ALLIANCEDBS RESEARCH

Economic Focus

2026 outlook: Steadily charting growth

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- **Strong underlying fundamentals cement position of strength in the face of trade moderation**
- **Visit Malaysia 2026 underpins a strong year of robust economic activities with strong consumption as positive spillover**
- **Cautiously optimistic on 2026 prospects with 4.3% y-o-y GDP growth**

Domestic demand remains positive

We remain positive of a sustained growth trajectory in 2026 under the Madani Economic Framework, supported by an expansionary yet prudent fiscal spending as well as healthy private expenditure. Malaysia's 3Q25 economic performance is a strong testament of the country's solid fundamentals. Despite the initial concerns over trade uncertainties, 3Q25 GDP grew stronger than expected at 5.2%, compared to 1H25 GDP growth of 4.4%. Robust labor market with low unemployment rate of 3.0% and historic high labour force participation rate ensures resilient and steady domestic consumption. Meanwhile, tailwinds from investment renaissance backed by record high approved investments in 2021-2024 underpins the steady growth momentum for capital expenditure in 2026, lending further support to domestic demand.

Plethora of growth drivers to offset trade moderation

While uncertainties surrounding US trade policies are receding, the full impact of US trade tariffs is likely to result in moderating external trade in 2026. We take comfort that the economic fallout is expected to be minimal given Malaysia's diversified export structure and deep integration into global supply chains as well as the recent conclusion of Malaysia-US Reciprocal Trade Agreement in Oct 2025. Following the successful 2025 ASEAN chairmanship, 2026 will witness the signing of the ASEAN Digital Economy Framework and the commencement of the Vietnam-Malaysia-Singapore power grid – the first phase of ASEAN Power Grid – both of which will enable Malaysia to advance its high-growth high-value agenda under the New Energy Transition Roadmap (NETR) and New Industrial Master Plan (NIMP) 2030. Meanwhile, Visit Malaysia 2026 is set to be a major growth catalyst, targeting ~47m foreign visitors (vs 40m in 2025) to propel Malaysia's economic growth.

Prudent Budget 2026 to build on a strong foundation

Budget 2026 showcases the government's commitment to pursue fiscal consolidation and rebuild fiscal buffer for long-term sustainability. Notably, PETRONAS dividend will fall significantly to a 9-year low of RM20bn in 2026 from RM32bn in 2025, illustrating the government's fiscal discipline. Financial assistance to the low-income group will be boosted by 15% to a record high of RM15bn (vs RM13bn in 2025) and various income tax reliefs on healthcare, education and insurance have been increased/extended, which will ensure household disposable income remains intact. More importantly, 2026 budget deficit will fall to the lowest since 2019 at 3.5% (vs 3.8% in 2025), as the government is committed to achieve its medium-term deficit target of 3%.

Cautiously optimistic

We are optimistic of Malaysia's economic outlook, and project 2026 GDP growth to come in at 4.3%, which is in line with the government's forecast of 4.0%-4.5%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Key downside risks include slower-than-expected recovery in external demand and heightened geopolitical tensions.

Receding global trade uncertainties

The new US administration introduced considerable trade uncertainties in 2025 with its punitive import tariffs that have disrupted global trade orders with wide-ranging negative repercussions affecting its trading partners across the world. Since the unveiling of the sweeping US import tariffs on "Liberation Day" in Apr 2025, multiple rounds of talks and negotiations have taken place, as affected economies work to ease tariff pressures by securing revised trade arrangements with the US.

Over the past few months, the US has sealed several trade deals with key trade partners including Japan, the EU, China and South Korea which helps to boost financial market sentiment. Nevertheless, the US is estimated to face an average tariff rate of ~17% for imported goods, compared to 2.5% at the beginning of 2025, according to The Budget Lab at Yale.

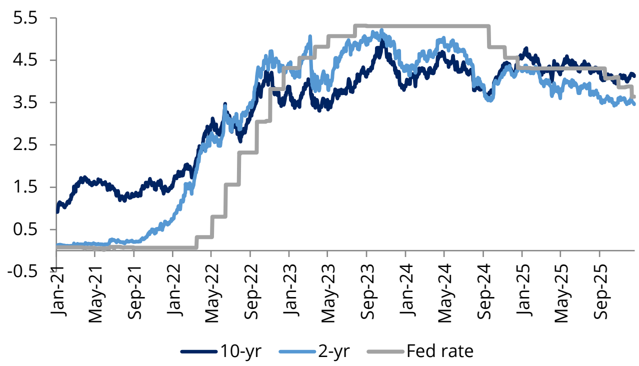
Notwithstanding the challenging global environment arising from US trade protectionism and escalating geopolitical conflicts, global economic growth trajectory has remained resilient thus far. Global growth has held up better than expected as artificial intelligence investment boom, fiscal support and global monetary easing help to provide support for growth trajectory. In fact, the latest Fed's projection has upgraded the US economic growth to 2.3% in 2026 (from 1.8%) while inflation is forecast to come in lower at 2.4% (from 2.6%).

Nevertheless, a moderation in global trade in 2026 is expected as the full impact of the punitive reciprocal tariffs imposed on US imports is likely to affect economic activities on the ground. For instance, China's exports to the US have plunged sharply by 19% for 11M25 although overall exports still grew by 5.4%. This reflects a realignment and restructuring of global manufacturing value chains to be more diversified and regionally-oriented to ensure trade resilience. It is noteworthy that China has employed a different play book in confronting US trade tensions this time around as China has diversified its exports and extended its dominance in critical supply chains such as rare earths, underscoring its trade resilience.

Despite the sharp tariff hikes, US headline inflation remains relatively tame due to falling energy prices, partial pass-through and absorption by firms and shifts in sourcing strategy helping to offset robust domestic price pressures in services. There has also been intense front-loading of imports and inventory build-up prior to the implementation of import tariffs to ensure minimal supply disruptions.

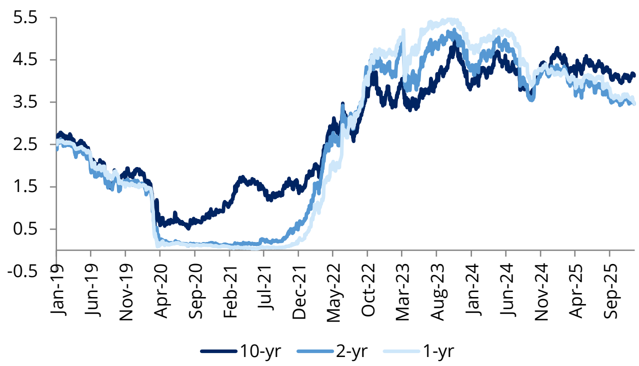
The Fed has delivered three rounds of interest rate cuts of 25 bps each in 2025 as per its summary of economic projection in Sep 2025. Nevertheless, the Fed's projection only indicates one rate cut of 25 bps to 3.25%-3.5% by end-2026 as the policymakers continue to balance between a weaker jobs market and inflation risk ahead from tariffs while financial markets are looking at more rounds of rate cuts.

Fed rate vs Treasury yields



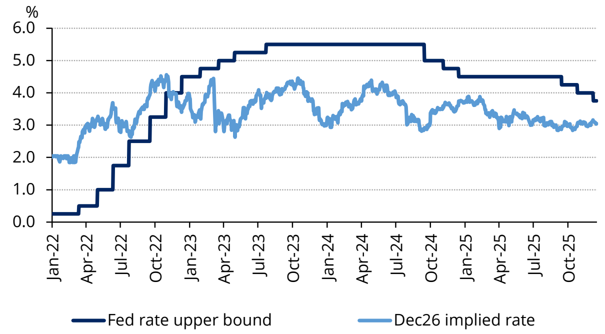
Source: AllianceDBS, Bloomberg Finance L.P.

US Treasury yields remain elevated



Source: AllianceDBS, Bloomberg Finance L.P.

Fed funds futures price in more rate cuts in 2026



Source: AllianceDBS, Bloomberg Finance L.P.

While the slowing labour market in the US has worked in favour of the Fed to loosen its monetary policy, concerns of inflation remain unabated. The Trump administration may still shift the dynamics unexpectedly given the unpredictable nature of his policies. The pace of interest rate cuts in 2026 remains highly debatable going by the volatile swings in the financial markets in 2025. The interest rate outlook can fluctuate wildly within a short span of a few months, underlining the difficulty in making accurate projections of its future trajectory.

The Congressional Budget Office has projected US budget deficit to hover around 5%-6% over the next 10 years which will continue to add on the huge debt pile of the US government. Without a clear path to fiscal discipline, treasury yields are likely to remain at elevated levels as reflected in the rising term premium. Investors are also more conscious of long-term fiscal risks though the appeal of US treasuries as a safe-haven asset remains.

IMF's world economic outlook projections

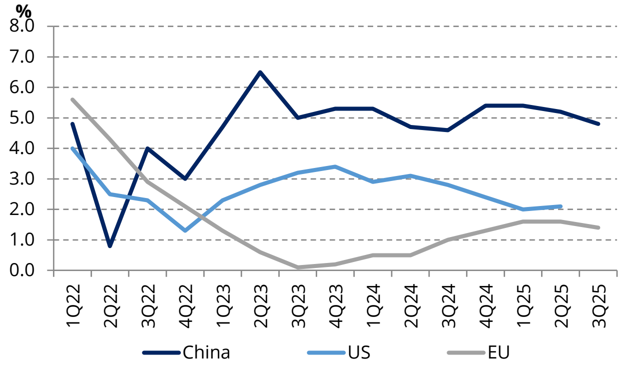
Region, country	Oct 2025			Oct 2024	
	2024	2025	2026	2024	2025
World	3.3	3.2	3.1	3.2	3.2
US	2.8	2.0	2.1	2.8	2.2
UK	1.1	1.3	1.3	1.1	1.5
Euro area	0.9	1.2	1.1	0.8	1.2
China	5.0	4.8	4.2	4.8	4.5
India	6.5	6.6	6.2	7.0	6.5
Japan	0.1	1.1	0.6	0.3	1.1
Emerging & developing economies	4.3	4.2	4.0	4.2	4.2

Source: AllianceDBS, IMF

Based on the World Economic Outlook Oct 2025 by the International Monetary Fund (IMF), global economic growth is expected remain stable at 3.2% and 3.1% for 2025 and 2026, respectively. Notably, the US remains a key growth driver for advanced economies while emerging Asia such as China and India is expected to bolster global growth with their strong domestic demand. Meanwhile, global headline inflation has largely subsided, thanks to the overall moderation in goods prices though services price inflation remains elevated in many countries.

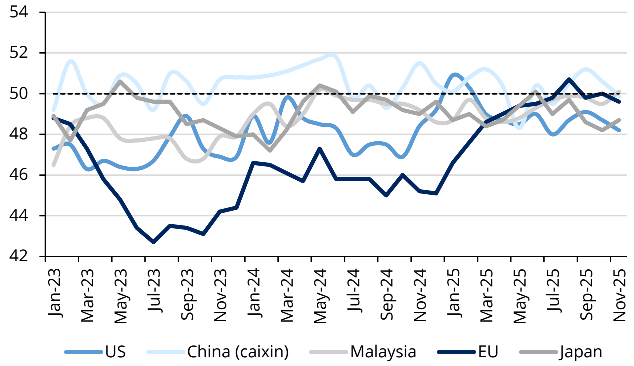
Compared to a year ago, IMF's economic projections indicate that global economic growth momentum has been rather resilient, thanks to monetary easing undertaken by global monetary authorities and front-loading of trade and investment. 2026 global outlook may continue to remain stable, though risks are tilted to the downside amid persistent trade uncertainties and fragmentation.

Y-o-y GDP growth for major economies



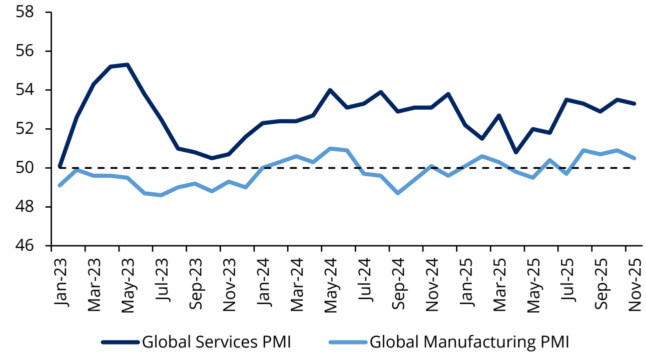
Source: AllianceDBS, Bloomberg Finance L.P.

Manufacturing PMI



Source: AllianceDBS, Bloomberg Finance L.P.

Global PMI



Source: AllianceDBS, Bloomberg Finance L.P.

Meanwhile, China's growth trajectory in 2026 will be closely monitored by market participants as it grapples with deflation risks and property slump. China has stepped up efforts to spur investment and consumption in 2025 to boost domestic demand, and this is likely to continue in 2026 as it enters its 15th Five-Year Plan (2026-2030). Some of the key priorities are advancing high-tech sectors including semiconductors, renewable energy, digital manufacturing, reflecting its push for technological autonomy and industrial resilience.

Monetary and fiscal policies are expected to remain accommodative to stabilise growth in the economy which continues to face structural challenges such as shrinking population and property downturn. Intensified efforts are likely to focus on boosting consumption given the persistent drag from its fragile property sector. China has recently released its new 19-point plan that promotes consumer goods upgrades, expands live-streaming retail and strengthens employment and income.

Meanwhile, direct confrontation between China and the US is likely to tone down as China's export controls on rare earth has proven to be a trump card in preventing further US escalations and sanctions. Nevertheless, economic rivalry between the two economic superpowers will continue in more indirect forms. In addition, China continues to reiterate its commitment to self-sufficiency on the technology frontier to substitute US components with domestic alternatives.

Key risks to global economy in 2026 include slower-than-expected growth in trade activities and heightened geopolitical conflicts that have remained unabated. The global trend of de-globalisation has continued to gain traction as businesses seek to ensure supply chain security by adopting "China + 1 strategy" which has also offered opportunities for emerging countries to tap into large foreign investments.

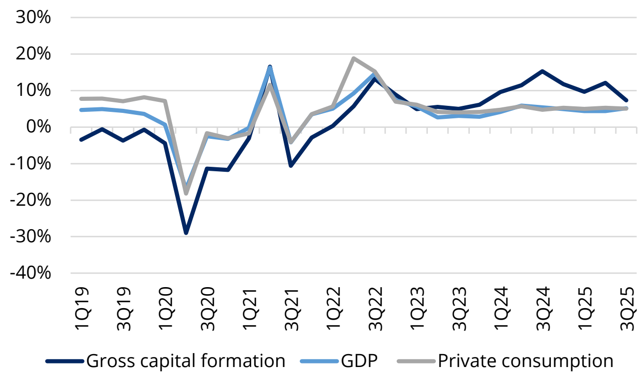
Madani Economy delivers steady performance

Malaysia's economy in 2025 has come in stronger than expected on the back of firm domestic demand, driven by sustained strength in household spending and healthy investment activities. 9M2025 GDP growth came in at 4.7%, on track to achieve the upper end of government's growth target of 4.0%-4.8% while 2026 growth projection was guided at 4.0%-4.5%, indicating a steady growth trajectory.

We believe Malaysia's economy is coming from a position of strength in 2026 as domestic demand is likely to strengthen further with sustained consumer spending and investment activities. Its strong fundamentals and diversified economic structure, coupled with renewed government focus to spur higher economic growth will help ensure Malaysia's growth trajectory remains firmly on the uptrend.

We expect Malaysia to register a healthy GDP growth of 4.3% in 2026 after a healthy growth of 4.6% expected for 2025. This is also in line with the government's 2026 GDP growth projection. Private consumption, accounting for 61% of our economy, will continue to deliver satisfactory performance for Malaysia's economy, underpinned by robust labour market and strong economic activities, boosted by Visit Malaysia 2026.

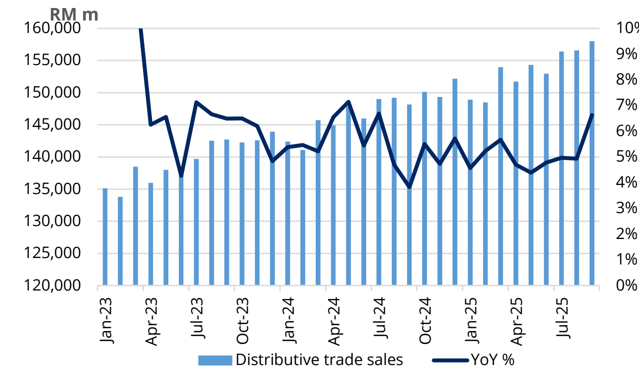
Malaysia's GDP growth



Source: AllianceDBS, CEIC

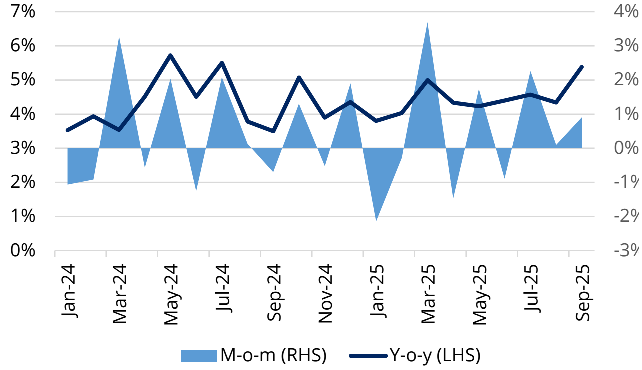
Meanwhile, private investment is expected to benefit from the realisation of approved investments and the implementation of flagship projects under the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth. 3Q25 capital expenditure grew at a healthy pace of 7.4% y-o-y (2Q25: +12.1%), reflecting the positive impact arising from record-high approved investments in 2021-2024 and various government-led strategic developments under national blueprints. This underlines the positive prospects of investment upcycle in Malaysia which will continue to provide further tailwinds in the near term.

Monthly wholesale & retail sales



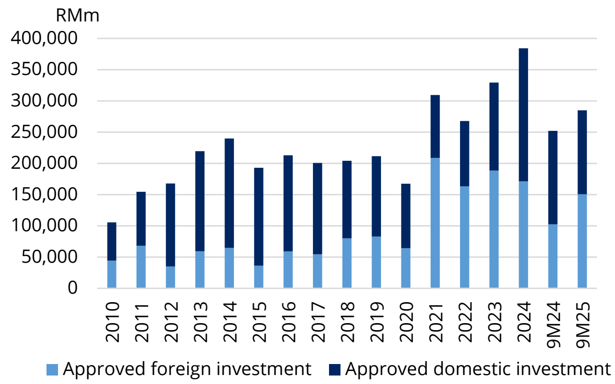
Source: AllianceDBS, CEIC

Wholesale & retail sales growth momentum



Source: AllianceDBS, CEIC

Record high approved investments



Source: AllianceDBS, CEIC

Tight labour market condition

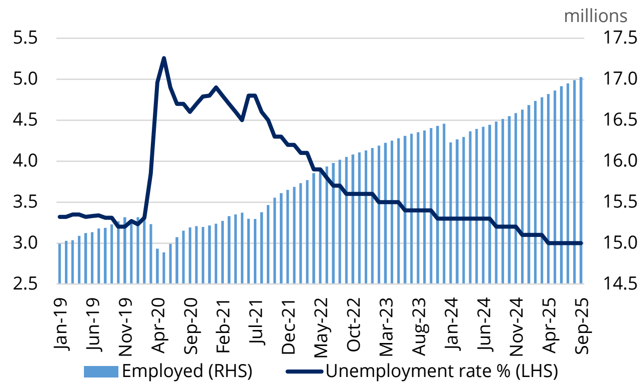
Malaysia's economic growth momentum will continue to be underpinned by the robust employment market which has been growing from strength to strength. Malaysia's unemployment rate in Sep 2025 came in at 3.0%, compared to 3.2% in Sep 2024. Notably, we are encouraged by the continuous growth in the employment market outpacing the growth in labour force, lifting the labour participation rate to a record high of 70.9% in Sep 2025. This will certainly bode well for economic outlook in 2026 given that domestic demand forms the bulk of our economy.

Going by the healthy growth momentum of Malaysia's economy in 2025, 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 in 2026.

We believe this healthy strength in the employment market is a key growth pillar that will continue to sustain Malaysia's economic growth as the country enjoys the demographic dividend. The median age of Malaysia's population is relatively young at 31 years, underpinning the healthy growth in our labour force.

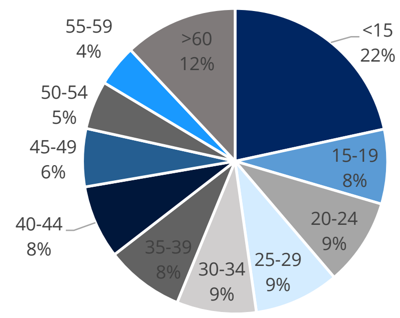
According to the Department of Statistics Malaysia, Malaysia's population is expected to grow by 1.2% to 34.5m in 2025. The healthy pace of population growth is projected to continue in the near term which will offer a growing workforce for the economy. As the Malaysian government continues to advance its economic transformation agenda by attracting more quality investment to Malaysia, international migration especially skilled labour force could further lift the overall employment market in Malaysia.

Strong labour market



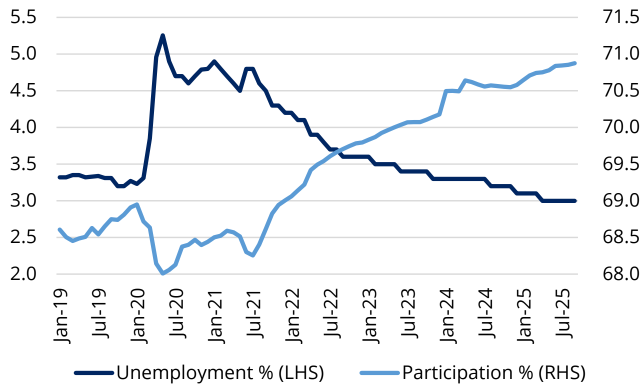
Source: AllianceDBS, CEIC

Malaysia's 2025 demographic breakdown by age



Source: AllianceDBS, CEIC

Favourable labour market dynamics

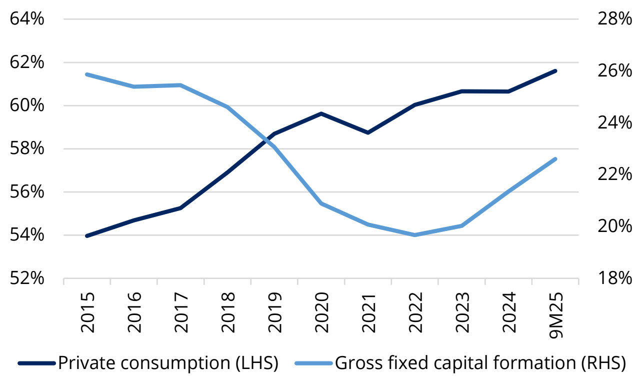


Source: AllianceDBS, CEIC

Investment renaissance to uplift capabilities

Thanks to the concreted efforts by the federal government to boost economic growth under the Madani Economy Framework, investment-driven spending is set to be a new growth driver for Malaysia in 2025. The implementation of the strategic developments and flagship projects under the NETR and NIMP 2030 will accelerate the economic take-off envisaged by the government to be a paradigm shift for Malaysia. In addition, the realisation of record-high approved investments from foreign investors in 2023-2024 will ensure the economy remains on a healthy growth trajectory in 2026.

GDP share of consumption vs investment



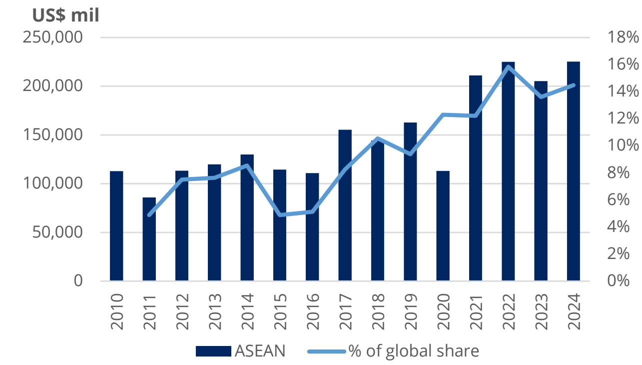
Source: AllianceDBS, BNM, CEIC

Indeed, the proactive strategy adopted by the government to revitalize the domestic economy has started to bear results as 9M25 capital expenditure grew by 10% after a multi-year high growth of 12% in 2024. The positive impact arising from record-high approved investments in 2021-2024 and various government-led strategic developments under national blueprints is expected to provide further tailwinds in the subsequent quarters.

More importantly, after achieving record high approved investments in 2021-2024, the winning streak has continued unabated in 2025 with the figures rising 13% y-o-y to RM285bn in 9M2025, outpacing the government's full-year target of 5%. 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.

ASEAN has consistently proven its resilience and appeal as a leading destination for FDI despite the retreat of globalisation. The shifting patterns and priorities in global FDI, particularly the growing focus on digital and renewable energy are also strongly manifest in the region. More importantly, ASEAN's rising prominence as a major hub for global supply chain underscores its competitive advantage in positioning itself as a critical partner for multinational companies to navigate a changing world order.

Strong FDI inflow into ASEAN



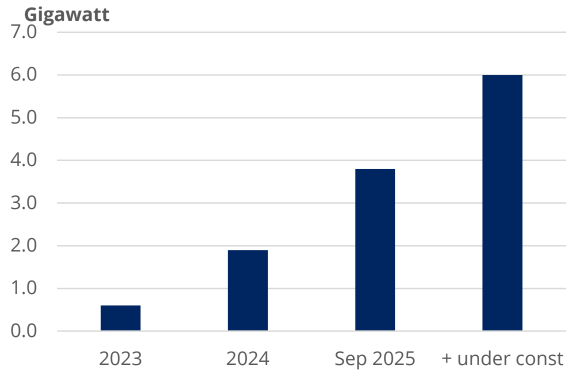
Source: AllianceDBS, UNCTAD

Malaysia's timely introduction of the NETR and NIMP 2030 with whole-of-nation approach further enhances the appeal of Malaysia as an attractive investment destination amid rising global interest in advanced manufacturing, renewable energy and digital economy. The Johor-Singapore special economic zone (JS-SEZ) stands out as the first cross-border SEZ in ASEAN, presenting a paradigm shift for multi-year growth opportunity to emerge as the epicentre of thriving ASEAN economies. The completion Rapid Transit System between Johor and Singapore by end-2026 is set to attract more quality investments which will help further uplift economic growth.

Rapid adoption of cloud computing, artificial intelligence and digitalisation across enterprises are driving strong demand tailwinds for data centre and hosting infrastructure which have positioned Malaysia as a data centre hotspot, thanks to its proximity to Singapore, access to renewable energy, affordable land cost and utilities. In addition, the ASEAN Digital Economy Framework Agreement (DEFA), to be signed in 2026, will harmonize digital trade rules and unlock the potential of ASEAN's digital economy, underpinning the bright prospects of data centre.

The green lane pathway set up by Tenaga Nasional in 2023 to fast-track power supply application for data centre operators has yielded significant success as 3.8GW of data centre capacity has been completed as at Sep 2025, compared to just 0.6GW at the beginning of 2024. As at Sep 2025, 20 data centre projects with a collective capacity of 3.3GW are either under construction or in the pipeline. This will bring the total data centre capacity in Malaysia to 7.1GB over the next few years.

Power demand of data centres in Malaysia



Source: AllianceDBS, TNB

Under the Asean Power Grid initiative, Malaysia is strengthening cross-border interconnections to ensure a more robust supply of green electricity across the region. There are at least five projects in the pipeline involving a combined capacity of over 6,000MW of renewable energy to be transmitted through Malaysia. One of the key initiatives is the Vietnam–Malaysia–Singapore interconnection project, which entails renewable energy development in Vietnam and transmission to Peninsular Malaysia and Singapore. The collaboration involves Tenaga Nasional, Petronas, Sembcorp, and Petrovietnam in support of the Asean Power Grid.

We are encouraged with the successful launch of several key solar energy programs such as the large-scale solar (LSS) projects, corporate green power programme (CGPP) and the corporate renewable energy supply scheme (CRESS) which are all increasing the energy mix of renewable energy. Particularly, CRESS will allow third-party access for the sales of renewable energy through the national grid via a predetermined system access charge, marking a significant milestone in liberalising Malaysia's energy market that is also a critical building block for the APG.

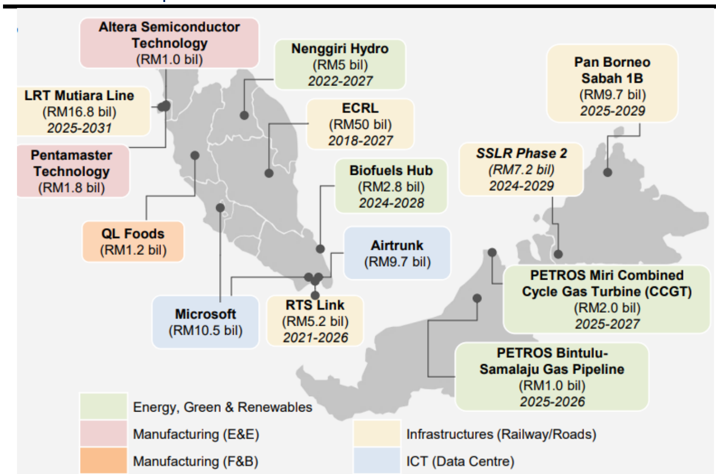
Meanwhile, the government is also committed to revive economic growth in 2026 by undertaking various large-scale infrastructure projects that will create positive spillover effects to the local businesses. Major projects such as Madani Submarine Cable (RM2bn), sovereign AI cloud (RM2bn) and Large-Scale 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.

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

Continued expansion of investment activities



Source: AllianceDBS, BNM

Fiscal reforms remain in place in 2026

Budget 2026 entails a higher total expenditure of RM419bn. This is 1.7% higher than the revised Budget 2025 estimate of RM412bn as Malaysia strives to achieve its socioeconomic goals under the Madani Economy Framework. 2026 development expenditure is expected to remain relatively unchanged y-o-y while operating expenditure is projected to increase by 1.8%, slower than the projected revenue growth of 2.7% in 2026.

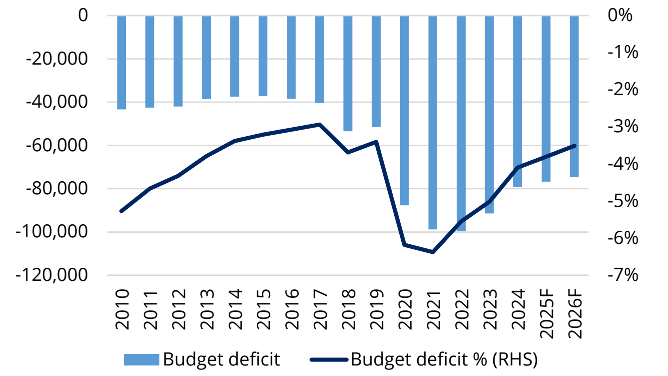
It is noteworthy that the relatively stronger revenue growth comes on the back of tax revenue broadening measures, despite PETRONAS dividend falling significantly to a 9-year low of RM20bn in 2026 from RM32bn in 2025. Meanwhile, 2026 budget deficit will fall to the lowest since 2019 at 3.5% (vs 3.8% in 2025). As at Dec 2024, government debt accounted for ~65% of our gross domestic product (GDP), and it is likely to hover around the same level by end-2025 and 2026.

As Budget 2026 continues to deliver on the government's reform initiatives, the government continues to strengthen its financial assistance for low-income earners. Allocation for direct cash assistance under Sumbangan Tunai Rahmah and Sumbangan Asas Rumah programs will be boosted by 15% to a record high of RM15bn (vs RM13bn in 2025), benefitting 9m recipients.

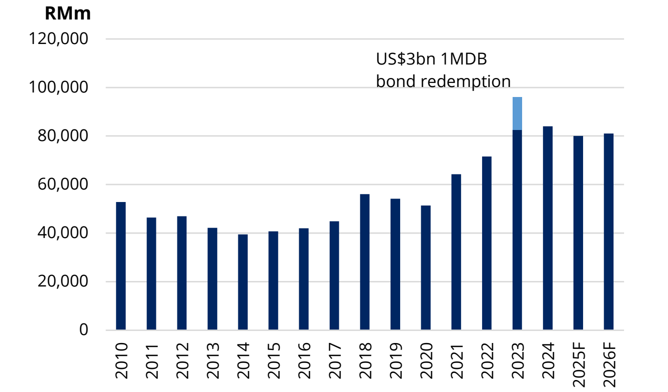
Interestingly, the one-off RM100 cash assistance for 22m Malaysian adults introduced in Aug 2025 has been included and will be disbursed in Feb 2026, possibly due to the savings from the government's successful subsidy rationalization efforts. Meanwhile, civil servants will benefit from phase 2 of the Public Service Remuneration System, which includes a 7% salary increase effective Jan 2026. In addition, various income tax reliefs on healthcare, education and insurance have been increased/extended to mitigate the impact of rising living cost. These measures will ensure domestic consumption remain robust in 2026.

In short, the government has clearly showcased its commitment toward fiscal sustainability which will bode well for Malaysia's long-term development. We are encouraged by the government's commitment to embark on fiscal discipline on a gradual and phased approach. We believe this will yield further results in 2026 as the petrol subsidy rationalisation only started in Oct 2025. These are all difficult and bold moves that require significant political will given the potential backlash from the public as subsidies are very much ingrained in Malaysian society for decades.

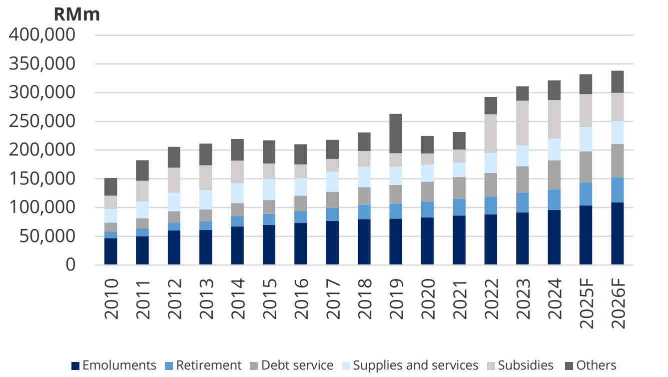
Consolidating budget deficit



Flattish development expenditure



Fiscal reforms to improve operating expenses



Source: AllianceDBS, BNM, Ministry of Economy

Resilient external trade

Malaysia continues to record resilient external trade in 2025, despite the concerns of 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 10M2025 exports and imports, which rose 6% and 5% respectively. We believe the prospects for external trade in 2026 should remain steady though the full impact of tariffs may result in slower trade activities.

Despite the strong appreciation of MYR in 2025 (+9% YTD), Malaysia's export competitiveness remains undeterred given our entrenched position in the global semiconductor supply chain, especially in the packaging, assembly, and testing services. With E&E exports accounting for ~5% 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.

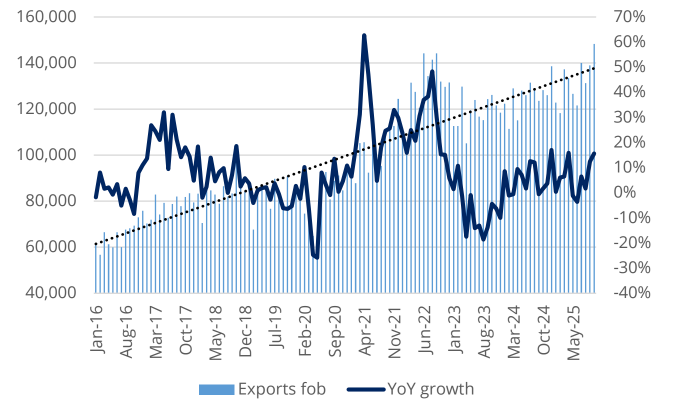
Meanwhile, most of the key exporting countries in Asia continue to register steady numbers over the past few months, thanks to the resilient global economy and strong AI spending. Barring further trade disruptions from US protectionism, the Fed monetary-easing cycle and accommodative fiscal policy globally will help ensure external trade remains healthy.

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.

Meanwhile, Malaysia's strategic push to leverage on the global trend of industrial value chain diversification has been reflected in the record high approved investments in 2021-2024, helping to uplift Malaysia's industrial capabilities and boost its value-adding exports. For instance, there have been tentative signs that the booming data centre in Malaysia has started to contribute positively to ICT services exports.

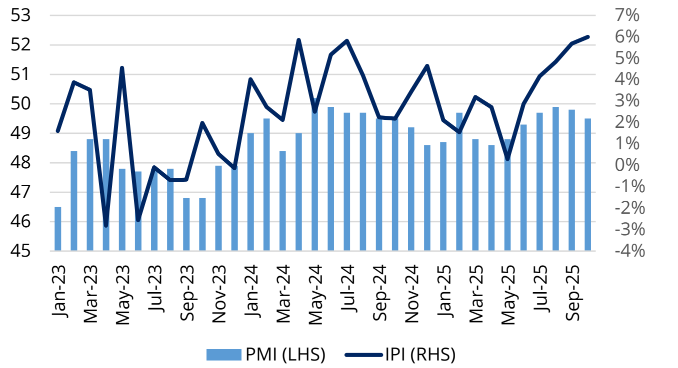
We believe that the 2026 outlook for the manufacturing sector, which is largely dominated by export-oriented enterprises, is likely to remain healthy, in tandem with the improvement anticipated for the overall economy. This is corroborated by positive data from the manufacturing PMI, industrial production as well as business confidence levels. In addition, the upticks in business loans growth lends further credence to our view that the manufacturing sector will continue its growth trajectory in 2026.

Malaysia's exports growth remains healthy



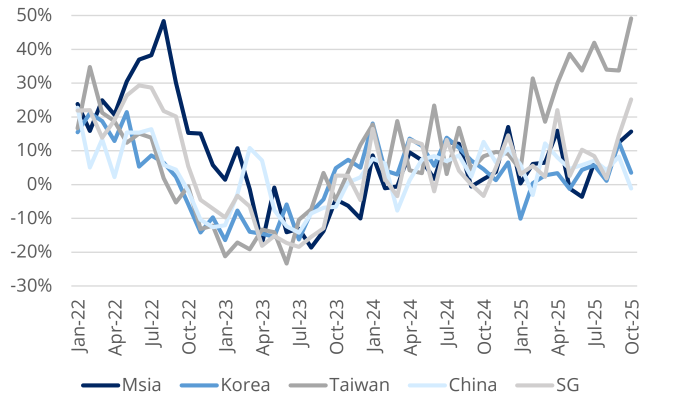
Source: AllianceDBS, CEIC

Encouraging industrial production



Source: AllianceDBS, CEIC

Steady exports growth for key Asian exporters

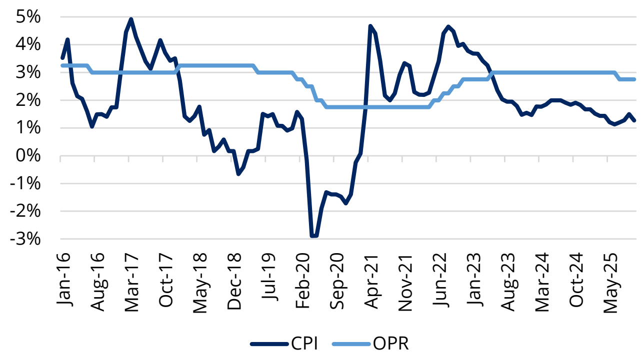


Source: AllianceDBS, CEIC

Heathy 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.

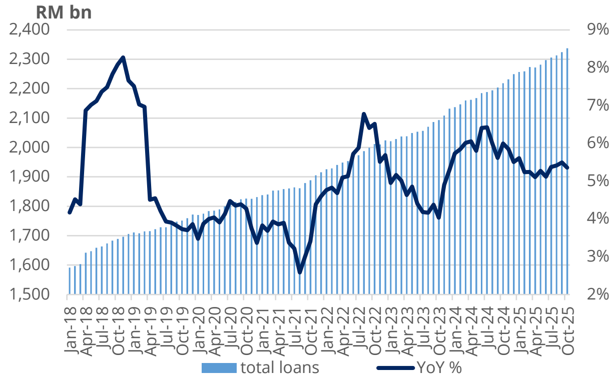
Interest rate vs inflation



Source: AllianceDBS, DOSM, CEIC

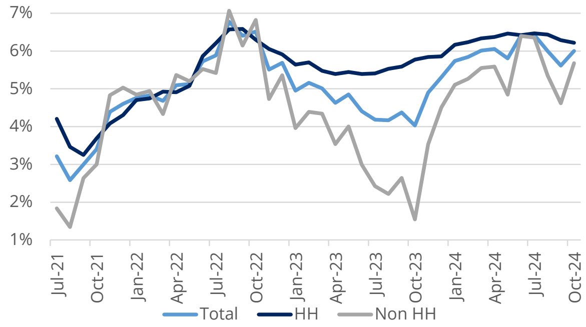
Our headline inflation has been moderating over the past 12 months, in tandem with the moderating trend of commodity prices due to demand concerns from major economies. Therefore, the positive real rates are likely to continue in the near term, barring any major supply shocks. Going forward, the outlook for inflation will be largely swayed by the global commodity price developments as well as the implementation of petrol subsidy rationalisation.

Banking system loans growth



Source: AllianceDBS, BNM

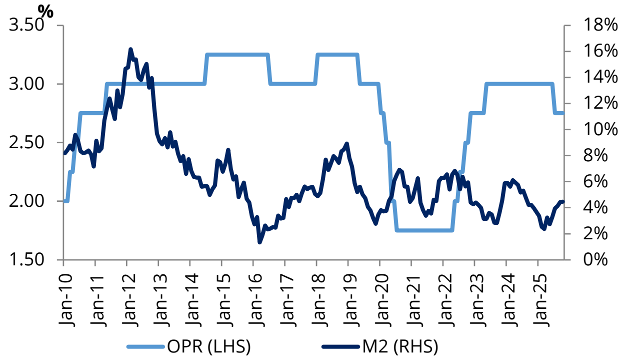
Loans growth remain at healthy levels



Source: AllianceDBS, BNM

Malaysia's banking system has been seeing steady credit demand with Oct 2025 loans growth coming in at 5.4% (vs 5.5% in Dec 2024). We believe resilient domestic demand will continue to underpin the banking sector loans growth for 2026, notwithstanding the external uncertainties. In addition, the positive landscape of the property sector continues to bolster the loans growth for the household segment.

Improving liquidity condition in the economy



Source: AllianceDBS, BNM

Meanwhile, M2 money supply improved to 4.5% in Oct 2025 (3.7% in Dec 2024), the highest so far in 2025 which could be attributable to the latest interest rate cut. 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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