Global Economic Outlook

Global growth outlook expected to remain moderate in 2H 2026

Global economy:

- Global growth for 2H 2026 is projected to remain moderate, weighed by continued uncertainties surrounding the Middle East conflict.
- Going forward, a sustained de-escalation of the conflict is expected to ease supply constraints and reduce pressures on commodity prices.
- Growth will also continue to be supported by robust investment in technology and digitalisation, as well as supportive fiscal policies.

Global trade:

- Global trade growth is projected to trend lower, partly reflecting the high base effect in 2025 driven by frontloaded shipments and robust AI-related demand.
- The recovery in supply chain conditions amid a sustained de-escalation of the Middle East conflict is expected to be gradual, keeping global trade growth below its historical average.
- This slowdown will be partly cushioned by sustained demand for E&E products, especially AI-related components, alongside structural drivers such as rising digitalisation.

Balance of risks to global growth remains tilted to the downside

- **Balance of risks remains tilted to the downside**, reflecting mainly continued uncertainties surrounding the Middle East conflict.
- **Downside risks** to growth could also arise from tighter global financial conditions, higher tariffs as well as continued concerns over the elevated valuations in financial markets.
- **Upside risks** would stem from faster-than-expected recovery in supply chain conditions, stronger tech spending as well as pro-growth policy measures in key economies.

Domestic Economic Outlook

Sustained domestic demand and stronger exports to continue supporting growth

- Growth for 2026 is expected to be within the forecast range of 4%–5%, with recent developments indicating that overall growth could be around 5%, supported primarily by continued domestic demand and strong exports.
- Household spending will be driven by steady income growth and continued policy support.
- Investment activity will be driven by the progress of multi-year projects in both the private and public sectors, continued high realisation of approved investments, as well as the ongoing implementation of national master plans.
- Exports growth will be supported by robust demand for E&E products, rebound in non-E&E exports as well as sustained tourist spending and ICT services exports.

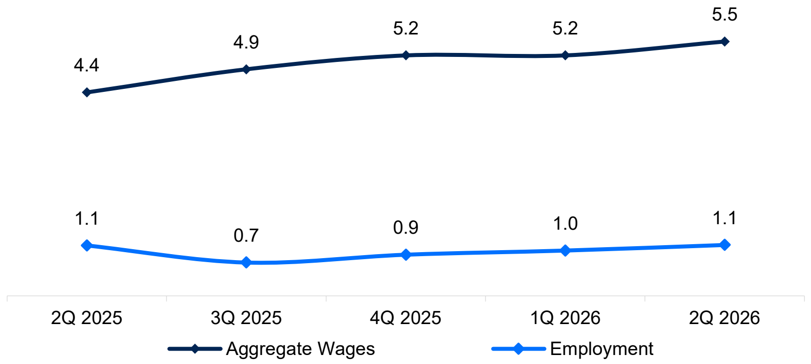
Strong fundamentals continue to underpin economic resilience against external shocks

- **The domestic economy continues to be supported by resilient fundamentals.** The outlook, however, is subject to uncertainties stemming mainly from heightened global developments.
- **Downside risks to growth outlook** include the prolonged Middle East conflict, potential economic slowdown in key trading partners, higher cost of living as well as lower-than-expected commodity production.
- **Upside risks to growth outlook** could arise from a better global growth outlook, stronger demand for E&E goods and increased inbound tourism activities.

Domestic Demand Conditions

Household spending will be driven by steady income growth and continued policy measures

Nominal aggregate wages[7] and employment
Annual change, %

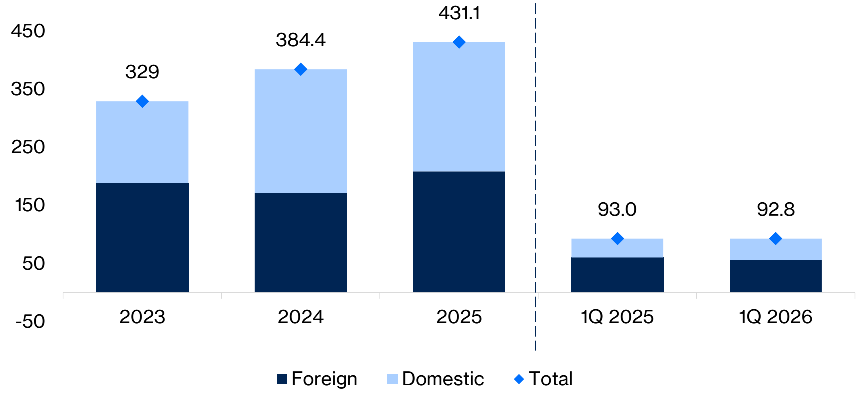


- **Private consumption is expected to continue expanding,** supported by continued growth in income as well as ongoing policy measures.
- Income growth will be supported by positive wage growth in the private sector as well as income-related policy measures including Phase 2 of the Civil Servant Salary Revision (CSSR) effective January 2026.
- Additionally, cash transfers, such as Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) will provide support to household spending.
- The BUDI95 subsidy will also help limit the pressure from higher oil prices to household spending.

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

Investment activities remain forthcoming, supported by continued foreign investments and new projects

MIDA Total Investment Approvals by Foreign and Domestic Investment
RM billion



- **Investment activities remain forthcoming,** with sustained investment approvals recorded in 1Q 2026 at RM92.8 billion, compared to RM93 billion in 1Q 2025, driven mainly by continued foreign investments. Notably, 85% of manufacturing projects approved between 2021 and February 2026 are in various phases of implementation.
- New projects continue to be concentrated in high-technology subsectors such as ICT, E&E and chemical products. Within ICT, data centre and cloud computing investments remain a key contributor, accounting for 88.9% of the subsector's total investments.
- Meanwhile in the manufacturing sector, the E&E and chemical industries remained the key drivers, accounting for 40.1% of total approved investments.

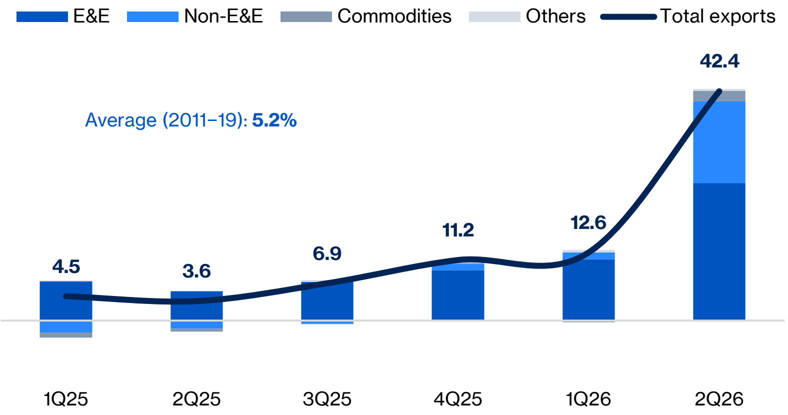
Source: MIDA

Macroeconomic Outlook

External Demand Conditions

Export growth to be supported by sustained demand for E&E and non-E&E manufacturing exports

Gross exports growth
Annual change and contribution to growth, % and ppt

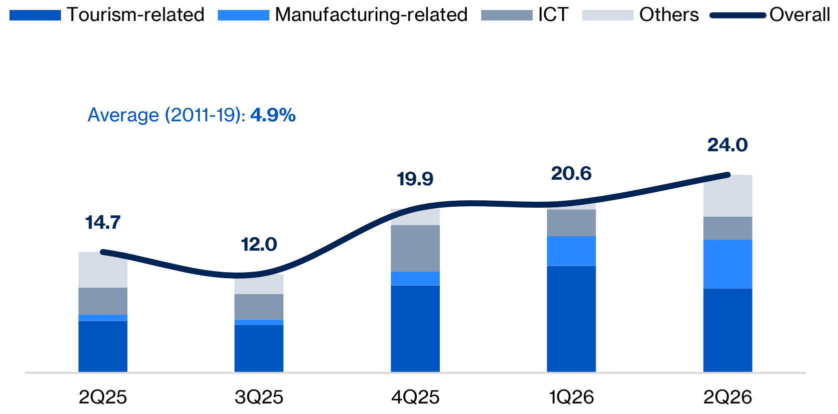


- The **resilience of E&E exports** continues to be underpinned by growing investment in AI-related activities and global tech upcycle, supporting Malaysia's export growth amid elevated geopolitical uncertainty.
- Commodity-related and non-E&E manufacturing exports are expected to support export growth, partly driven by higher commodity prices.
- Continued global demand for E&E goods and key commodities is expected to provide support to export performance amid ongoing economic and geopolitical uncertainties. Nevertheless, the outlook remains subject to risks stemming from commodity price fluctuations and potential production challenges.

Source: Department of Statistics, Malaysia

Diverse services export base to continue underpinning resilience amid external uncertainties

Services receipts growth[8]
Annual change and contribution to growth, % and ppt



- **Travel receipts are expected to be underpinned by regional tourist arrivals**. Nevertheless, geopolitical tensions in the Middle East continue to pose risks to global travel activities through disruptions to key aviation routes and higher travel costs.
- Services receipts will be lifted by **sustained demand for data centre-related services**, alongside steady expansion in manufacturing-related services.

[8] Tourism-related includes travel & transportation services. Manufacturing services include services on physical inputs owned by others and maintenance and repair services. Other services include other business services, personal, cultural, recreational, insurance and financial services.
Source: Department of Statistics, Malaysia

Inflation Outlook

Inflation is expected to remain moderate in 2026

- In line with earlier expectations, headline inflation is projected to average between 1.5%–2.5% in 2026. Inflation outturns thus far, together with high-frequency indicators as of early August, continue to indicate that domestic inflationary pressures remain moderate.
- The easing in geopolitical tensions in June has contributed to improvements in global supply conditions and eased pressures on key commodity prices. However, developments surrounding the Middle East conflict remain fluid, with commodity prices still elevated relative to pre-conflict levels.
- Going forward, external cost pressures are expected to exert some upward pressure on inflation. Nevertheless, the overall impact on both headline and core inflation for 2026 is expected to remain contained given domestic policy measures such as targeted fuel subsidies. These measures, alongside stable demand conditions, are expected to mitigate the pass-through of higher external costs to domestic prices.

Inflation outlook will remain contingent on evolving global developments

- The balance of risks to the inflation outlook remains tilted to the upside, hinging on developments surrounding the Middle East conflict.
    - **Upside risks** may arise from further escalation in the conflict contributing to elevated global commodity prices. Broader supply disruptions, including from adverse weather conditions, may also lead to larger and more persistent input cost pressures.
    - **Downside risks** could stem from weaker-than-expected global growth and trade activity, potentially weighing on domestic growth and demand conditions. Further improvements in global supply conditions could ease external cost pressures, contributing to lower inflation outcomes.