

Economic Focus

Balancing growth and external risks

31 March 2026

Research Analysts

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- **Strong fundamentals and net energy exporter status to buffer energy supply shock**
- **Resilient growth momentum to sustain in 1H26 despite heightened geopolitical uncertainties in Middle East**
- **Cautiously optimistic of 2026 growth prospects with 4.5% GDP growth**

Relatively well-positioned to navigate Middle East conflict

Escalating tensions in the Middle East have effectively closed the Strait of Hormuz, a key energy chokepoint through which about 20% of global oil and LNG supplies transit. This has heightened concerns over a potential energy supply shock that could undermine global growth. As a net energy exporter, Malaysia is relatively well-positioned to weather this disruption better than many of its Asian peers. While the short-term spike in crude oil prices may result in higher subsidy bills for the government, PETRONAS could benefit from higher selling prices, potentially leading to a higher dividend payout than the budgeted RM20bn in 2026 (vs RM32bn in 2025). Notably, Budget 2026 assumes crude oil price of US\$60-65/barrel, compared to the year-to-date average of US\$78. Nevertheless, as the Middle East accounts for 69% of Malaysia's crude oil imports, rising energy costs will strain transportation, logistics, and energy-intensive manufacturing sectors, possibly necessitating targeted government support.

Stable domestic demand

We believe steady domestic demand will remain a key pillar of growth in 1H26 on sustained household spending, further realisation of investment projects and firm tourism activity. The government has rolled out the RM2.2bn one-off financial handout of RM100 to all 22m adults in Feb 2026, of which ~60% has been spent within a month. The increase in financial assistance to the low-income group to a record RM15bn (vs RM13bn in 2025), together with a robust labour market and unemployment rate at an 11-year low, should support resilient domestic consumption. Meanwhile, tourist arrivals should remain positive on the back of Visit Malaysia 2026 campaigns and promotions with Asia accounting for 90% of tourist arrivals. While disruptions to Middle East transit routes may reduce tourist inflows from the US (1.5%) and the EU (5%), the effect should be outweighed by extended visa-free access for Chinese (15%) and Indian (5%) tourists. Approved investments continue to grow from strength to strength, scaling a new record in 2025 (+11% y-o-y) for the third consecutive year. This will ensure investment activities continue to gain traction in 2026.

Trade moderation could be milder than initially feared

For external trade, the new 10% US global tariff on 24 Feb 2026 in lieu of the previous 19% tariff offers some relief for global trade, though tariff levels are likely to remain fluid for now. Nevertheless, Malaysia's Jan-Feb 2026 exports already recorded an impressive y-o-y growth of 15%, accelerating from the healthy pace in 2025 (+6.4% y-o-y). In fact, Malaysia's 2026 exports could be boosted by rising oil prices, which has a broad transmission effect on commodities such as chemicals, petrochemicals and palm oils. Collectively, these products make up 20% of total exports.

In a position of strength

We are cautiously optimistic of Malaysia's economic outlook, and project 2026 GDP growth to come in at a relatively healthy pace of 4.5% y-o-y. Malaysia is well-positioned to benefit from firm domestic demand, underpinned by a robust labour market and strong economic activities. Furthermore, a diversified export base and a non-aligned policy - prioritising economic cooperation and integration - provide a vital buffer against geopolitical tensions. Key downside risks include lower-than-expected commodity production and slower global trade.

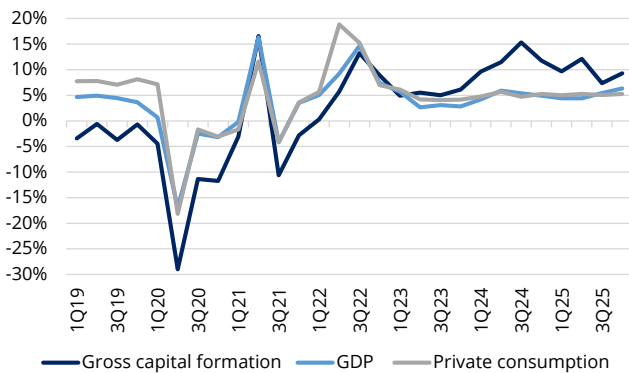
Economic Focus

Malaysia's economy remains resilient

We expect Malaysia to register a relatively healthy GDP growth of 4.5% in 2026 which is in line with the government's latest forecast of 4.0%-5.0%. We believe Malaysia's economy is coming from a position of strength as domestic demand is likely to remain resilient with sustained consumer spending and investment activities. Its strong fundamentals and diversified economic structure, coupled with government focus to spur higher economic growth will help ensure Malaysia's growth trajectory remains intact.

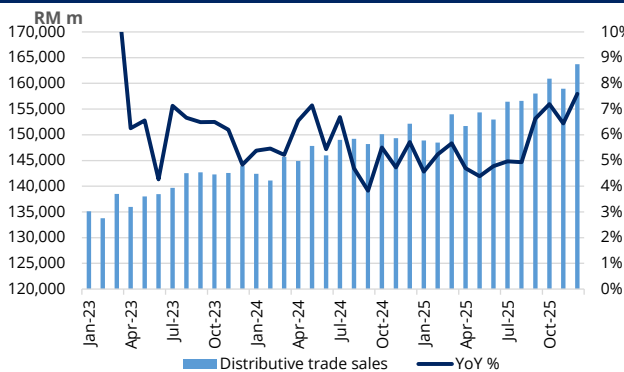
Private consumption, accounting for 61% of our economy, will continue to deliver satisfactory performance for Malaysia's economy, underpinned by robust labour market and sustained household spending, boosted by Visit Malaysia 2026. Meanwhile, private investment is expected to benefit from improved external environment and positive response to the National Energy Transition Roadmap (NETR) and the New Industrial Masterplan (NIMP) 2030 while the government continues with its expansionary fiscal policy to drive economic growth.

Malaysia's GDP growth



Source: AllianceDBS, CEIC

Monthly distributive trade sales



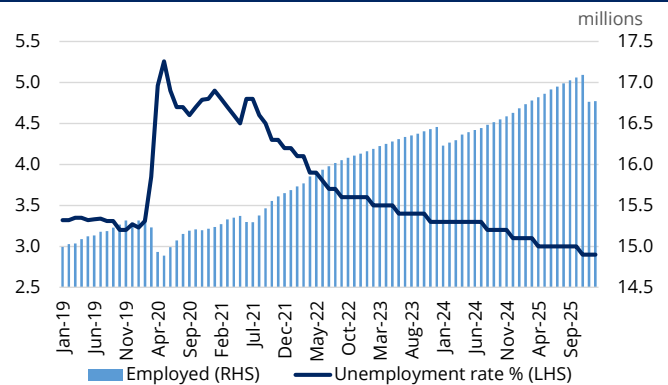
Source: AllianceDBS, CEIC

Robust labour market condition

Malaysia's economic growth momentum continues to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia's unemployment rate in Jan 2026 came in at 2.9%, compared to 3.1% in Jan 2025. Notably, we are encouraged by the continuous growth in the labour market with employment growth outpacing labour force expansion, lifting the labour participation rate to 70.9% in Jan 2026. This will certainly bode well for the economic outlook in 2026 given that domestic demand forms the bulk of our economy.

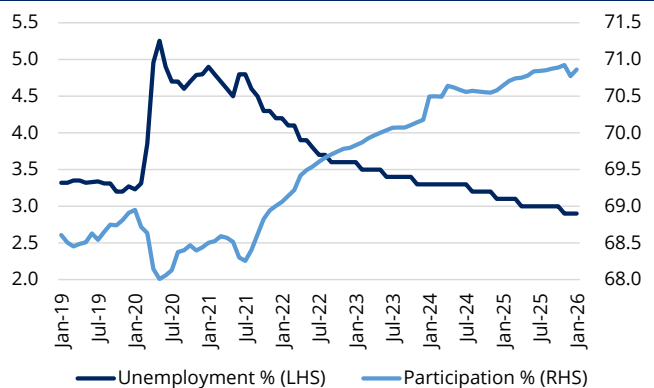
The robust labour market condition will ensure that the growing working-age population is met with higher employment opportunities. We believe Malaysia's unemployment rate will continue to stay low as more jobs are created with the realization of various investment activities.

Strong labour market



Source: AllianceDBS, CEIC

Favourable labour market dynamics

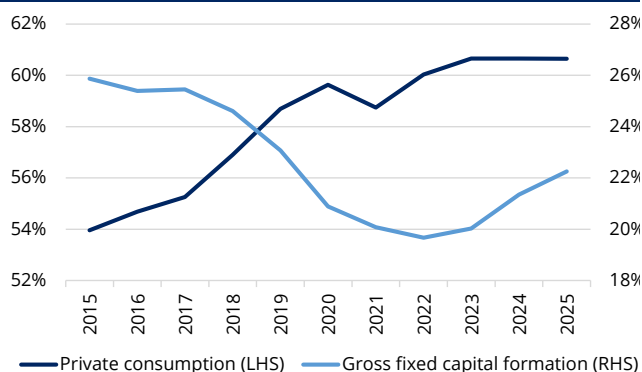


Source: AllianceDBS, CEIC

Growing momentum from investment upcycle

Thanks to the concerted efforts by the federal government to boost economic growth under the Madani Economy Framework, investment-driven spending has emerged as a new growth driver for Malaysia. The implementation of the strategic developments and flagship projects under the NETR and the NIMP 2030 will accelerate the economic take-off envisaged by the government to be a paradigm shift for Malaysia.

GDP share of consumption vs investment



Source: AllianceDBS, BNM, CEIC

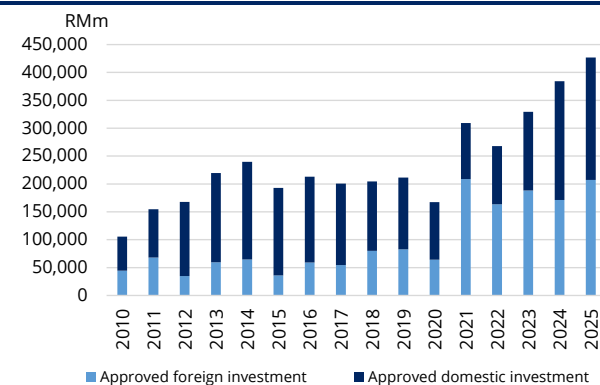
Indeed, the proactive strategy adopted by the government to revitalize the domestic economy has started to bear results as 2025 gross capital formation grew by 10% after a multi-year high growth of 12% in 2024. The positive impact arising from record-high approved investments in 2023-2025 and various government-led strategic developments under national blueprints is expected to provide further tailwinds in the subsequent quarters.

More importantly, the all-time high approved investments recorded in 2025 (+11% y-o-y) underscores Malaysia’s appeal as an attractive investment destination amid the heightened trade uncertainty. It is noteworthy that approved investments have been breaking record highs for three years consecutively. This signifies the strong confidence that foreign investors have in Malaysia, a traditionally non-aligned country which is expected to benefit from the US-China tensions, indirectly helping to uplift Malaysia’s industrial capabilities and boost its value-adding exports.

The NIMP 2030 particularly is poised to enhance the competitiveness of Malaysia’s manufacturing industry, leveraging on the global trend of “China + 1” strategy for industrial value chain diversification. In fact, the heightened US-China trade tensions have benefitted not only Malaysia but the entire ASEAN as a whole given the attractive value proposition offered.

Meanwhile, the government is also committed to revive economic growth in 2026 by undertaking various large-scale infrastructure projects which will create positive spillover effects to local businesses. Major projects such as Madani Submarine Cable (RM2bn), sovereign AI cloud (RM2bn) and Large-Scale Solar 6 (RM6bn) reflect government’s focus to drive high-value investments in advanced technology and renewable energy. In addition, various investments and financing are directed to high-impact sectors which are set to uplift Malaysia’s technological capabilities. All these come on top of the existing mega projects including the likes of RM50bn ECRL and RM3.7bn Johor-Singapore RTS which have progressed well so far.

Record-high approved investments



Source: AllianceDBS, BNM, CEIC

Some of the major government projects

Project	Investment RMbn	Timeline
Water-related investments	13.0	2026-2030
Penang LRT	10.0	2025-2030
Flood mitigation	2.2	2026
Airport upgrade in Penang, Sabah & Sarawak	2.3	2026
Large-Scale Solar 6 with 2GW	6.0	2026
Madani submarine cable	2.0	2026
ECRL	50.0	2018-2027
Johor-SG RTS	3.7	2021-2026
My Digital 5G	16.5	2021-2031
GLIC investments under GEAR-UP	30.0	2026

Source: AllianceDBS, MoF

Trade moderation could be less severe than feared

Malaysia continued to record resilient external trade in 2025 despite concerns over trade uncertainties amid US protectionist measures, thanks to Malaysia’s diversified export structure and deep integration into the global supply chain. This is reflected in Malaysia’s 2025 exports and imports which rose by 6.4% and 6.0% respectively. We believe the prospects for external trade in 2026 should remain steady.

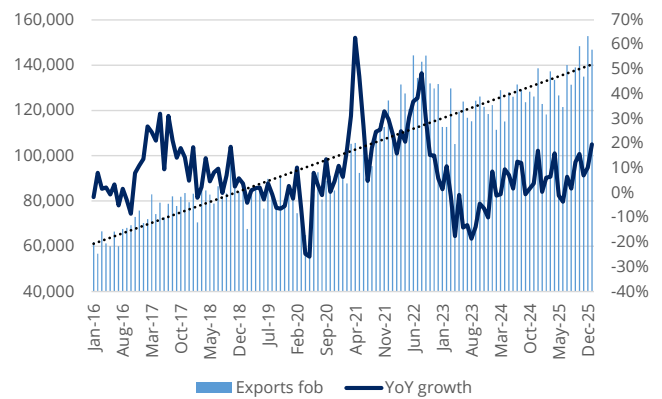
Despite the strong appreciation of MYR against USD in 2025 (+10% y-o-y), Malaysia’s export competitiveness remains undeterred especially on the E&E exports (+18% y-o-y) given our entrenched position in the global semiconductor supply chain, especially in the packaging, assembly, and testing services. With E&E exports accounting for ~45% of Malaysia’s total exports, the sustained expansion in AI-related technology demand and continued robust capital spending by multinational tech giants bode well for Malaysia, reinforcing the strength of its established technology ecosystem.

The new 10% US global tariff introduced on 24 Feb 2026, replacing the previous 19% tariff, offers some relief for global trade, although tariff levels are likely to remain fluid for now. US importers may take advantage of the relatively lower tariff to front-load shipments, which could provide a near-term boost to global trade. Nevertheless, Malaysia’s Jan-Feb 2026 exports already recorded an impressive y-o-y growth of 15% even before the lower tariff rate was imposed.

Escalating tensions in the Middle East have triggered sharp spikes in oil prices as the Strait of Hormuz is effectively closed, causing major disruptions to global energy trade. As a net energy exporter, Malaysia is relatively well positioned to weather the disruption better than many of its Asian peers. In fact, higher oil prices could provide a boost to Malaysia’s exports, given their broad transmission effects across commodities such as chemicals, petrochemicals and palm oil. Collectively, these products account for about 20% of total exports.

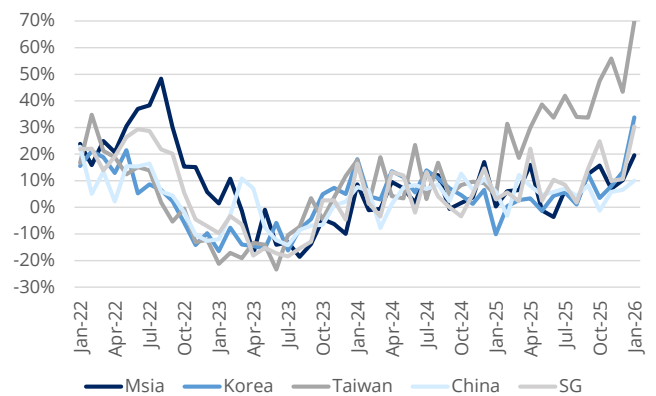
In addition, Visit Malaysia 2026 is expected to contribute to stronger exports given the extensive collaboration between the government and the private sector to promote the tourism sector. Notably, the government has allocated RM700m to ensure Visit Malaysia 2026 turns out to be a resounding success. Various tax incentives including 100% tax exemption for international-level conferences and exhibitions have also been introduced.

Malaysia’s monthly exports



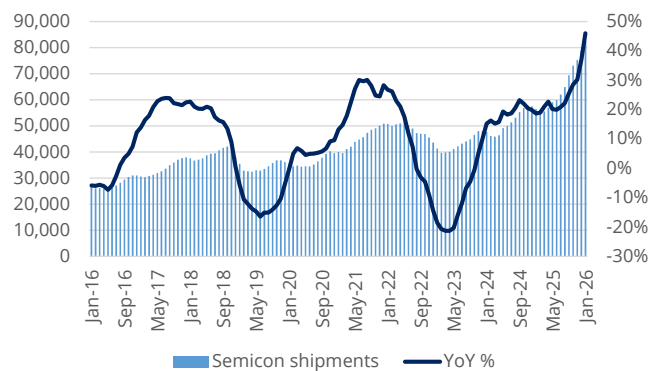
Source: AllianceDBS, CEIC

Positive exports growth for key Asian exporters



Source: AllianceDBS, CEIC

Global semiconductor shipments

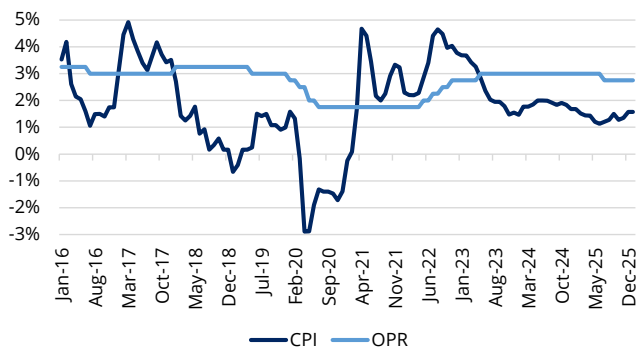


Source: AllianceDBS, SIA, CEIC

Steady loans growth momentum

In Jul 2025, Bank Negara Malaysia (BNM) cut its benchmark OPR rate by 25bps to 2.75% which marked the first interest rate cut in five years. It was highlighted by BNM that the OPR reduction was a pre-emptive measure aimed at preserving Malaysia’s steady growth path amid moderate inflation prospects. The accommodative move is likely to further stimulate Malaysia’s economy in 2026.

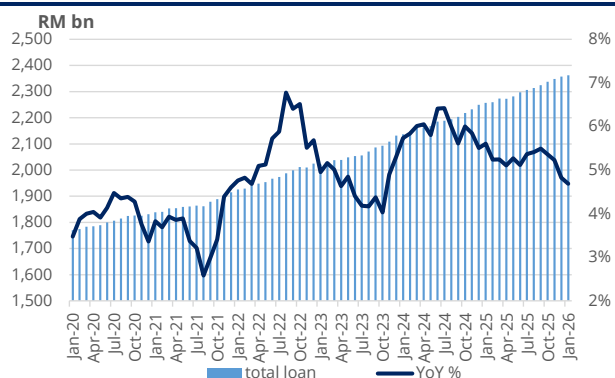
Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

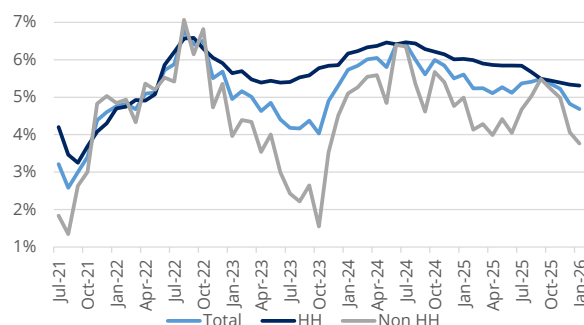
Our headline inflation remained moderate at 1.6% in Jan 2026. While global commodity prices have surged recently driven by intense geopolitical tensions in the Middle East, the impact on domestic inflation is expected to be contained, thanks to government’s subsidies. We believe the positive real rates are likely to continue in the near term, reflecting continued expansion in economic activity and the absence of excessive demand pressures.

Banking system loans growth



Source: AllianceDBS, BNM

Loans growth remain at healthy levels



Source: AllianceDBS, BNM

Malaysia’s banking system has been seeing steady credit demand with Jan 2026 loans growth coming in at 4.7% (vs 5.6% in Jan 2025). While the growth momentum has moderated, it remains at a sustainable pace following two years of rapid expansion. We believe resilient domestic demand will continue to underpin banking sector loans growth in 2026, notwithstanding external uncertainties.

Normalising liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply was steady at 3.7% in Jan 2026 (3.4% in Jan 2025). We believe the healthy domestic economy will ensure that domestic liquidity remains robust, with continued orderly functioning of the financial market. Household spending will continue to be underpinned by improvements in labour market conditions and income prospects.

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