negara Malaysia estimates

Chart 14: Outstanding Household Non-residential Debt



Source: Bank Negara Malaysia

[12] Residential debt has been included as part of net housing wealth.
[13] Consumption-related loans or consumption credit includes loans for personal use, motor vehicle and credit card. Meanwhile, investment-related loan includes loans to purchase securities and non-residential property.

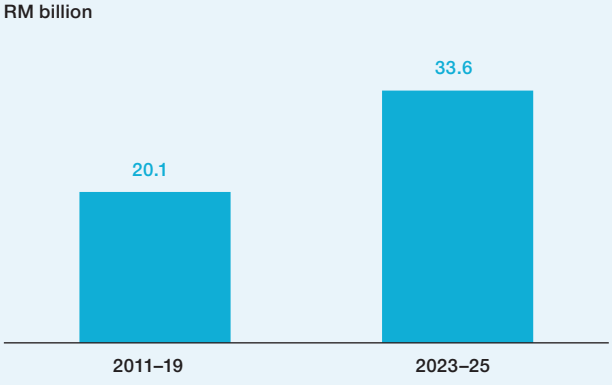
The rising role of policy support and self-employment income

Since 2019, factors beyond formal income and net wealth appear to be increasingly supporting household spending. This primarily reflects the growing role of Government assistance alongside higher income from self-employment.

Government policies continue to help ease financial burden, especially for lower-income households. While cash assistance and subsidies were already part of Malaysia's social protection framework prior to the COVID-19 pandemic, the scale and scope of the measures have expanded over the years to cushion households against rising living costs (Chart 15). For example, allocations for *Sumbangan Tunai Rahmah* (STR) and *Sumbangan Asas Rahmah* (SARA) reached RM15 billion in 2025, higher than RM5 billion allocated under *Bantuan Sara Hidup* (BSH) in 2019.

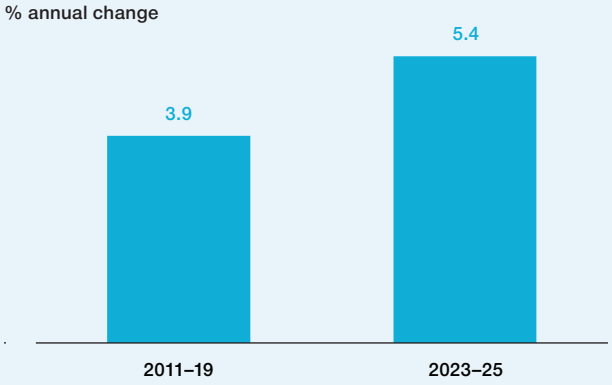
At the same time, the pandemic accelerated digital adoption in Malaysia and reshaped labour dynamics. This led to a growing prevalence of gig work and own-account activities such as delivery services and freelance jobs. Growth in own-account workers rose faster in the post-COVID period, averaging 5.4% compared with 3.9% pre-COVID (Chart 16), and they now make up approximately 20% of total employment.[14] As this work is outside formal wage employment, the earnings are recorded as mixed income rather than COE.[15] Mixed income posted growth of 11.1% in 2023 and 6.6% in 2024.[16] For many households, this additional source of earnings has helped sustain spending amid slower formal wage growth.

Chart 15: Spending on Social Assistance and Non–Fuel Subsidy to Households



Source: Bank Negara Malaysia estimates based on data from Ministry of Finance, Malaysia

Chart 16: Own Account Workers Employment Growth



Source: Department of Statistics, Malaysia

Part 3: Emerging Challenges for Consumption Sustainability

Moderating Structural Tailwinds

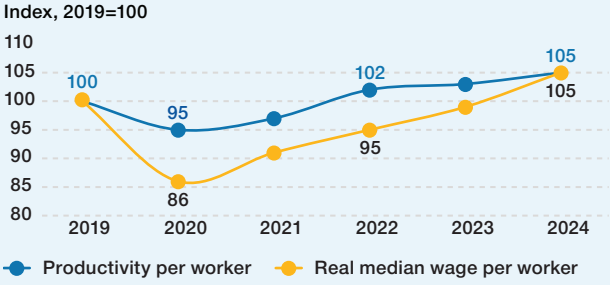
Several structural tailwinds that previously supported private consumption are now moderating. Malaysia is approaching the end of its first demographic dividend, as the population median age rises and the total dependency ratio is expected to bottom-out at 40.8 by 2034.[17] This leaves fewer workers to support a growing dependent population. Similarly, gains from urbanisation and improvement in inequality have moderated. The growth rate of urban population has slowed to under 2% annually since 2019 while Gini coefficient has hovered around 0.40 for over a decade.

[14] The share of own account workers is based on DOSM's Labour Force Statistics. For comparability, the 2024 growth rate is computed using the pre-rebased series (prior to the Population and Housing Census 2020 rebasing) to avoid a break in the time series.
[15] Mixed income combines the remuneration of work done by self-employed workers and the business's operating surplus from production. This includes income from hawkers, e-hailing and delivery riders, freelancers and other own-account work.
[16] Based on Economic Outlook 2026 by the Ministry of Finance, Malaysia.
[17] Department of Statistics, Malaysia (DOSM), Population Projections (2025).

Slower Wage Growth

Wages, which made up 62.9% of household income in 2024,[18] have grown only modestly over the past decade. Between 2010 and 2019, real[19] monthly median wages rose from RM1,500 to RM2,010, equivalent to a 3.3% compound annual growth rate (CAGR). Wages even fell below productivity during COVID-19. Although wages recovered thereafter, the CAGR of 0.9% during 2019–24 remained below pre-pandemic trend and growth in productivity (CAGR: 1.1%). Wages caught up with the cumulative productivity gains only in 2024 (Chart 17). Undoubtedly, Malaysia's labour productivity performance has room for improvement relative to aspirational comparators (2021-24 avg. Malaysia: 2.8%, Singapore: 3.4%, UK: 3.2%, China: 5.2%). Even at Malaysia's current stage of productivity development, workers receive a relatively smaller share of national income compared with regional and advanced economies, as reflected in the lower compensation of employees share of GDP (Chart 18).

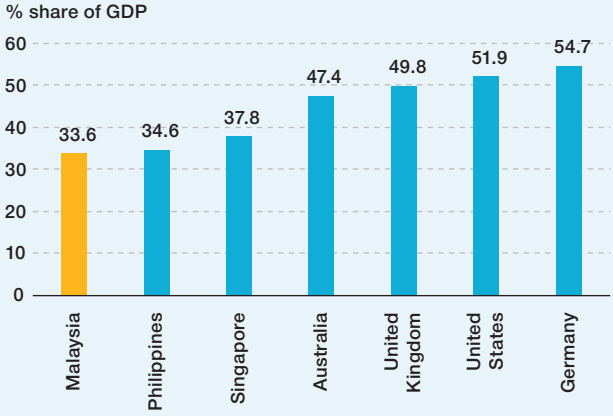
Chart 17: Productivity vs Real Wage (2019–24)



Note: Real median wage is estimated by deflating nominal median wage with Consumer Price Index, with 2010 as the base year. Productivity is defined as real value added per worker.

Source: Salaries and Wages Survey Report, Consumer Price Index and Labour Productivity Statistics by the Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Chart 18: Compensation of Employees in 2024



Source: Economic Outlook 2026 by the Ministry of Finance, Malaysia

Several structural factors may explain Malaysia's subdued wage outcomes.[20] Firstly, over the last seven years, the economy has not generated enough high-skilled, high-paying jobs, reflecting slow progress in moving towards more technology-intensive production. Secondly, heavy reliance on low-cost foreign labour reinforces low-value production models and further suppresses wage growth, especially in low- and semi-skilled roles. Thirdly, gaps in broader labour market ecosystem, such as persistent skills mismatches and uneven access to quality, relevant skilling opportunities, also limit workers' ability to access better-paying jobs. Fourthly, during COVID-19, many firms retained their workers despite lower output,[21] which preserved employment but dampened wage adjustments in the recovery period.

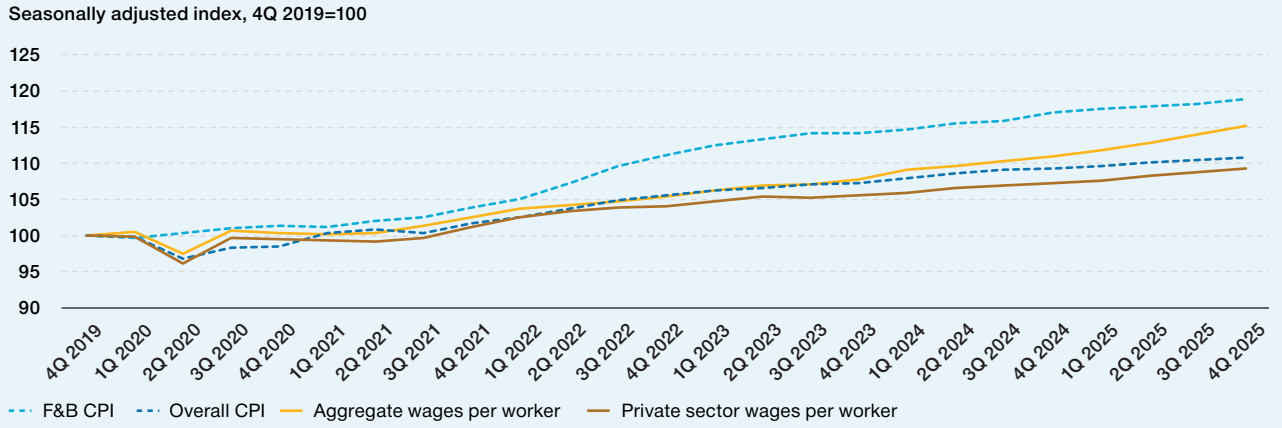
Persistently weak wage growth has two potential implications for the sustainability of household spending. Firstly, under the permanent income[22] and life-cycle hypotheses,[23] spending decisions reflect both current earnings and expectations of future income. Slower wage growth signals weaker future earnings, causing prudent households to slow their consumption. Secondly, some households may treat the income weakness as temporary or face frictions in adjusting consumption. To maintain their spending, they may increasingly draw down on savings, increase borrowing, or make use of available policy support. However, prolonged reliance on the non-income channels has its own sustainability risks.

[18] Based on the Department of Statistics, Malaysia Household Income Survey Report 2024, other sources of household income are income from self-employment (14.8%), income from property & investment (11.7%) and income from current transfers (10.6%).
[19] These real monthly median wages are estimated by deflating nominal median wage with the Consumer Price Index, with 2010 as the base year.
[20] For further details, please refer to the box article 'The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities' in BNM's Economic and Monetary Review 2023.
[21] For further details, please refer to the BNM Working Paper 4/2025 'Balancing Wages: Investigating Labour Hoarding Dynamics in Malaysia'.
[22] Friedman, M. (1957). The Permanent Income Hypothesis. In A Theory of the Consumption Function (pp. 20–37). Princeton, NJ: Princeton University Press.
[23] Modigliani, F. (1954). 'Franco Modigliani and the Life Cycle Theory of Consumption.' In The Life Cycle Hypothesis as a Tool of Theory and Policy, edited by J. J. Arrow, 1–22. Cambridge University Press.

Cost of Living Pressure

Cost of living concerns have intensified following higher prices during the post-pandemic reopening. Although inflation has stabilised since 2023, price levels remain elevated relative to the pre-COVID period.[24] While aggregate wage per worker growth tracked headline inflation, it has not matched the sharper increases in food and beverage (F&B) prices (Chart 19). In the private sector, wage growth lagged both overall and F&B inflation. The pressure is more pronounced for lower-income households, for whom F&B spending constitutes a larger share of total expenditure.[25] In this environment, income transfers continue to provide an important buffer, with their share of total household income increasing to 10.6% in 2024 compared to 8.2% in 2019.[26]

Chart 19: Consumer Price Index (CPI) & Wages



Note: CPI data use seasonal adjustment by Department of Statistics, Malaysia while seasonal adjustment for wages is done using X-13 ARIMA-SEATS method. Wages are in nominal terms.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Sustainability of Fiscal Support and Its Trade-Offs

Government support has played an important role in helping lower income groups cope with cost-of-living pressure. However, fiscal space is limited, and prudence requires careful prioritisation of Government spending. Over time, greater fiscal allocation on recurrent cash assistance will reduce room for public investments that strengthen productive capacity, such as education and public infrastructure. Without effective exit mechanisms, prolonged household reliance on cash transfers increases exposure to shifts in fiscal priorities and could complicate fiscal consolidation and retargeting efforts. These challenges are likely to intensify over the longer term as population ageing raises structural demands on healthcare and social protection.

Moderation in Accumulation of Household Liquid Buffers

As households draw down pandemic-era savings, liquid savings has moderated and the pace of buffer rebuilding has been more gradual. While household liquidity positions remain adequate with outstanding liquid asset exceeding household debt, liquid financial asset-to-debt ratio has eased alongside lower household savings rate (Chart 20).[27] This trend aligns with the moderation in residual income, as reported

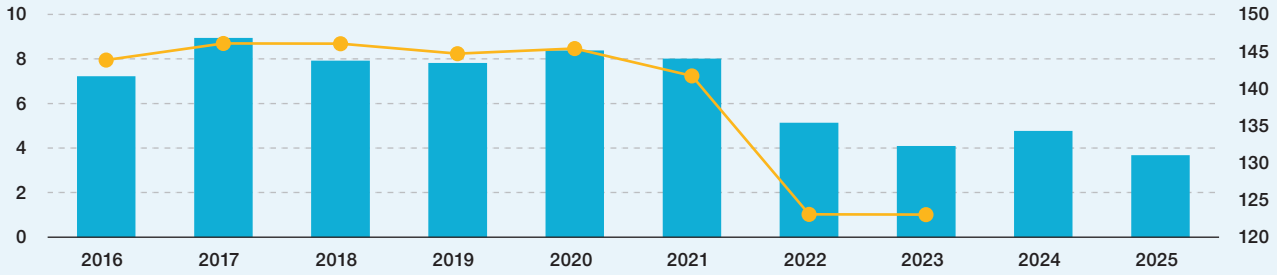
[24] For further details, please refer to the box article 'Curbing Inflation, Easing Costs: The Policy Perspective' in Bank Negara Malaysia's Annual Report 2024.

[25] Based on the Household Income and Expenditure Survey (HIES) 2024, food and beverage spending (including meals at restaurants) constitutes the largest component of household spending at 32%. By income group, B40 households allocate the highest share to food at 37%, followed by M40 at 34% and T20 at 27%.

[26] This share is based on HIES, where transfers include government cash assistance, remittances from other households, pensions, alimony and gifts.

[27] Liquid financial asset-to-debt ratio measures the sum of deposits, unit trust funds, investment in equities and surrender value of insurance policies divided by total outstanding household debt.

Chart 20: Household Savings Rate and Liquid Financial Asset-to-Debt Ratio



Note: Household savings rate, which is based on the National Economic Accounts, is only available up to 2023.

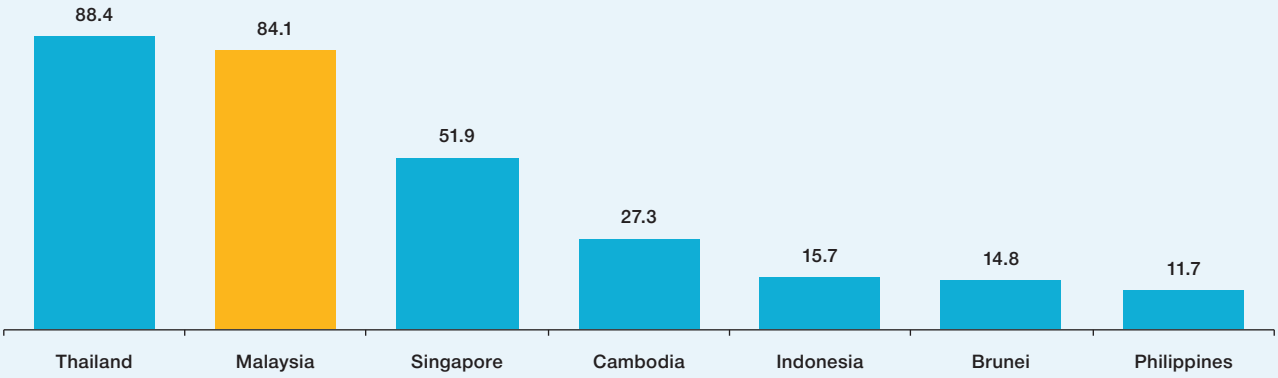
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

by Khazanah Research Institute (KRI), which declined across all gross income deciles between 2019 to 2022.[28] From a longer-term perspective, retirement adequacy risks are evident across age groups, with KRI noting that over 90% of EPF members under 30, and most aged 30–54 do not meet the basic savings benchmark for retirement.

Elevated Household Debt

Malaysia's household debt-to-GDP ratio remains high by regional standards (Chart 21). High leverage increases the sensitivity of consumption to adverse shocks, particularly for low-income and highly indebted groups.[29] When income falls and repayments remain fixed, debt service takes up a larger share of income, reducing flexibility to maintain spending. At the same time, such borrowers have limited capacity to borrow further for consumption smoothing. Taken together, these factors imply that shocks to income may lead to more pronounced spending adjustments, heightening downside risks to private consumption.

Chart 21: Household Debt-to-GDP Ratio (2024)



Note: For Thailand, Malaysia and Singapore, the data include household loans from all financial institutions. Meanwhile, the figures for Indonesia Brunei and Philippines cover only household debt within the banking system. Malaysia'a household debt-to-GDP ratio based solely on the banking system stood at 69.5% in 2024.

Source: CEIC, national authorities

[28] This is based on KRI State of Household 2024, where residual income is defined as excess of income over consumption expenditure.

[29] This is observed in Japan, where highly indebted households exhibit higher marginal propensities to consume (Nakajima 2018), and in Australia and the United States, where households with high debt and limited liquidity display stronger consumption responses to monetary tightening (Loukoianova, Wong and Hussiada 2019; Gelos et al. 2019). Vulnerability is greatest among lower-income groups. IMF stress-tests for China indicate that low-income, highly indebted households face larger consumption declines and higher default risks when adverse shocks materialise (Han et al. 2019).

The Rise of Gig Worker and Income Volatility

Gig employment often substitutes stable and predictable wages with more volatile and uncertain earnings. A recent study by the World Bank finds that informally employed workers, including many gig workers, consistently earn less than formal workers, with earnings concentrated at the lower end of the income distribution.[30] Gig work also provides fewer opportunities for skill accumulation, career and wage progression, limiting upward mobility over time. The Government's introduction of the Gig Workers Bill 2025 marks a significant step in formalising gig work and strengthening social protections for gig workers.[31] Nevertheless, gaps in income stability, retirement savings accumulation and employment benefits relative to formal employment would remain.

Part 4: Policy Imperatives

This section outlines three key policy imperatives to support the sustainability of private consumption growth, namely raising household income; maintaining price stability through low and stable inflation; and harnessing the second demographic dividend.

(a) Raising Household Income

Given the central role of private consumption in driving GDP growth, a key focus area for sustaining economic momentum is to raise Malaysian incomes in a durable way. Higher and more predictable income growth would improve households' expectations of future earnings and reduce the need to increase borrowing or drawdown their savings. This would in turn ease pressures from elevated household debt and help households better absorb cost of living pressures.

To achieve this, Malaysia could benefit from structural reforms that support industrial upgrading, better jobs and skills development. Recent strategies such as the National Industrial Masterplan (NIMP2030), the National Semiconductor Strategy (NSS) and the National Investment Aspirations (NIA) aim to attract quality investments and shift Malaysian firms towards more complex, high-value activities that generate more high-skilled job opportunities. As of September 2025, focus sectors under the NIA framework have attracted RM137.9 billion in investments, with projects expected to generate more than 49,000 jobs.[32] Efforts are also underway to strengthen education and skills development,[33] including reforms to technical and vocational education and training (TVET) and expanded industry-linked training initiatives. Additionally, workers should have continuous opportunities to upgrade their skills and participate in lifelong learning. Continued improvements in governance, coordination and alignment with industry needs are critical to enhance workforce adaptability. At the same time, rationalising foreign labour policies will also play a role in strengthening incentives for firms to invest in capital-deepening, while still being able to meet genuine labour shortages.

To meaningfully raise incomes and strengthen purchasing power, Malaysia must also strengthen the institutions that shape how wages are set between employers and employees. The introduction of the minimum wage in 2013, and its subsequent revisions, which progressively raised the wage floor from RM900 to RM1,500, marked a significant step toward correcting institutional imbalances. During the decade leading up to the pandemic, wage inequality declined[34] and labour income share improved (Chart 22).

However, as the minimum wage mainly affects the lower end of the wage distribution, repeated adjustments have narrowed wage differentials between low- and semi-skilled workers (2024: RM396, 2016: RM550), reflecting wage 'bunching' around the statutory minimum (Chart 23). In other words, rather than encouraging broad-based wage growth, it is observed that the minimum wage has not proportionally raised wages for workers in the middle of the pay distribution. To support broader, more

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30 World Bank (2024). Informal employment in Malaysia: Trends, challenges and opportunities for reform.

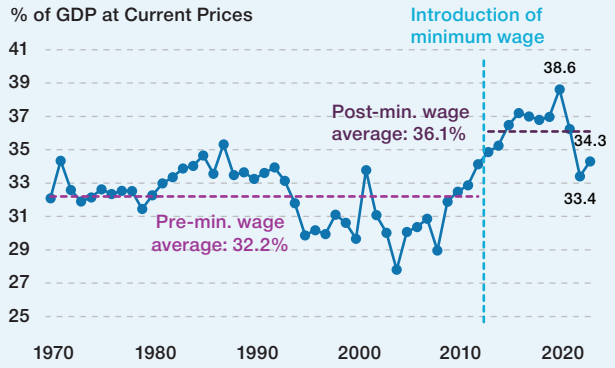
31 The Gig Workers Bill 2025 establishes Malaysia's first comprehensive legal framework for gig workers, granting statutory rights such as fair contract terms, payment transparency, access to dispute resolution, and protection from unjust termination. It also mandates minimum service agreement standards, requires platform providers to make Social Security Organization (SOCSO) deductions and contributions from gig workers' earnings, imposes occupational safety obligations on contracting entities, and creates a new Gig Workers Tribunal to provide accessible and efficient dispute resolution. Source: Parliament of Malaysia. (2025). Gig Workers Bill 2025 (D.R.27/2025). Retrieved from (*https://www.parlimen.gov.my/*).

32 MIDA (2025) 'Malaysia's RM286.2 Billion Approved Investments in 9M 2025 Up 13.2% Y-O-Y, Defies Global Headwinds, Creates Over 150,000 Jobs'.

33 For further details, please refer to the box article 'The Case for Labour Market Reforms in Malaysia: Challenges and Opportunities' in BNM's Economic and Monetary Review 2023.

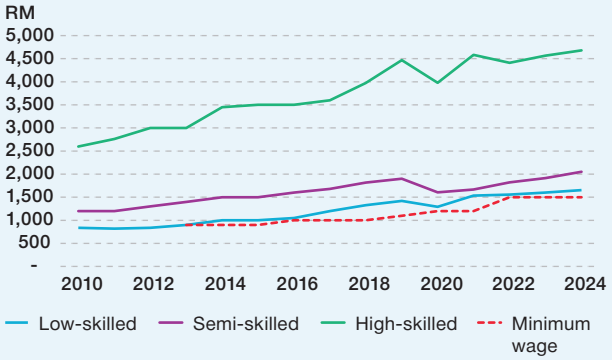
34 Khazanah Research Institute (2023) 'The Returns to Malaysian Labour – Part I'.

Chart 22: Time Series of Malaysia's Labour Income Share



Source: APO Productivity Databook 2025 by the Asian Productivity Organization and Bank Negara Malaysia estimates

Chart 23: Median Nominal Wages by Skill Category



Source: Salaries and Wages Survey Report by the Department of Statistics, Malaysia and Federal Government Gazette

durable income growth, Malaysia will need to further develop its wage-setting institutions beyond the minimum wage. International experience shows that complementary mechanisms, such as wage guidelines, living wage[35] standards and coordinated wage-setting can help link wage growth to national priorities like productivity, competitiveness and price stability. For example, Japan's Shunto system is an economy-wide process that helps anchor wage expectations and link wage increases to broader macroeconomic conditions. Adapting these principles to Malaysia's context would help rebalance bargaining power and ensure that rising productivity consistently translates into higher incomes for workers. In this regard, the Thirteenth Malaysia Plan (13MP) outlines commitments to labour market reforms, including strengthening the role and mandate of Majlis Perundingan Gaji Negara (MPGN), encouraging large firms to adopt living-wage practices and promoting a shift from reliance on foreign labour toward greater automation, mechanisation and hiring of local workers.

(b) Maintaining Low and Stable Inflation

Besides income growth, low and stable inflation are also key to ensuring sustainable consumption among households. Bank Negara Malaysia, through its conduct of monetary policy, continues to ensure that inflation remains low and stable, which in turns help with maintaining household purchasing power. The Government has also introduced time-bound measures to alleviate food costs in the short term. Targeted production subsidies and price ceiling for essential food items experiencing temporary supply disruptions helps cushion vulnerable households from a sharp increase in cost of living.[36] However, such interventions are not without challenges. For instance, chicken price controls and subsidies were introduced in February 2022 to stabilise prices and production amid higher feed costs.[37] Despite the subsidies, this has caused a shortage of chicken supply that persisted into mid-2022.[38] These controls distorted market incentives, disrupted production and eventually necessitated the easing of chicken import requirements and the extension of subsidies[39] to fulfil the domestic supply. Thus, in the medium to long-term, supply-side policies should be in place to raise productive capacity. Investment in infrastructure and funding for the research and development of high-growth-high-value sectors helps with expanding domestic production thus keeping the prices of essential goods affordable. Externally, relevant government agencies should work closely with industry stakeholders to diversify sources of food products to mitigate future supply disruptions. Such efforts would enable domestic importers to respond more nimbly by securing purchase orders from alternative supplies, helping to keep food inflation low and stable.

(c) Harnessing the 'Second Demographic Dividend'

As Malaysia's population ages, policies must actively harness the 'second demographic dividend', defined as productivity-enhancing economic gains that arise when an ageing population accumulates more savings, wealth, and human capital. Economic literature highlights that, unlike the first demographic dividend, the second dividend is not automatic. It must be enabled through reforms

[35] For further details, please refer to the box article 'The Living Wage: Beyond Making Ends Meet' in BNM's Annual Report 2017.
[36] For further details, please refer to the box article 'Closing the Food Gap: The Role of Structural Improvements in Agrofood Sector' in BNM's Third Quarter of 2021 Quarterly Bulletin.
[37] (*https://www.straitstimes.com/singapore/malaysia-bans-chicken-exports-from-june-1-how-singapore-consumers-businesses-are-coping*).
[38] Mohd Zulhelmi etal (2023) Malaysia's Chicken Shortage, A Solution Proposal Through Consumerism, JABM.
[39] USDA (2022) Malaysia Extends Price Support Subsidy for Poultry Products.

that raise national savings, strengthen social support systems and increase productivity through targeted capital investments.[40] A key priority is to continue broadening retirement savings coverage, particularly among informal workers such as micro-entrepreneurs and gig workers. Ongoing measures such as default EPF enrolment for platform-based workers, matching contributions for lower-income informal workers, and simplified contribution channels through e-wallets and payment platforms would directly strengthen their long-term financial buffers. These policies may temporarily come at the cost of lower short-term income and consumption, but they improve retirement adequacy and reduce vulnerability to income shocks in the long run. The pooled savings would then need to be strategically intermediated into sectors with strong productivity spillovers. In practice, this means ensuring that domestic institutional savings are intermediated into priority investments outlined under the various national masterplans (e.g. NIMP 2030).[41] Such investments can raise Malaysia's capital-to-labour ratio, which in turn supports labour productivity growth[42] and sustained real wage growth even as the labour force contracts.[43]

At the same time, policies must tackle issues that hinder the enablement and empowerment of older Malaysians to remain economically and socially active. This includes scaling up elder care services such as nursing, rehabilitation, community-based healthcare support,[44] as well as ensuring adequate standards, staffing and financing models for these services. In parallel, labour policies should promote flexible work arrangements and phased retirement options that enable older Malaysians to remain economically active. Higher participation among older workers not only supports household income but also help support sustainable consumption as this demographic grows in economic significance.[45] Realising the second demographic dividend therefore requires coordinated execution of related policies to ensure that households continue to experience sustainable income and consumption growth in an ageing Malaysia.

Conclusion

Malaysia's economic landscape has changed significantly since the 1970s. Sustaining private consumption requires addressing pressures on household incomes and living costs. This calls for policies that deliver better-quality jobs, stronger wage growth and more responsive social protection, supported by efforts to keep prices stable. By building a more resilient foundation for households, Malaysia can ensure that private consumption remains a stable and sustainable engine of growth in the years ahead.

40 Manuel Mejido (2019) Harnessing the second demographic dividend, Social Development Working Papers.
41 EPF Commits RM250 Million Aimed At Catalysing Malaysian Mid-To-Growth Stage Companies.
42 World Bank (2025) Malaysia Economic Monitor: From Bytes to Benefits: Digital Transformation as a Catalyst for Public Sector Productivity (Box 3).
43 Goh (2009) Is productivity linked to wages? An empirical investigation in Malaysia.
44 Cassey Lee (2025) Demographic Change and Services: the case of Malaysia.
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