

CHAPTER 3

Macroeconomic Outlook

73 OVERVIEW

73 ECONOMY IN 2026

Information Box 3.1 – More than a Destination:
The Value of Tourism to Malaysia's Growth

Feature Article 3.1 – Strengthening Malaysia's
Manufacturing Resilience Amid Geopolitical
Uncertainties in West Asia

Feature Article 3.2 – Beyond the Headline:
Transforming Investment into Economic Resilience

Information Box 3.2 – Malaysia's Trade Resiliency:
Navigating Global Trade Uncertainties

123 OUTLOOK 2027

Information Box 3.3 – Anchoring Malaysia's
Momentum Through GEAR-uP

135 CONCLUSION

136 REFERENCES

CHAPTER 3

Macroeconomic Outlook

Overview

Malaysia's economic trajectory is reflected in real GDP growth of 5.7% in the first six months of 2026 and is forecast to expand by 4.7% in the second half of the year. Domestic demand continues to power the nation's growth, driven by sustained private sector expenditure. Labour market conditions are likely to remain firm, supported by continued employment growth. Steady income growth, bolstered by sustained economic expansion and moderate headline inflation, is set to underpin private consumption. In addition, investment activities are expected to maintain its momentum as the gradual realisation of approved investment projects is set to provide a solid foundation for continued economic expansion. The robust implementation of national masterplans and strategic initiatives across both the private and public sectors will provide further impetus to economic activities. On the external front, Malaysia is poised to benefit from the continued technological advancements, which are reflected in export growth, notwithstanding persistent global uncertainties.

At the sectoral level, most economic sectors are set to expand, with the services and manufacturing sectors remaining as the mainstay to overall growth. The services sector is expected to leverage on the Visit Malaysia 2026 – 2027 Campaign (VM2026 – 2027) to boost inbound visitors, supported by diverse tourism-related activities alongside continuous adoption of digital technologies. Within the manufacturing sector, the E&E industry is poised to benefit from the ongoing global semiconductor upcycle, driven by strong demand for AI-related products and digitalisation. A vibrant economy, coupled with steady domestic consumption, will continue to anchor Malaysia's economic stability and

maintain its growth momentum. Overall, the economy is projected to grow between 4.8% and 5.3% in 2026 and expand between 4.2% and 5.2% in 2027.

Economy in 2026

Sectoral

Services Sector

Robust growth momentum

The **services** sector expanded by 5.7% in the first half of 2026 and is expected to grow by 5.3% in the second half, underpinned by diverse tourism-related activities in conjunction with VM2026 – 2027, steady trade flows and an accelerating pace of digital adoption. Overall, the sector is projected to increase by 5.5% in 2026, with all subsectors registering growth.

TABLE 3.1. *Gross Domestic Product by Sector, 2025 – 2027*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2026 ¹	2025	2026 ¹	2027 ²
Services	59.7	5.4	5.5	5.2
Manufacturing	23.2	4.5	6.2	4.1
Agriculture	5.7	2.2	-2.1	0.5
Mining and quarrying	5.6	0.6	2.6	1.2
Construction	4.4	12.2	6.4	5.7
GDP	100.0	5.2	4.8 – 5.3	4.2 – 5.2

¹ Estimate

² Forecast

Note: Total may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.2. *Performance of the Services Sector, 2025 – 2027*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2026 ¹	2025	2026 ¹	2027 ²
Wholesale and retail trade	29.6	4.9	4.6	4.4
Information and communication	11.3	7.4	7.8	7.9
Finance and insurance	10.2	0.6	2.2	2.3
Real estate and business services	8.3	8.2	6.8	7.0
Transportation and storage	7.5	9.0	7.7	7.4
Food & beverages and accommodation	5.3	9.1	7.4	6.0
Utilities	4.2	0.2	5.6	3.7
Other services	8.1	6.1	5.7	5.8
Government services	15.5	5.5	5.4	4.5
Services	100.0	5.4	5.5	5.2

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

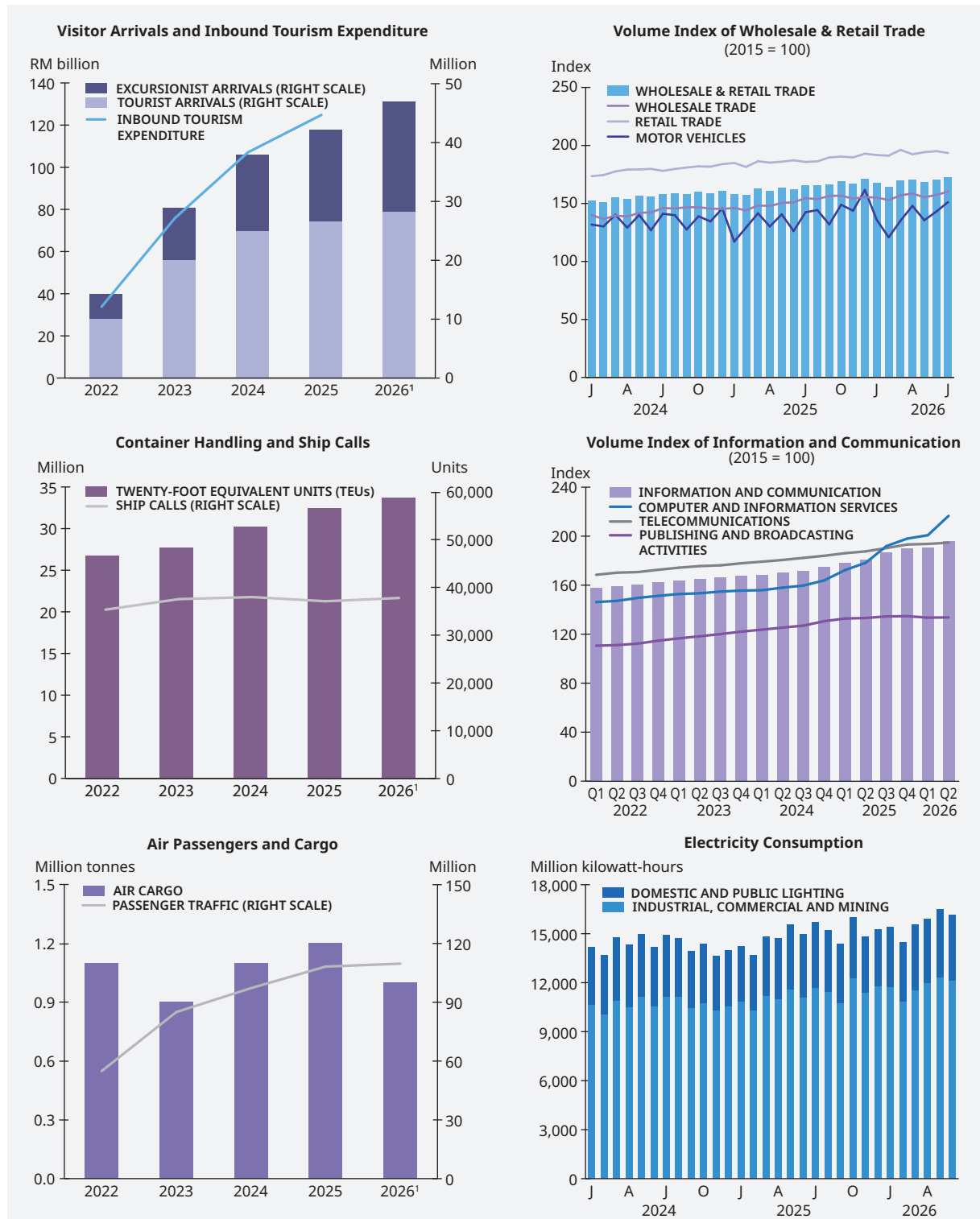
The wholesale and retail trade subsector grew by 4.8% in the first half of 2026, sustained by steady household spending and tourism-related activities following festive celebrations, public holidays and the mid-year school holidays. This growth was also partly driven by phase two of the salary adjustment under the Public Service Remuneration System (SSPA) for public servants. The subsector is anticipated to expand by 4.4% in the second half of the year supported by growth in all segments, particularly wholesale and retail trade segments, buoyed by higher spending from ongoing various targeted government assistance programmes. These include the expansion of the monthly Sumbangan Asas Rahmah (SARA), with a higher allocation by 60% to RM8 billion (2025: RM5 billion) and eligible recipients increasing to 8.1 million (2025: 5.4 million), alongside Sumbangan Tunai

Rahmah (STR) assistance and the expansion of the Program Jualan Rahmah MADANI (PJRM) to 30,000 programmes in 2026. Meanwhile, the growth of the motor vehicles segment is supported by new xEV¹ model launches, the newly amended legislation on hire-purchase financing framework for motor vehicles and year-end promotional activities. Reflecting favourable market demand, the Malaysian Automotive Association (MAA) revised its 2026 total industry volume (TIV) forecast upward to 800,000 units from 790,000 units, with xEV sales expected to account for about 120,000 units. Overall, the subsector is projected to grow by 4.6% in 2026.

The information and communication subsector grew by 7.8% in the first half of 2026 supported by the sustained demand for digital connectivity, cloud computing and other data intensive services reflecting the continued efforts across industries and businesses towards digitalisation as well as operationalisation of data centres. Meanwhile, major sporting events such as the 2026 FIFA World Cup, 2026 Commonwealth Games and the 20th Asian Games Aichi-Nagoya 2026 are also expected to boost streaming subscriptions this year. The subsector is projected to increase by 7.9% in the second half of the year, driven by continued demand for ICT-related services and further expansion in data centre activities, resulting in an overall growth of 7.8% in 2026.

The transportation and storage subsector registered a growth of 7.8% in the first half of 2026, attributed to strong trade performance resulting in increased cargo and logistic operations alongside various tourism- and travel-related activities. The subsector's performance was led by growth in the land and water transport segments, supported by higher traffic volumes on toll highways and increased port activities. In the second half of 2026, the subsector is expected to increase by 7.6%, particularly driven by growth in land transport on account of higher traffic volumes on toll

¹ xEV refers to all types of electric vehicle (EV) comprising battery EV (BEV), plug-in hybrid EV (PHEV), hybrid EV (HEV) and fuel cell EV (FCEV).

FIGURE 3.1. *Selected Indicators for the Services Sector*¹ Estimate

Note:

Visitor consist of tourists and excursionists

Inbound tourism expenditure is based on the Tourism Satellite Account 2025

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching, Penang and Tanjung Pelepas)

highways and increased rail ridership. Growth will be further supported by the implementation of BUDI MADANI Diesel (BUDI Diesel) and the revised BUDI MADANI monthly eligibility limit. These measures are expected to mitigate fuel cost pressures on eligible individuals, small businesses and logistics operators. Higher domestic travel during school holidays and festivities, together with ongoing tourism-related mobility under VM2026 – 2027, will also boost land transport activities. The water transport segment is expected to remain supported by sustained trade activities despite elevated shipping and logistics costs. Meanwhile, growth in the air transport segment may be affected due to persistent geopolitical uncertainties in West Asia, elevated fuel costs and potential disruptions from transboundary haze. Overall, the subsector is estimated to expand by 7.7% in 2026.

The real estate and business services subsector rose by 6.8% in the first half of 2026 underpinned by the strong performance of professional, scientific & technical activities under the business services segment, following robust construction-related activities, including data centre projects. The subsector is expected to grow by 6.7% in the second half of the year buoyed by continued realisation of approved investment activities in tandem with ongoing industrial expansion particularly related to data centres and manufacturing as well as infrastructure development. Furthermore, the stable Overnight Policy Rate (OPR) is expected to stimulate demand for properties. For the year, the subsector is anticipated to expand by 6.8%.

The food & beverages and accommodation subsector increased by 7.3% in the first half of 2026, supported by sustained domestic demand and continued growth in visitor arrivals albeit at a slower pace. The subsector is expected to expand by 7.4% in the second half of the year, supported by tourism activities under VM2026 – 2027, with further momentum gains following various international events including meetings, incentives, conferences and exhibitions (MICE) programmes; Malaysia Agriculture, Horticulture and Agrotourism Show

(MAHA 2026); Formula 1 Gulf Air Bahrain Grand Prix 2026 in Malaysia and PETRONAS Grand Prix of Malaysia 2026. These promotional activities are primed to stimulate visitor arrivals and tourism expenditure. Overall, the subsector is projected to grow by 7.4% in 2026.

For the first half of 2026, the finance and insurance subsector grew by 2.4%. The growth was supported by higher loan disbursements in the finance segment, in line with stronger financing demand, particularly for working capital purposes. Meanwhile, the insurance segment benefited from higher new business and gross direct premiums, particularly from investment-linked, medical and health as well as motor insurance, although higher claims partly offset the gains. In the second half of the year, the subsector is anticipated to register a growth of 2% in tandem with ongoing economic activities. The finance segment is expected to be supported by favourable credit conditions and continued financing demand, including ongoing investment activities in high value-added industries such as E&E and digital technologies. Meanwhile, household financing activity is also anticipated to remain supported by conducive labour market and stable financing conditions. The insurance segment is expected to benefit from sustained demand for insurance and takaful products, although medical cost pressures and higher claims severity may temper its performance. Overall, the subsector is estimated to register a growth of 2.2% in 2026.

The utilities subsector registered a growth of 5.3% in the first half of 2026 driven by higher electricity demand which was attributed to increased industrial and commercial activities as well as data centre operations. In the second half of the year, the subsector is estimated to increase by 5.9% attributed to higher electricity and water consumption amid stronger industrial, commercial and economic activities particularly in E&E-related activities, together with the continued demand from data centres. Overall, the subsector is expected to grow by 5.6% in 2026.

The other services subsector grew by 6.1% in the first half of 2026, mainly supported by the private healthcare and other private services. The subsector is projected to grow by 5.3% in the second half of the year, alongside vibrant entertainment, recreation and personal services activities. The private health services is expected to benefit from the Malaysia Year of Medical Tourism 2026 (MYMT 2026), backed by joint promotional activities with Malaysia Tourism Promotion Board and industry partners. Meanwhile, the private education services is anticipated to remain favourable, supported by higher student enrolment, particularly among international students.

Overall, the subsector is projected to expand by 5.7% in 2026.

Meanwhile, the government services subsector recorded a growth of 6.2% in the first half of 2026 underpinned by the second phase of salary adjustments for public servants under the SSPA. The subsector is expected to expand moderately by 4.7% in the second half, reflecting continued austerity measures implemented to prioritise operational savings in lieu of the energy crisis due to the protracted West Asia situation. The subsector is expected to register a growth of 5.4% for the whole year.

INFORMATION BOX 3.1

More than a Destination: The Value of Tourism to Malaysia's Growth

In collaboration with the Ministry of Tourism, Arts and Culture, Malaysia & Malaysia Tourism Promotion Board

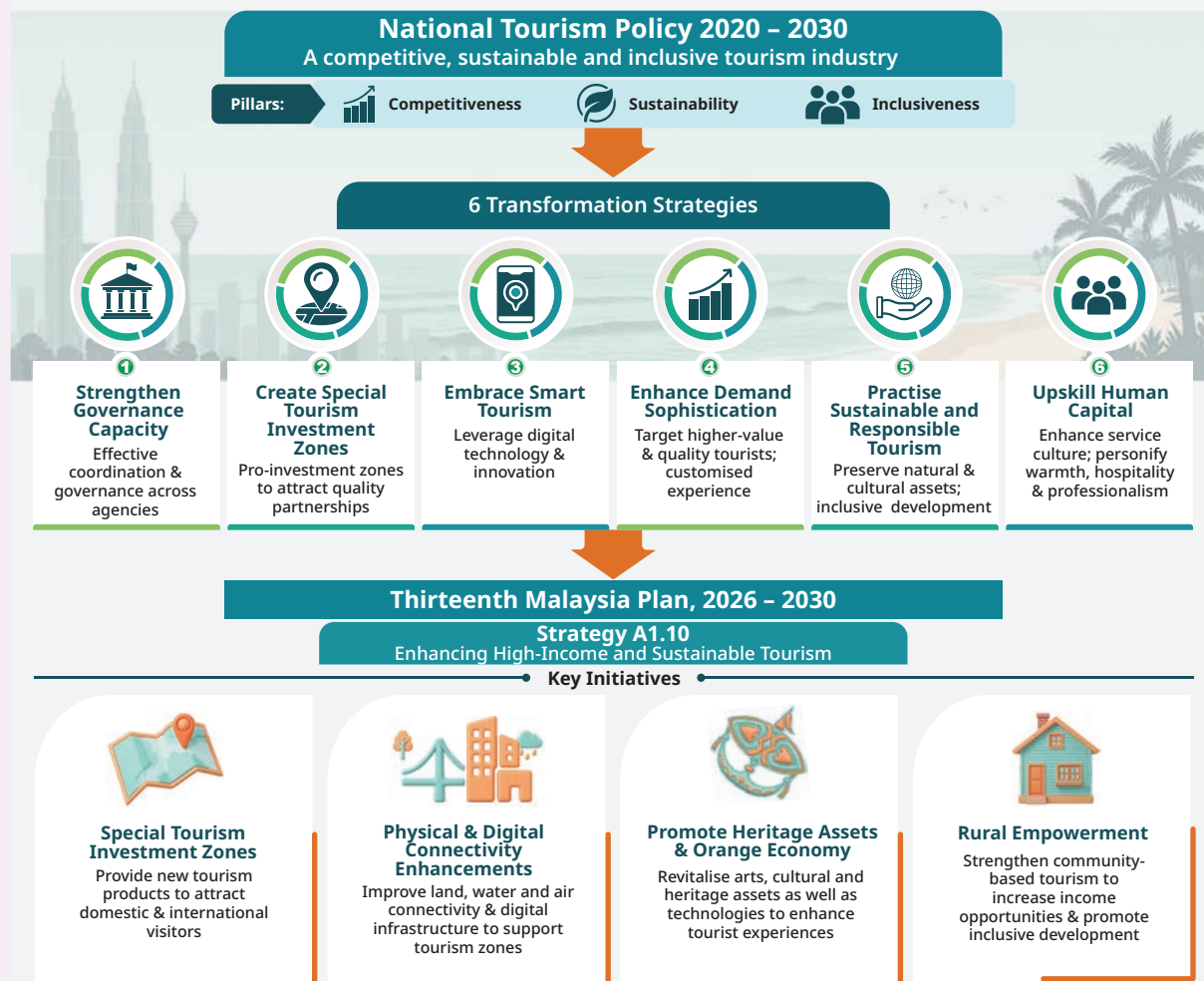
Introduction

Tourism generates economic value through foreign and domestic spending, creates jobs, provides opportunities for local businesses as well as communities and improves public infrastructure. According to the World Bank (2026), the arrival of visitors for business or leisure purposes is a powerful economic driver for the national growth and livelihoods particularly in developing and middle-income economies. The World Tourism Barometer report by UN Tourism in September 2026 stated that international tourist arrivals grew by 4.7% in 2025, with an estimated 1.5 billion arrivals worldwide and exceeding pre-pandemic levels. During the same period, international tourism receipts increased by 7.8%, reaching around USD1.9 trillion, reflecting robust global travel demand and higher visitor spending. The continued expansion of international tourism underscores the industry's significant contribution to global economic activity, employment, trade and services.

Malaysia's Tourism Overview

Malaysia benefits from ongoing tourism and travel activities, particularly across high-touch services including retail, food and beverages as well as accommodation, in addition to employment, foreign exchange earnings and regional development. As the National Tourism Policy 2020 – 2030 continues to revitalise the industry, the strategies under the Thirteenth Malaysia Plan, 2026 – 2030 further accelerate tourism as one of the strategic sectors towards high-income and sustainable economic growth. The Visit Malaysia 2026 – 2027 Campaign (VM2026 – 2027) complements these efforts by boosting tourism activities nationwide. The national strategic framework for tourism development is illustrated in Figure 3.1.1.

FIGURE 3.1.1. National Strategic Framework for Tourism Industry



Source: Ministry of Economy and Ministry of Tourism, Arts and Culture, Malaysia

Malaysia's Recognition and Performance

Globally, Malaysia's value proposition lies in the ability to offer high value and diverse experiences without the premium price tag of competing destinations, anchored on these appeals:

- Cultural diversity and inclusivity - multicultural identity captured in "Malaysia Truly Asia" and the nation's status as a global halal hub;
- World-class ecotourism and biodiversity - mega-biodiverse ecosystems and globally-recognised heritage sites;
- Premier niche offerings - medical and wellness tourism, business events covering meetings, incentives, conferences and exhibitions (MICE); and
- Connectivity, infrastructure and value - seamless logistics and value for money for accommodation, dining and attraction experiences at competitive rates.

Benchmarks Driving Malaysia's Tourism Appeal

Malaysia's international tourism proposition is recognised across global benchmarks, which highlight the country's competitive strengths as shown in Figure 3.1.2.

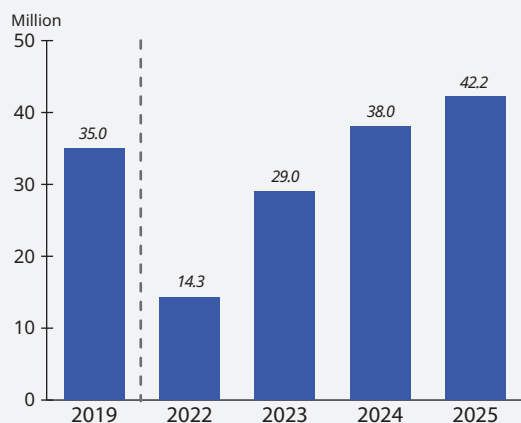
FIGURE 3.1.2. Malaysia's Global Ranking for Tourism



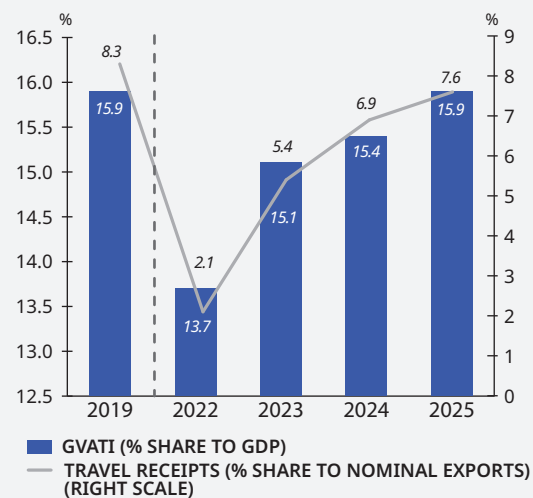
Source: Mastercard-CrescentRating, World Economic Forum and UN Tourism

Tourism's Contribution to the Economy

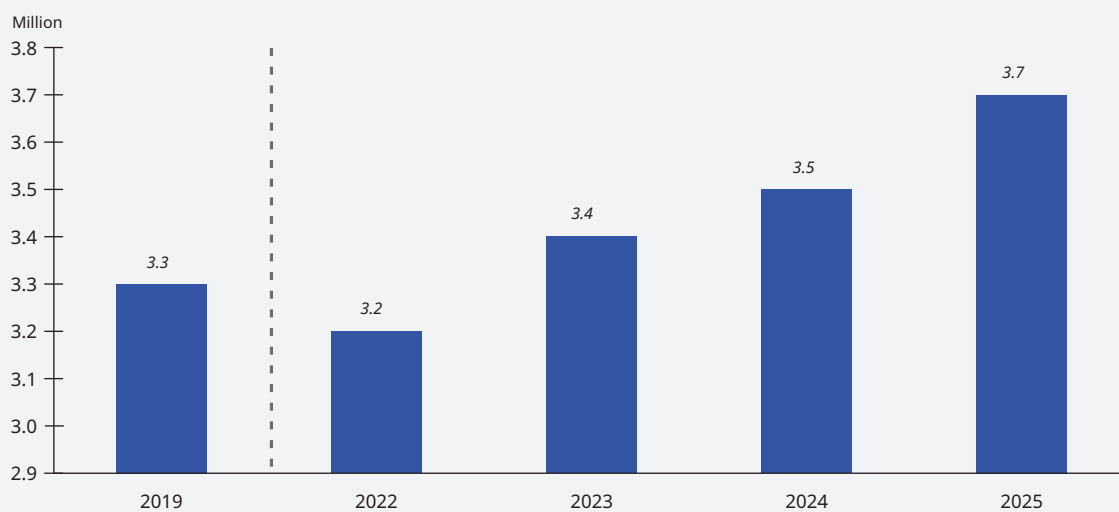
As international borders reopened and travel abroad resumed after the COVID-19 pandemic, Malaysia's tourism industry has steadily regained momentum since 2022, in tandem with higher visitor arrivals and increasing contributions to GDP, travel receipts and employment. In 2025, the tourism industry contribution returned to pre-pandemic levels at 15.9% of GDP while travel receipts accounted for 7.6% of nominal exports. The industry also accounted for about 3.7 million jobs, representing 22.1% of total employment, underscoring tourism's significant contribution to Malaysia's economic activity, services exports and employment. The summary of tourism's contribution to the economy is shown in Figure 3.1.3, Figure 3.1.4 and Figure 3.1.5, respectively.

FIGURE 3.1.3. Visitor Arrivals, 2019, 2022 – 2025

Source: Malaysia Tourism Promotion Board

FIGURE 3.1.4. Share of Gross Value Added of Tourism Industries and Travel Receipts, 2019, 2022 – 2025

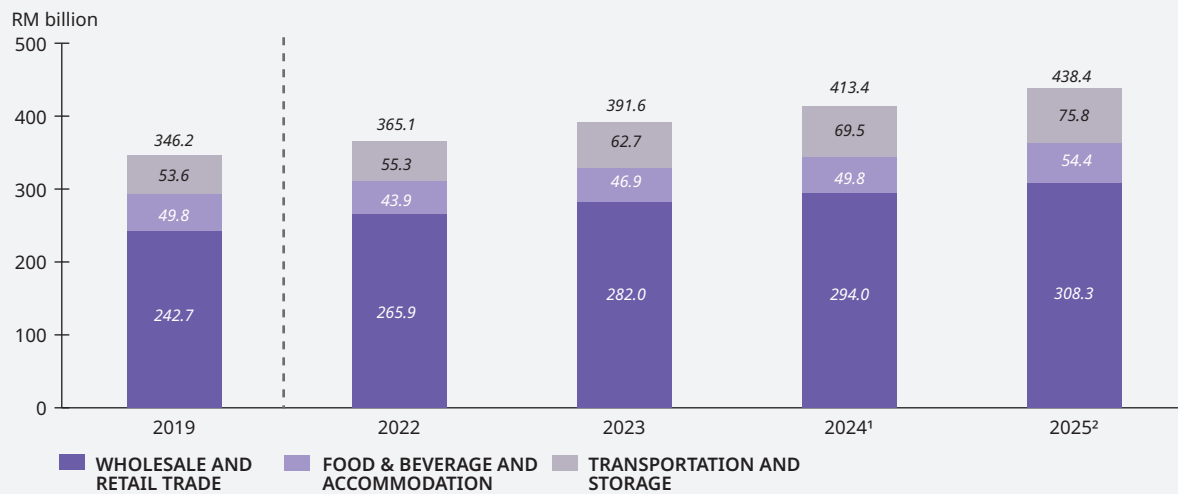
Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

FIGURE 3.1.5. Employment in Tourism-Related Industry, 2019, 2022 – 2025

Source: Department of Statistics, Malaysia

The services sector continued to earn from diverse tourism and travel offerings, particularly in the wholesale and retail trade; food & beverages and accommodation; as well as transportation and storage subsectors as shown in Figure 3.1.6.

FIGURE 3.1.6. GDP by Kind of Economic Activity - Selected Subsectors, 2019, 2022 – 2025
(at constant 2015 prices)



¹ Estimate

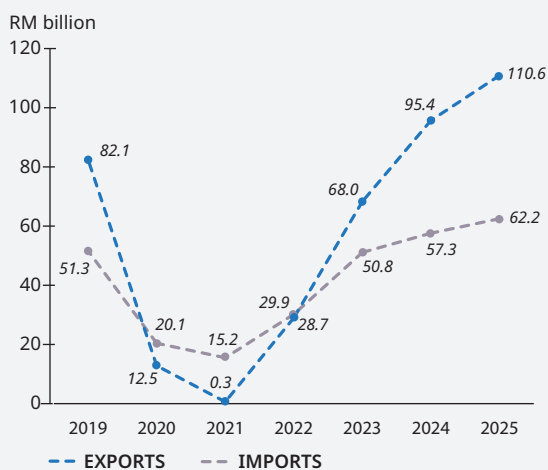
² Preliminary

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

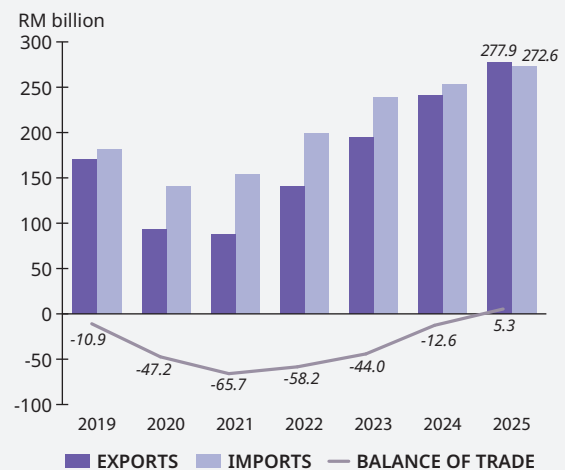
Malaysia recorded 42.2 million visitors, an increase of 11.2% in 2025 from the previous year. The strong performance was also evident in the substantial increase in receipts under the travel component of services exports, which was the largest contributor and accounted for 39.8% of total services exports. The travel component grew sharply from RM95.4 billion to RM110.6 billion in 2025. Consequently, exports of services recorded a double-digit growth of 15.6%, totalling RM277.9 billion in 2025, mainly supported by higher receipts from travel; telecommunications, computer and information services; and other business services. Meanwhile, imports of services grew moderately by 7.7%, amounting to RM272.6 billion. Driven by this performance, Malaysia achieved its first services trade surplus since 2011, rebounding to a RM5.3 billion surplus in 2025 from a RM12.6 billion deficit in 2024. The trend of exports and imports of travel component; and trade in services are as shown in Figure 3.1.7 and Figure 3.1.8.

FIGURE 3.1.7. Exports and Imports of Travel, 2019 – 2025



Source: Department of Statistics, Malaysia

FIGURE 3.1.8. Exports, Imports and Balance of Trade in Services, 2019 – 2025



Source: Department of Statistics, Malaysia

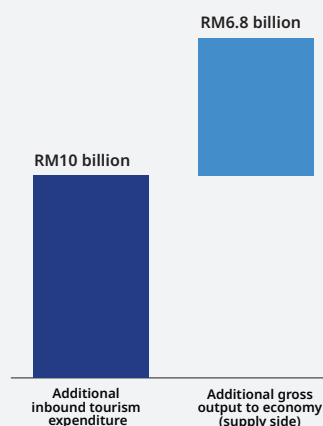
Multiplier Effects of Inbound Tourism

An assessment by the Ministry of Finance indicates that inbound tourism expenditure generates spillovers across a broad range of industries. Inbound visitors spending of RM10 billion will result in an additional RM6.8 billion gross output to the economy. The total gross output is estimated at RM16.8 billion, generated across 27 industries, representing an output multiplier of 1.68 times. Primary tourism-facing industries generate the highest output totalling RM11.4 billion, mainly in the transportation and storage, restaurants, accommodation as well as wholesale and retail trade as illustrated in Figure 3.1.9. Meanwhile, nearly a third of the economic impact is contributed by indirect and supporting industries including agriculture and manufacturing. The broad-based spillovers underscore the importance of maximising value capture from higher visitor arrivals, particularly by increasing spending and length of stay. The impact extends beyond tourism-facing industries through supply chain linkages, benefitting economic activity, employment, household incomes and services exports. Maximising this impact requires enhancing connectivity; improving tourism infrastructure, strengthening supply chain linkages and integrating local businesses directly into tourism activities.

FIGURE 3.1.9. Economic Impact of Inbound Tourism Expenditure

From inbound tourism expenditure to broader economic impact

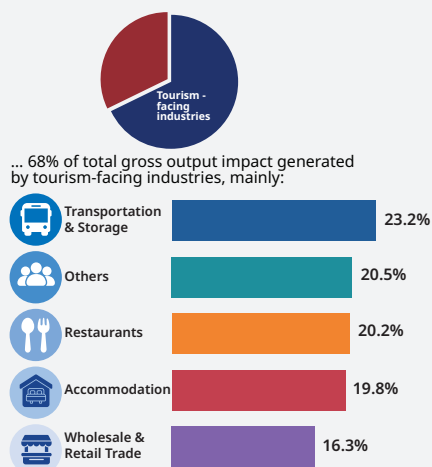
An additional RM10 billion in inbound tourism expenditure generates RM16.8 billion spillovers across the economy



Source: Ministry of Finance, Malaysia (estimates)

Distribution of impact

Inbound tourism expenditure benefits a wide range of industries, with RM11.4 billion of the total output impact generated in primary tourism-facing industries



Strategic takeaways



Broad-based spillover

Tourism spending generates significant economic output and strengthen supply-chain linkages across industries



Supports jobs and businesses

Higher visitor spending creates more economic opportunities for Malaysian households and enterprises



Boosts services exports

Inbound tourism reinforces Malaysia's position as a competitive services exporter

Navigating Headwinds

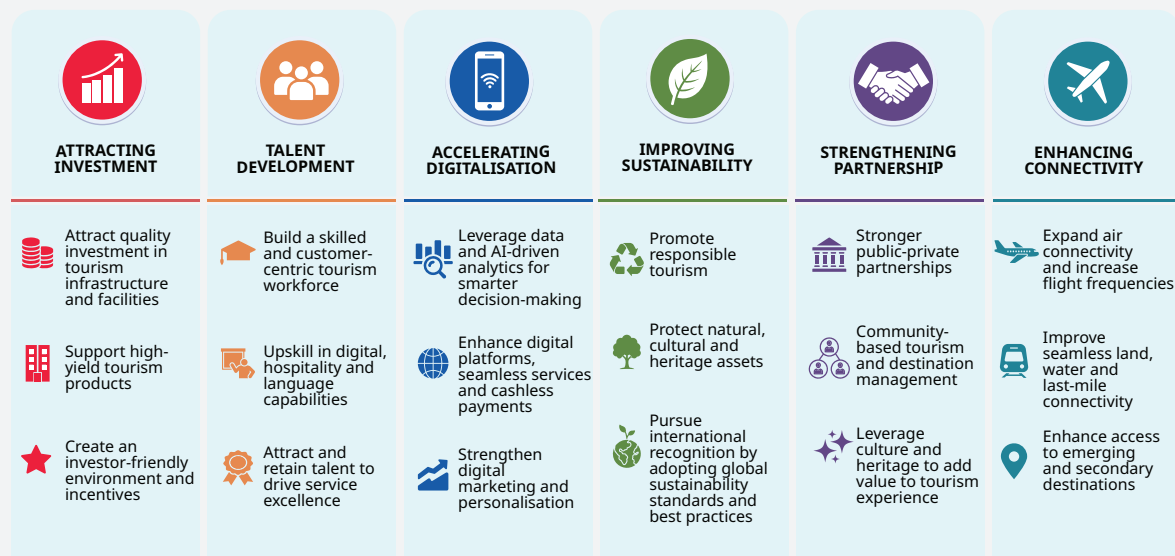
While increasing overall arrival numbers remains essential, relying solely on volume exposes Malaysia to strategic vulnerabilities, requiring a concerted effort to address key operational and market challenges. Geographically, heavy source-market concentration leaves the industry vulnerable to localised economic shocks, while intense competition from neighbouring destinations necessitates continuous product diversification. Accessibility remains constrained by limited direct flights, volatile jet fuel prices, high airfares and airspace rerouting due to geopolitical tensions. Furthermore, a notable rise in excursionists limits yield per visitor across accommodation and extended service subsectors. Environmental risks threaten the sustainability of destinations

including overtourism, habitat degradation and resource depletion across vulnerable ecosystems. Talent gaps also hinder service delivery across specialised segments such as luxury, healthcare, ecotourism and business events.

Conclusion

Malaysia has always captivated the world with its diversity, warmth and natural beauty. Yet, preserving that appeal in an unpredictable global landscape requires constant reinventing. As market dynamics shift, competitive advantage will belong to destinations that offer seamless connectivity, premium experiences and sustainable infrastructure. Stronger connectivity, digitalisation, upskilling, sustainability, coordination and quality investment will be essential to strengthen Malaysia's tourism competitiveness and resilience as shown in Figure 3.1.10.

FIGURE 3.1.10. *Key Priorities for Tourism Development*



Source: Ministry of Tourism, Arts and Culture, Malaysia and Malaysia Tourism Promotion Board

Translating potential into long-term economic yield will not only enable the nation to meet key economic targets but will establish a durable, world-class tourism model built for the decades ahead. In this pursuit, the VM2026 – 2027 will also serve as a strategic measure, leveraging on extended promotional timeframe to maximise international marketing impact. Malaysia can ensure its travel brand remains vibrant, resilient and uniquely “Truly Asia” and “Made by Malaysia” for generations to come.

Manufacturing Sector

Technology upcycles powering growth

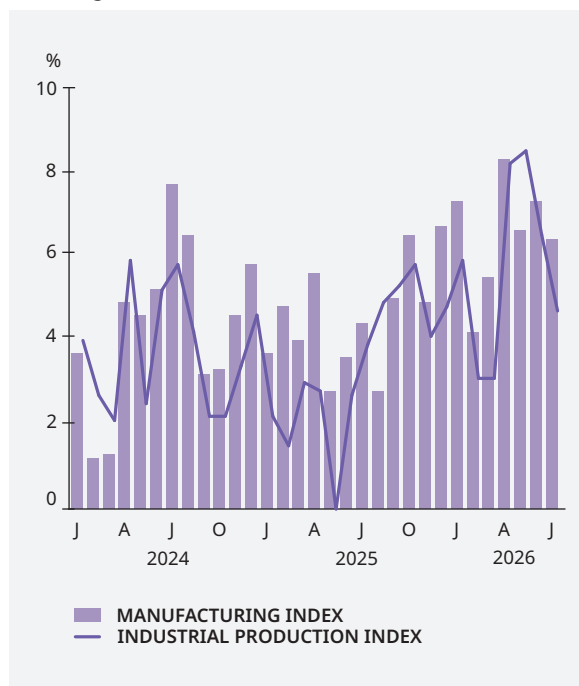
The **manufacturing** sector grew by 6.6% in the first half of 2026, supported by expansions in both export- and domestic-oriented industries. Export-oriented industries, which accounted for 76.4% of the sector, recorded a growth of 7.5% mainly driven by the E&E segment, reflecting sustained demand for semiconductors and electronic components. This is in line with the worldwide expansion of AI applications and digital infrastructure. The petroleum, chemical, rubber and plastic products subsector also contributed to the export-oriented industries growth. Meanwhile, domestic-oriented industries, expanded by 4.7%, supported by the recovery in transport equipment, other manufacturing and repair subsector, particularly the production of motor vehicles and related parts and accessories, alongside stable demand for construction-related materials.

In the second half of 2026, the sector is expected to increase by 5.7%, reflecting the normalisation of export front-loading activities and lower domestic crude oil and condensate production. In addition, rising oil prices amid the West Asia conflict also contributed to the moderate growth of the sector. Within the export-oriented industries, the E&E segment remains a key driver of growth, supported by sustained demand for semiconductors, electronic and AI-related components in line with the global technology upcycle. Meanwhile, domestic-oriented industries are expected to benefit from consumer- and construction-related demand. Increased tourism activities during VM2026 – 2027 and sustained household spending continue to support demand for food and beverages subsector. In addition, the development of

data centres, infrastructure and energy-related projects will generate demand for building materials.

The ongoing implementation of the New Industrial Master Plan 2030 (NIMP 2030) and the National Semiconductor Strategy (NSS) is expected to further enhance the sector's competitiveness by strengthening industrial clusters and manufacturing capabilities, alongside greater adoption of digital technologies and automation. In line with these policies, local firms have expanded their capabilities into designing homegrown advanced chip and developing higher value-added semiconductor within the global semiconductor value chain. Overall, the manufacturing sector is projected to record a growth of 6.2% in 2026.

FIGURE 3.2. Output of Manufacturing Sector (% change)



Source: Department of Statistics, Malaysia

TABLE 3.3. *Manufacturing Indices by Export- and Domestic-Oriented Industries, January – July 2025 and 2026*
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2025	2026	2025	2026	2025	2026
Export-oriented industries	148.6	159.5	4.6	7.3	67.5	68.1
Manufacture of vegetable and animal oils and fats	106.4	108.2	12.1	1.7	3.9	3.7
Manufacture of textiles	114.3	112.5	-3.3	-1.5	0.7	0.6
Manufacture of wearing apparel	127.3	129.4	1.1	1.6	0.8	0.7
Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	120.5	124.7	2.4	3.5	1.7	1.7
Manufacture of coke and refined petroleum products	120.2	121.8	-1.6	1.3	11.2	10.6
Manufacture of chemicals and chemical products	133.1	134.6	2.1	1.1	8.4	8.0
Manufacture of rubber products	193.4	193.3	2.2	0.0	4.3	4.0
Manufacture of plastics products	132.9	133.7	2.1	0.6	3.0	2.8
Manufacture of computer, electronics and optical products	184.2	213.3	8.0	15.8	25.4	27.6
Manufacture of electrical equipment	153.0	160.7	4.9	5.0	3.3	3.3
Manufacture of machinery and equipment n.e.c. ¹	164.3	177.5	7.4	8.0	3.5	3.5
Manufacture of furniture	142.5	151.1	5.4	6.1	1.5	1.5
Domestic-oriented industries	145.9	153.0	3.1	4.9	32.5	32.0
Manufacture of food processing products	186.5	199.8	9.2	7.1	6.8	6.8
Manufacture of beverages	150.9	163.5	7.5	8.4	1.0	1.0
Manufacture of tobacco products	141.9	147.2	0.1	3.7	0.7	0.7
Manufacture of leather and related products	177.8	185.6	7.5	4.4	0.3	0.3
Manufacture of paper and paper products	146.0	148.7	-1.2	1.8	1.7	1.6
Printing and reproduction of recorded media	146.3	157.2	8.0	7.4	1.3	1.4
Manufacture of basic pharmaceuticals, medicinal chemical and botanical products	187.9	195.4	6.7	4.0	0.7	0.7
Manufacture of other non-metallic mineral products	125.0	130.8	2.3	4.7	3.7	3.6
Manufacture of basic metals	134.5	143.6	4.7	6.8	3.1	3.1
Manufacture of fabricated metal products, except machinery and equipment	136.3	142.6	4.4	4.6	5.1	5.0
Manufacture of motor vehicles, trailers and semi-trailers	148.0	148.6	-7.1	0.4	4.7	4.4
Manufacture of other transport equipment	104.5	108.1	-1.2	3.4	1.2	1.2
Other manufacturing	128.2	131.3	3.0	2.5	0.9	0.9
Repair and installation of machinery and equipment	157.2	171.6	8.5	9.2	1.2	1.2
Manufacturing	147.7	157.3	4.1	6.5	100.0	100.0

¹ Not elsewhere classified

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

FEATURE ARTICLE 3.1

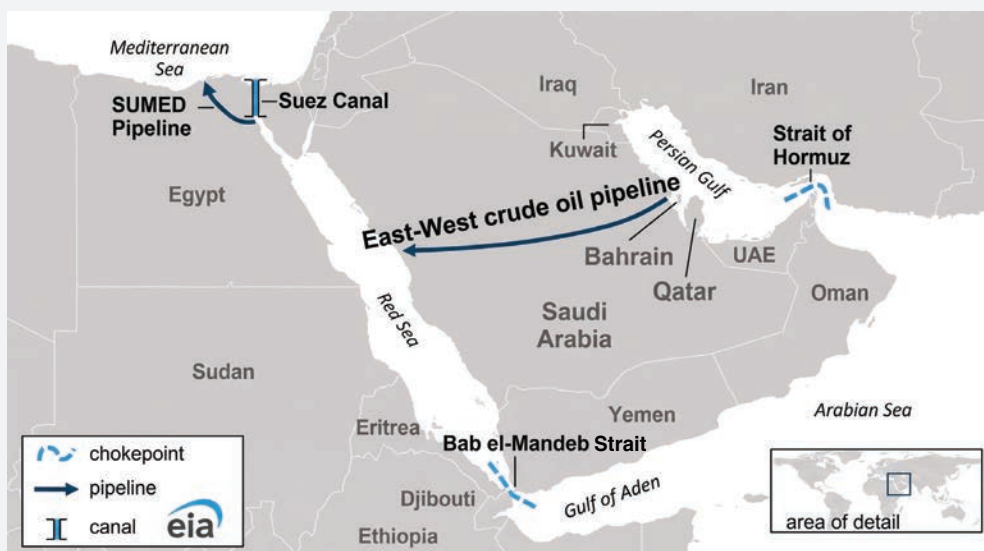
Strengthening Malaysia's Manufacturing Resilience Amid Geopolitical Uncertainties in West Asia

Introduction

The Strait of Hormuz is one of the world's most important energy chokepoints, while the Bab el-Mandeb Strait and the Suez Canal form part of a major trade corridor between Asia and Europe. The Strait of Hormuz links the Persian Gulf and the Gulf of Oman, serves as a key gateway connecting the Middle East with global markets and facilitating oil and gas exports. Meanwhile, Bab el-Mandeb Strait, connects the Gulf of Aden with the Red Sea, which leads to the Mediterranean Sea via Suez Canal.

Data from the U.S. Energy Information Administration (EIA) in Figure 3.1.1¹ indicate a marked shift in energy flows along these routes amid geopolitical tensions in West Asia. Oil flows through the Strait of Hormuz averaged approximately 21 million barrels per day (mmb/d) in the first half of 2025, equivalent to about 20% of global petroleum liquids consumption before declining sharply to an estimated 9.9 mmb/d in the first half of 2026. Over the same period, oil flows through the Suez Canal and SUMED Pipeline increased from 4.9 mmb/d to 5.8 mmb/d, while flows through the Bab el-Mandeb Strait rose from 4.2 mmb/d to 6.9 mmb/d. Liquefied natural gas (LNG) flows through the Straits of Hormuz also declined substantially, from approximately 11.4 billion cubic feet per day (bcf/d) to 4.1 bcf/d, as summarised in Table 3.1.1². Disruptions along these routes can force vessels to reroute, raise fuel and war-risk insurance costs, lengthen delivery times and increase congestion at transshipment hubs.

FIGURE 3.1.1. Map Of Daily Transit Volumes Of Petroleum and Other Liquids through World Maritime Oil Chokepoints



Source: U.S. Energy Information Administration (EIA)

¹ Analysis is based on Vortexa tanker tracking, World Bank and Panama Canal Authority data, using EIA conversion factors and calculations.

² First-half figures are calculated as the average of the first and second quarters. LNG averages for the Bab el-Mandeb Strait are not presented due to incomplete quarterly observations. Total may not add up due to rounding.

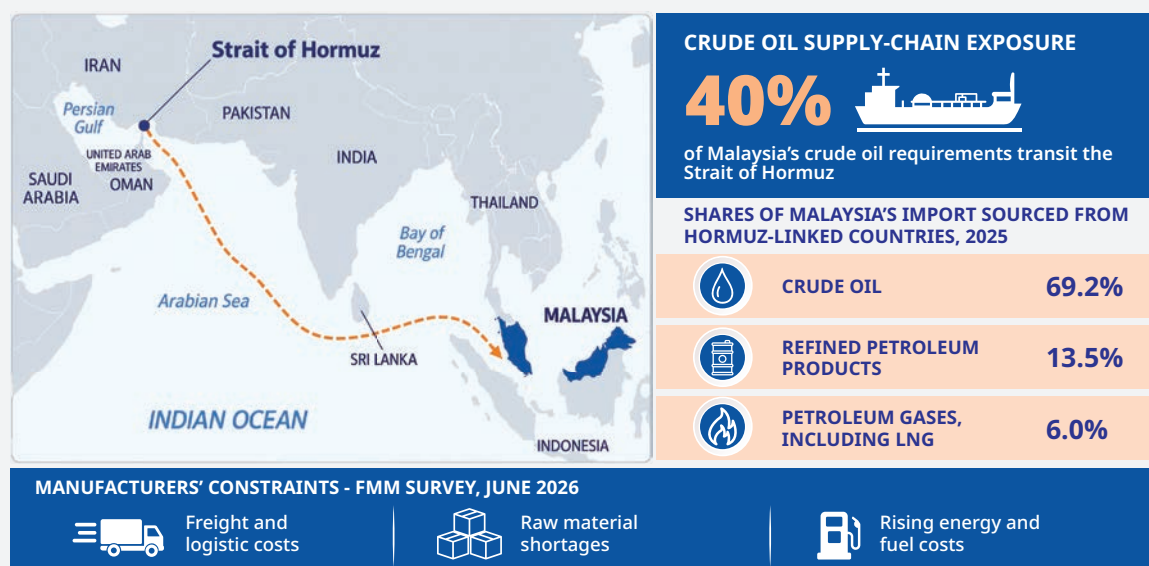
Table 3.1.1. Oil and LNG Flows through Selected Maritime Chokepoints

Maritime Chokepoints	Connection between	Oil Flows (mmb/d)		LNG (bcf/d)	
		H1 2025	H1 2026	H1 2025	H1 2026
Strait of Hormuz	The Persian Gulf and the Indian Ocean	20.9	9.9	11.4	4.1
Suez Canal and SUMED Pipeline	The Red Sea and the Mediterranean Sea	4.9	5.8	0.8	1.7
Bab el-Mandeb Strait	The Gulf of Aden and the Red Sea	4.2	6.9	n.a.	n.a.

Source: U.S. Energy Information Administration (EIA), Global Energy Security Data and Ministry of Finance, Malaysia (estimates)

Recent geopolitical tensions in West Asia, trade restrictions and disruptions to major shipping routes have increased uncertainties for global manufacturers. The immediate effects include greater volatility in energy and transport costs as well as interruptions to the availability and delivery of raw materials and intermediate inputs. Through global supply chains and domestic production linkages, these disruptions may have far reaching effects to manufacturers.

In the case of Malaysia, the most direct exposure to potential disruptions in the Strait of Hormuz lies in its crude oil supply chain, where nearly 40% of the nation's crude oil requirements transit through the chokepoint. Based on 2025 inbound trade volume data, Hormuz-linked countries accounted for 69.2% of crude oil imports, an estimated 13.5% of refined petroleum product imports and 6% of petroleum gas imports, including LNG as illustrated in Figure 3.1.2. Nevertheless, the effects extend beyond direct energy imports, with the Federation of Malaysian Manufacturers (FMM) June 2026 survey identifying freight and logistics costs as the key constraint affecting manufacturers, followed by raw material shortages as well as higher energy and fuel costs.

FIGURE 3.1.2. Malaysia's Crude Oil Supply Exposure to the Strait of Hormuz Route

Source: Ministry of Finance, Malaysia and Khazanah Research Institute (KRI)

This article examines how geopolitical shocks can affect Malaysia's manufacturing sector through energy markets, maritime logistics and global supply chains. It combines industry evidence with input-output (IO) analysis to identify sectoral exposure, estimate the potential impact on production costs and assess which industries could transmit shocks more widely across the economy.

Manufacturing Performance and External Exposure

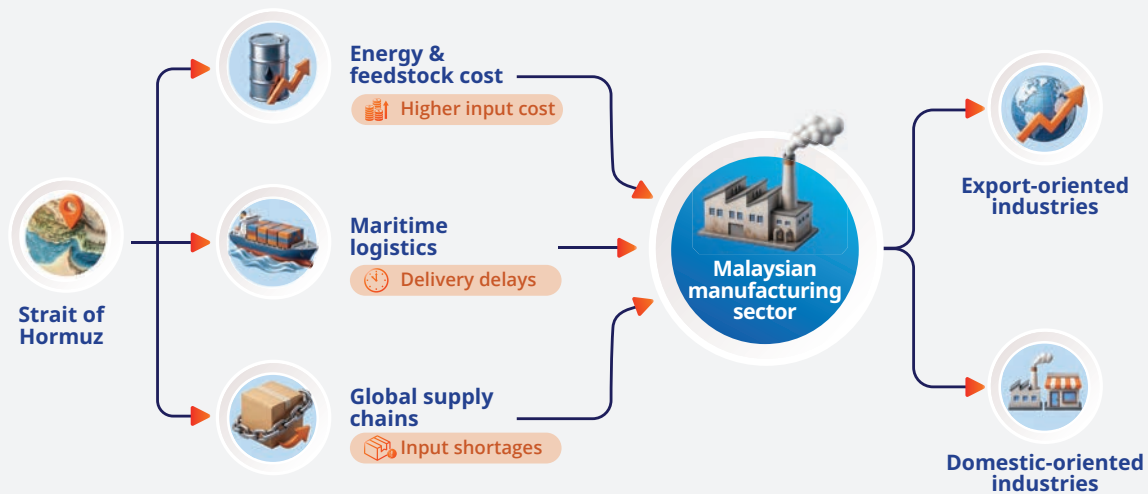
Despite the latest episode of geopolitical uncertainty, Malaysia's manufacturing sector remained robust supported by sustained production and strong external demand. Manufacturing value-added expanded by 6.6% in the first half of 2026, underpinned by stronger activity in E&E as well as petroleum, chemical, rubber and plastic products subsectors. This performance is aligned with total trade which increased by 22.4% to RM1,795.2 billion, supported by higher exports (27.5%) and imports (16.8%). These developments indicate sustained external demand for Malaysia's manufactured products.

However, the sources of growth and external exposure varied between export- and domestic-oriented industries. Export-oriented industries particularly E&E as well as petroleum and chemical products, continued to drive growth, supported by sustained external demand. The E&E industry benefited from continued investment in artificial intelligence (AI) and other technology-intensive activities which support demand for semiconductors and electronic components. Nevertheless, export-oriented industries could still be affected by demand and shipping disruptions. Meanwhile, domestic-oriented industries, including food processing, fabricated metal products and transport equipment were less affected by changes in external demand, but could still face input shortages and higher production costs.

The impact of these risks on production depends on a firm's sourcing flexibility, inventory coverage and the availability of substitutes for critical inputs. Production is particularly at risk when specialised inputs have limited alternatives since a temporary delay can halt operations and disrupt other firms dependent on the affected output. These interdependencies can amplify a localised external shock and lead to wider supply chain disruptions across Malaysia's manufacturing ecosystem.

Supply Chain Ripple Effects on Malaysian Manufacturers

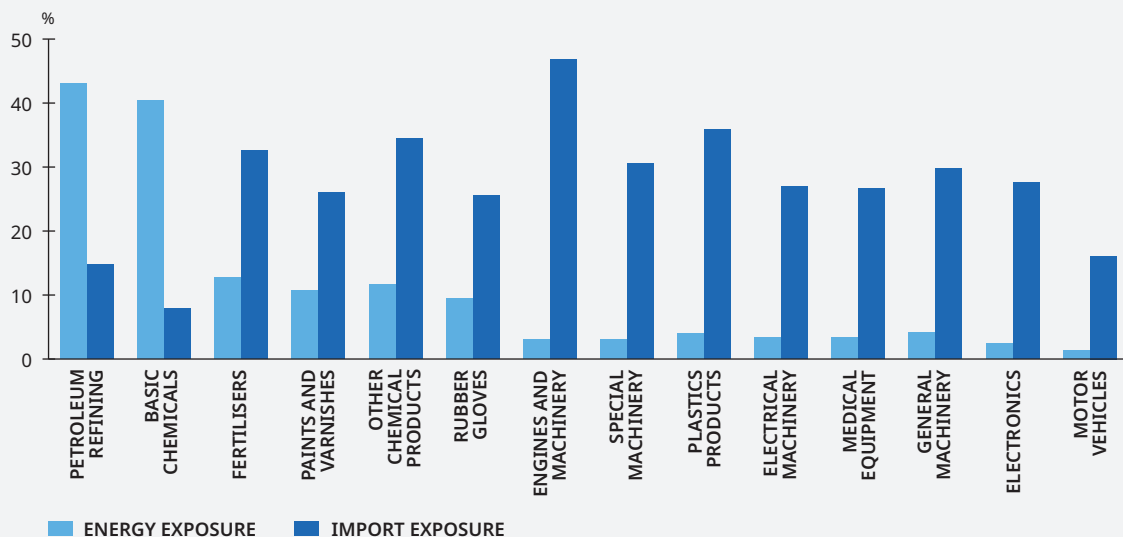
As illustrated in Figure 3.1.3, disruptions to energy supplies, shipping routes and critical inputs can spread rapidly across Malaysia's interconnected manufacturing industries. Shortages such as petrochemical feedstocks, specialty chemicals, metals and packaging materials will raise costs and constrain production in downstream industries including plastics, rubber, E&E and food processing. The FMM's survey illustrates the resulting financial strain among manufacturers, with 74% of respondents reported production costs increasing between 10% and 50% above pre-conflict levels, while 58% of respondents claimed to be operating at or below break-even on affected product lines. Firms might be able to absorb part of the initial increase due to limited pricing flexibility, but prolonged disruptions could force firms to pass the higher cost to consumers, leading to higher prices, weakening export competitiveness and delaying investments.

FIGURE 3.1.3. Supply Chain Ripple Effects to Malaysian Manufacturers

Source: Ministry of Finance, Malaysia

Input-Output Analysis

The IO analysis is used to examine the impact of external shocks to Malaysia's manufacturing sector through an industry's direct exposure to energy and imported-input; the estimated transmission of cost shocks; and its potential to spread disruptions through domestic production linkages. Using Malaysia's 2021 IO table and fixed production coefficients, the analysis traces how initial cost pressures are transmitted across industries.

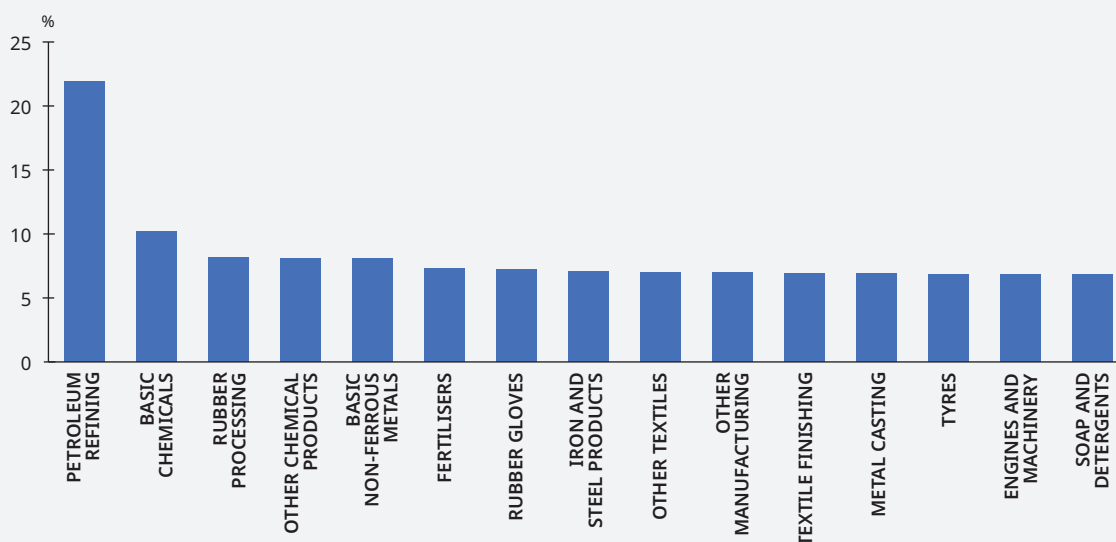
FIGURE 3.1.4. Energy and Imported-Input Exposure of Selected Manufacturing Industries

Source: Department of Statistics and Ministry of Finance, Malaysia

As shown in Figure 3.1.4, petroleum refining records the highest energy exposure, accounting for approximately 43% of gross output³. This is followed by basic chemicals at 40.4%, reflecting the sensitivity of both industries to changes in energy and feedstock costs. Import exposure is highest for engines and machinery at 46.8%, followed by plastics products (35.8%), fertilisers (32.6%), general machinery (29.8%) and electronics (27.6%) industries. Meanwhile, electronics industry has relatively low direct energy exposure of 2.5%, indicating that its vulnerability arises mainly from higher imported-input costs and disruptions to global supply chains.

Based on the combined shock scenario⁴ in Figure 3.1.5, petroleum refining records the largest estimated production cost effect among manufacturing industries at approximately 21.9%, reflecting its direct exposure to the assumed shocks and the transmission of cost pressures through domestic production linkages. This is followed by basic chemicals at 10.2%, driven mainly by cost pressures transmitted through the energy and logistics network, while the estimated effects on rubber processing (8.2%), other chemical products (8.1%), basic non-ferrous metals (8.1%), fertilisers (7.3%), and engines and machinery (6.8%) are driven mainly by imported-input costs. The findings show that external cost pressures are not confined to industries directly exposed to energy prices but also affect downstream manufacturers through their dependence on domestic suppliers and imported materials.

FIGURE 3.1.5. Combined Shock Scenario of Selected Manufacturing Industries



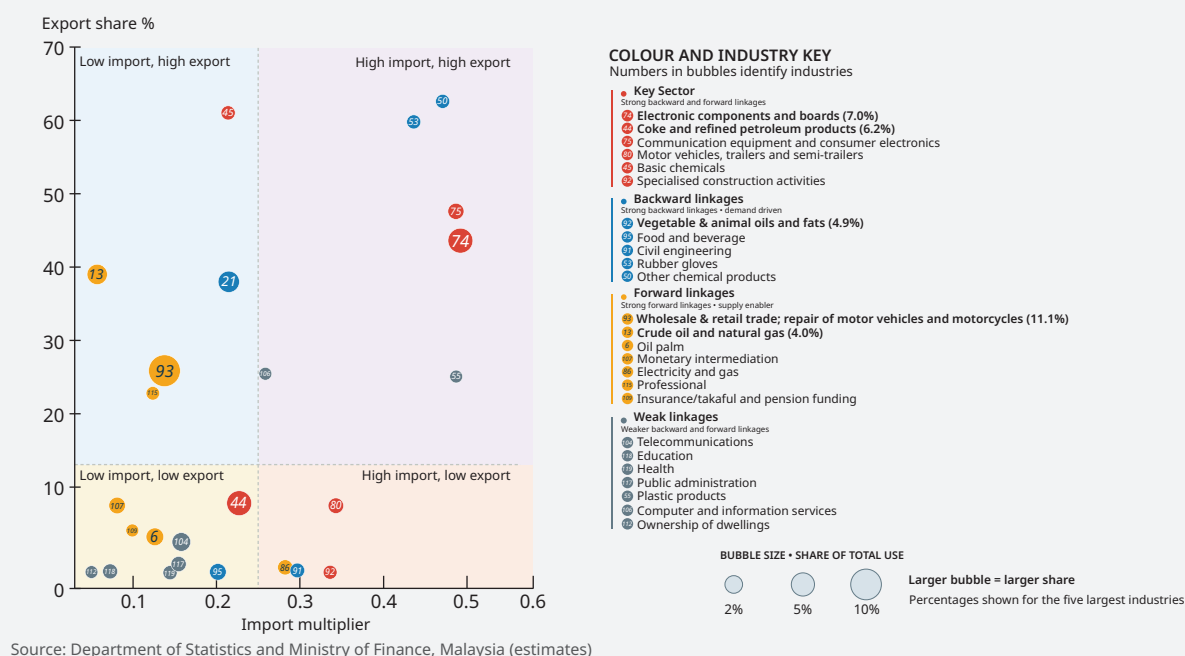
Source: Department of Statistics and Ministry of Finance, Malaysia (estimates)

³ Energy and import exposures refer to the respective input costs as shares of industry gross output.

⁴ The scenario is illustrative and does not represent a forecast. The estimated effects are based on assumed changes in energy, logistics and imported-input costs under fixed production coefficients.

Disruptions in major industries can have wider effects across the economy. The 25 industries⁵ shown in Figure 3.1.6 account for approximately 69% of total use in the economy with the bubble size representing each industry's share of total use. Wholesale and retail trade register the largest share at 11.1%, followed by electronic components and boards (7.0%); refined petroleum (6.2%); vegetable and animal oils and fats (4.9%); and crude oil and natural gas (4%). Among manufacturing industries, electronic components and boards, which is key industry combine a relatively high import multiplier of 0.48 with the largest manufacturing share of total use. Distortions in this industry could therefore affect a wider range of suppliers and downstream production.

FIGURE 3.1.6. Strategic Sector Positioning - Top 25 Industries



The assessments also show different patterns of external exposure. Communication equipment and consumer electronic is highly dependent on imported-inputs and export markets, while rubber gloves and other chemical products are highly export-oriented and strongly linked to their suppliers. Basic chemicals have relatively low import dependence but a high export share of 60.4%, supported mainly by strong backward and forward linkages. Plastics products have relatively high import dependence, but the weaker domestic production linkages suggest that the effects may be more concentrated within the industry. Overall, the wider economic impact of a disruption depends not only on an industry's external exposure but also on its size and linkages within the economy.

⁵ The 25 largest industries ranked by share of total use. Priority status is based on the Backward Linkages (BL) and Forward Linkages (FL) indices, while the quadrants reflect import dependence and export orientation.

Government Responses

In light of the heightened tensions, the Government reactivated the National Economic Action Council (MTEN) in March 2026, to coordinate a whole-of-government response to the economic repercussions and global supply chain disruptions. The Government's immediate response focused on sustaining business liquidity and securing essential supplies. Bank Negara Malaysia (BNM) introduced the RM5 billion SME Stabilisation Relief Facility to provide working capital financing to viable SMEs affected by the West Asia conflict. As of August 2026, approximately RM2.8 billion was approved to more than 4,900 SME accounts. More targeted assistance was provided through an additional RM5 billion guarantee facility under Syarikat Jaminan Pembiayaan Perniagaan (SJPP) with financing coverage to 80% and the guarantee tenure extended to 10 years for micro, small and medium enterprises affected by the West Asia conflict. The facility was further complemented by the broader RM10 billion BNM-CGC Guarantee Scheme, to support SMEs productivity, innovation and resilience.

In the energy sector, PETRONAS leveraged its integrated value chain to support domestic petrol and diesel supplies while coordinating with the Government and other industry players. Diplomatic engagement also facilitated the passage of Malaysia-linked vessels through the Strait of Hormuz, including a PETRONAS-chartered tanker carrying crude oil to Pengerang. These measures helped reduce the immediate supply risks and maintain the availability of essential fuels.

The Government is assessing the impact to formulate appropriate measures to ease cost pressures to the affected industries, particularly consultations with the plastics industry are being undertaken due to its important linkages with food packaging, E&E, automotive and medical devices industries. Concurrently, continuous engagements with other affected subsectors players were also conducted as part of the Government's effort to strengthen the long-term resilience of the manufacturing ecosystem.

Way Forward

While the Government's responses helped address immediate financing and supply pressures, a more systematic approach is required to identify critical inputs, monitor concentrated supply risks and coordinate early intervention. The immediate priority is to enhance visibility over critical inputs and concentrated sources of supply. A targeted supply chain mapping programme should identify common upstream suppliers, source country concentration, inventory coverage, lead times and the availability of technically acceptable substitutes. The programme should focus on industries with both extensive production linkages and high exposure, including refined petroleum, basic chemicals, electronic components and selected machinery industries. A shared risk dashboard could then support early warning signals and a more timely coordination and necessary action to be taken by government agencies as well as the industries.

Further policy measures should facilitate alternative sourcing as preparation for potential disruption arising from any crises. This includes pre-qualifying substitute suppliers and materials, accelerating technical approvals where safety and quality requirements are met, and utilising regional supplier-matching platforms. For critical inputs with limited substitutes and high disruption costs, firms should be encouraged to establish appropriate inventory buffers and strategic business viability. Simultaneously, public support should be targeted, finite and conditional to limit costs as well as minimise distortions.

Over the long term, Malaysia should strengthen its domestic and regional capacity in selected intermediate products where supply is highly concentrated and feasible alternatives remain limited, rather than pursue broad-based import substitution. Consistent with the New Industrial Master Plan 2030 (NIMP 2030), support for petroleum and chemicals products, as well as E&E, should prioritise higher-value-added activities, technological upgrading and supplier development in areas where Malaysia can build competitive capabilities. The country should also deepen its participation in complementary ASEAN production networks by working together with regional partners to harmonise product standards, streamline rules of origin and improve customs procedures to facilitate the movement of intermediate inputs across the region. Greater coordination of cross-border investment could further encourage complementary production capabilities among ASEAN member states and provide manufacturers with a broader and more diversified regional supplier base.

Conclusion

Malaysia's strong manufacturing sector and trade performance are exposed to vulnerabilities arising from its deep integration with global energy, logistics and production networks. The disruptions can spread beyond directly exposed industries due to the economic importance and extensive linkages with downstream producers. While immediate measures provide necessary short-term support, long-term policies should focus on increasing domestic value creation in critical production segments and deepening complementary manufacturing networks within ASEAN. Investment incentives should be aligned with productivity gains, technological upgrading and broader industrial spillovers. These measures will strengthen Malaysia's capacity to withstand external shocks without compromising the nation's trade openness and global integration that underpin manufacturing competitiveness.

Agriculture Sector

Anchoring food security amid subdued growth

The **agriculture** sector contracted by 0.7% in the first half of 2026, weighed down by lower output in most subsectors except livestock and other agriculture. The oil palm subsector declined by 2.8% attributed to lower fresh fruit bunches (FFB) yield from Peninsular Malaysia. The weaker yield performance was partly due to a decline in the mature area which outweighed gains in Sabah and Sarawak. In addition, the rubber subsector also contracted by 16.3% mainly due to shortages of rubber tappers and adverse weather conditions that distracted tapping activities despite favourable market conditions. Similarly, both the fishing as well as forestry and logging subsectors contracted. In contrast, the livestock and other agriculture subsectors grew by 5.6% and 1.3%, respectively, partially offsetting the sector's decline.

For the second half of 2026, the sector is forecast to decline by 3.3%. The oil palm subsector is expected to decline slightly due to weather-related disruptions. Although FFB yield production in 2025 was high, the biological yield cycle may limit production in 2026. In addition, field-level variation in harvesting conditions and inefficient crop recovery could contribute to overall lower yield. The rubber subsector is also expected to record a contraction as weather-related risks and higher production costs will constrain output. The growth of fishing as well as forestry and logging subsectors are also anticipated to remain subdued. On the other hand, livestock and other agriculture subsectors will continue to grow, underpinned by improved in farm productivity, higher poultry production and large-scale rollout of MARDI's new grain corn varieties known as MZ1 and MZ2. Meanwhile, fruits and vegetables segments will contribute to the growth of other agriculture subsector.

For the year, the agriculture sector is projected to contract by 2.1%, mainly reflecting weaker output in plantation commodities.

TABLE 3.4. *Performance of Agriculture Sector, 2025 – 2027*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2026 ²	2025	2026 ²	2027 ³
Oil palm	35.8	4.7	-6.4	1.3
Other agriculture ¹	29.8	1.7	1.3	-0.8
Livestock	18.3	2.2	4.1	0.8
Fishing	11.0	-0.6	-4.0	0.5
Forestry and logging	3.7	-1.8	-4.0	0.1
Rubber	1.4	-12.6	-10.7	0.2
Agriculture	100.0	2.2	-2.1	0.5

¹ Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple

² Estimate

³ Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

Mining and Quarrying Sector

Natural gas-led to drive growth

The **mining and quarrying** sector expanded by 3.2% in the first half of 2026 attributed to stronger natural gas production. The natural gas subsector registered 7.6% growth following higher production at the Bintulu integrated facilities post-turnaround. The other mining & quarrying and supporting services subsector also expanded by 5.7%. However, the crude oil and condensate subsector declined by 3.9% partly due to maintenance and inspection activities at the Kikeh Floating Production, Storage and Offloading (FPSO) in Sabah.

In the second half of 2026, the sector is expected to register a moderate growth of 1.9%, as the favourable base effects in natural gas production diminish. The natural gas subsector is projected to expand, supported by the stabilisation of

the Malaysia liquefied natural gas (LNG) Fast-track (FaS) projects, as well as stronger demand from domestic power generation and LNG export markets. Efforts by importing countries to secure alternative supplies following disruptions arising from the West Asia conflict are also expected to provide additional impetus for LNG demand. Continued optimisation of existing facilities and progress in upstream developments will also support production. In addition, the crude oil and condensate subsector is projected to record a slight increase in production, partially from the Adong Kechil West Field near Marudi, Sarawak and from the expected completion of the five First Hydrocarbon Projects nationwide. The other mining & quarrying and supporting services subsector is also anticipated to expand attributed to the increased supporting services activities. Overall, the sector is estimated to expand by 2.6% for the year with the average Brent crude oil price is expected to be elevated around USD85 per barrel.

Construction Sector

Continued expansion across subsectors

The **construction** sector expanded by 7.1% in the first half of 2026, on account of positive performance across all subsectors. Growth was mainly buoyed by continued expansion in the specialised construction activities and non-residential buildings subsectors. Growth in specialised construction activities was supported by the implementation of the Large-Scale Solar 5 (LSS5) in Kuala Muda, Kedah, land reclamation works for the initial phase of the Port Klang Third Terminal development on Carey Island and the Hydro Life Extension Programme (HLEP) along the Perak River corridor. Meanwhile, growth in the non-residential buildings subsector was driven by construction of data centres in Johor and the Klang Valley, alongside the development of major biorefinery infrastructure in Pengerang, Johor. The residential buildings subsector also

recorded steady growth, backed by continued development of housing projects in Kuala Lumpur, Selangor and Pahang. The civil engineering subsector continued to expand supported by infrastructure works associated with the PETRONAS Floating Liquefied Natural Gas (PFLNG3) facility in Sabah and the Sarawak-Sabah Link Road (SSLR).

The sector is projected to grow by 5.8% in the second half of 2026, attributed to the continued implementation of private and public sector projects. The specialised construction activities and non-residential buildings subsectors are expected to remain as main drivers, with new and ongoing construction of data centres and industrial facilities sustaining demand for building and installation works. The civil engineering subsector is also estimated to expand, propelled by transport, energy and water infrastructure projects, including the Penang LRT Mutiara Line, Hybrid Hydro Floating Solar (HHFS), Regasification Terminal 3 (RGT-3) developments and infrastructure works associated with PFLNG3. In addition, the residential buildings subsector is anticipated to record growth, underpinned by ongoing housing developments, including affordable housing projects undertaken by public and private developers. Overall, the construction sector is projected to grow at 6.4% in 2026.

Domestic Demand

Growth driven by resilient domestic demand

Domestic demand continues to drive overall economic growth, bolstered by commendable private sector spending. In the first half of 2026, domestic demand registered a 5.1% growth and is expected to maintain its momentum in the second half of the year. For the full year, domestic demand is estimated to increase by 5.4%. Propelled by both consumption and investment spending, private and public sector expenditures are estimated at 5.6% and 4.9%, respectively, in 2026.

TABLE 3.5. *Gross Domestic Product by Aggregate Demand, 2025 – 2027 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
		2026 ²	2025	2027 ³
Domestic demand	96.3	6.3	5.4	5.1
Private expenditure	78.0	6.2	5.6	5.3
Consumption	60.4	5.3	5.0	4.8
Investment	17.6	9.4	7.8	7.1
Public expenditure	18.3	6.6	4.9	4.2
Consumption	13.1	5.3	3.8	3.2
Investment	5.2	10.3	7.7	6.8
External sector¹	3.8	-15.6	20.0	1.0
Exports	72.2	4.9	11.4	3.2
Imports	68.4	6.3	11.0	3.3
GDP	100.0	5.2	4.8 – 5.3	4.2 – 5.2

¹ Goods and non-factor services

² Estimate

³ Forecast

Note: Total may not add up due to rounding and excluding change in stocks component

Source: Department of Statistics and Ministry of Finance, Malaysia

Private consumption expanded by 4.7% in the first half of 2026 and is anticipated to grow by 5% over the full year. This reflects higher disposable income, underpinned by favourable domestic economic activities and steady labour market conditions. Income growth has been further supported by wage-related policy measures, notably phase two of the civil service salary adjustments under the SSPA. Household consumption continues to be supported by government measures to sustain purchasing power through SARA and STR as well as the expansion of the PJRM. Simultaneously, the continuation of BUDI95 alongside targeted BUDI Diesel subsidies is expected to cushion households against energy price shocks and inflationary pressures. Additionally, consumption and tourism-related activities are expected to further increase following major national and international events, including VM2026 – 2027, the 2026 FIFA World Cup and the Formula 1 Gulf Air Bahrain Grand Prix 2026 hosted at Sepang International Circuit as well as state elections.

Private investment which expanded by 6% in the first half of the year, is expected to grow by 7.8% in 2026, mainly driven by

higher capital outlays by firms on structures as well as machinery and equipment. This is also backed by the progressive realisation of multi-year projects arising from significant approved investments (2024: RM384.4 billion; 2025: RM431.1 billion), particularly in E&E, AI infrastructure and renewable energy. These investments are located across several states, particularly in Johor, Selangor, Pulau Pinang and Kedah. Ongoing strategic developments

within the Johor-Singapore Special Economic Zone (JS-SEZ) and established industrial zones are also expected to sustain investment momentum. In addition, the continued implementation of national masterplans, complemented by the phased implementation of the New Incentive Framework (NIF), are expected to provide further support to investment activities in emerging and less-developed areas.

FEATURE ARTICLE 3.2

Beyond the Headline: Transforming Investment into Economic Resilience

Background

Malaysia is shifting beyond headline investment figures towards a stronger focus on integrating technology as well as economic complexity. Supported by strategic policy frameworks such as the National Investment Aspirations (NIA), New Industrial Master Plan 2030 (NIMP 2030) and the National Semiconductor Strategy (NSS), this shift drove approved investments to a historic-high in 2025, reflecting Malaysia's growing position in technology-intensive and higher value-added economic activities.

High investment particularly in technology sectors is generally expected to enhance economic development in several stages. It starts with potential domestic and foreign capital inflows, which are converted into approved investment, guided by clear government policies and incentives. This is further translated into project implementation, technology adoption and stronger supply chain links. Once a project commences, it typically uplifts productivity through technological capacity, upskilling and innovation, thereby accelerating domestic firms to higher-value segments of global supply chains, while strengthening export competitiveness and economic resilience. The investment transmission mechanism is reflected in Figure 3.2.1.

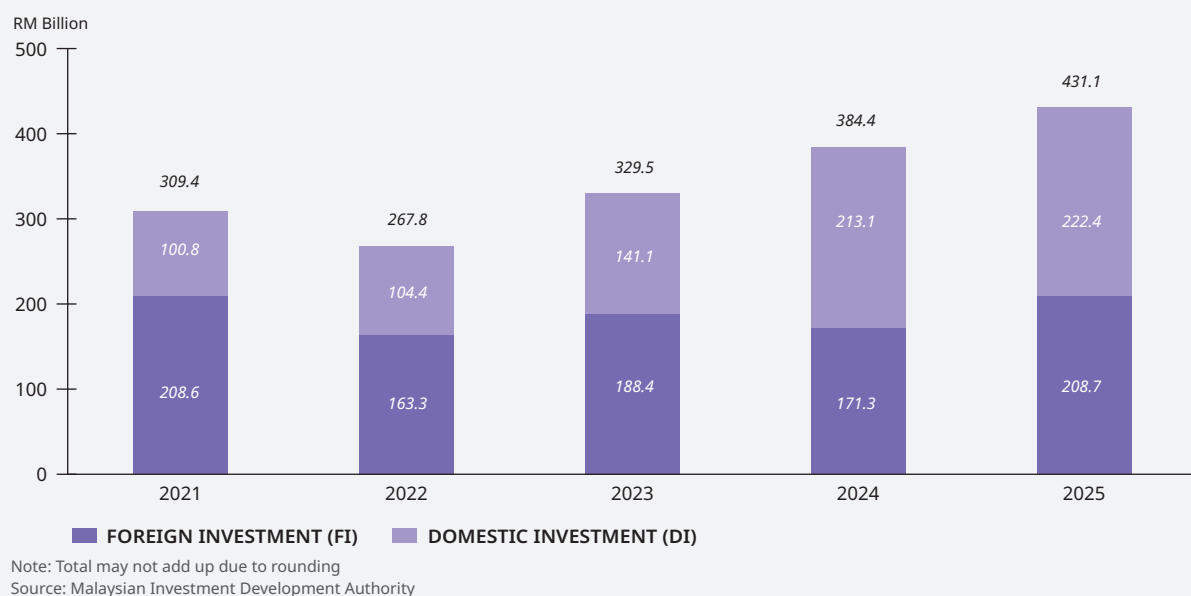
FIGURE 3.2.1. *Investment Transmission Mechanism*



Source: Ministry of Finance, Malaysia (various references)

Malaysia's investment profile is relatively balanced, with foreign and domestic capital contributing almost equally to approved investments. As shown in Figure 3.2.2, domestic investment (DI) made up RM222.4 billion or 51.6% of total approved investments in 2025, while foreign investment (FI) contributed the remaining share at RM208.7 billion. Robust FI continues to serve as an anchor for technology transfer and global market access, while the expanding share of domestic capital reflects heightened confidence among local investors in the nation's long-term economic growth trajectory. The balanced mix minimises exposure to external shocks, as DI provides a strong buffer against FI. Delving into the details, this article highlights two focus areas shaping Malaysia's current investment landscape.

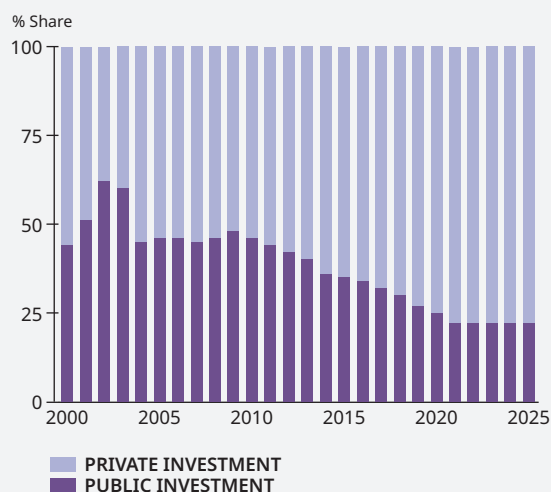
FIGURE 3.2.2. Trends in Foreign and Domestic Approved Investment, 2021 – 2025



Synergy between Private and Public Investment

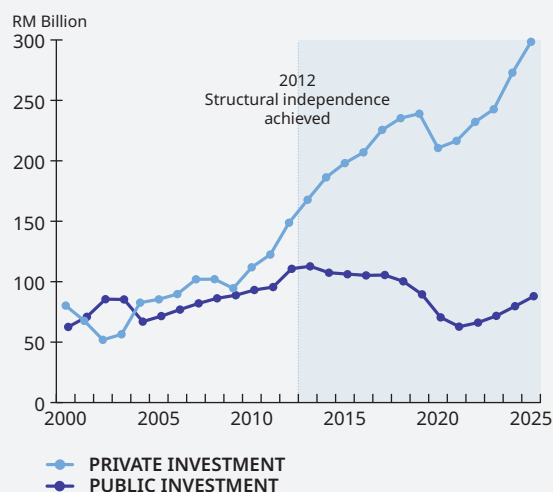
Figure 3.2.3 and Figure 3.2.4 illustrate the dominance of private investment over public investment indicating positive investor sentiment. The increasing trend of private investment share reflects its leading role in supporting the country's economic development. Meanwhile, public investment serves a crucial role as a catalyst in key industrial areas and de-risking new growth drivers, paving the way for greater private investment and supporting long-term growth. Notwithstanding this trend, there is a recurring debate concerning the relationship between private and public sector investment.

FIGURE 3.2.3. *Investment Share by the Private and Public Sector, 2000 – 2025*



Source: Department of Statistics, Malaysia

FIGURE 3.2.4. *Private Investment and Public Investment, 2000 – 2025*



Source: Department of Statistics, Malaysia

Analysis 1: The Dynamics of Private and Public Capital Formation

This section analyses the relationship between private and public investment, evaluating whether public investment acts as a driver or a deterrent to private capital investment. Empirical findings indicate that a 1% increase in public investment is associated with an immediate 0.57% contraction in private investment in the short run. The inverse relationship suggests the crowding out of private investment due to direct competition for raw materials, specialised equipment and skilled labour which could reduce profitability (Sundararajan & Thakur, 1980; Cavallo & Daude, 2008). In addition, the heavy financing requirements of large-scale public initiatives tighten credit conditions and elevate borrowing frictions, which prompt private companies to delay their investment (Islam & Nguyen, 2026).

Meanwhile, the analysis indicates a crowding-in effect, where a 1% increase in public investment is associated with a 0.48% rise in private capital formation in the long run. This shows that public investment projects, such as roads, ports, electricity and digital networks, act as a critical enabler to private sector activities and stimulate broader economic activity particularly investment in special economic zones or industrial parks. The positive correlation states that stronger economic growth encourages businesses to invest more, while direct government spending plays a supportive role (OECD, 2024).

Analysis 2: Private Investment Transmission to GDP

While a growing economy naturally attracts greater capital inflows, private investment is vital in stimulating the domestic economy through capital formation, job creation, technology adoption and supply-chain integration.¹ However, the magnitude and sustainability of these impacts on Malaysia's real GDP depend on the composition of capital outlays, the pace of project execution and cross-sector linkages.

¹ In terms of share to GDP, data shows that private investment has grown steadily from 15.3% in 2022 to 17.2% in 2025.

Based on MoF's estimates, a 10% increase in real private investment is associated with an immediate expansion of approximately 0.49% in real GDP. Malaysia's structural growth momentum reflects the evolution of investment and industrial policies from the New Economic Model (NEM) and Economic Transformation Programme (ETP) in 2010, Tenth Malaysia Plan (2011 – 2015) as well as the National Policy on Industry 4.0 (Industry4WRD) in 2018 towards a more targeted, outcome-oriented investment framework anchored by the NIA in 2022 and reinforced by the NIMP 2030. This shift places greater emphasis on economic complexity, technology adoption, high-skilled employment, domestic linkages and the development of high growth high value (HGHV) activities. This finding is in line with Malaysia's strategic focus on accelerating investment realisation and suggests that policies facilitating efficient capital deployment can help drive broader macroeconomic growth across sectors.

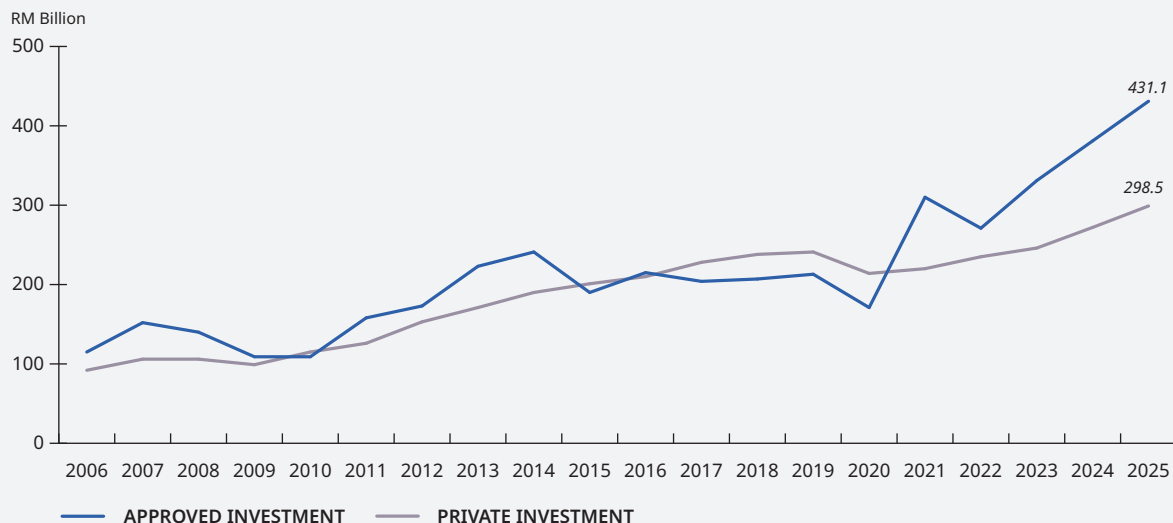
The economic impacts in the short run reflect the dynamism of the private investment ecosystem, demonstrating how capital spending flows through diverse economic activities during project execution. Initial capital outlays on civil works, site preparation and machinery procurement generate immediate demand across the domestic economy by contracting local SMEs, sourcing domestic raw materials and hiring technical services. Building on this momentum, technology-driven investment has emerged as a strategic anchor, positioning Malaysia among the top developing economies for announced digital economy projects in recent years (World Bank, 2025).

To translate these multiplier effects into sustained structural transformation, the NIMP 2030 set targets to raise manufacturing sector value added to RM587.5 billion, expand employment to 3.3 million workers and increase the median salary to RM4,510 by 2030. Recent data through the second quarter of 2026 indicates continued progress towards these targets, with manufacturing value added growing by 7.3% to RM104 billion. Meanwhile, the expansion in manufacturing activities was accompanied by a 0.2% increase in employment to 2.72 million workers. Crucially, the median salary increased by 6.9% from RM3,200 in 2023 to RM3,422 in 2025, highlighting improvement in wages alongside continued employment stability in the manufacturing sector (DOSM, 2026).

Realisation Rate Against Approved Investment

The realisation of high approved investments provides a solid foundation for continued expansion. Figure 3.2.5 illustrates the trends in approved and private investment between 2006 and 2025, underscoring the persistent divergence between approved commitments and their physical realisation.² Although high approved investment figures provide a strong foundation for future economic expansion, a structural risk persists in the form of implementation lags, whereby approved projects do not fully materialise into physical private investment. Currently, the time-lag dynamics and conversion rates between official approval and actual physical execution calls for greater coherence.

² Official data from MIDA is used for approved investment while aggregate private investment data from DOSM is used as a macro-level proxy for realised investment value.

FIGURE 3.2.5. *Approved Investment and Private Investment Trend, 2006 – 2025*

Source: Department of Statistics, Malaysia and Malaysian Investment Development Authority

Analysis 3: From Approved to Realised Investment

Based on the empirical analysis, a 10% increase in the total value of approved investment is estimated to increase private investment by 5.2%. This impact on private investment is expected to be realised within a 6- to 18-month period. This finding supports the lag effect between official approval and physical realisation due to the complexity of projects and implementation procedures. Nevertheless, the establishment of the Invest Malaysia Facilitation Centre (IMFC) in 2023 is expected to accelerate the conversion from approval to operation, underscoring the continued importance of sustained monitoring and targeted execution to further narrow the approved to realisation gap.

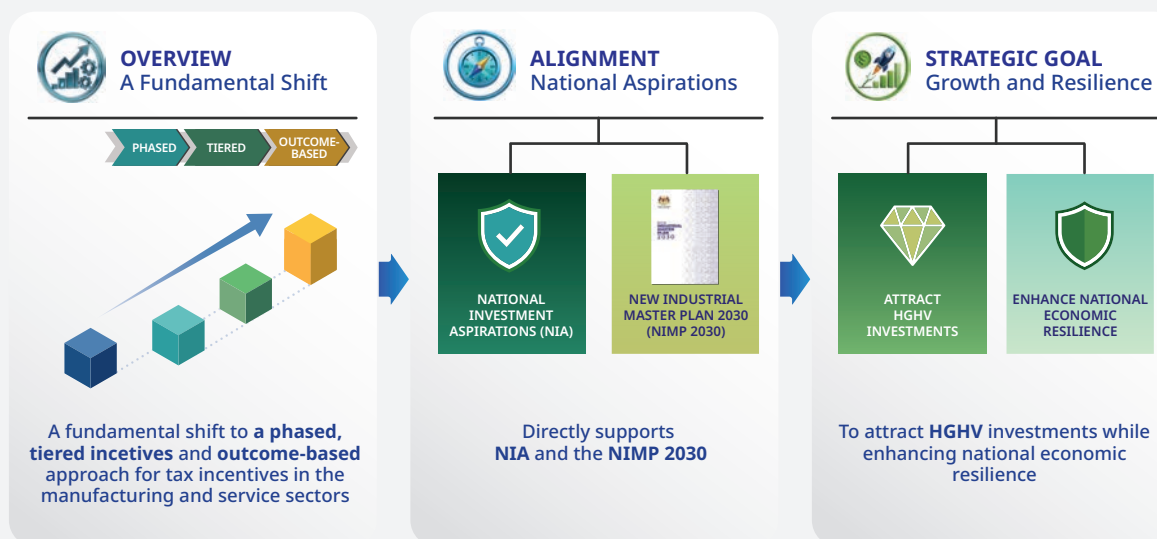
Way Forward

The success of investments should be measured not merely by the amount of capital it brings but through its contribution to build lasting domestic capabilities, strengthen technology transfer, innovation-sharing and the integration of domestic firms into global value chains. Achieving this requires a continued focus on quality investments through strategic policy and sustained investor confidence, alongside targeted public investment. In particular, public investment in core infrastructure, such as power grids, roads and utilities remain essential in emerging areas with strong potential for future economic activity. Public and private investment should play complementary roles in sustaining investment activities and generating broad-based economic benefits.

The implementation of the New Incentive Framework (NIF) in 2026 marks a strategic shift towards a selective, outcome-based regime designed to maximise long-term national economic returns as shown in Figure 3.2.6. Moving beyond conventional capital metrics, the Framework prioritises HGHV creation by measuring GDP contribution for every ringgit invested. This targeted approach ensures that capital allocations yield tangible structural benefits, directly driving domestic supply chain integration and accelerating technology transfer across key growth sectors.

Parallel to its economic objectives, the NIF embeds sustainability and human capital development directly into the incentive evaluation process. It places significant weight on ESG performance alongside clear decarbonisation targets to support overarching climate goals. Concurrently, incentives are structured to catalyse high-skilled job creation, ensuring that future investments cultivate a resilient, future-ready workforce while driving sustainable development.

FIGURE 3.2.6. *New Incentive Framework*



Source: Adapted from Malaysian Investment Development Authority

Sustaining Malaysia's private investment momentum will require a more aggressive approach by all investment promotion agencies. Close engagement with relevant authorities and utilities providers will expedite project execution and resolve regulatory bottlenecks. In addition, streamlined approval processes, clearer reporting lines and better data synergies across agencies would further support timely project implementation and ensure that committed investment translates into actual economic output.

Conclusion

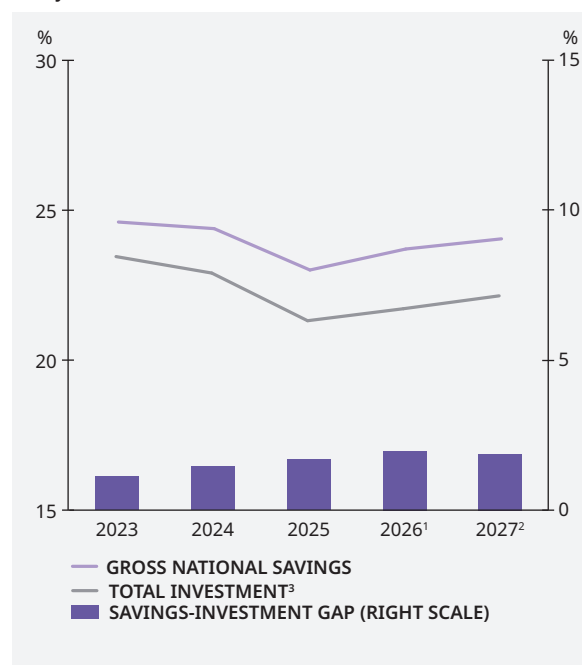
Malaysia's investment momentum provides a strong foundation and sustaining it requires a decisive shift towards quality, innovation and sustainability. By aligning investment policies with national priorities, Malaysia can translate capital utilisation into inclusive economic development. Moving forward, economic success will depend not only on the volume of investment secured, but also on how effectively the nation transforms investment into resilient growth and greater socio-economic development.

Public consumption expanded by 5.9% in the first half of 2026 and was primarily supported by higher expenditure on supplies and services, alongside an increase in emoluments following the second phase of the salary adjustment under the SSPA. The pace of expansion is expected to moderate in the second half of the year, consistent with measures to reprioritise non-critical operating expenditure and enhance spending efficiency. Allocations for essential services, including health, education and security, will continue to be safeguarded. State elections are also expected to support public consumption through election-related spending and associated activities. These developments reflect the Government's continuous commitment to maintaining efficient public service delivery while strengthening fiscal discipline and ensuring prudent utilisation of public resources. Therefore, growth for the year is estimated to register at 3.8%.

Public investment expanded by 5.8% in the first half of 2026 and is projected to strengthen to 7.7% for the year. This growth will be supported by continued capital spending by both the Federal Government and non-financial public corporations (NFPCs). Federal Government expenditure will be channelled into ongoing transport and connectivity works, including the Penang LRT Mutiara Line, SSLR and Pan Borneo Highway Sabah, alongside the implementation of Cakna MADANI projects encompassing the education, health, housing and transport sectors. The small- and medium-scale projects under Cakna MADANI are designed for immediate implementation and to deliver direct benefits to local communities. Meanwhile, NFPC investments will continue to be supported by energy and utility projects, including gas infrastructure, hydroelectric and solar initiatives such as the PFLNG3, Nenggiri Hydroelectric Project, Sungai Perak HLEP and LSS5. Collectively, these investments are expected to strengthen connectivity and essential infrastructures while supporting sustainable and inclusive economic growth.

The gross national income (GNI) at current prices is projected to grow by 7% in 2026, driven by stronger domestic activity. Gross national savings (GNS) is also expected to accelerate by 10.2%, representing 23.7% of GNI. With total investment projected at RM455 billion or 21.7% of GNI, the **savings-investment gap** for the year is set to yield a RM41.3 billion surplus or 2% of GNI, providing funds for long-term productive investments, primarily from domestic sources.

FIGURE 3.3. Savings – Investment Gap (% of GNI)



¹ Estimate

² Forecast

³ Including change in stocks

Source: Department of Statistics and Ministry of Finance, Malaysia

Income

Attaining balanced growth distribution remains a challenge

Malaysia's nominal GDP expanded steadily by 4.8% to RM2,025.4 billion in 2025.

Compensation of employees² (CE) grew by 5.8% to RM686.9 billion, surpassing nominal

² Includes remuneration, in cash or in-kind as well as employer's social contribution payable for employees.

GDP growth and elevating the CE share of GDP to 33.9%. This enhancement was driven by stable employment and better productivity gains, which facilitated the creation of a conducive environment for wage growth. Structural wage interventions through Progressive Wage Policy (PWP) and minimum wage adjustment further supported the growth of CE, albeit below the 40% target by 2030.

The CE is projected to strengthen further by 8% in 2026, propelled by wider adoption of

productivity-linked compensation framework and significant impact of phase two of the SSPA salary adjustments, which will provide a meaningful income uplift, particularly among middle-wage earners. Consequently, the share of CE to GDP is expected to reach 34%, driven primarily by wage gains in services (62.4%) and manufacturing (21.5%) sectors, mainly through wholesale & retail trade, food & beverage and accommodation; other services (including government services); and electrical, electronic and optical products industries.

TABLE 3.6. *Gross Domestic Product by Income Components, 2024 – 2027*

	SHARE (%)				CHANGE (%)			
	2024	2025	2026 ¹	2027 ²	2024	2025	2026 ¹	2027 ²
Compensation of employees	33.6	33.9	34.0	34.2	6.1	5.8	8.0	6.8
Gross operating surplus	63.6	62.0	62.6	62.1	4.9	2.1	9.1	5.2
Operating surplus	48.1	45.5	46.7	45.8	4.2	-0.8	10.6	4.1
Mixed-income	15.5	16.5	16.0	16.3	6.9	10.9	4.7	8.4
Taxes less subsidies	2.8	4.1	3.4	3.8	32.4	53.7	-10.5	16.5
GDP at purchasers' prices	100.0	100.0	100.0	100.0	5.9	4.8	7.9	6.1

¹ Estimate

² Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.7. *Gross Domestic Product by Income Components in Selected Countries, 2023 – 2025*

	COMPENSATION OF EMPLOYEES			GROSS OPERATING SURPLUS			TAXES LESS SUBSIDIES		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
	SHARE OF GDP (%)								
Malaysia	33.5	33.6	33.9	64.2	63.6	62.0	2.2	2.8	4.1
Philippines	35.2	34.6	35.3	57.0	56.7	56.5	7.8	8.7	8.3
Singapore	38.9	37.1	37.8	54.6	55.8	54.7	6.5	7.1	7.5
Republic of Korea	48.6	48.2	47.6	43.0	43.5	44.2	8.4	8.4	8.2
Australia	45.9	47.4	48.5	44.8	43.0	41.8	9.4	9.6	9.7
Netherlands	45.9	46.3	47.4	44.5	43.9	42.6	9.7	9.9	10.0
Canada	50.3	50.9	50.2	39.3	38.9	40.1	10.4	10.2	9.7
United Kingdom	49.4	49.8	49.7	40.2	39.4	39.7	10.4	10.8	10.6
United States	51.7	51.9	51.6	41.8	41.7	41.5	6.5	6.5	6.9
Germany	53.3	54.7	55.4	38.5	36.3	35.5	8.2	9.0	9.1

Source: National Statistical Office of the selected countries

Gross operating surplus³ (GOS) growth moderated by 2.1% but remained the largest income component totalling RM1,255.1 billion, despite its share of GDP narrowing to 62% in 2025. The growth in business capital income was attributed to favourable commodity prices, structural momentum in the technology and infrastructure segments, sustained rebound in tourism industry and resilience of other consumer-related services industries. Likewise, mixed-income registered a robust growth of 10.9%, supported by increased participation among self-employed individuals and unincorporated enterprises. In 2026, corporate profitability prospects are expected to grow further by 9.1%, bolstered by vibrant tourism landscape, the ongoing global technology and semiconductor upcycle and rapid digital-related infrastructure. The country's position as a net energy exporter may also boost earnings prospects across energy-related and upstream service industries. Meanwhile, enforcement of the Gig Workers Act 2025 [Act 872], alongside targeted institutional support for self-employment and micro-entrepreneurship may further encourage more participation in the gig economy, small business ventures and freelancing activities. As a result, the share of mixed-income is expected to reach 16% of GOS. Overall, the share of GOS is expected to increase to 62.6% in 2026.

The **net taxes⁴** component improved by 53.7% and contributed 4.1% of GDP in 2025, driven by higher growth of taxes income on production and imports (12.9%), mainly from sales tax and service tax. Meanwhile, subsidy and incentive expenditures dropped substantially by 36.5% due to targeted cuts in petroleum and diesel subsidies. For 2026, taxes less subsidies is projected to decrease by 10.5%, particularly due to larger expenditure expected for fuel subsidies. Government expenditure for subsidies and

incentives is likely to increase substantially to assist households and industries to cope with increasing price pressures from supply-chain disruptions due to the ongoing West Asia conflict. Hence, the overall share of net taxes on production and imports is estimated to be lower at 3.4% of GDP in 2026.

External Sector

Exceptional performance in the external sector amid global headwinds

Trade Performance

Total trade is estimated to surge by 27.2% to RM3,895.5 billion in 2026. The growth is boosted by global technology upcycle and favourable energy sector amid global headwinds and anticipated slower global trade growth.

Gross exports are expected to expand by 31% to RM2,107.8 billion in 2026, on the back of technology upcycle and rapid advancement in AI applications globally. This growth is anchored by manufactured goods exports, which is projected to surge by 34.7%. Exports of E&E products are expected to register a significant increase of 44.3%, attributed to stronger global semiconductor sales. Being the key exports driver, semiconductor accounted for more than 65% of E&E products exports, followed by telecommunication equipment parts and automatic data processing equipment. Higher exports in E&E products are partially supported by a substantial increase in semiconductor exports to the US, which accounted for more than 20% of total semiconductor exports, following tariff exemption. Similarly, receipts from non-E&E products are projected to grow by 24.6%, driven by higher demand for other

³ Consists of operating surplus for capital owners and mixed-income.

⁴ Consists of taxes on products and other taxes on production less subsidies on products and other subsidies on production.

manufactures, petroleum products as well as optical and scientific equipment from major trading partners. Nonetheless, softer demand is expected for iron and steel products, processed food, wood products, paper and pulp products as well as beverages and tobacco.

Correspondingly, exports of mining goods are anticipated to expand by 22.8% on account of higher demand for LNG and metalliferous ores and metal scrap, which counterbalanced weaker exports of crude petroleum subsequent to the conflict in West Asia. Benefitting from Malaysia's status as a net exporter of energy, stronger exports of LNG are expected particularly to China, Republic of Korea, Taiwan (Province of China) and the Philippines. Growing demand for LNG is attributed to the shift from coal to natural gas in tandem with global initiatives to reduce carbon footprint. Furthermore, the initiatives to support

environmental sustainability are anticipated to surge receipts from metalliferous ores and metal scrap. This is reflected in the increasing demand from Germany, Hong Kong, China, Japan and the US. Nevertheless, exports of crude oil are expected to decrease particularly to Australia, Japan, India, Brunei Darussalam and Singapore.

In contrast, exports of agriculture goods are expected to contract by 8.6%, mainly owing to lesser exports of palm oil and palm oil based agriculture products, natural rubber and other agricultures. The decline was partly due to lower harvest yield following adverse weather conditions. Demand for palm oil and palm oil based agriculture products is anticipated to decrease, particularly from China, Japan, the Philippines, the Netherlands and Pakistan, among others, due to market diversification and products substitution by major trading partners.

TABLE 3.8. *External Trade, 2025 – 2027*

	RM MILLION			CHANGE (%)		
	2025	2026 ¹	2027 ²	2025	2026 ¹	2027 ²
Total trade	3,061,950	3,895,506	4,021,752	6.3	27.2	3.2
Gross exports	1,609,391	2,107,753	2,171,668	6.6	31.0	3.0
<i>of which:</i>						
Manufactured goods	1,390,552	1,873,112	1,922,161	7.9	34.7	2.6
Agriculture goods	111,747	102,139	107,088	5.6	-8.6	4.8
Mining goods	92,442	113,532	122,899	-11.0	22.8	8.3
Gross imports	1,452,558	1,787,753	1,850,084	6.0	23.1	3.5
<i>of which:</i>						
Intermediate goods	718,837	868,009	897,610	-4.1	20.8	3.4
Capital goods	214,500	234,787	244,005	29.1	9.5	3.9
Consumption goods	119,523	121,166	124,970	1.8	1.4	3.1
Trade balance	156,833	320,000	321,584	12.8	104.0	0.5

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

TABLE 3.9. *Gross Exports,
January – August 2025 and 2026*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2025	2026	2025	2026	2025	2026
Manufactured goods	893,729	1,203,915	5.4	34.7	86.5	88.8
Agriculture goods	71,794	65,440	7.2	-8.9	6.9	4.8
Mining goods	59,216	73,821	-16.6	24.7	5.7	5.4
Others ¹	8,628	13,040	30.9	51.1	0.8	1.0
Gross exports	1,033,368	1,356,216	4.1	31.2	100.0	100.0

¹ Including gold scrap and waste; worn clothing; and special transaction not classified

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

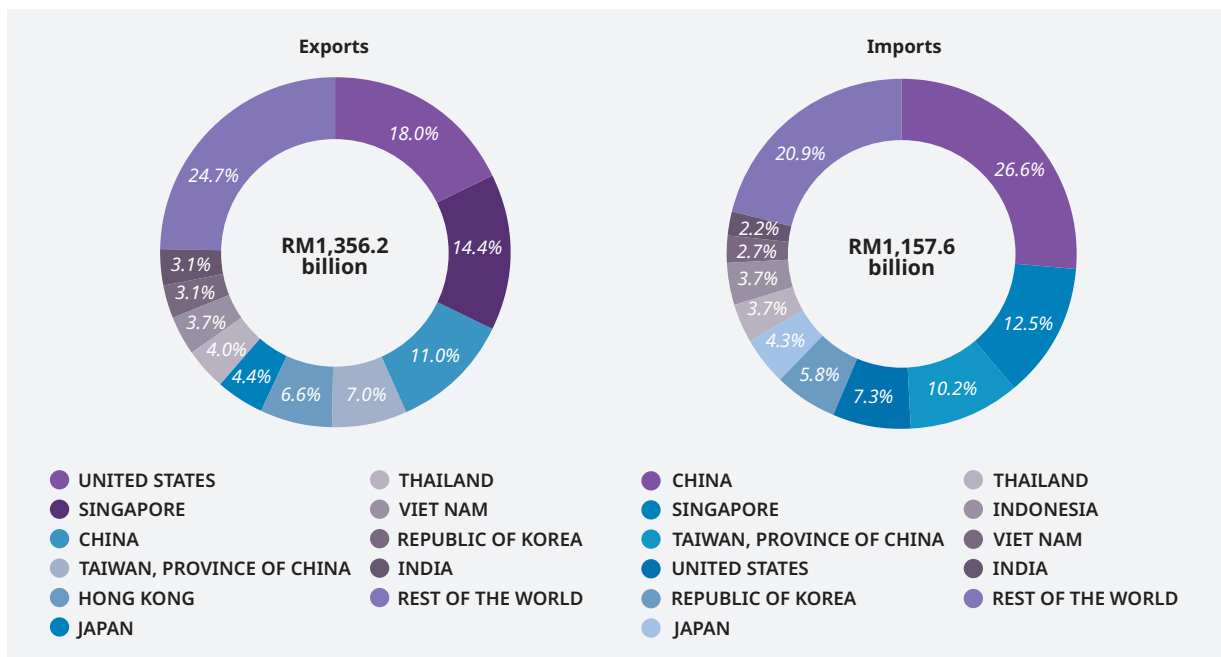
TABLE 3.10. *Exports of Manufactured Goods,
January – August 2025 and 2026*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2025	2026	2025	2026	2025	2026
E&E	447,355	656,141	16.5	46.7	50.1	54.5
Non-E&E	446,374	547,774	-3.8	22.7	49.9	45.5
Petroleum products	69,154	87,556	-24.0	26.6	7.7	7.3
Chemicals and chemical products	44,016	42,960	-10.3	-2.4	4.9	3.6
Manufactures of metal	41,462	50,421	-0.3	21.6	4.6	4.2
Machinery, equipment and parts	51,637	61,117	14.4	18.4	5.8	5.1
Optical and scientific equipment	41,014	56,434	3.8	37.6	4.6	4.7
Palm oil-based manufactured products	26,565	28,998	14.3	9.2	3.0	2.4
Rubber products	16,870	16,677	-1.5	-1.1	1.9	1.4
Processed food	25,767	22,263	13.4	-13.6	2.9	1.8
Iron and steel products	18,038	12,860	-23.1	-28.7	2.0	1.1
Transport equipment	12,645	13,303	1.3	5.2	1.4	1.1
Textiles, apparels and footwear	10,956	11,610	-7.0	6.0	1.2	1.0
Manufactures of plastics	11,486	12,311	-0.9	7.2	1.3	1.0
Wood products	9,814	8,567	-4.3	-12.7	1.1	0.7
Non-metallic mineral products	9,294	10,305	10.6	10.9	1.0	0.9
Jewellery	6,852	7,082	14.2	3.4	0.8	0.6
Paper and pulp products	8,609	8,391	-8.9	-2.5	1.0	0.7
Beverages and tobacco	1,887	1,865	-6.1	-1.1	0.2	0.2
Other manufactures	40,307	95,055	2.8	135.8	4.5	7.9
Exports of manufactured goods	893,729	1,203,915	5.4	34.7	100.0	100.0

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

FIGURE 3.4. Top 10 Trading Partners, January – August 2026 (% share)



Gross imports are estimated to accelerate by 23.1% to RM1,787.8 billion in 2026, contributed by higher imports of intermediate goods, capital goods and consumption goods. Imports of intermediate goods, which constitute the largest share of more than 45% of total imports, are expected to expand by 20.8%, attributed to stronger demand by the manufacturing sector, particularly for parts and accessories as well as industrial supplies. This growth is in line with the rising purchasing managers' index (PMI), an indicator of business activity and economic health, which consistently signal upcoming shifts in import volume.

Similarly, imports of capital goods are anticipated to increase by 9.5%, underpinned by ongoing infrastructure and utilities investment as well as business expansion and diversification. Furthermore, robust demand for cloud computing and online businesses partly contribute to the increasing imports related to data centre development. Likewise, consumption goods are projected to expand by 1.4%, mainly buoyed by higher imports of consumer goods following rising domestic purchasing power, shifting consumer preferences and favourable exchange rates.

TABLE 3.11. *Gross Imports by End Use, January – August 2025 and 2026*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2025	2026	2025	2026	2025	2026
Capital goods	141,425	152,474	33.1	7.8	14.9	13.2
Capital goods (except transport equipment)	131,415	144,358	30.2	9.8	13.9	12.5
Transport equipment (industrial)	10,010	8,115	89.2	-18.9	1.1	0.7
Intermediate goods	479,136	553,643	-4.9	15.6	50.6	47.8
Food and beverages, primary and processed, mainly for industries	25,303	19,682	15.6	-22.2	2.7	1.7
Fuel and lubricants, primary, processed and other	62,681	58,841	-22.2	-6.1	6.6	5.1
Industrial supplies, primary, processed and n.e.s. ¹	190,099	205,655	-9.4	8.2	20.1	17.8
Parts and accessories of capital goods and transport equipment	201,054	269,465	5.1	34.0	21.3	23.3
Consumption goods	77,925	80,804	-0.9	3.7	8.2	7.0
Food and beverages, primary and processed, mainly for household	35,055	33,141	-4.3	-5.5	3.7	2.9
Transport equipment (non-industrial)	1,285	1,254	14.0	-2.4	0.1	0.1
Other consumer goods	41,585	46,409	1.7	11.6	4.4	4.0
Durables	12,707	15,070	8.4	18.6	1.3	1.3
Semi-durables	13,010	13,311	1.3	2.3	1.4	1.1
Non-durables	15,868	18,028	-2.8	13.6	1.7	1.6
Others	22,369	23,960	-31.6	7.1	2.4	2.1
Re-exports	225,229	346,673	17.7	53.9	23.8	29.9
Gross imports	946,084	1,157,554	3.7	22.4	100.0	100.0

¹ Not elsewhere stated

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

Balance of Payments

In the first half of 2026, the current account of the **balance of payments** registered a surplus of RM25.9 billion or 2.6% of GNI. The surplus was attributed to a higher net inflow in the goods account as well as a turnaround to surplus in the services account, which more than offset the wider deficit in the income accounts. In the second half of 2026, the current account surplus is expected to record RM15.3 billion or 1.4% of GNI. This surplus is contributed by net inflow in the goods account and narrowing deficit in the primary income account, despite lower surplus in the services account and wider deficit in the secondary

income account. Overall, the current account surplus is anticipated at RM41.3 billion or 2% of GNI in 2026.

The goods account is expected to record a higher surplus of RM135.9 billion in 2026, boosted by stronger exports of manufactured goods and mining goods, despite lower exports of agriculture goods. Exports of E&E products, other manufactures as well as optical and scientific equipment, are envisaged to record significant increases, in tandem with stronger global semiconductor sales driven by technology upcycle and robust demand for AI. Furthermore, as a net energy exporter, Malaysia is poised to benefit from higher exports of LNG and

petroleum products. Nonetheless, a significant growth in imports is expected in 2026 following business expansion and diversification as well as surging investment in the services sector, particularly AI-related infrastructure.

Similarly, the services account is estimated to register a wider net inflow of RM7.9 billion, underpinned by higher surplus in the travel account, which counterbalances larger deficits in the transport and other services accounts. The travel account is expected to record RM54.9 billion, driven by various government initiatives to promote and strengthen the tourism sector. These initiatives are expected to attract more international tourists, encourage longer stays and higher tourist spending, thus boosting tourism receipts and improving the travel account balance. The air travel industry is expected to gain from the spillover of tourism sector through the increase in flight frequencies and new direct routes. Additionally, domestic transport companies are anticipated to register higher earnings following competitive air fares and freight charges as well as fees generated from airport

and port activities. Nevertheless, continued reliance on foreign transport providers is expected to result in increasing payments for transport services, thus leading to a slightly higher net outflow of RM29.3 billion in the transport account in 2026. Correspondingly, the other services account is estimated to register a larger net outflow of RM17.7 billion, as a result of increasing payment for other business services as well as insurance and pension services. Meanwhile, higher earnings are expected from telecommunications, computer and information services; manufacturing services on physical inputs owned by others; as well as maintenance and repair services.

The primary income account is projected to record a wider deficit of RM90.2 billion in 2026, owing to larger net outflows in the investment income account and compensation of employees. Increased net outflows are estimated in the investment account due to the repatriation of profits and dividends by foreign investors in Malaysia. Similarly, deficit in the compensation of employees is expected to widen as a result of growing number

TABLE 3.12. *Current Account of the Balance of Payments, 2025 – 2027 (RM million)*

	2025			2026 ¹			2027 ²		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	1,462,781	1,352,076	110,705	1,683,216	1,539,443	143,773	1,756,445	1,608,072	148,374
Goods	1,184,868	1,079,445	105,424	1,362,651	1,226,777	135,873	1,403,594	1,272,989	130,604
Services	277,912	272,631	5,281	320,565	312,666	7,899	352,851	335,083	17,768
Transport	37,693	66,867	-29,175	42,636	71,944	-29,308	48,341	77,739	-29,399
Travel	110,650	62,202	48,448	125,672	70,789	54,883	138,110	76,798	61,311
Other services	129,570	143,562	-13,992	152,258	169,933	-17,675	166,400	180,546	-14,145
Primary income	88,465	155,785	-67,320	89,198	179,442	-90,244	92,683	187,338	-94,655
Compensation of employees	7,268	17,262	-9,994	7,351	18,916	-11,565	8,159	20,333	-12,174
Investment income	81,197	138,523	-57,326	81,847	160,526	-78,678	84,525	167,006	-82,481
Secondary income	43,938	54,517	-10,579	45,055	57,323	-12,268	47,943	59,899	-11,955
Balance on current account	1,595,184	1,562,379	32,805	1,817,469	1,776,208	41,261	1,897,072	1,855,309	41,763
% of GNI			1.7			2.0			1.9

¹ Estimate

² Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

of foreign professionals in Malaysia due to ongoing infrastructure and utility projects.

The secondary income account is anticipated to record a larger net outflow of RM12.3 billion in 2026. The widening deficit is owing to higher outward remittances, which is expected to reach RM57.3 billion, particularly by foreign workers from Indonesia, Bangladesh, India, Nepal and the Philippines. Nevertheless, earnings in the secondary income account are projected to increase to RM45.1 billion, attributed to growing inward remittances by Malaysians working abroad.

In the first half of 2026, the financial account registered a marginal net inflow of RM0.4 billion, supported by positive balances in the other investment and direct investment accounts, alongside a reduced portfolio investment account deficit. This position was primarily contributed by a turnaround in the other investment account, which shifted from a net outflow of RM8.4 billion recorded during the first half of 2025 to a net

inflow of RM11.7 billion in the first half of 2026. This was further cushioned by a narrowing net outflow in the portfolio investment to RM26.1 billion during the first half of 2026 compared with RM29.5 billion registered during the corresponding period of 2025. Nonetheless, net inflow in the direct investment account narrowed to RM15.2 billion in the first half of 2026 from RM22.4 billion registered during the same period in 2025. In contrast, net outflow in the financial derivatives account slightly widened to RM0.44 billion compared with RM0.42 billion recorded during the first half of 2025.

Meanwhile, Malaysia recorded a higher FDI net inflow of RM30.2 billion, mainly channelled into the information and communication; professional, scientific and technical activities; as well as wholesale and retail trade sectors. Net outflows of direct investment abroad (DIA) by Malaysian companies widened to RM15 billion, primarily directed into the financial and insurance/takaful activities; mining & quarrying; as well as transportation and storage sectors.

INFORMATION BOX 3.2

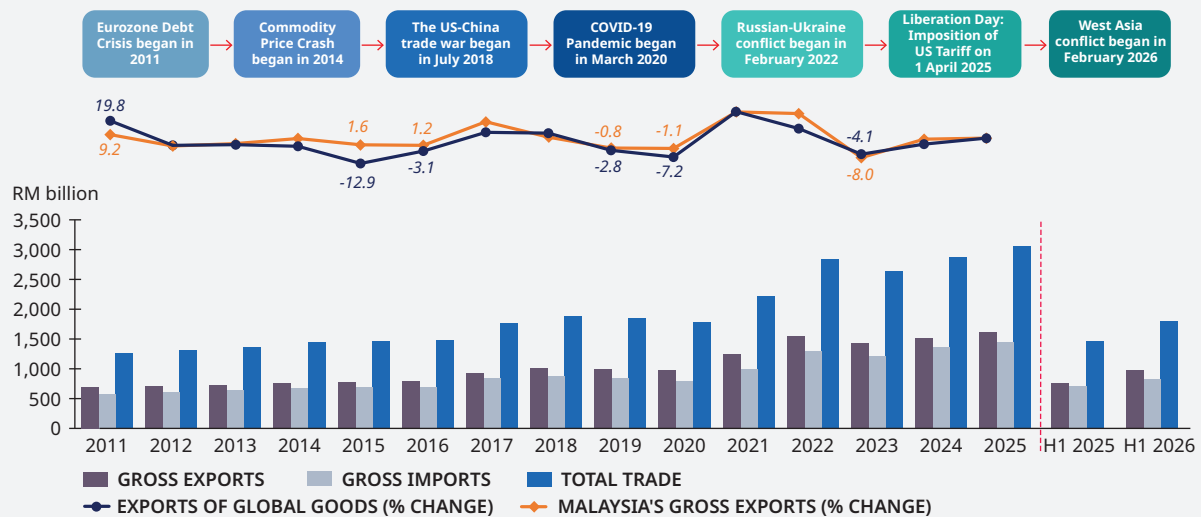
Malaysia's Trade Resiliency: Navigating Global Trade Uncertainties

Introduction

The global trade environment has become increasingly volatile since 2018, shaped by persistent geopolitical tensions, inflationary pressures, supply chain disruptions, protectionist trade measures and the intensifying strategic competition among major economies. These developments have altered global production networks and created significant challenges for export-oriented economies. As a small and open economy with a trade-to-GDP ratio consistently exceeding 100%, Malaysia's trade performance from 2022 to June 2026 demonstrates a remarkable resilience, underpinned by diversified export base and markets, strong manufacturing capabilities, extensive FTAs and proactive government policies.

Global Headwinds

The World Economic Outlook (WEO), published by the IMF, reported a slower global trade growth from 5.8% in 2022 to 1% in 2023, before rebounding to 3.7% in 2024 and further strengthening to 5% in 2025. In addition, according to the UN Trade & Development (UNCTAD), between 2011 and 2025, global goods exports recorded an average annual growth of 4.1%, while Malaysia's average gross exports growth was 6.7% during the same period. This is a reflection of Malaysia's exports, which have consistently outperformed global goods exports in most years, underscoring the country's trade resilience in the face of major global headwinds, as shown in Figure 3.2.1.

FIGURE 3.2.1. Exports of Global Goods and Malaysia's Trade Performance amid Major Global Shocks, 2011 – H1 2026

Source: Department of Statistics, Ministry of Finance, Malaysia and UN Trade & Development (UNCTAD)

Among major global shocks, the exports of global goods experienced the sharpest contraction of 12.9% in 2015 stemming from the steep commodity price collapse, which began in 2014. Global commodity prices declined by approximately 38% between June 2014 and February 2015, largely due to the significant collapse of 48% in Brent crude oil prices, from USD112 per barrel to around USD58 per barrel, alongside declines in metal and agricultural commodity prices. In contrast, Malaysia demonstrated resilience amid the commodity price crash, supported by its diversified export structure. Gross exports grew by 1.6% in 2015, attributed to stronger demand for manufactured goods (6.5%), which more than offset by lower exports of agriculture goods (-2.8%) and mining goods (-22.9%).

The COVID-19 pandemic, which began in March 2020, further underscored Malaysia's trade resilience, as the country weathered severe disruptions to most industries arising from movement restrictions. During that year, the contraction in global goods exports reached 7.2%, steeper than the 1.1% decline recorded in Malaysia's gross exports. The weaker export performance reflected a significant 28.3% decline in the exports of mining goods, despite the gains of 1.1% in manufactured goods and 8.7% in agriculture goods.

Nonetheless, due to a slowdown in global growth and goods trade, Malaysia's gross exports in 2023 contracted by 8%, in tandem with the 4.1% decline in global goods exports. This was reflected in the lower exports of manufactured goods (-6.8%), agriculture goods (-21.6%) and mining goods (-9.6%). Notwithstanding persistent global uncertainties, Malaysia's exports regained its strong momentum, recording a growth of 5.8% in 2024 to RM1,509.3 billion and attaining RM1,609.4 billion in 2025.

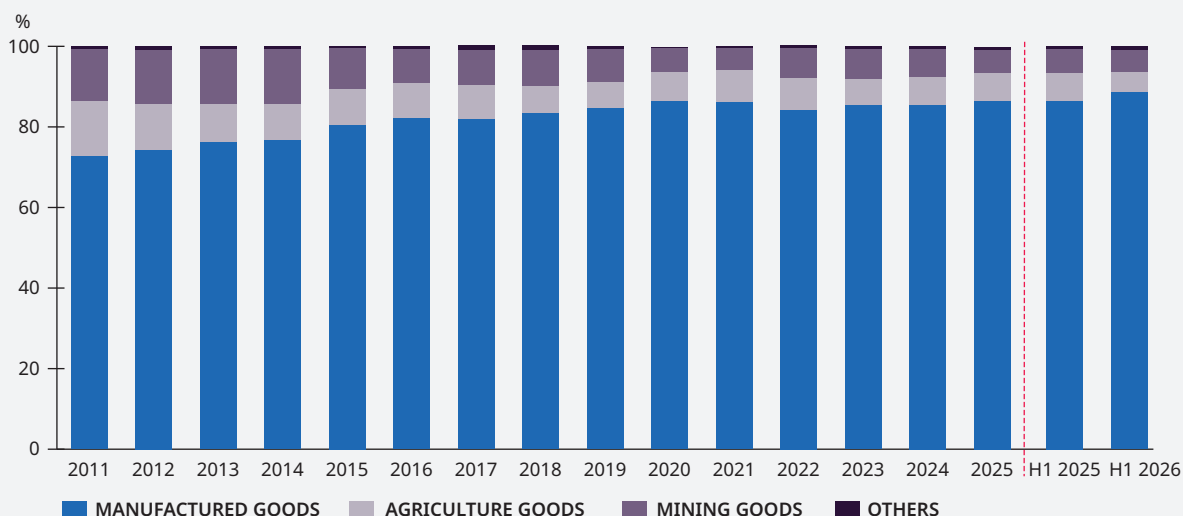
The world faced global supply chain disruptions following the escalation of conflicts in West Asia, which began in February 2026. Nonetheless, Malaysia is able to withstand the impact of the conflict, leveraging its status as a net energy exporter amid disruptions in global energy supply chains. Malaysia registered a higher trade balance during the first half of 2026, supported by exponential export performance of E&E products following global technology upcycle, alongside the country's solid economic fundamentals and facilitative policies.

Malaysia's Trade Landscape and Milestones

Malaysia is transforming into a high growth high value (HGHV) hub, driving innovation and sustainable economic development across key industries. The nation's economic development policies have attracted MNCs, thus integrating Malaysia into global production networks and value chains, particularly in the E&E industry. This structural transformation has significantly diversified Malaysia's export base, reduced dependency on commodity exports and enhanced trade resiliency to external shocks.

The share of commodities export declined from 26.6% in 2011 to 12.7% in 2025, despite receipts of commodities expanding from RM186 billion in 2011 to RM204.2 billion in 2025. The trend is in tandem with Malaysia's transition to manufacturing oriented sector and translated through a significant increase of exports in manufactured goods from RM507.4 billion or 72.7% of Malaysia's total exports in 2011 to RM1,390.6 billion or 86.4% of total exports in 2025, as shown in Figure 3.2.2. Major exports of manufactured goods include E&E products; petroleum products; machinery, equipment and parts; chemicals and chemical products as well as optical and scientific products. As a result, the manufacturing sector has become one of the key engines of economic growth, employment, exports and technological advancement.

FIGURE 3.2.2. *Malaysia's Exports by Sectors, 2011 – H1 2026*
(% Share)



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

As one of the world's leading players in the E&E industry, Malaysia has established itself as a regional hub within the global semiconductor value chain. The E&E industry is the largest contributor to manufactured exports and remains a cornerstone of the country's economy. The country has developed strong capabilities across the semiconductor value chain, particularly in assembly, testing and packaging (ATP), while increasingly expanding into integrated circuit (IC) design, wafer fabrication, advanced packaging and semiconductor equipment manufacturing. Between 2011 and 2025, exports of E&E products recorded a threefold expansion from RM237.1 billion to RM712.3 billion. The World Semiconductor Trade Statistics (WSTS) projected the global semiconductor market to surge by 90% in 2026 to USD1.5 trillion, followed by a 27%

increase to USD1.9 trillion in 2027. This strong growth outlook is expected to further boost exports of E&E products and strengthen Malaysia's position as a key player in the global semiconductor industry.

The West Asia conflict has emerged as a major cause of geopolitical risk to global trade. Its repercussions extend far beyond the region, reflecting the region's pivotal role as a global hub for energy supplies and key maritime trade routes. Nonetheless, Malaysia is leveraging from the conflict as external trade remained resilient and maintained its stellar performance during the first six months of 2026 (H1 2026), with total trade expanding by 22.4% to RM1,795.2 billion. The growth was supported by higher trade with major trading partners, particularly China (30.6%), the US (25.7%), Taiwan (Province of China) (34.7%), Singapore (21.5%) and Hong Kong (45.8%).

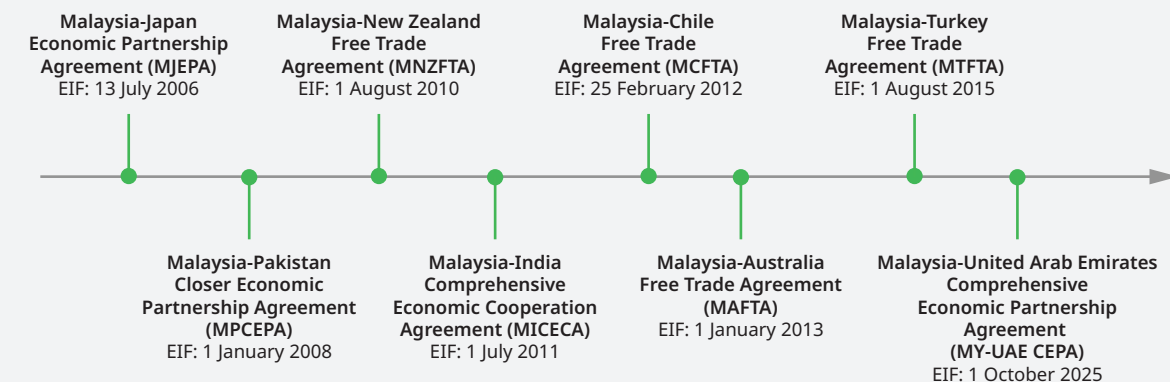
Gross exports increased by 27.5% to RM971.6 billion, attributed to stronger exports of manufactured goods (30.5%) and mining goods (24.5%), which cushioned lower exports of agriculture goods (-8.9%). The growth was boosted by robust exports of E&E products (42.5%), other manufactures (101.6%), metalliferous ores and metal scrap (209.3%), petroleum products (27.4%) as well as optical and scientific equipment (40.8%). Gross imports grew 16.8% to RM823.6 billion on account of higher imports of intermediate goods (5.8%), consumption goods (4.3%) and capital goods (0.8%). Malaysia recorded a trade surplus of RM148 billion during H1 2026, soared by 161.4% from RM56.6 billion registered in the corresponding period in 2025.

The escalating conflict, worsened by the closure of the Strait of Hormuz has emerged as a major shock to the global economy, disrupting energy supplies, causing Brent crude prices to surge above USD110 per barrel in April 2026. Furthermore, the situation exacerbated global supply chains and led to a widespread price increase of fuel, food and plastics. Notwithstanding the ongoing conflict, Malaysia registered a higher trade surplus of LNG, expanded by 16.5% to RM26.2 billion during H1 2026 (H1 2025: RM22.5 billion). This surplus was buoyed by stronger LNG demand, which increased by 12.4% to RM29.1 billion, and lower imports, which decreased by 15% to RM2.9 billion. Correspondingly, trade surplus of petroleum condensates and other petroleum oil widened by 16.1% to RM2.5 billion (H1 2025: RM2.1 billion), contributed by higher exports.

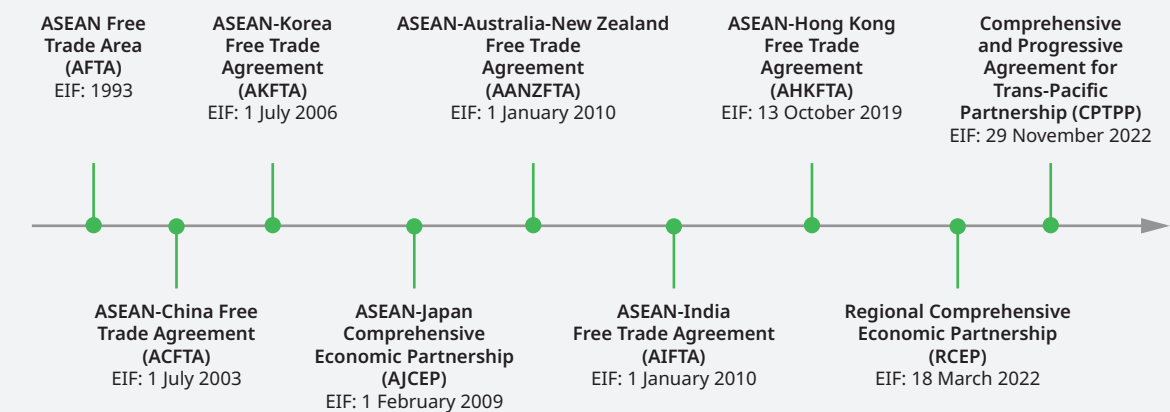
On the other hand, Malaysia is a net importer of crude petroleum and registered a narrower trade deficit of RM11 billion during H1 2026 (H1 2025: -RM16.3 billion) following softer imports. Imports of crude petroleum shrank by 24.6% to RM19.8 billion and exports decreased by 11.5% to RM8.8 billion. Similarly, Malaysia registered a trade shortfall of petroleum products amounting to RM0.2 billion compared with a surplus of RM4.3 billion recorded in H1 2025.

Strengthening Market Diversification through Free Trade Agreements

Malaysia is extensively integrated into global markets through trade and investment with major economies. To date, Malaysia has signed and implemented 17 FTAs, comprising eight bilateral FTAs and nine regional FTAs, as depicted in Figure 3.2.3 and Figure 3.2.4. A significant milestone was achieved in 2022 with Malaysia as a party in two mega FTAs, namely the Regional Comprehensive Economic Partnership (RCEP) and Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

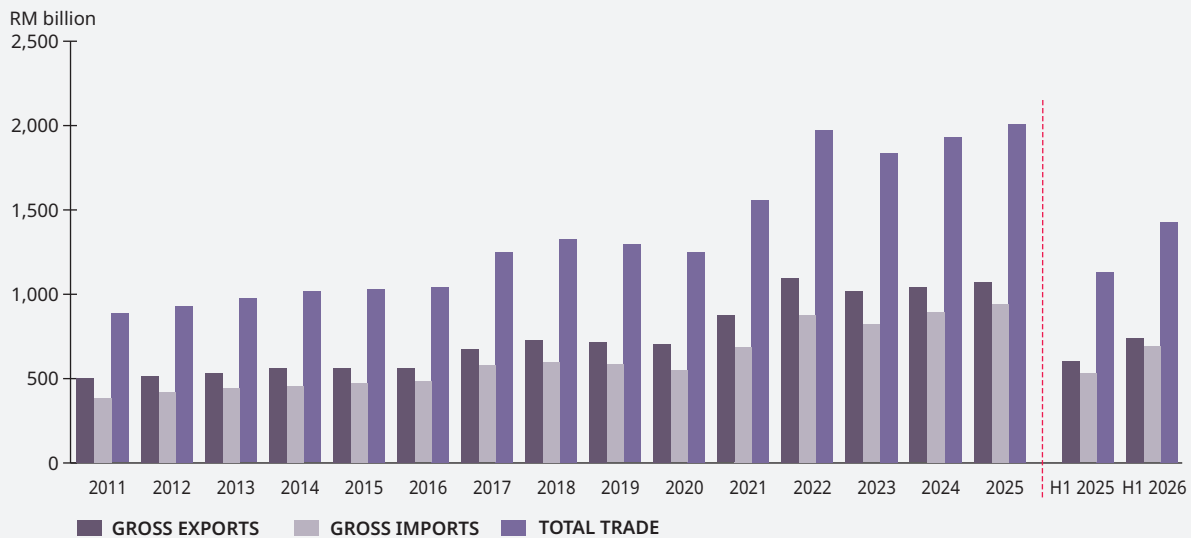
FIGURE 3.2.3. Bilateral Free Trade Agreements

Note: EIF – Date of Entry Into Force
 Source: Ministry of Investment, Trade and Industry, Malaysia

FIGURE 3.2.4. Regional Free Trade Agreements

Note: EIF – Date of Entry Into Force
 Source: Ministry of Investment, Trade and Industry, Malaysia

In the post-Global Financial Crisis era, Malaysia's active engagement in bilateral and regional trade agreements had become a key driver of trade expansion, reinforcing its position within regional production networks and global markets. In 2011, almost 70% of Malaysia's total trade, amounting to RM881.8 billion, was conducted with countries that had trade agreements with Malaysia, as shown in Figure 3.2.5. Exports to FTA partner countries stood at RM498.8 billion, accounting for 71.5% of total exports, while imports amounted to RM383 billion or 66.8% of total imports. Hence, Malaysia recorded a trade surplus of RM115.8 billion in 2011. China was Malaysia's largest FTA trading partner, accounting for 13.2% of total trade, followed by Singapore (12.7%), Japan (11.5%), Thailand (5.5%) and Indonesia (4.4%).

FIGURE 3.2.5. Trade Performance with FTA Partner Countries, 2011 – H1 2026

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Total trade with FTA partner countries continued to expand, registering a compound annual growth rate (CAGR) of 6.1% between 2012 and 2025. Trade with FTA partner countries reached RM2,007.3 billion in 2025, accounting for 65.6% of Malaysia's total trade, supported by sustained growth in both exports and imports. Exports to FTA partner countries increased by 3.2% to RM1,069 billion, while imports grew by 5.1% to RM938.3 billion. Among Malaysia's key FTA trading partners, China accounted for the largest share of total trade at 17.7%, followed by Singapore (13.2%), Japan (4.7%), Thailand (3.9%) and Republic of Korea (3.8%).

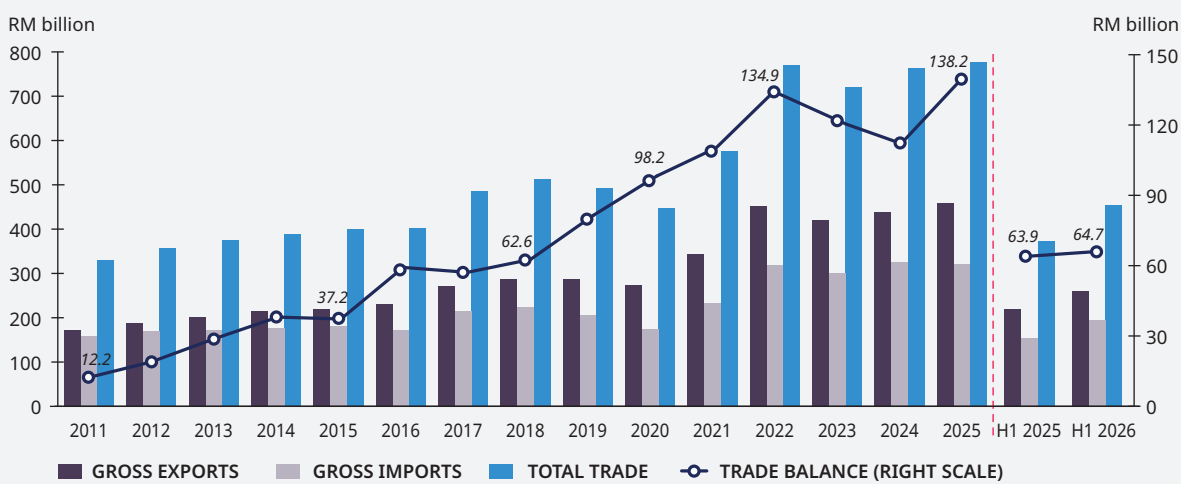
During the first six months of 2026, trade with FTA partner countries improved by 26.2% to RM1,424.8 billion, accounting for 79.4% of Malaysia's total trade (H1 2025: RM1,129.4 billion or 77%). The stronger performance was supported by robust growth in both exports and imports, with exports soaring by 22.4% to RM738 billion and imports surging by 30.4% to RM686.9 billion. The major FTA partner countries during the period were China (18.1%), Singapore (13.2%), Hong Kong (4.4%), Japan (4.4%) and Republic of Korea (4.2%).

Trade with FTA partner countries is proven strategically important to Malaysia, providing greater market access, reducing trade costs, integrating SMEs into the international platform as well as enhancing competitiveness of exports and technology transfer. Importantly, the integration provides greater resilience against global trade disruptions by offering diversified markets and more reliable supply chains, thus enhancing Malaysia's attractiveness as an investment and production hub.

Following the successful implementation of AFTA, ASEAN acts as a vital trade buffer, regulatory safety net and regional supply chain anchor for Malaysia that drives economic growth, secures regional stability and amplifies the country's global presence. As Malaysia's largest trading bloc, ASEAN accounted for more than 25% of the country's total trade, with trade expanding at a CAGR of 6.3% between 2012 and 2025. Total trade with ASEAN member countries amounted to RM331.1 billion or 26% of total trade in 2011 and doubled to RM778.1 billion or 25.4% in 2025. During the first six months of 2026, trade with ASEAN member countries expanded by 21.5% to RM454.5 billion, supported

by stronger exports and imports, which grew by 18.6% to RM259.6 billion and 25.7% to RM194.9 billion, respectively, as depicted in Figure 3.2.6. In H1 2026, Malaysia's exports to ASEAN were primarily driven by E&E products, which accounted for 43.6% of total exports, followed by petroleum products (14.4%), machinery, equipment and parts (6.9%) as well as chemicals and chemical products (5.1%). From an import perspective, E&E products also constituted the largest share at 38%, followed by petroleum products (14.7%), chemicals and chemical products (4.9%) as well as machinery, equipment and parts (4.7%).

FIGURE 3.2.6. Trade Performance with ASEAN, 2011 – H1 2026



Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Malaysia's Trade Resiliency

The Global Trade Resilience Index 2026 (GTRI 2026) evaluates countries' trade resilience across two primary dimensions, namely absorptive capacity and recovery capacity. The absorptive capacity is to determine the ability of a country to withstand the immediate impact of external shocks while maintaining stability in trade operations. Absorptive capacity captures both the structural strength and the responsiveness of a country's trade system when confronted with sudden disruption. Meanwhile, the recovery capacity measures the ability to restore trade performance and adapt to new norms in the short to medium term following a disruption.

With a score of 66.03, Malaysia was placed 23rd globally in the GTRI 2026 behind China, Japan and Republic of Korea, which ranked 15th, 17th and 18th, respectively. Among ASEAN member states, Singapore ranked 7th with a score of 75.35, while Thailand, the Philippines, Indonesia and Viet Nam ranked 32nd, 35th, 36th and 41st, respectively. Among 56 countries assessed, Malaysia was positioned 28th with a score of 66.12 for absorptive capacity and ranked 16th with a score of 65.89 for recovery capacity, as summarised in Table 3.2.1.

Table 3.2.1. Malaysia's Performance in the Global Trade Resilience Index 2026

Indicator	Score (1 – 100)	Rank
Global Trade Resilience Index	66.03	23
Absorptive Capacity	66.12	28
<i>Exposure</i>	59.06	40
<i>Diversification</i>	64.05	33
<i>Robustness</i>	71.73	23
Recovery Capacity	65.89	16
<i>Institutional Resilience</i>	63.42	21
<i>Operational Resilience</i>	68.36	12

Source: The Global Trade Resilience Index 2026

Malaysia ranked 28th for absorptive capacity partly due to slightly lower score for exposure pillar, which scored 59.06 and ranked 40th, reflects the country's higher risks to external shocks and global uncertainties. Notwithstanding, being ranked 16th for recovery capacity, Malaysia demonstrates a relatively strong capacity to rebound from shocks, bolstered by a diversified export base and solid policy framework focused on economic resilience, inclusive and sustainable growth, structural reforms, investment and trade diversification as well as domestic capabilities. These measures are crucial in enabling Malaysia to navigate global uncertainties while enhancing its long-term economic competitiveness. Additionally, the Government continues to strengthen the capabilities of exporters and local industry players through targeted financial and non-financial assistance, including export promotion, market diversification, supply chain integration and industry upgrading. These efforts aim to enhance firms' competitiveness, deepen domestic competencies as well as fortify Malaysia's resilience and position within global value chains.

Clarion Call

While the current trade regime has driven Malaysia's economic growth for decades, rising geopolitical tensions and market fragmentation posed direct risks to production costs and supply chain stability. In response to the recent conflict, the Government mobilised the National Economic Action Council's Crisis Management Task Force as well as the Trade Resilience Taskforce. These ongoing mechanisms have executed swift daily interventions, safeguarding strategic fuel reserves and shielding rakyat from inflationary pressures.

Moving forward, strengthening national trade resilience requires holistic structural economic reforms to further enhance Malaysia's competitive advantage in a dynamic global landscape. It is crucial for Malaysia to strategically strengthen trade security and build national resilience against future global disruptions, including exploring new export markets and import sources. Diversifying import sources is essential to offset immediate supply deficits as well as to build a flexible and future-proof supply chain. Nonetheless, it is imperative for Malaysia to build a comprehensive and multi-layered trade resilient strategy to achieve domestic sustainability. The Government is intensifying efforts to accelerate integration and sophistication with higher value-added supply chains to cushion exposure to external shocks, including through technological advancement and domestic innovation.

Malaysia is charting the path toward attracting HGHV investments, increasing economic complexity and expanding skilled jobs as well as strengthening domestic supply chain. Anchored by the Ekonomi MADANI framework, complemented by the Thirteenth Malaysia Plan, 2026 – 2030, policies including the National Semiconductor Strategy (NSS), New Industrial Master Plan 2030 (NIMP 2030), New Incentive Framework (NIF), National AI Action Plan (2026 – 2030) and National Energy Transition Roadmap (NETR) were formulated to capture greater global value chain. These policies prioritise deepening local manufacturing capabilities, accelerating technological innovation and expanding domestic participation in higher value-added segments, particularly within the advanced electronics and semiconductor ecosystem.

Conclusion

Malaysia's trade resilience requires holistic and forward-looking policies that strengthen trade security, accelerates trade diversification and deepens domestic supply chain capabilities to mitigate external shocks. It is timely for Malaysia to further move up the global value chain, reduce vulnerabilities to external disruptions and reinforce the country's competitiveness, economic resilience and long-term sustainable growth.

Prices

Inflation remains moderate despite emerging cost pressures

Headline inflation, as measured by the **Consumer Price Index (CPI)**, averaged at 1.8% for the first eight months of 2026, compared with 1.4% in the corresponding period of 2025. Core inflation averaged at 2%, consistent with moderate underlying overall price pressures.

Transport inflation averaged at 1.7% during the same period (January – August 2025: 0.6%), mainly driven by higher unsubsidised fuel prices stemming from increases in global crude oil prices amid the West Asia conflict. However, the implementation of the BUDI Diesel mechanism in July 2026 helped contain transport-related price pressures during the latter part of the period, particularly through a slower increase in the cost of operating personal transport equipment. Inflation for insurance & financial services averaged at 4.1% (January – August 2025: 2.4%), partly reflecting the adjustments in medical insurance

premiums and financial service charges. Meanwhile, the food & beverages category, which constitutes 29.8% of the CPI weight, eased to 1.5% during the period (January – August 2025: 2.2%), reflecting slower price increases in the food away from home sub-category and effective domestic supply-management measures.

Headline inflation is expected to increase gradually towards the end of the year as higher energy, freight, food and other input costs pass through to retail prices. For the full year, headline inflation is estimated to range between 1.5% and 2.5% in 2026 and is expected to remain manageable. Targeted fuel subsidies, domestic price-stabilisation measures and a relatively stable ringgit will help mitigate the transmission of external cost pressures. Meanwhile, domestic demand is expected to remain firm without generating excessive demand-driven inflation.

On the producer side, upstream cost conditions were comparatively steeper. During the first eight months of 2026, the **Producer Price**

Index (PPI) averaged at 4.6%, compared with a decline of 2.3% in the corresponding period of 2025. Producer-price increases were driven mainly by higher prices for crude materials for further processing and intermediate materials, supplies & components, alongside price pressures in manufacturing sector, including refined petroleum as well as computer, electronic & optical products.

By stage of processing, prices of crude materials for further processing increased by an average of 15.4% during January – August

2026, compared with a decline of 4.1% in the same period of 2025. Prices of intermediate materials, supplies & components rose by an average of 2.8% (January – August 2025: -2.2%), while finished goods producer prices increased moderately by 0.9% (January – August 2025: -1.3%). The concentration of cost pressures at the earlier stages of production suggests that the transmission to consumer prices is likely to remain gradual. The comparatively reasonable increase in finished-goods producer prices also indicates that the pass-through of firmer upstream costs to retail prices remained limited.

TABLE 3.13. *Consumer Price Index, January – August 2025 and 2026 (2010 = 100)*

	WEIGHT ¹	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2025	2026	2025	2026
Consumer Price Index	100.0	1.4	1.8	1.40	1.80
Food & beverages	29.8	2.2	1.5	0.66	0.45
Alcoholic beverages & tobacco	1.9	0.7	2.7	0.01	0.05
Clothing & footwear	2.7	-0.2	0.0	-0.01	0.00
Housing, water, electricity, gas & other fuels	23.2	1.9	1.4	0.44	0.32
Furnishings, household equipment & routine household maintenance	4.3	0.2	0.3	0.01	0.01
Health	2.7	1.2	1.2	0.03	0.03
Transport	11.3	0.6	1.7	0.07	0.19
Information & communication	6.6	-5.4	1.9	-0.36	0.13
Recreation, sport & culture	3.0	1.2	1.1	0.04	0.03
Education	1.3	2.1	2.4	0.03	0.03
Restaurant & accommodation services	3.4	3.2	2.4	0.11	0.08
Insurance & financial services	4.0	2.4	4.1	0.10	0.16
Personal care, social protection & miscellaneous goods & services	5.8	3.8	4.9	0.22	0.28

¹ Based on Household Income and Expenditure Survey 2022

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.14. *Producer Price Index, January – August 2025 and 2026 (2010 = 100)*

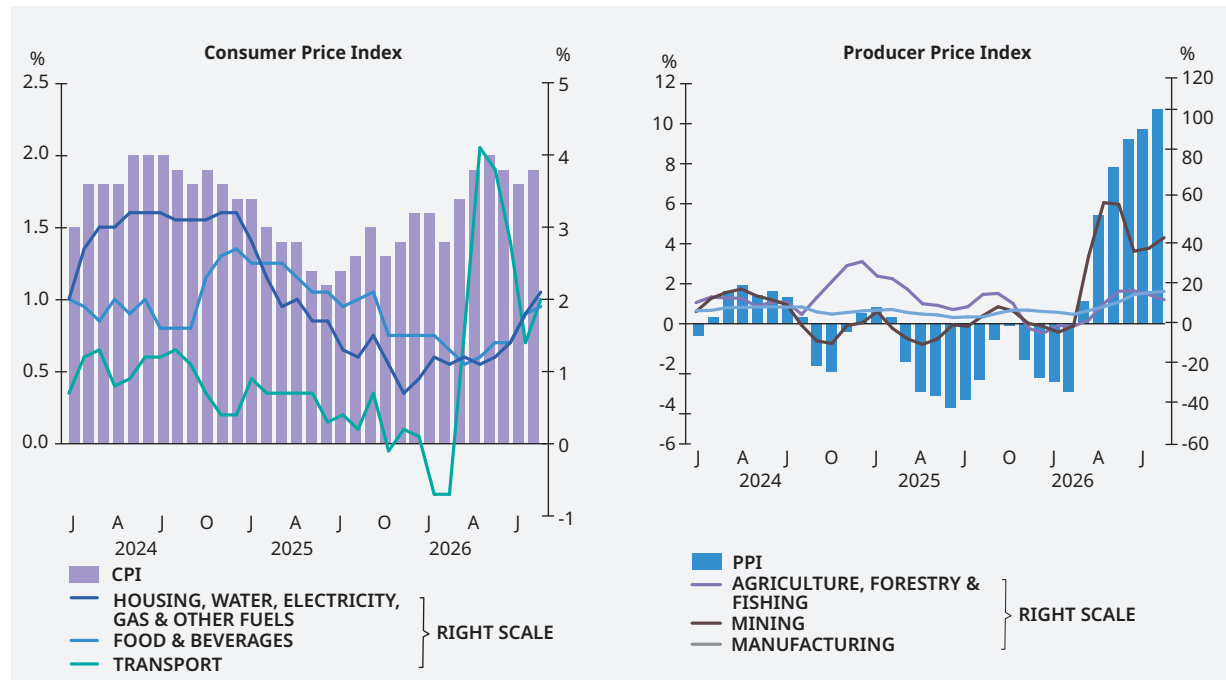
	WEIGHT ¹	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2025	2026	2025	2026
PPI by sector	100.000	-2.3	4.6	-2.30	4.60
Agriculture, forestry & fishing	6.730	6.7	0.9	0.43	0.06
Mining	7.927	-10.0	25.9	-0.75	1.97
Manufacturing	81.571	-2.6	2.9	-2.01	2.27
Electricity & gas supply	3.442	0.8	7.9	0.03	0.26
Water supply	0.330	1.8	10.7	0.01	0.03
PPI by stage of processing	100.000	-2.3	4.6	-2.30	4.60
Crude materials for further processing	16.410	-4.1	15.4	-0.68	2.68
Intermediate materials, supplies & components	56.119	-2.2	2.8	-1.25	1.66
Finished goods	27.471	-1.3	0.9	-0.36	0.26

¹ Based on Economic Census 2016

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 3.5. *Consumer Price Index and Producer Price Index Trends (% change)*



Source: Department of Statistics, Malaysia

Labour Market

Sustained labour market performance

The labour market remained stable in the first half of 2026, underpinned by stronger-than-expected economic growth attributed to robust domestic demand and external sector. The labour force participation rate rose to 70.9%, reflecting expanding workforce engagement amid healthy employment prospects. Total **employment** expanded by 1.1% to 16.8 million persons, while the **unemployment rate** remained low at 3%, equivalent to 509,700 unemployed persons. The services sector continued to account for the largest share of employment at 66.7%, followed by manufacturing and agriculture at 16.2% and 8.7%, respectively.

Demand for labour also remained encouraging in the first half of 2026, evidenced by sustained **job creation** and expanding

vacancies. Establishments generated 64,270 new jobs, marginally lower by 1.3% compared with 65,138 jobs in the corresponding period of 2025, while total vacancies edged up by 0.4% to 195,730 positions. Despite the continued availability of employment opportunities, job **placements** declined by 20.6% to 74,874 persons, indicating moderation in job matching and cautious onboarding by businesses navigating lingering supply chain risks and external headwinds.

The labour market is projected to maintain a favourable trajectory in the second half of 2026, supported by resilient household demand and steady expansion in services and manufacturing sectors. Vibrant tourism-related activities, global semiconductor upcycle and ongoing digital infrastructure development will help to sustain business appetite for hiring and headcount retention. Against this backdrop, the full year unemployment rate is estimated to remain low at 3% in 2026.

TABLE 3.15. *Labour Market Indicators*

	('000 PERSONS)			CHANGE (%)		
	H1 ¹	2026 ²	2027 ³	H1 ¹	2026 ²	2027 ³
Labour force	17,275.8	17,387.0	17,734.8	1.0	1.8	2.0
Employment	16,766.1	16,869.6	17,198.5	1.1	1.7	2.0
Unemployment	509.7	517.5	536.3	(3.0)	(3.0)	(3.0)

¹ January to June 2026

² Estimate

³ Forecast

Note: Figures in parentheses refer to the unemployment rate

Source: Department of Statistics and Ministry of Finance, Malaysia

TABLE 3.16. *Employed Persons by Sector*

	('000 PERSONS)			SHARE (%)		
	H1 ²	2026 ³	2027 ⁴	H1 ²	2026 ³	2027 ⁴
Agriculture, forestry and fishing	1,461.1	1,485.5	1,508.4	8.7	8.8	8.8
Mining and quarrying	101.0	101.7	107.9	0.6	0.6	0.6
Manufacturing	2,718.9	2,724.3	2,778.8	16.2	16.1	16.2
Construction	1,302.9	1,370.5	1,389.7	7.8	8.1	8.1
Services	11,182.1	11,187.6	11,413.9	66.7	66.3	66.4
Total¹	16,766.1	16,869.6	17,198.5	100.0	100.0	100.0

¹ Total includes 'Activities of extraterritorial organisations and bodies'² January to June 2026³ Estimate⁴ Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

As at end-August 2026, registered low-skilled **foreign workers** contracted by 2.9% to 2.08 million compared to 2.14 million in the corresponding period in 2025, driven by tighter quota controls aligned with the Government's policy commitment to reduce economic reliance on foreign labour. Meanwhile, sectoral manpower shortages will be addressed through measures focused on enhancing job conditions to attract local talents, alongside productivity improvements through accelerating automation and technology adoption. Foreign workers were predominantly sourced from Bangladesh (36.2%), Indonesia (26.4%) and Nepal (16.7%). The manufacturing sector accounted for the largest share of foreign worker employment at 28.8%, followed by construction (26%) and services (19.2%). Meanwhile, the number of **expatriates** increased by 1.5% to 123,088 persons as at end-August 2026, reflecting sustained demand for specialised expertise. Expatriates were mainly from China (32%), India (15.5%) and Indonesia (7.2%). In terms of sectoral distribution, expatriates were mainly

employed in information technology (36.5%), followed by services (16.6%) and construction (14.7%).

Labour productivity, measured by value-added per worker, increased by 4.6% to RM52,763 in the first half of 2026, anchored by strong output growth in manufacturing and construction, alongside a recovery in mining and quarrying sectors. Manufacturing productivity gains were supported by output expansion, particularly in E&E and metal industries, with value-added outpacing employment growth. For the whole year, overall productivity is projected to expand by 3.4% to approximately RM108,100, supported by ongoing strategic investments in high-impact sectors such as digital technology, data centres and E&E-related, alongside greater technology adoption and talent development. The construction sector is expected to record the highest productivity growth at 4.4%, followed by manufacturing at 4% and services at 3.6%.

Outlook 2027

Sectoral

Services Sector

Steady growth in all subsectors

The **services** sector is projected to register a strong growth of 5.2% in 2027, with all subsectors expected to perform positively. The growth will be anchored by high-value digital services and resilient private consumption alongside higher visitor arrivals following VM2026 – 2027. Furthermore, the sector's performance will be boosted by the initiatives on the national agenda to accelerate growth of digital economy.

The wholesale and retail trade subsector will remain a key contributor to the services sector, with a growth of 4.4% mainly driven by the wholesale trade segment. Vigorous seasonal sales and promotional campaigns across physical stores as well as e-commerce and social media platforms will continue to stimulate consumer spending in tandem with the VM2026 – 2027 marketing and promotional events. Meanwhile, the motor vehicles segment is expected to record a growth supported by resilient demand for new private vehicles, particularly for locally-assembled cars.

Meanwhile, the information and communication subsector is expected to maintain a strong growth of 7.9% in 2027, supported by the growing demand for cloud computing, ongoing digitalisation across businesses, continued operationalisation of data centres and expansion of digital connectivity as well as the development in telecommunication infrastructure including Jalinan Digital Negara Phase 2 (JENDELA Phase 2) and Sambungan Kabel Dasar Laut MADANI (SALAM). In addition, the substantial approved investment in information and communication subsector in the first half of 2026 is expected to spur further economic activity and contribute to the subsector's growth in 2027.

The transportation and storage subsector is forecast to grow by 7.4%, supported by continued trade and logistics activities, sustained demand for warehousing and distribution services as well as improved passenger traffic in conjunction with VM2026 – 2027. The land transport segment will be partly bolstered by the commencement of the East Coast Rail Link (ECRL) that is envisaged to boost transportation and enhance connectivity between the East Coast and major ports, along with the expansion of railway networks supporting cargo movement and logistics activities. Furthermore, the expected commencement of the Johor Bahru-Singapore Rapid Transit System Link (RTS Link) will enhance cross-border connectivity and support passenger traffic, tourism, retail and business activities. Likewise, continued travel, as well as tourism activities and airport capacity upgrades will further promote demand in both passenger and cargo in the air transport segment. The growth of the water transport segment is projected to remain stable in 2027 on account of high trade activities, supported by Malaysia's strategic position along major regional shipping routes.

The real estate and business services subsector is forecast to increase by 7% driven by continued investment and construction activities, including the development and operationalisation of data centres. Moreover, ongoing projects under the JS-SEZ, development of industrial parks and logistics facilities, and the completion of several data centre projects are expected to increase demand for property-related, engineering, professional and business services. Meanwhile, the commencement of the RTS Link will be able to support transit-oriented development envisaged to unlock multi-dimensional economic benefits.

The food & beverages and accommodation subsector is expected to grow steadily, expanding by 6% in 2027, in lieu of higher visitor arrivals in conjunction with the VM2026 – 2027, as well as robust

domestic tourism spending. The subsector's performance will also be bolstered by various international events scheduled including the Langkawi International Maritime and Aerospace Exhibition (LIMA) 2027, 34th South East Asian Games (SEA Games) 2027 as well as numerous MICE programmes. In addition, visit state campaigns by Sabah and Terengganu are also expected to stimulate tourism activities and provide further impetus to the subsector.

The finance and insurance subsector is anticipated to expand by 2.3%, supported by sustained economic activities. Within the finance segment, demand for financing is expected to remain supported by ongoing investment activities, particularly in high value-added industries, as well as conducive labour market conditions. Meanwhile, the insurance segment is expected to benefit from the nationwide rollout of MediAsas, although rising medical costs may temper premium growth.

The utilities subsector is projected to grow by 3.7%, driven by increasing electricity demand and water consumption from industrial and commercial users, partly as a result of the expansion of data centre operations. Meanwhile, ongoing development of industrial parks and digital infrastructure will require utility consumption, particularly in regions experiencing rapid investment activity. Notwithstanding, the effects of the Super El Niño are also expected to increase demand for electricity due to higher air conditioning usage to weather the hot and dry spell.

The other services subsector is projected to rise by 5.8%, driven by the private health and education services. The Malaysia Healthcare Travel Council (MHTC) will continue efforts to strengthen Malaysia's position as a preferred medical tourism destination by expanding its international market presence and promoting Malaysia's quality medical services

and healthcare offerings, particularly in key markets such as Indonesia, China and India. Meanwhile, the private education services is expected to strengthen further, driven by continued efforts to position Malaysia as an attractive international education destination. Promotional initiatives by Education Malaysia offices, Education Malaysia Global Services (EMGS) and local universities, particularly through mobility and edutourism programmes, are expected to further support growth in international student enrolment.

The government services subsector is forecast to record a growth of 4.5% in 2027. This is partly attributed to outlays for supplies and services as well as emoluments.

Manufacturing Sector

Harnessing the AI wave

The **manufacturing** sector is projected to grow by 4.1% in 2027, attributed by a moderate expansion in export-oriented industries. Growth in the E&E segment is expected to remain stable, supported by sustained demand for AI-related products, despite the easing of global semiconductor cycle in 2027. Continued implementation of the NSS will support domestic capabilities in higher value-added activities including integrated circuit design and advanced packaging. Meanwhile, domestic-oriented industries are expected to benefit from sustained household spending and tourism activity. The vibrant promotional events under VM2026 – 2027 together with the hosting of LIMA 2027 and 34th SEA Games 2027, are expected to support tourist arrivals and spending, generating additional demand for food, beverages and other consumer goods. Continued expansion in construction activity, particularly industrial and infrastructure projects, will also support demand for building and other intermediate materials.

Agriculture Sector

Recovery in production

The **agriculture** sector is projected to rebound and improve marginally by 0.5% in 2027. The oil palm subsector is projected to record marginal declines in FFB yields and crude palm oil (CPO) production in line with the biological yield cycle. However, better FFB quality is expected to support a marginal improvement in oil extraction rate. On the other hand, despite CPO production declining marginally, its prices are expected to remain high, averaging between RM4,450 and RM4,600 per tonne in 2027 (2026: RM4,300 – RM4,500). This is in tandem with tighter supply conditions following continued global demand especially from biodiesel programmes, thus sustaining plantation incomes.

A recovery in agro-food production, particularly in the livestock and fishing subsectors, is expected to further support the growth driven by sustained household spending and tourism-related demand. Efforts to expand paddy cultivation and improve irrigation, alongside greater adoption of agricultural technologies, are expected to support food production and productivity. The rubber subsector is anticipated to recover, attributed to the rehabilitation of untapped mature rubber areas and further enhancement of plantation initiatives by the Government. However, the extent of the production recovery across other subsectors will remain stable, subject to weather conditions and input costs.

Mining and Quarrying Sector

Sustaining growth through new field developments

The **mining and quarrying** sector is projected to expand by 1.2% in 2027, supported by both the natural gas and the crude oil and condensate subsectors. The anticipated operationalisation of PFLNG3 in Sipitang, Sabah and the progressive ramp-up of the Rosmari and Marjoram projects

in Sarawak will support natural gas production, with demand sustained by domestic power generation and LNG export markets.

Additional output from newly commissioned fields in Kasawari Phase 2 (Offshore Sarawak), including projects Berantai East and Irong Timur, are expected to partially mitigate the decline in crude oil and condensate production at the Gumusut-Kakap and Malikai fields. Continued redevelopment of existing assets and efforts to improve recovery rates will provide further support to production. In terms of pricing, Brent Crude oil is projected to average USD85 per barrel in anticipation of moderate oil demand growth due to the growing adoption of xEV, biofuels and energy efficiency.

Construction Sector

Projects in pipeline to sustain growth

The **construction** sector is forecast to register a growth of 5.7% in 2027, driven by continued activities across all subsectors. The non-residential buildings and specialised construction activities subsectors are expected to remain as the main contributors to the sector's growth. The development of new data centres in Selangor, Johor and Negeri Sembilan will continue to sustain the non-residential buildings subsector's expansion. Progress in these projects, together with other building and infrastructure projects, is projected to generate demand for mechanical, electrical and plumbing installation works, thus supporting the specialised construction activities subsector's growth.

Major infrastructure projects such as the Gombak-Port Klang section of the East Coast Rail Link (ECRL Phase 2), Elevated Autonomous Rapid Transit (E-ART) system, Kuala Lumpur Northern Dispersal Expressway (KL NODE), LRT3 Phase 2 and Juru-Sungai Dua Traffic Dispersal Project will steer the civil engineering subsector's performance. In addition, the residential buildings subsector is expected to benefit from the implementation of measures under the National Housing Policy 2026 – 2035,

aimed at improving housing affordability while addressing long-standing issues related to delayed and abandoned housing projects.

Domestic Demand

Domestic demand continues to anchor growth

In 2027, **domestic demand** is forecast to increase by 5.1%, underpinned by continued growth in private sector expenditure at 5.3%. Resilient consumption and investment activities are expected to sustain the private sector's contribution to GDP growth at 4.1 ppt. Meanwhile, public expenditure is anticipated to grow by 4.2%, contributing 0.8 ppt to overall growth.

Private consumption is projected to grow by 4.8% in 2027, supported by sustained domestic economic activities and favourable employment prospects. Meanwhile, tourism-related activities, including the VM2026 – 2027, together with major events such as the LIMA 2027 and 34th SEA Games are expected to provide additional impetus to consumer spending.

Private investment is projected to expand by 7.1% in 2027, supported by continued capital expenditure, particularly in the technology-intensive services and manufacturing sectors. Areas of investment include hyperscale data centres and AI infrastructures, advanced

semiconductors, as well as chemical and petrochemical activities. While investment activity remains on a firm footing, private investment growth is anticipated to normalise following the strong growth in the preceding years. The execution of ongoing multi-year projects will further sustain investment momentum. In addition, robust adoption of advanced technologies and digitalisation is expected to support productivity improvements and enhance production capacity. The policy environment will also remain supportive, with the ongoing implementation of national policies targeting high-impact sectors and the outcome-based NIF prioritising investment quality over the volume of approvals, contributing to continued private investment activity.

Public consumption is forecast to grow by 3.2% in 2027. Growth will be supported by emolument spending and expenditure on supplies and services. The Government Procurement Act 2026 [Act 882] which is expected to come into force in 2027, will reinforce these efforts by strengthening governance, enhancing transparency and embedding value-for-money principles in procurement, thereby reducing the risks of leakage, wastage and mismanagement of public funds. Together, these measures are expected to support efficient public service delivery while maintaining fiscal discipline and ensuring prudent public spending.

INFORMATION BOX 3.3

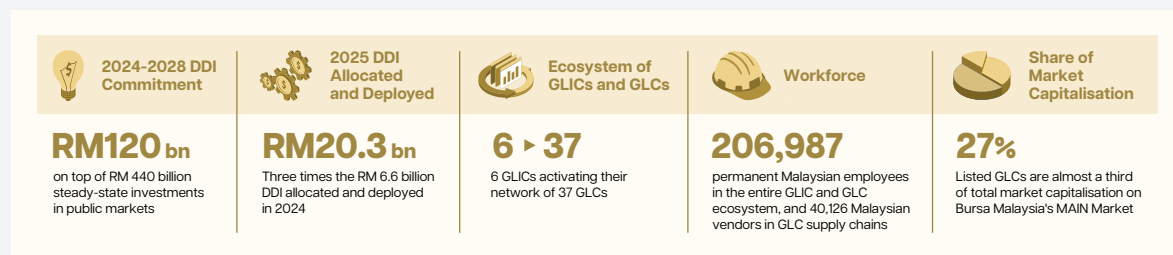
Anchoring Malaysia's Momentum Through GEAR-uP

In 2024, the Ministry of Finance (MoF) initiated the Government-Linked Enterprises Activation and Reform Programme (GEAR-uP) to strengthen strategic investments, innovation and social inclusion in supporting the nation's economic development agenda. The Programme mobilises six government-linked investment companies (GLICs), namely Employees Provident Fund (EPF), Permodalan Nasional Berhad (PNB), Retirement Fund (Incorporated) (KWAP), Khazanah Nasional Berhad (Khazanah), Lembaga Tabung Haji (Tabung Haji) and Lembaga Tabung Angkatan Tentera (LTAT), together with the government-linked companies (GLCs) under their ownership. The initiatives under these GLICs are aligned with the twin pillars of Ekonomi MADANI, namely Raising the Ceiling of national potential and Raising the Floor of living standards. The six GLICs collectively manage RM2.2 trillion in assets under management, exceeding Malaysia's GDP in 2025.

Under GEAR-uP, the GLICs have committed RM120 billion in domestic direct investments (DDI) from 2024 to 2028, in addition to RM440 billion in steady state public market investments already channelled in the economy. In 2025, GLICs allocated and deployed RM20.3 billion domestically. While below the projected RM25 billion target announced in Budget 2025, this represents a threefold increase from the RM6.6 billion allocated and deployed in 2024, with momentum carrying into the first quarter of 2026. This is patient capital intended to crowd in private investments and build a productive base that lasts.

In 2025, the programme widened its reach to the GLCs owned by the GLICs, extending coordination from capital allocation to the operating companies that put it to work. The combined scale provides a substantial base for implementation, with the 37 GLCs sustaining 40,126 vendors across their supply chains and, together with the GLICs, employing 206,987 Malaysian employees, setting a benchmark for the wider corporate sector. Figure 3.3.1 summarises GEAR-uP's 2025 contributions.

FIGURE 3.3.1. *GEAR-uP's 2025 Contributions at a Glance*



Source: Ministry of Finance, Malaysia

Raising the Ceiling: Beyond Capital to Capabilities

Raising the Ceiling entails growing Malaysia's capability to build and make, widening the productive capacity of the economy for the years ahead. GLICs and GLCs are pursuing this by investing across three themes, namely advancing economic complexity, strengthening firms of all sizes and maturity, and catalysing national priorities.

Advancing economic complexity

Malaysia holds approximately 13% of the global market share in semiconductor testing and packaging. The focus is on moving into higher margin segments of the value chain. Under this initiative, GLICs invested RM1.4 billion in the semiconductor ecosystem and RM1.8 billion in digital and logistics infrastructure in 2025.

There are several highlights in this ecosystem driven by GEAR-uP. Among others is SkyeChip, a Pulau Pinang-based integrated circuit (IC) design firm, which debuted on Bursa Malaysia's MAIN Market on 20 May 2026 following early stage backing from Khazanah's Dana Impak. The offering raised RM352 million in gross proceeds and was oversubscribed 95.03 times, with GLICs subscribing 15.5% as cornerstone investors and more than 60% of proceeds allocated to R&D in silicon intellectual property. Technology transfer is progressing on the same basis. Khazanah's 2024 investment in the edge artificial intelligence (AI) firm Syntiant anchored the expansion of its operations in Pulau Pinang, where a new 220,000 sq. ft. campus localises complex micro-electro-mechanical systems (MEMS) processing and AI engineering, creating 200 high-skilled roles out of 800 new jobs.

Strengthening firms of all sizes and maturity

GEAR-uP also contributes to building the capacity of businesses across the whole spectrum beginning with Government agencies, including Cradle Fund, Perbadanan Usahawan Nasional Berhad (PUNB) and VentureTech, supporting companies at the inception stage. Khazanah's Jelawang Capital and KWAP's Dana Perintis anchor the venture stage, channelling RM588 million to startups in the consumer, digital, agritech and edtech sectors in 2025. Khazanah's Dana Impak and KWAP's Dana Pemacu subsequently provide growth capital to firms ready to scale, before GLICs take cornerstone positions at the point of listing, with Ekuinas deepening Bumiputera ownership throughout.

Between 2022 and June 2026, more than 130 Malaysian startups were supported through 11 partner venture funds, with close to 30 being Bumiputera-owned, as illustrated in Figure 3.3.2. One of the companies backed include Aonic, a drone technology firm now serving 15 countries, whose farmer clients report income gains of up to 50%. In addition, international fund managers including AppWorks and Antler have localised operations in Malaysia to support the capital deployment.

FIGURE 3.3.2. *Malaysia's Venture Capital and Crowd-In the Startup Ecosystem*



Source: Ministry of Finance, Malaysia

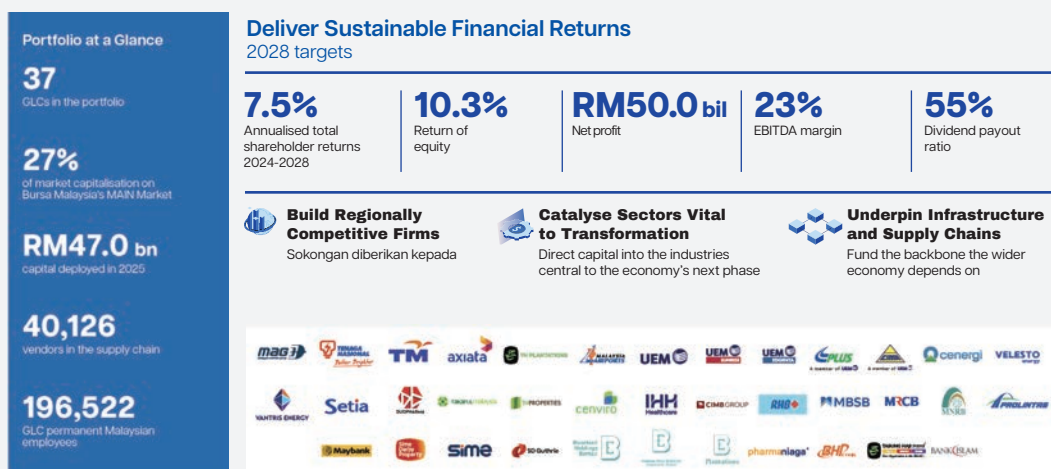
While mid-tier companies (MTC) contribute 36% of GDP and employ 16% of the workforce, yet many face constraints in capital, capabilities and market access at the point of scaling. GLICs address these constraints through a staged pathway to enable companies to progress from one stage of growth to the next with continuity of institutional backing. KWAP's Dana Pemacu allocated and deployed RM1.2 billion through 12 fund managers in 2025, each paired with an international partner under a co-investment model. Investments comprise RM254 million through Seraya Partners in Empyrion Digital, a hyperscale AI data centre in Johor, with first energisation targeted for November 2026; RM51 million through Mekar Capital and Navis Capital in a local nutraceutical company; and RM210 million through Foster Capital and Castleforge for the first phase of centralised labour quarters in the Klang Valley, providing 9,000 beds. Furthermore, capacity building is provided through the MTC Growth Innovation Programme (MGIP) and ELEVATE Programme 2.0 with Capital Markets Malaysia, targeting up to 100 mid-tier companies.

Catalysing national priorities

GLICs actively steward the portfolio of 37 GLCs, targeting 7.5% annualised total shareholder returns from 2024 to 2028, a trajectory that could unlock RM100 billion in value. Performance has outpaced expectations, with GLICs delivering total shareholder returns of 8% for full year 2025. As GLCs account for around 27% of market capitalisation on Bursa Malaysia's MAIN Market, the gains flow back to EPF, KWAP, PNB and Tabung Haji members, lifting ordinary Malaysians' savings.

This stewardship rests on clear targets benchmarked against best-in-class sector peers, comprising 10.3% return on equity, RM50 billion in net profit, 23% EBITDA margin and 55% dividend payout ratio by 2028, as summarised in Figure 3.3.3. Beyond the targets, GLICs set the standard for the wider corporate sector in disclosure and the discipline of long-term value creation. Under the Capital Market Masterplan 2026 – 2030, the Securities Commission Malaysia (SC) and Bursa Malaysia introduced MY Value Up in April 2026, encouraging the 88 largest listed companies, which account for around 80% of market value, to disclose value creation plans.

FIGURE 3.3.3. *GLIC Stewardship of the GLC Portfolio*



Source: Ministry of Finance, Malaysia

GLICs and GLCs deploy patient capital in foundational sectors where national priorities align with the mandates to deliver sustainable returns. Focus has been given to progress the identified sectors leveraging the GLCs' strength to advance the industries' needs.

In healthcare, the RM1.9 billion privatisation of APEX Healthcare, Malaysia's largest pharmaceuticals buy-out to date, establishes an integrated manufacturing and distribution platform. Pharmaniaga, strategically supported by LTAT, has established a locally-owned insulin and vaccine manufacturing segment with capacity for 25 million vaccine doses and 30 million insulin cartridges annually, alongside a three-year RM281.7 million supply contract with the Ministry of Health Malaysia.

In uplifting the agriculture sector, emphasis is placed on modernisation and improvement of median wage. For example, SD Guthrie's Mechanisation, Automation and Digitalisation (MAD) programme has deployed 950 machines since 2021 and created 514 local machine specialist positions with a median monthly salary of RM3,115, above the RM3,100 living wage benchmark (EPF, 2025). Meanwhile, in the energy sector, Tenaga Nasional Berhad (TNB) is undertaking a RM42.8 billion grid investment from 2025 to 2027, the largest in its history, having invested RM12 billion in 2025. These investments will support the target of 10 GW of renewable capacity by 2030.

In strengthening national connectivity, a consortium anchored by Khazanah and EPF has committed RM11 billion over five years to upgrade airports and logistics infrastructures. Building on an annual passenger volume that reached 104.5 million in 2025, this capital deployment will drive major capacity expansions across KLIA, Pulau Pinang and Kota Kinabalu alongside logistics hubs such as the Penang International Logistics Aeropark. On a separate note, within digital infrastructure, investments span corridors in Pulau Pinang, Port Klang and Iskandar Malaysia, including KWAP's RM319 million investment in a Google data centre at Puncak Alam and a RM550 million commitment by EPF and LTAT to Sime Darby's New Economy Venture Fund. As at March 2026, Malaysia had secured 59 data centres and hyperscale projects, of which 36 are operational.

While driving economic complexity, GEAR-uP programmes also encompass the preservation of Malaysia's heritage. Warisan KL, launched in April 2025, driven by Khazanah, PNB Merdeka Ventures, public institutions and government agencies to conserve the capital's-built heritage. Warisan KL is projected to generate RM7.9 billion in economic value and attract more than 9.1 million visitors by 2035. Khazanah's restoration of Bangunan Sultan Abdul Samad and the old General Post Office reopened in early 2026 and records an average daily footfall of 5,000. Seri Negara, where the 1948 Federation of Malaya and 1957 Independence agreements were signed, reopened in December 2025, while Carcosa is being restored as an eco-sanctuary hotel. PNB Merdeka Ventures acquired Stadium Merdeka, which was then restored to the original 20,000-seat capacity, a project recognised with a UNESCO Asia Pacific Award, while the Merdeka Textile Museum was launched in August 2026.

Raising the Floor: Ensuring a Quality and Just Life for All

Raising the Floor entails ensuring the benefits of growth are felt by all, measured not only by the wealth an economy creates but also by how widely that wealth is shared. With approximately 207,000 permanent Malaysian employees, more than 40,000 vendors and a presence in every state, GLICs and GLCs are positioned to lift the floor across three themes, namely future-proofing the workforce, strengthening community livelihoods and wellbeing as well as championing decent living wages.

Future-proofing the workforce

In Q2 2026, approximately 35% of tertiary educated Malaysians worked below their qualification levels (DOSM, 2026), while strategic sectors such as energy, digital and advanced manufacturing report shortages of credentialled talent. GLICs and GLCs funded an average of 7,526 scholars annually over 2020 to 2025, with 88% from lower-to-middle income households, exceeding the Budget 2025 aspiration that at least half of scholarships be allocated to these families.

In enhancing youth employability, Khazanah's K-Youth has trained 35,000 youths since 2023 and placed 9,934 in 2025 with employers including Infineon, Intel, Onsemi, SkyeChip and Vitrox. At the same time, TNB's PROTEGE-Ready to Work programme has trained 7,216 Malaysians since its inception in 2011, with 559 hired into TNB. In June 2026, these efforts were consolidated under BAKAT MADANI, a national talent platform uniting PETRONAS, the six GLICs and their GLCs, providing an integrated pathway from education and training to certification and placement, targeting 25,000 Malaysians by end-2027.

Strengthening community livelihoods and wellbeing

GLICs and GLCs directed RM641 million into community investment in 2025, an increase of 20% from RM534 million in 2024, across more than 775 programmes reaching at least 5.1 million beneficiary touchpoints. Cumulative contributions from 2021 to 2025 totalled RM2.6 billion. The MOF Social Impact Matching Grant doubles every foundation ringgit for community use, while the Sekolah Angkat and Santuni MADANI programmes have reached 399 communities. GLC Demi Rakyat dan Negara (GDRN), the collaborative philanthropy platform of GLICs and GLCs, pools member resources for disaster response, channelling RM22.4 million in humanitarian assistance and reaching 580,426 beneficiary touchpoints throughout the country over the 2025 and 2026 monsoon season.

Championing decent living wages

In May 2025, following the joint commitment by the six GLICs, 189,817 out of 206,987 (91.7%) permanent Malaysian employees across the GLIC and GLC ecosystem, earned at least a decent living wage of RM3,100 monthly as of December 2025. This figure is reviewed by GLICs and GLCs every three years, based on the cost of living published under EPF's Belanjawanku. As at July 2026, 25 entities out of the six GLICs and 37 GLCs had all permanent Malaysian employees receiving decent living wages. Figure 3.3.4 highlights the progress of decent living wages initiative.

FIGURE 3.3.4. Decent Living Wage Initiative Progress



¹ GLICs and GLCs update the living wage benchmark every 3 years based on cost of living as published by EPF's Belanjawanku

Source: Ministry of Finance, Malaysia

Outlook

The majority of the RM120 billion commitment remains to be deployed over the next two years. On economic complexity, the semiconductor ecosystem continues to widen through SemiconStart Malaysia's cohorts and the cross-border funds anchored in 2025, while hyperscale and logistics capacity keeps building. Google's data centre in Selangor adds a further 320 MW and 26,500 jobs through 2026 and 2027, alongside Empyrion Digital's phased build-out in Johor.

On firms and capital markets, GLICs' funds including Dana Impak, Dana Perintis, Dana Pemacu and Ekuinas continue to carry companies from venture to growth stage, with Khazanah's planned Dana Ciptawan adding a further RM200 million for Bumiputera enterprises and other mid-tier Malaysian firms. GLCs remain on course for RM100 billion in additional market value by 2028, with MY Value Up now extending the same discipline to Malaysia's 88 largest-listed companies.

On national priorities, TNB grid investment continues under Regulatory Period 4, rising from RM12 billion in 2025 towards RM15 billion in 2027, as the country works towards 70% renewable energy in installed capacity by 2050. MAHB continues its five year, RM11 billion upgrade programme, with KLIA's capacity plan targeting over 100 million passengers annually and Penang International Airport's capacity set to double from 6.5 million passengers. Ultimately, by expanding talent platforms like BAKAT MADANI to 25,000 Malaysians and entrenching decent living wage commitments across the ecosystem, the programme ensures that gains in economic complexity directly translate into higher living standards for all.

Conclusion

Guided by the Ekonomi MADANI framework, the GEAR-uP initiative is successfully building an economy that simultaneously raises the nation's ceiling of growth and floor of social well-being. By converting strategic capital deployment into enduring national capability, the initiative fosters a deep, competitive ecosystem that turns local firms into market champions, strengthens domestic supply chains and accelerates high-value job creation. True economic success goes beyond attracting headline investment, measured by the lasting impact capital leaves behind, delivering higher living standards for the rakyat, towards a strong and resilient Malaysia.

Public investment is projected to expand by 6.8% in 2027, driven by targeted development spending and steady capital outlays. Federal Government development spending will continue to prioritise rakyat-centric projects, particularly upgrades in critical infrastructures for healthcare and education. Meanwhile, capital expenditure by NFPCs is expected to remain focused on strategic sectors, including energy, utility and transport, reinforced by targeted government-linked investment companies' (GLICs) commitments under Government-Linked Enterprises Activation and Reform Programme (GEAR-uP) initiative. Investment activity will also be supported by the continued implementation of ongoing high-impact projects, including the Penang LRT Mutiara Line, ECRL Phase 2, SSLR, Pan Borneo Highway Sabah and the upgrading of Klang Valley Double Track Phase 2 (KVDT2). These investments are expected to strengthen national connectivity, improve public service delivery, expand the economy's productive capacity as well as support sustainable and inclusive growth.

Driven by expanding domestic activity, GNI at current prices is forecast to grow by 6.2% in 2027. GNS and total investment are projected to reach 24% and 22.2% of GNI, respectively, yielding a **savings-investment gap** of RM41.8 billion or 1.9% of GNI to ensure investment can be funded largely through domestic sources.

Income

Higher wage progression required to uplift income share

The **CE** is projected to maintain a steady growth trajectory of 6.8% in 2027. Sustained wage progression will be driven by institutional and regulatory labour market reforms, enhanced productivity-linked wage-setting frameworks and more synchronised labour supply-demand initiatives. Additionally, the periodic review of the GEAR-uP living wage framework, aimed at mitigating cost of living pressures among workers in GLCs and GLICs, is

expected to generate positive wage spillovers and motivate other private sector players to pay higher wages to their employees. On the demand side, the VM2026 – 2027 is also expected to further boost tourism-related industries' growth momentum specifically related to retail trade, food and beverage, accommodation, storage and transportation as well as support services activities, thereby expanding employment opportunities and income prospects. These developments will support a higher labour income share of 34.2%, keeping Malaysia on track towards achieving its long-term target of 40% of GDP by 2030.

In the meantime, **GOS** is forecast to expand by 5.2%, consisting 62.1% share of GDP in 2027. Malaysia's strategic integration along the global value chain, coupled with resilient domestic demand, sustained digital infrastructure investment and robust E&E demand driven by AI are expected to stimulate business income growth. However, corporate profit margins in selected export-oriented sectors may face headwinds from elevated domestic input costs, uncertain global trade conditions and geopolitical tensions in West Asia. Meanwhile, mixed-income is forecast to improve by 8.4%, contributing 16.3% of GDP. The improvement will be supported by institutional reforms under Act 872, which establishes a fair compensation framework, transparent service agreements and mandatory social protection for platform and non-platform self-employed individuals. By accelerating the formalisation of gig work, this legislative framework is anticipated to enhance labour market resilience and strengthen self-employment as a viable and primary source of household income.

Income from **taxes less subsidies** on production and imports is projected to grow by 16.5%, attributed by ongoing efforts in improving tax compliance and tightening enforcement to comply with strict fiscal discipline goals. Meanwhile, expenditure on subsidies and incentives is expected to decline by 7.5% as the Government remains committed to implement subsidy targeting to reduce fiscal

leakages. Hence, income share from net taxes on production and imports is projected to contribute 3.8% of GDP in 2027.

External Sector

Resilient and Supportive Outlook

Gross exports in 2027 are forecast to increase by 3%, driven by buoyant demand for manufactured goods, mining goods and agriculture goods. Exports of manufactured goods are projected to expand by 2.6% following steady performance in the E&E industry, particularly semiconductors, backed by continuous demand for AI-related products. The World Semiconductor Trade Statistics anticipated global semiconductor sales to increase by 27% in 2027, contributed by higher technology-related activities as well as increasing demand for E&E products from major trading partners. The solid performance is aligned with stronger global trade and economic growth in major trading partners as forecast by the IMF in July 2026. Hence, Malaysia is expected to benefit from the positive outlook as reflected in stronger demand for E&E products and non-E&E products.

Likewise, receipts from mining goods are anticipated to grow by 8.3% attributed to sustained exports of LNG, crude petroleum as well as metalliferous ores and metal scrap. This growth will be supported by stronger demand from major trading partners subsequent to market diversification and expansion. Furthermore, exports of agriculture goods are projected to rise by 4.8%, mainly driven by higher shipments of palm oil and palm oil based agriculture products following an increase in export volume and favourable commodity prices.

Gross imports are estimated to expand by 3.5% on the back of higher imports of intermediate goods, capital goods and consumption goods. Imports of intermediate goods are expected to increase by 3.4% following optimistic prospect in the manufacturing sector. Correspondingly, imports of capital goods are forecast to grow by 3.9% on account of stronger investment in services-related activities, expansion

in manufacturing sector and upgrading in technology infrastructure. Imports of consumption goods are expected to increase by 3.1%, among others, supported by robust and competitive online shopping platforms.

The **current account of the balance of payments** is forecast to register a wider surplus of RM41.8 billion or 1.9% of GNI in 2027, contributed by positive balances in the goods and services accounts as well as narrowing deficit in the secondary income account, despite higher net outflow in the primary income account. Surplus in the goods account is projected to narrow to RM130.6 billion owing to growth in imports outpacing exports. Higher imports are expected particularly in the healthcare and education sectors as well as infrastructure projects towards the implementation of rakyat-centric projects.

Meanwhile, the services account is projected to record a wider net inflow of RM17.8 billion, attributed to higher surplus in the travel account and narrowing deficit in the other services account, despite a larger net outflow in the transport account. The travel account is forecast to register a higher surplus of RM61.3 billion, propelled by vigorous tourism activities. Earnings in the travel account is estimated to increase following VM2026 – 2027, LIMA 2027 and 34th SEA Games, which are anticipated to attract more international tourist arrivals and encourage higher per capita tourist spending. Nonetheless, stronger residents' spending abroad for business, education and pilgrimage is expected to increase payments in the travel account.

The other services account is anticipated to register a narrowing deficit of RM14.1 billion backed by higher income contributed by data centre- and cloud computing-related activities. The realisation of investment in data centre and robust adoption of digitalisation is expected to be reflected by higher receipts in the telecommunication, computer and information services. Similarly, net inflow in the manufacturing services on physical inputs owned by others is expected to increase following an encouraging outlook

in the E&E industry. Nonetheless, deficit in the transport account is anticipated to widen to RM29.4 billion stemming from continuous reliance on foreign transport providers in tandem with sustain trade activities.

The primary income account is projected to record a wider net outflow of RM94.7 billion due to higher deficits in the investment income and compensation of employees. The investment income account is anticipated to register a larger net outflow subsequent to increasing repatriation of profits and dividends by foreign investors in Malaysia. Similarly, deficit in the compensation of employees account is estimated to widen due to increasing participation of foreign professionals. On the other hand, a net outflow in the secondary income account is estimated to narrow to RM12 billion, attributed to higher inward remittances by Malaysians working abroad.

Prices

Inflation remains contained amid gradual cost pass-through

Headline inflation is projected to range between 1.8% and 2.8% in 2027. The forecast reflects carry-over effects and lagged transmission of higher energy, food and other input costs. Inflation is expected to be firmer in the early months of 2027 before easing as the impact of earlier cost increases diminishes and upstream costs gradually normalise. Domestic price pressures are anticipated to remain manageable, with economic activity unlikely to generate demand-pull inflationary pressures. Nevertheless, services-related categories, including food away from home, housing-related services and personal care, remain the main sources of underlying price pressure.

Risks to the outlook are tilted to the upside. A renewed escalation of geopolitical tensions, prolonged disruptions to energy and supply chains, higher freight and fertiliser costs as well as weather-related food supply shocks can lead to stronger and more persistent inflation. Further adjustments to administered prices, utilities or subsidy mechanisms could also affect the

inflation trajectory. On the downside, a faster normalisation of global crude oil and food prices, stronger ringgit and softer domestic demand could keep inflation below the baseline projection.

Labour Market

Labour market remains resilience

The labour market in 2027 is projected to remain resilient, anchored by robust domestic demand despite persistent geopolitical and trade-related headwinds. On the supply side, structural reforms under the Ekonomi MADANI framework such as strengthened wage structures, expanded social protection and improved workplace environments are expected to boost labour force participation. On the demand side, targeted implementation of national master plans, including the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan), NSS and National Energy Transition Roadmap (NETR) are anticipated to accelerate job creation. Accordingly, the **unemployment rate** is expected to remain low at 3% in 2027. Meanwhile, total **employment** is projected to expand by 2% to 17.2 million persons, with the services and manufacturing sectors continuing to account for more than 80% of employment opportunities.

Under the Thirteenth Plan, the threshold of **foreign workers** will not be allowed to exceed 10% of total employment by 2030. Therefore, the number of low-skilled foreign workers is expected to continue to decrease in 2027. In contrast, **expatriate** employment is anticipated to increase slightly, driven by demand for specialised talent across high growth high value (HGHV) sectors such as advanced engineering, digital technology and green-energy jobs. To reduce over reliance on migrant workers, greater emphasis will be placed on enhancing productivity through wider adoption of technology and shifting towards capital deepening, specifically automation and digitalisation in labour-intensive industries. These efforts will also be complemented by

higher levy structures and expanded talent development through TVET and upskilling programmes to build local technical capacity.

Labour productivity is projected to increase by 3.7% to RM112,098 in 2027, primarily driven by sustained productivity momentum in the services sector, particularly tourism-related industries following the VM2026 – 2027. Long-term productivity gains will be further reinforced by industrial upgrading, resource efficiency and workforce upskilling. Additionally, institutionalising productivity-linked wage structures through initiatives like PROSHARE⁵ will help align real wage growth with output, boosting economic value creation and supporting a higher CE share of GDP over the longer term.

Conclusion

Malaysia's solid economic fundamentals provide ample buffer against global shocks and enables the economy to sustain its growth momentum. Domestic demand remains the primary source of growth, anchored by a strong labour market and vigorous private consumption, while investment activity is anticipated to continue expanding, supported by the ongoing realisation of approved projects. Concurrently, trade performance remains well-positioned to leverage continuous technological advancements. The services sector will be boosted by increased international connectivity and vibrant tourism activities tied to VM2026 – 2027. Simultaneously, the E&E segment in the manufacturing sector is expected to benefit from strong global demand for semiconductors, AI and digital technologies. Looking ahead, the continued implementation of structural reforms and national development initiatives under the Ekonomi MADANI framework are expected to strengthen productive capacity, enhance overall competitiveness, ensure a meaningful economic growth and generate greater prosperity for the rakyat.

⁵ PROSHARE or Productivity for Shared Prosperity is a Malaysia Productivity Corporation initiative to help firms assess productivity, identify performance gaps and implement targeted improvements to translate productivity into sustainable growth, profit and fair wages.

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