# QUARTERLY
# ECONOMY TRACKER

## 2026 Outlook: Resilience and Adaptation

12 January 2026


**Oct-Dec 2025**

SERC SDN BHD
Socio-Economic Research Centre

# World Economic Outlook Update

## DEFYING GRAVITY?

- **The year 2025 was the end of the beginning.** The global economy has performed much better than feared, cruising at a soft speed estimated 3.1% in 2025 (3.3% in 2024) as the impact of the US Liberation Tariffs and heightened uncertainties on growth and supply chains have been limited thus far amid the persistence of geopolitical tensions.

- The global economy resilience was underpinned by positive labour market conditions, exports front-loading ahead of the tariffs, less restrictive monetary policy, better financial conditions, fiscal expansion, and strong performance in the US and some emerging markets.

- Major central banks, which generally began cutting interest rates, albeit at varying speed from mid-2024 as inflation eased somewhat, have continued in 2025 for some like the US Federal Reserve converges towards rate cut caution on inflation risk amid softening labour market conditions going into 2026.

- **There were growth disparities among the advanced economies and emerging economies.** The US economy enters the final stretch of 2025 amid a mixture of relief following the conclusion of a record 43-day Federal government shutdown and a one-year trade tariffs truce with China. The labour market has softened in recent months of 2025, characterised by significantly slower jobs creation and rising unemployment (4.6% in November 2025, marking the highest unemployment rate since September 2021). Overall, the US economy is estimated to grow by 1.9% in 2025 (2.8% in 2024), underpinned by resilient consumer spending and AI boom-induced business spending.

- Economic growth in the euro area remains mixed estimated 1.1% in 2025 (0.9% in 2024) on weak consumer spending and soft business investment due to the tariff uncertainty. Japan's economy has turned around to grow by estimated 1.0% in 2025 (-0.2% in 2024), held by consumer spending amid rising inflation and uneven exports. Though China remains on track to achieve 5% growth in 2025 (5.0% in 2024), there remain lingering concerns about structural hinderance to growth, soft consumer demand and a deepening property downturn.

- **Looking ahead to 2026, with so many moving parts in the global and domestic economy, will the world economy in 2026 continue to remain resilience, continued transition or disruption?**

- **Geopolitical risks remain significant**, driven by new rules in trade and investment, with the US and China are two strategic rivals of current global fragmentation, particularly in trade, technology, and governance, leading to competing economic and political blocs as well as supply chains security.

- **The real impact of a shift in trade policy and economic policy uncertainty on the global economy, trade and investment flows will become clearer in 2026.** Trade conflicts, increasing populist policies, and intense focus on securing critical raw materials for technology, advances in AI and green transitions would trigger potential market volatility in the years ahead.

- We expect continued moderate global economic growth estimated 3.0% in 2026, supported by lower energy prices, further cautious pace of monetary easing against inflation risk and easier financial conditions. It marks the fifth consecutive year of moderating growth, which is still below the historical 2000-2019's average growth of 3.7% per annum.

- The World Trade Organisation (WTO) projects global trade volume to slow from estimated 2.4% in 2025 to 0.5% in 2026, as the full-impact of tariffs will be felt more in 2026. The long-term average growth of global trade was 2.5% per annum in 2011-2019.

- The US economy is estimated to grow by 2.1% in 2026 amid uncomfortably high inflation. While the labour market is faltering, continued expansionary fiscal policies, rate cuts, AI spending, and deregulation will hold up the economy. Significant and worsening debt and fiscal pressures remained. The government shutdown could be in the works at the end of January 2026.

- The euro area will see stable economic growth estimated 1.1% in 2026, with southern countries remaining robust and those in northern Europe facing headwinds. Germany could see a rebound in growth, supported by lower interest rates, robust private-sector balance sheets, and the digital transformation of the economy.

- Japan's economy is expected to grow by 1.2% in 2026, thanks to USD118 billion massive stimulus budget termed as 'Sanaenomics', anti-inflation measures, cash handouts, reduced trade tensions, as well as solid wage growth amid strong inflation pressure.

- China's economy is poised for resilient growth estimated 4.8% in 2026, underpinned by pro-growth macroeconomic policies, and stronger push toward a consumption-driven growth, focusing on services-oriented spending.

- The tariffs-based shifting trade and monetary policies, high risk of policy missteps and a weakening US dollar are expected to persist, presenting many challenges and uncertainties across various sectors, including technology, financial market and geopolitics.

- **Several risks could upset the global economy and financial markets.** A fragile one-year trade truce between the US and China could collapse, deepens uncertainty over the future path of tariffs, including at the sectoral level; the surge in AI-related spending in the US raises fears of a bubble; and ongoing geopolitical tensions add further uncertainty. Meanwhile, an abundance of liquidity resulting from cuts in interest rates is often associated with inflationary pressures and the formation of asset bubbles.

- **Watch the financial market.** Some equity markets look expensive, with many investors have warned about the lofty valuations of the US equity market, driven by the technology, especially AI optimism, pushing prices beyond fundamentals. This has led to high price-to-earnings (P/E) ratios near 30x and concerns about a potential bubble. Additionally, the US private credit and related structures, which have grown rapidly in size from a USD40 billion market in 2000 to nearly USD2 trillion today, has raised questions about the health of credit markets given a succession of high-profile defaults connected to bankruptcies and fraud allegations.

- **Could inflation stage a comeback?** Inflation risk remains a wild card that would influence the Fed's interest rate path. Inflation remains elevated, with most of the overshoot comes from tariffs. Given the full effects of tariffs will be felt in 2026, inflation to continue climbing. If the Trump's administration proceeds with plans to hand out USD2,000 "tariff dividend" checks, inflation growth could accelerate. With weak labour conditions and persistent inflation on tap, the Fed is likely to lower rates only modestly in 2026. Markets expect two more rate cuts, which would put the target range at 3.00% to 3.25% by 2H 2026.

- **Will the AI Boom continue?** AI will remain a powerful and enduring force in shaping the market landscape. Market fluctuations and cycles of hype versus reality are common with emerging technologies.

- Lingering doubts about the investment return and economic promise of AI technology are starting to get the attention of several major financial authorities, including the International Monetary Fund (IMF), Bank of England and the Financial Stability Board (FSB), which have raised warning flags about an AI investment bubble.

- There is a potential sharp correction in the high valuations of AI-focussed technology companies. As the build-up of AI infrastructure incurred trillions of dollars of capital investment, with a significant portion is debt-financed, a slowdown in AI growth or earnings could trigger steep asset price corrections across multiple sectors.

- **Global debt and fiscal pressures** are significant risks to financial stability, fuelling concerns about sovereign defaults, banks' stability, rising bond yields and increased borrowing costs. The IMF estimated total global debt comprising sovereigns, corporates, and households of USD251 trillion, just above 235% of global GDP in 2024. The Institute of International Finance (IIF) estimated total global debt to reach nearly USD338 trillion by Q2 2025. As of November 2025, the US debt reached USD38 trillion or 124% of GDP.

# Global Economic and Monetary Conditions

## Real GDP growth (%, Year-on-Year)

| | 2023 | 2024 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025F (IMF) | 2026F (IMF) | 2025F (WB) | 2026F (WB) |
|---|---|---|---|---|---|---|---|---|---|
| **World** | 3.5 | 3.3 | N/A | N/A | N/A | 3.2 | 3.1 | 2.3 | 2.4 |
| **United States** | 2.9 | 2.8 | 2.0 | 2.1 | 2.3 | 2.0 | 2.1 | 1.4 | 1.6 |
| **Euro Area** | 0.4 | 0.9 | 1.6 | 1.6 | 1.4 | 1.2 | 1.1 | 0.7 | 0.8 |
| **China** | 5.2 | 5.0 | 5.4 | 5.2 | 4.8 | 4.8 | 4.2 | 4.5 | 4.0 |
| **Japan** | 0.7 | -0.2 | 1.6 | 2.0 | 0.6 | 1.1 | 0.6 | 0.7 | 0.8 |
| **India** | 9.2 | 6.5 | 7.4 | 7.8 | 8.2 | 6.6 | 6.2 | 6.3 | 6.5 |
| **Malaysia** | 3.5 | 5.1 | 4.4 | 4.4 | 5.2 | 4.5 | 4.0 | 3.9 | 4.3 |
| **Singapore** | 1.8 | 4.4 | 4.1 | 4.7 | 4.2 | 2.2 | 1.8 | N/A | N/A |
| **Indonesia** | 5.0 | 5.0 | 4.9 | 5.1 | 5.0 | 4.9 | 4.9 | 4.7 | 4.8 |
| **Thailand** | 2.0 | 2.5 | 3.2 | 2.8 | 1.2 | 2.0 | 1.7 | 1.8 | 1.7 |
| **Philippines** | 5.5 | 5.7 | 5.4 | 5.5 | 5.0 | 5.4 | 5.7 | 5.3 | 5.4 |
| **Vietnam** | 5.1 | 7.1 | 7.1 | 8.2 | 8.2 | 6.5 | 5.6 | 5.8 | 6.1 |

*Note: World GDP growth for 2023-2024 by IMF; Annual GDP for India is on fiscal year basis; N/A = Not applicable or not available*

*Source: Officials (unadjusted data except quarterly GDP for Euro Area); IMF (World Economic Outlook (WEO), World Bank (Global Economic Prospects)*

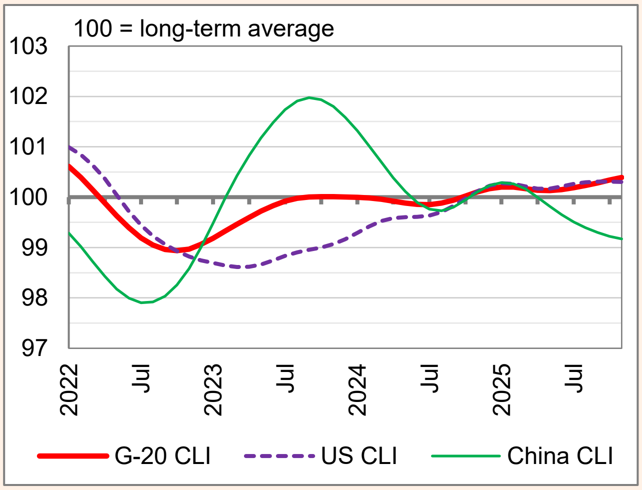
## Policy rate (%)

| End-period of | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **US, FED** Federal Funds Rate | 0.25-0.50 | 0.50-0.75 | 1.25-1.50 | 2.25-2.50 | 1.50-1.75 | 0.00-0.25 | 0.00-0.25 | 4.25-4.50 | 5.25-5.50 | 4.25-4.50 | 3.50-3.75 | 3.00-3.25 |
| **Euro Area, ECB** Deposit Facility | -0.30 | -0.40 | -0.40 | -0.40 | -0.50 | -0.50 | -0.50 | 2.00 | 4.00 | 3.00 | 2.00 | 2.00 |
| **Japan, BOJ** Overnight Call Rate | 0.00-0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | -0.10 | 0.25 | 0.75 | 1.25 |
| **China, PBC** 1-Year Loan Prime Rate | 4.35 | 4.35 | 4.35 | 4.35 | 4.15 | 3.85 | 3.80 | 3.65 | 3.45 | 3.10 | 3.00 | 3.00 |
| **UK, BOE** Bank Rate | 0.50 | 0.25 | 0.50 | 0.75 | 0.75 | 0.10 | 0.25 | 3.50 | 5.25 | 4.75 | 3.75 | 3.25 |
| **Australia, RBA** Cash Rate | 2.00 | 1.50 | 1.50 | 1.50 | 0.75 | 0.10 | 0.10 | 3.10 | 4.35 | 4.35 | 3.60 | 3.10 |
| **India, RBI** Policy Repo Rate (LAF) | 6.75 | 6.25 | 6.00 | 6.50 | 5.15 | 4.00 | 4.00 | 6.25 | 6.50 | 6.50 | 5.25 | 5.25 |
| **Korea, BOK** Base Rate | 1.50 | 1.25 | 1.50 | 1.75 | 1.25 | 0.50 | 1.00 | 3.25 | 3.50 | 3.00 | 2.50 | 2.50 |
| **Malaysia, BNM** Overnight Policy Rate | 3.00 | 3.00 | 3.00 | 3.25 | 3.00 | 1.75 | 1.75 | 2.75 | 3.00 | 3.00 | 2.75 | 2.75 |
| **Indonesia, BI** BI-Rate | 7.50 | 4.75 | 4.25 | 6.00 | 5.00 | 3.75 | 3.50 | 5.50 | 6.00 | 6.00 | 4.75 | 4.25 |
| **Thailand, BOT** 1-Day Bilateral Repo Rate | 1.50 | 1.50 | 1.50 | 1.75 | 1.25 | 0.50 | 0.50 | 1.25 | 2.50 | 2.25 | 1.25 | 1.00 |
| **Philippines, BSP** Target RRP Rate | 4.00 | 3.00 | 3.00 | 4.75 | 4.00 | 2.00 | 2.00 | 5.50 | 6.50 | 5.75 | 4.50 | 4.25 |

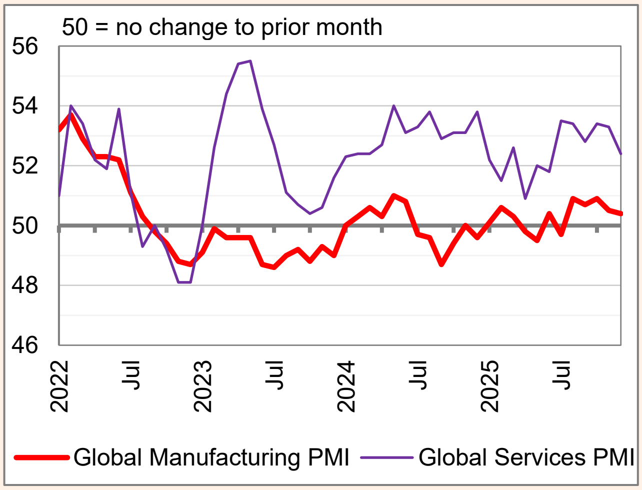
*Source: Officials; SERC's forecast*

# Global Current and Forward Indicators

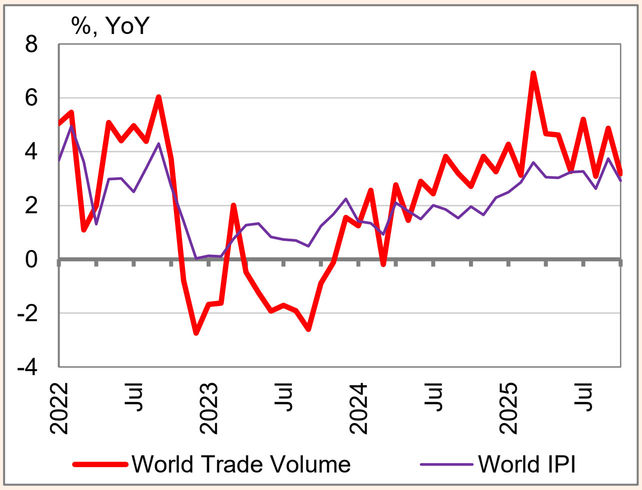
## OECD CLIs indicate growth divergence across major economies



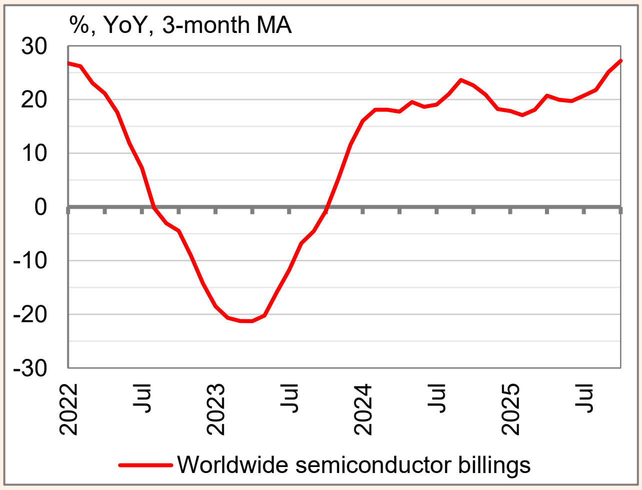

## Global manufacturing PMI in Dec stays on an expansionary track for the fifth month



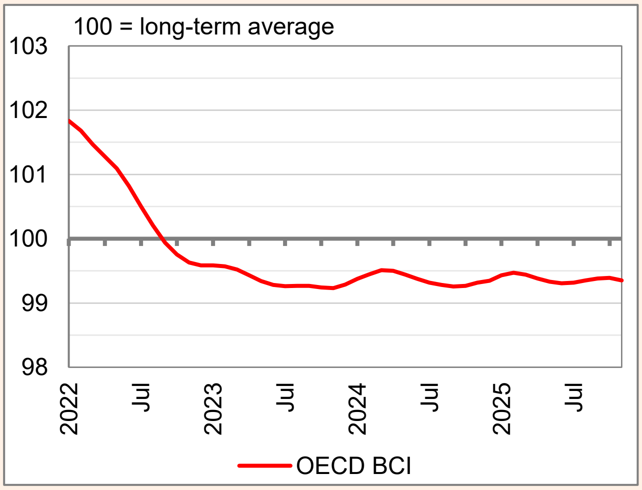

## Global trade volume growth is estimated to moderate at 0.5% in 2026



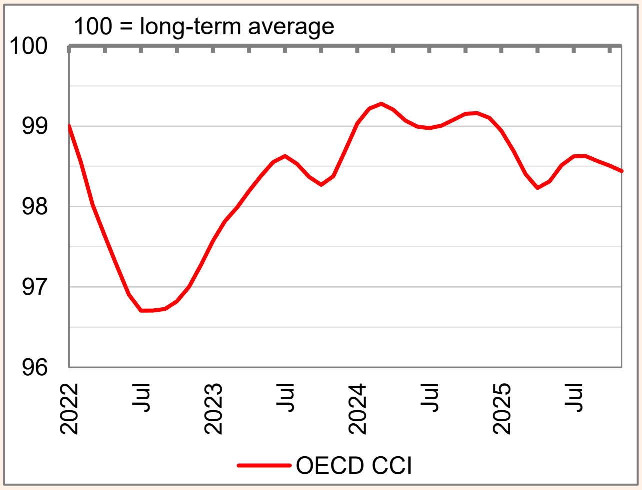

## Global semiconductor sales growth surges on AI boom



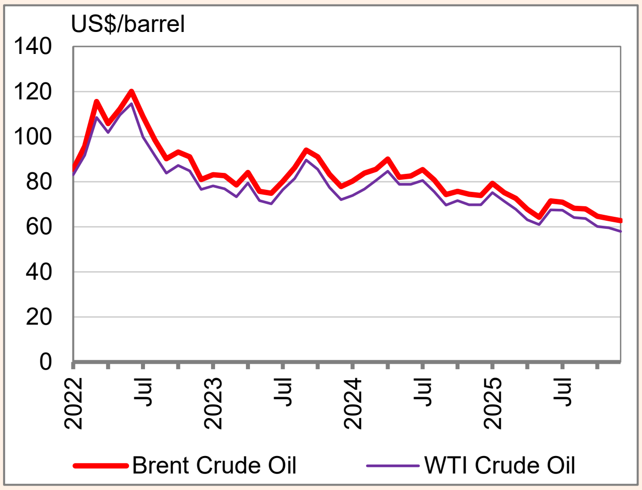

## OECD Business Confidence Index



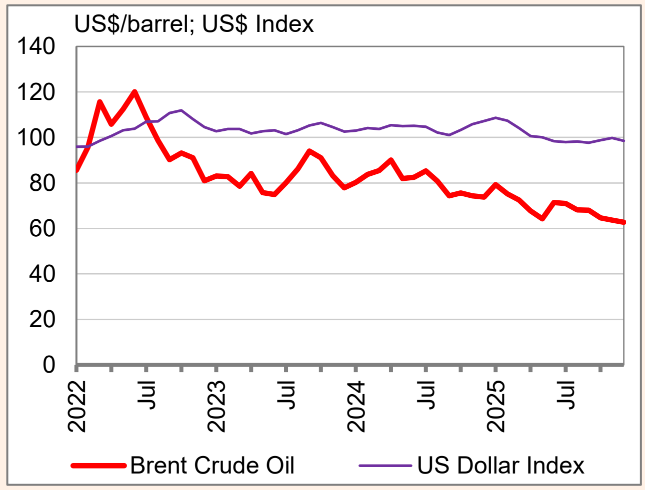

## OECD Consumer Confidence Index



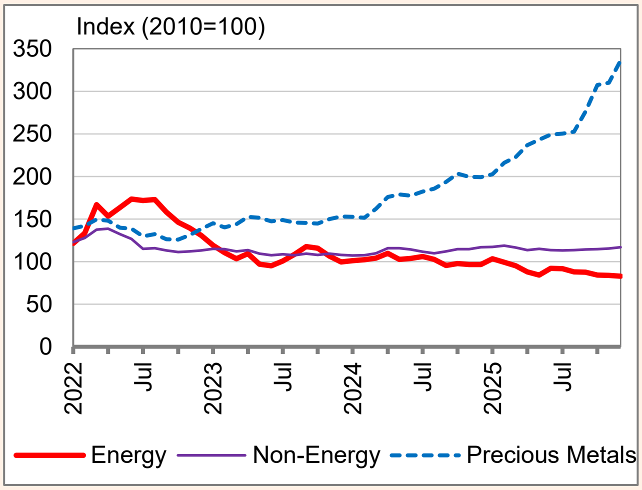
**Crude oil prices trended lower due to oversupply**



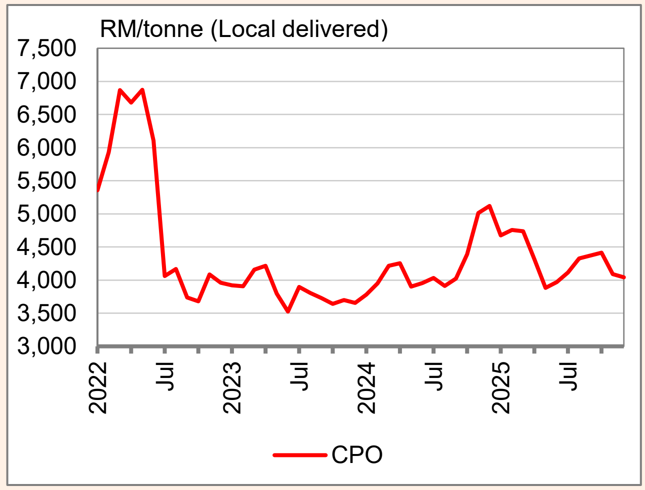

**Brent crude oil price vs. the US dollar index**




**Gold price at record-high; non-energy commodity prices broadly stable**



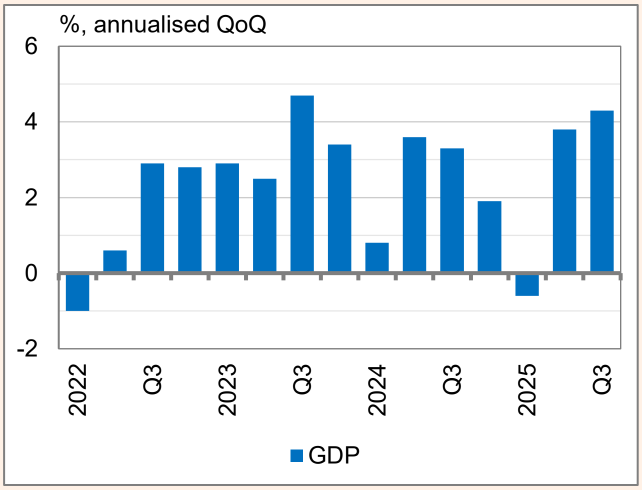

**Crude palm oil prices averaged at RM4,292.50 per tonne in 2025**



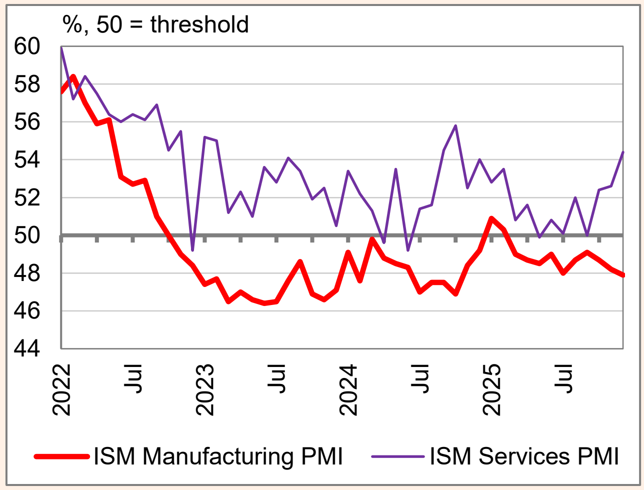

*Source: Organisation for Economic Co-operation and Development (OECD); S&P Global; CPB Netherlands Bureau for Economic Policy Analysis; Worldwide Semiconductor Trade Statistics (WSTS); World Bank; The Wall Street Journal; Malaysian Palm Oil Board (MPOB)*

# The US: Steady as she goes

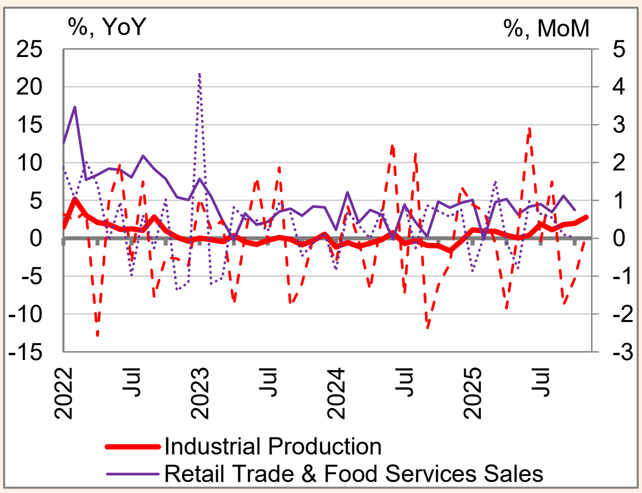
### The US economic resilience supported by consumption and exports



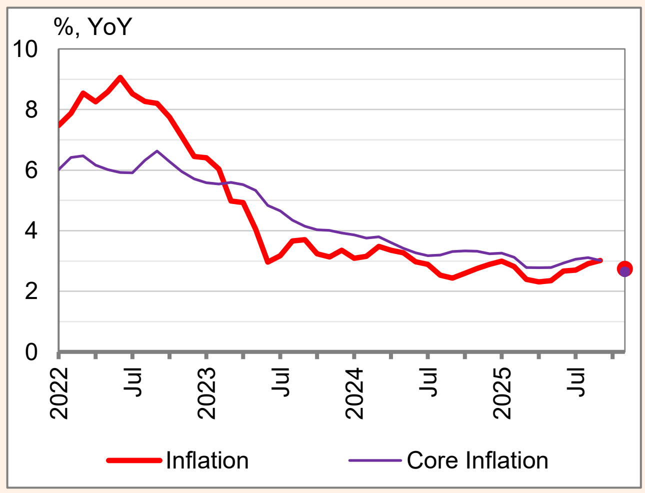

### Manufacturing and Services PMI showed diverging trends



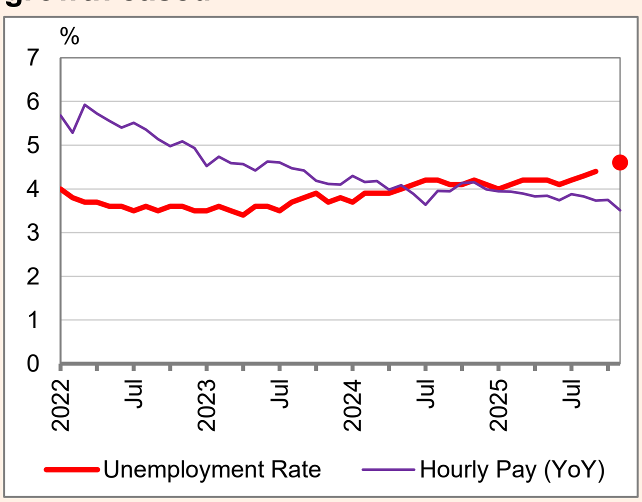

### Industrial production growth picked up in 2H 2025



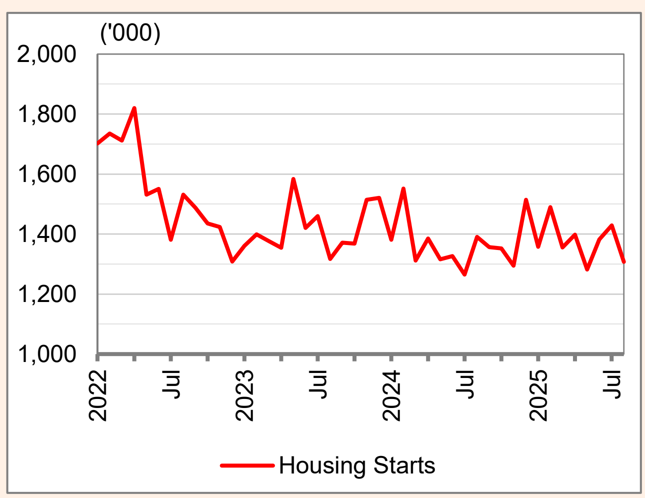

### Future inflation trend is expected to be tariff impact-driven




### Jobless rate on the rise, while wage growth eased



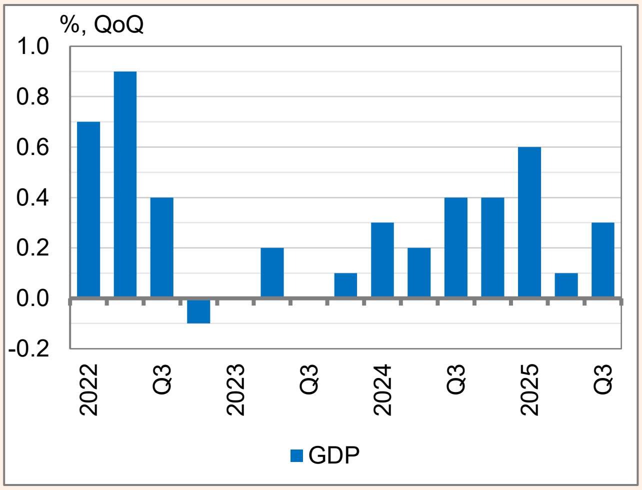

### Housing starts remained uneven



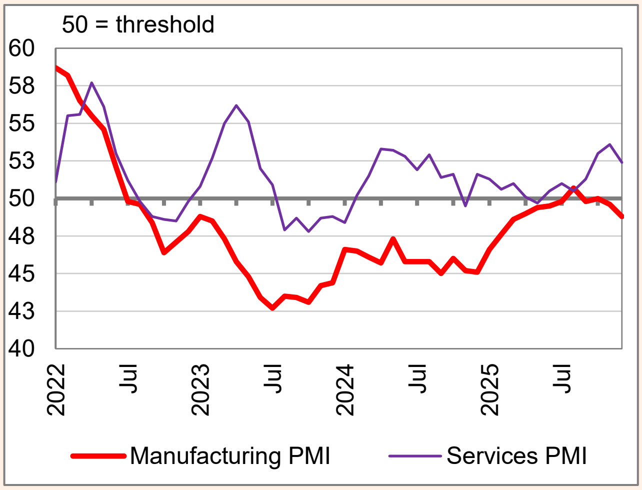

*Source: Bureau of Economic Analysis (BEA); Institute for Supply Management (ISM); Federal Reserve System; US Census Bureau; US Bureau of Labor Statistics     Note: Some data are missing due to a lapse in appropriations.*

# Euro Area: Growth structurally uneven

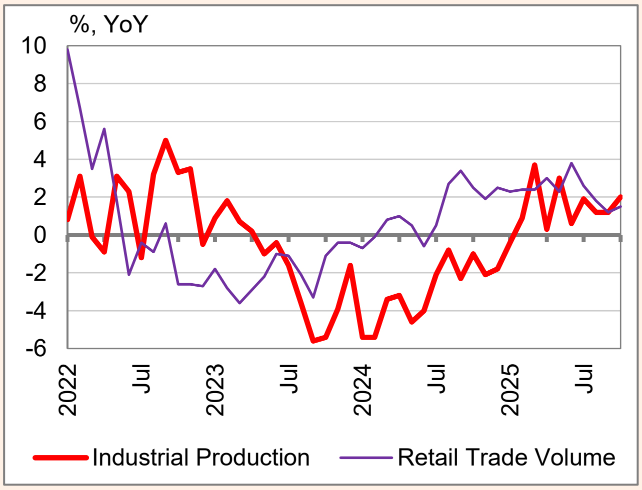
### Eurozone economy grew modestly in Q3



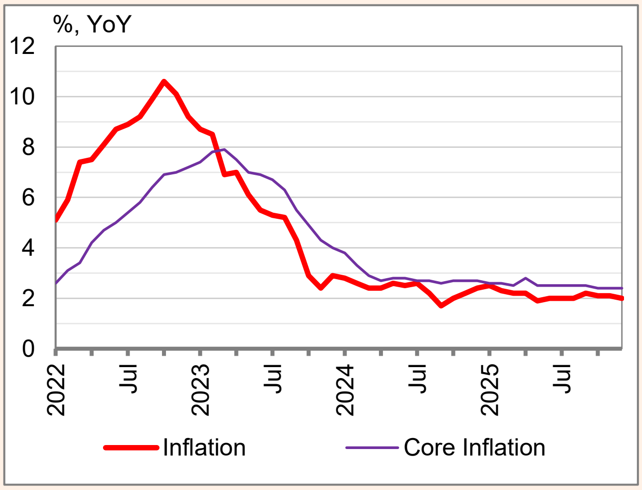

### Manufacturing PMI fell for two consecutive months in Dec 2024




### Retail trade growth losing steam, reflecting weak consumer confidence

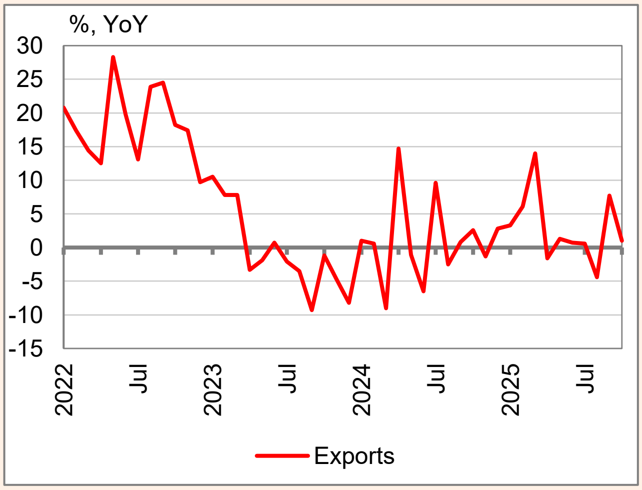



### Headline inflation rate held steadily at 2.0%-2.2% in Jun-Dec 2024




### Unemployment rate remained unchanged at 6.4% since May 2025

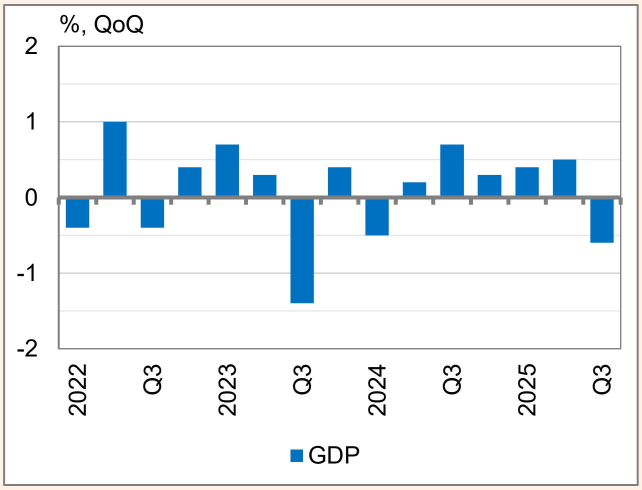

### Export uncertainty eases after reaching an agreement with the US



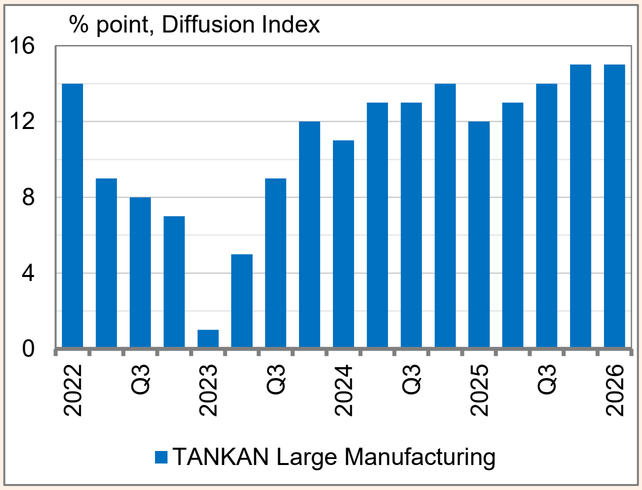

*Source: Eurostat; S&P Global*

# Japan: Massive stimulus-led revival

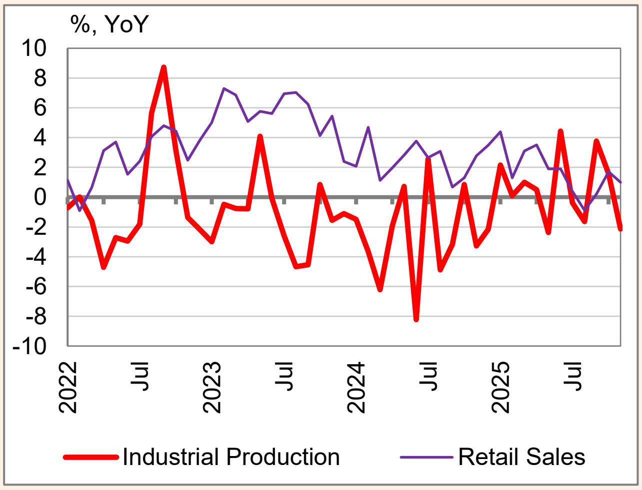
### The Japanese economy contracted in Q3 due to weak capital spending and exports



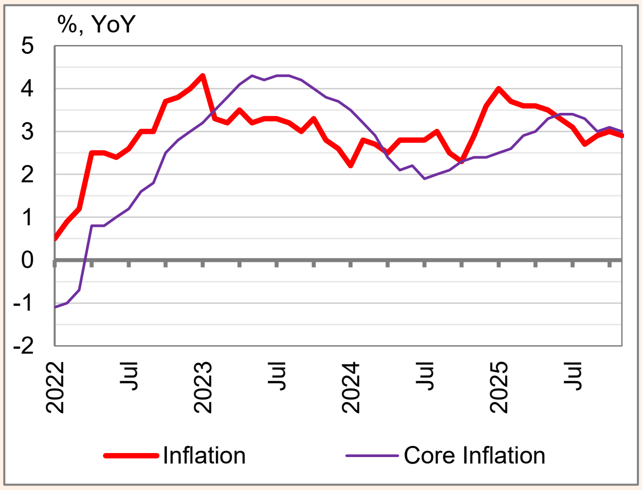

### TANKAN survey signals expansion in manufacturing activity at the start of 2026



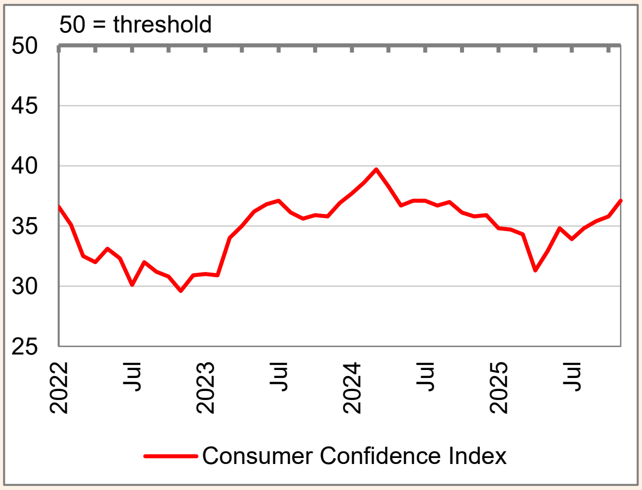

### Industrial production growth remained uneven despite TANKAN's positive signal



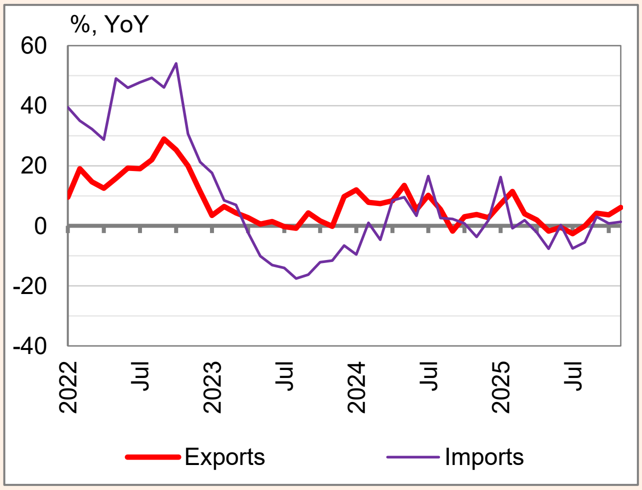

### Core inflation is seemingly off the peak




### Consumer confidence improved despite still way below the 50 threshold




### Exports grew for three months (Sep-Nov) in a row after four months of declining

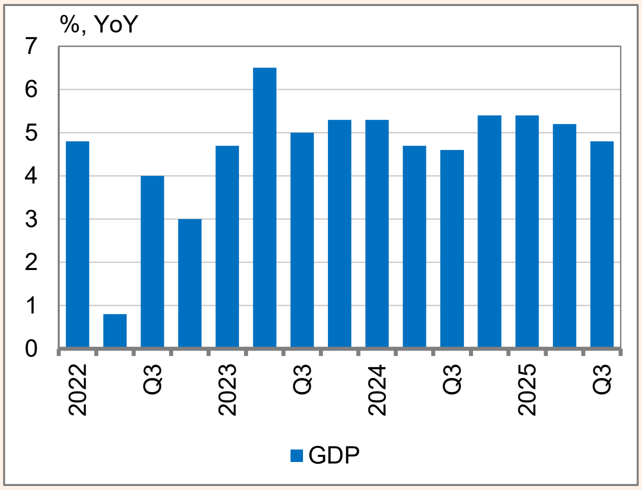



*Source: Economic and Social Research Institute (ESRI), Cabinet Office of Japan; Bank of Japan (BOJ); Ministry of Economy, Trade and Industry (METI), Japan; Statistics Bureau, Japan; Japan Customs*

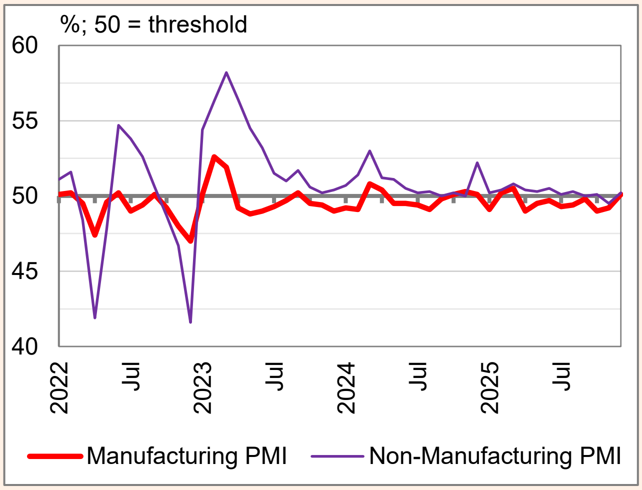
*Note: Starting 2025, the retail sales growth (YoY) is calculated using the linked coefficient to adjust for discrepancies.*

# China: Growth transitioning continues

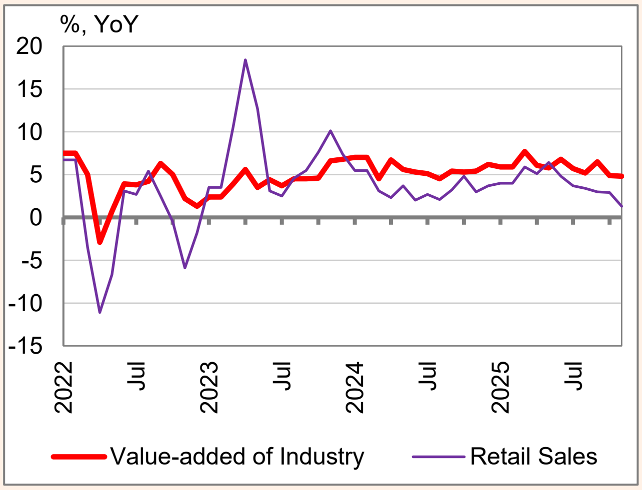
**China's economic growth decelerated but still on track to meet its 5% target**



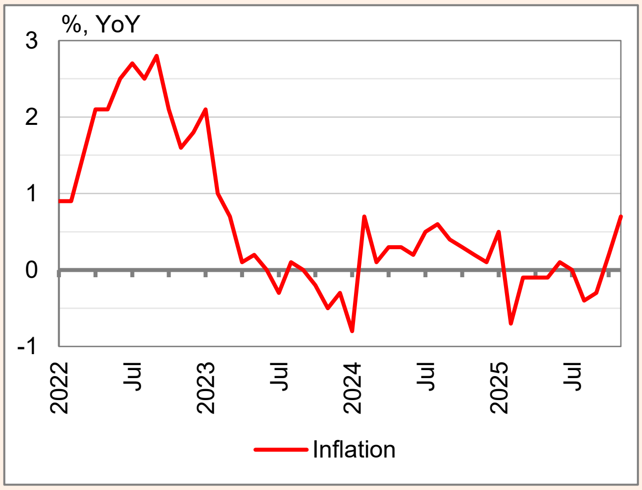

**Manufacturing PMI returned to positive territory after eight months of contraction**



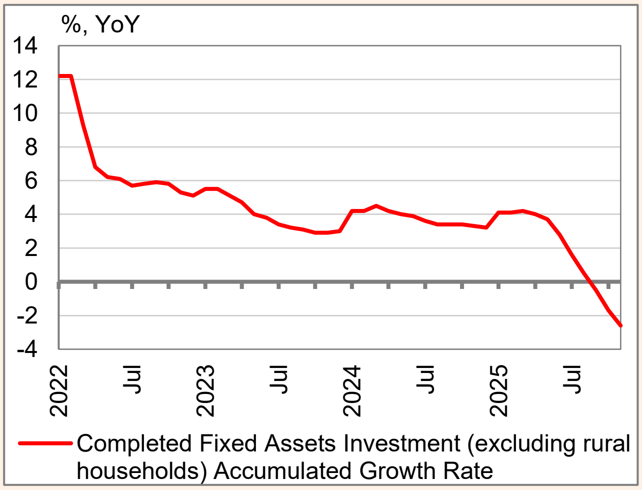

**Both industrial output and retail sales growth moderated**



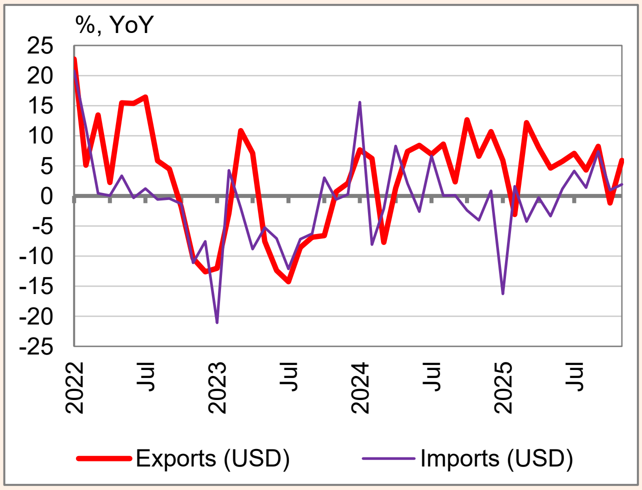

**Inflation increased to 21-month high in Nov 2024**




**Fixed investment over Jan-Nov contracted for the first time since Jan-Aug 2020**



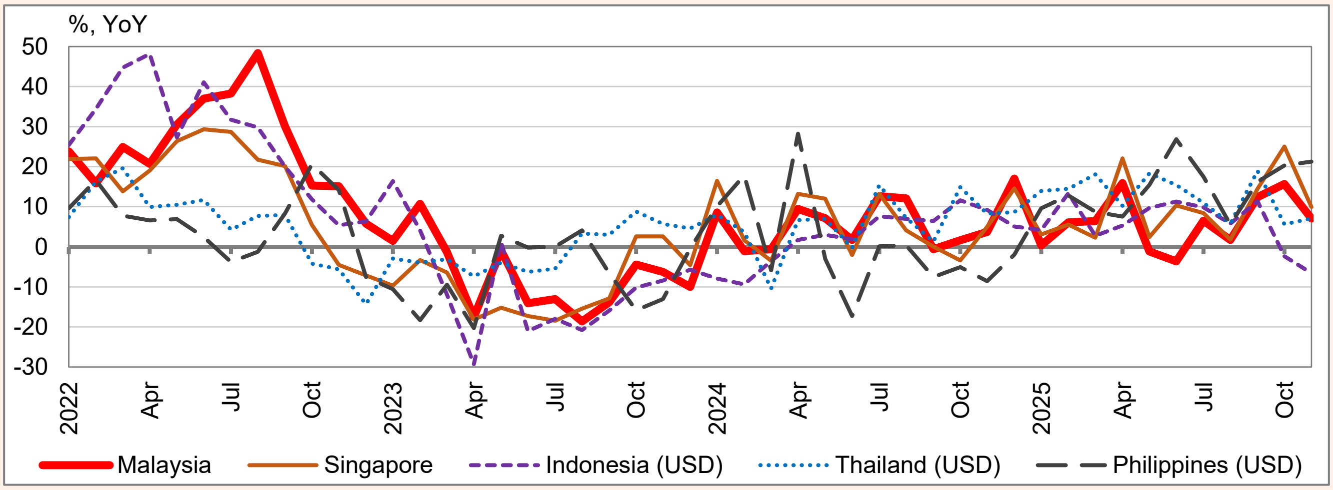

**Export growth rebounded in Nov after reaching a one-year trade truce with the US**



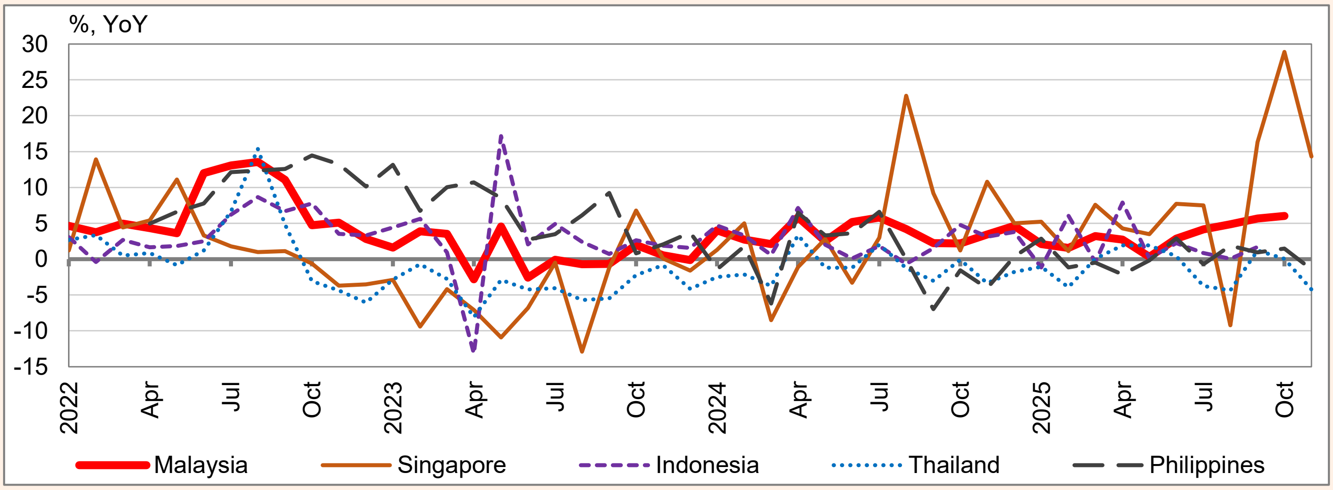

*Source: National Bureau of Statistics of China; General Administration of Customs, China*

# ASEAN Key Economic Indicators

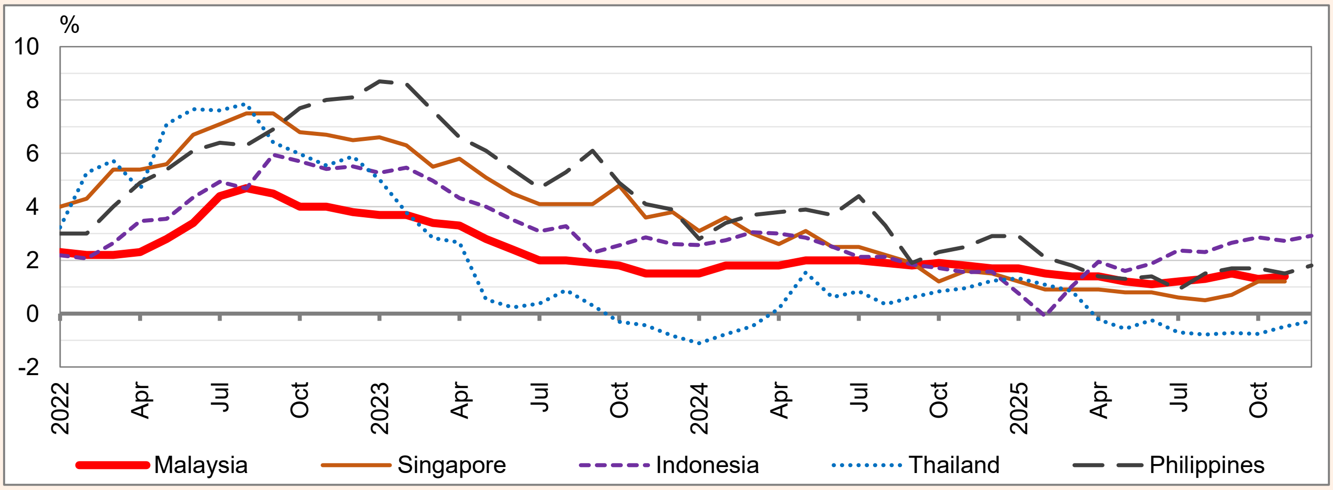
### Export growth trend




### Industrial production growth trend




### Inflation trend




*Source: Department of Statistics, Malaysia; Singapore Department of Statistics; Statistics Indonesia; Bank Indonesia; Office of Industrial Economics, Thailand; Ministry of Commerce, Thailand; Philippine Statistics Authority*

*Note: Industrial production growth for the Philippines only showed from April 2022 due to exceptional data prior to that.*

## CHARTING MALAYSIA OUTLOOK 2026 – RESILIENCE AND ADAPTABILITY

- The year 2025 ended with the impact of heightened external uncertainties emanating from the US Reciprocal Tariffs and on-going geopolitical conflicts on global growth have been limited and lower than expected.
- The global economy is maintaining a cruise speed of 3.1% in 2025 (an average of 4.3% per annum in 2021-2024), due to less severe trade tensions, resilient labour market conditions, less restrictive monetary policy and supportive fiscal policy.
- Against the backdrop of a global economy performing better than feared, **the Malaysian economy has demonstrated resilience to achieve an estimated 4.7% for the full year of 2025**, though it has moderated from 5.1% in 2024.
- Looking ahead to 2026, with so many moving parts in the global and domestic economy, what will define the year 2026? The net impact of a shift in trade policy and economic policy uncertainty on global economy, trade and investment flows will become more apparent in 2026.
- We expect continued global economic expansion estimated 3.0% in 2026, supported by easing trade uncertainty, lower energy prices, further cautious pace of monetary easing against inflation risk and easier financial conditions.
- **Several risks could upset the global economy and financial markets.** A fragile one-year trade truce between the US and China until 10 November 2026 could collapse as well as new trade frictions possible between the US and EU, could deepen uncertainty over the future path of tariffs, including at the sectoral level; the surge in AI-related spending in the US raises fears of a bubble; and ongoing geopolitical tensions add further uncertainty. Meanwhile, an abundance of liquidity resulting from cuts in interest rates are often associated with inflationary pressures and the formation of asset bubbles. Additionally, the full-effect of higher effective US tariffs will likely cause tariffs-induced inflation to flare up in the US economy in mid-2026.
- **We expect the Malaysian economy to be in reasonable health (estimated 4.5% real GDP growth) in 2026 vs. 4.7% in 2025**, primarily anchored by domestic demand, supportive income and spending policies, ongoing investment catalysts and less restrictive monetary policy.
- **The real test is the strength of private consumption and private investment.** In 2026, private consumption growth is estimated at 5.0%, with the low- and middle-income households spending decently on disposable income getting support from improved median household income (+5.1% per annum to RM7,017 in 2024 from RM6,338 in 2022), RM15.0 billion cash handouts, salary increment for civil servants, and lower interest rates despite the high cost of living eroding real purchasing power.
- While the high-income earners sustain their spending on goods and services, middle-income households will continue to feel the pinch of rising cost of living. Still, with the persisting steady labour market (estimated unemployment rate of 3.0% in 2026 and 70.9% labour force participation rate), this group should continue to spend so long as they have jobs and stable income.

- **Malaysia's third private investment upcycle remains intact**, though private investment is estimated to grow by a slower rate of 8.1% in 2026 compared to an average growth of 11.2% per annum in 2024-2025. Total approved investment increased by 13.2% yoy to RM285.2 billion in the first nine months of 2025 (RM384.4 billion in 2024, RM329.5 billion in 2023, and an average of RM288.6 billion per year in 2021-2022).

- Investment catalysts and business ecosystem remained conducive to spur new and sustain existing capital expansion, especially riding high on quality private investment in data centres, renewable energy, semiconductors, digital infrastructure, telecommunication, corporate hubs as well as investment in Johor-Singapore Special Economic Zone (JS-SEZ).

- **Watch exports momentum in 2026.** Exports have proved unexpectedly resilient to increase by 6.1% in the first eleven months of 2025, aided by a front-loading of exports to pre-empt the anticipated tariffs-induced disruptions and trade uncertainty. However, we anticipate the "payback" period for the front-loading of exports throughout 2026, as demand that was pulled forward in 2025 normalises.

- Continued moderate global growth, uncertainty in tariffs trajectory, with further tariffs, including sectoral still potentially in the offing, a slower pace of AI investment spending, persistent volatility in commodity markets (supply and price pressures), and the Ringgit's appreciation could dampen export competitiveness. Overall, we estimate exports to grow by 3.5% in 2026 (estimated between 6.0% and 6.5% in 2025).

- **The services, manufacturing and construction sectors will continue to be major drivers for the economy in 2026.** The "Visit Malaysia 2026 (VM2026)" campaign is expected to sustain retail, hospitality, and related services. VM2026 aims to attract 47 million visitors or 35.6 million tourists, with RM329 billion tourism revenue or 15.5% of total GDP, and RM147 billion tourist receipts. In January-August 2025, visitors to Malaysia have reached 28.2 million (tourist arrivals: 17.8 million), up 14.5% yoy (8.1% yoy for tourists) against the target of 43 million visitors and 31.4 million tourists in 2025.

- Growth in the manufacturing and construction sectors will be fuelled by initiatives and development projects approved in the Budget 2026, along with the on-going implementation of National Industrial Master Plan (NIMP) 2030, green energy and environmental investment in National Energy Transition Roadmap (NETR), advanced packaging, high-end chip design, and manufacturing equipment under the National Semiconductor Strategy (NSS), infrastructure projects (ECRL, LRT3, regional connectivity projects), JS-SEZ, digital infrastructure, AI growth and data centres.

- **Will Bank Negara Malaysia (BNM) cut interest rates in 2026?** On hindsight, BNM's "insurance" overnight policy rate (OPR) cut to 2.75% in July 2025 was a pre-emptive move against the tariffs policy uncertainties, ensuring a steady economic growth of at least 4.0%. The average growth of 4.7% in the first nine months of 2025 was better than expected on resilient domestic demand and better exports.

- We expect the OPR to hold steady at 2.75% throughout 2026 as the less restrictive monetary policy, income supporting measures and selective expansionary fiscal spending will provide domestic strength much-needed resilience. Headline inflation is generally moderate, with the Consumer Price Index (CPI) expected to increase by between 1.5% and 2.0% in 2026 (estimated 1.4% in 2025) though lingering concerns exist about subsidy rationalization and the expanded Sales Tax and Service Tax (SST) pass-through.

- **What are the main risks to the outlook? First**, if global growth deteriorates more than expected due to potentially general or sectoral tariffs in the offing, including the US-China's unsettle trade and technology conflicts and fallout from intensifying protectionism, could weigh down global trade and its transmission effect on Malaysia's exports.

- **Second**, financial volatility could arise from a sharp correction in prices of the AI technology sector, driven by a potential "AI bubble" where current high valuations are based on future expectations rather than current profits; and if the Federal Reserve cuts interest rates smaller; and the consequential of interest rate differentials, which could lead to capital reversals from the emerging markets, increased volatility for currencies like the Malaysian Ringgit against the US dollar, and shifts in investor sentiment.

- **Third**, delays in implementing government spending on infrastructure projects or disbursement of funds or budget allocation mean the economic benefits are not realised in a timely manner. Additionally, a policy misstep can significantly increase market uncertainty and volatility, prompting businesses and consumers to delay investment and spending decisions.

- **In 2026, business cost pressures are expected to continue**, and potentially to experience the full impact of the expanded SST, e-invoicing, the impact of the US tariffs induced supply chain disruptions as well as the continued impact of the influx of foreign businesses on micro-, small and medium enterprises (MSMEs).

- **MSMEs have recently "sighed in relief" over a recalibration of tax related and regulatory measures**:

  a) An increase in the e-invoice exemption threshold from RM500,000 to RM1 million;

  b) An increase in allocation to RM4 billion from RM2 billion for tax refunds. The Malaysian Inland Revenue Board (LHDN) has committed to settling tax refunds for the Year of Assessment (YA) 2023 in the first quarter of 2026 and refunds for YA 2024 by the end of 2026;

  c) Two years of moratorium with no enforcement and no penalty on the reporting of jobs vacancies; abolished the proposed RM10,000 penalty for employers who fail to notify PERKESO of job vacancies; and will consider to exempt micro and small enterprises from the duty of reporting job vacancies;

  d) A reduction in the service tax on rental to 6% from 8%;

  e) Raise the rental service tax exemption threshold for MSMEs to RM1.5 million from RM1 million in annual sales; and

  f) For companies with annual revenue between RM1 million and RM5 million scheduled for e-invoice implementation in January 2026, the transition period without penalty is extended for another year.

- We do not discount the possibility that the planned carbon tax and multi-tier levy mechanism (MTLM) implementation may be put on hold.

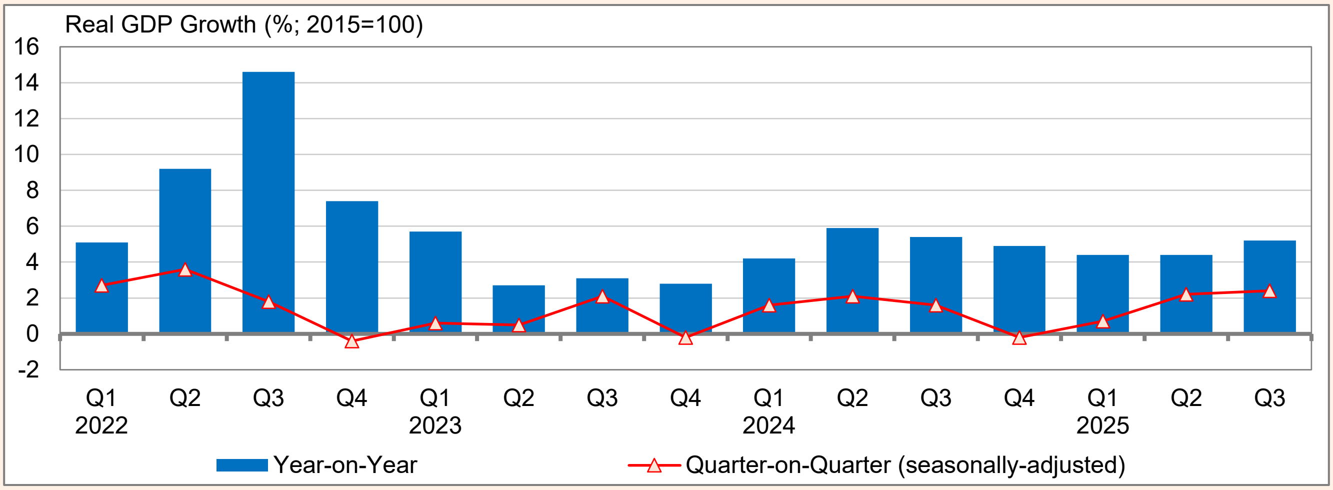
**Real GDP growth (%, Year-on-Year)**

| Economic Sector [% share to GDP in 2024] | 2024 | 2025 Q1 | 2025 Q2 | 2025 Q3 | 2025E (SERC) | 2026F (SERC) | 2025E (MoF) | 2026F (MoF) |
|---|---|---|---|---|---|---|---|---|
| **By kind of economic activity** | | | | | | | | |
| Agriculture [6.3%] | 3.1 | 0.7 | 2.5 | 0.4 | 1.3 | 2.0 | 1.2 | 2.2 |
| Mining & Quarrying [6.0%] | 0.9 | -2.7 | -5.2 | 9.7 | 1.3 | 1.1 | 1.1 | -1.0 |
| Manufacturing [23.1%] | 4.2 | 4.1 | 3.7 | 4.1 | 4.2 | 3.8 | 3.8 | 3.0 |
| Construction [4.0%] | 17.5 | 14.2 | 12.1 | 11.8 | 11.9 | 8.0 | 10.1 | 6.1 |
| Services [59.4%] | 5.3 | 5.0 | 5.1 | 5.0 | 5.1 | 5.2 | 5.1 | 5.2 |
| **By type of expenditure** | | | | | | | | |
| Private Consumption [60.7%] | 5.1 | 5.0 | 5.3 | 5.0 | 5.1 | 5.0 | 5.0 | 5.1 |
| Public Consumption [13.2%] | 4.7 | 4.3 | 6.4 | 7.1 | 6.1 | 4.5 | 4.0 | 3.2 |
| Private Investment [16.5%] | 12.3 | 9.2 | 11.8 | 7.3 | 10.0 | 8.1 | 10.0 | 7.8 |
| Public Investment [4.8%] | 11.1 | 11.6 | 13.6 | 7.4 | 10.2 | 8.5 | 12.7 | 7.3 |
| Exports of Goods and Services [68.1%] | 8.3 | 4.1 | 2.6 | 1.4 | 3.0 | 2.5 | 1.9 | 3.8 |
| Imports of Goods and Services [63.9%] | 8.2 | 3.1 | 6.6 | 0.4 | 3.6 | 4.7 | 3.1 | 5.8 |
| **Overall GDP** | **5.1** | **4.4** | **4.4** | **5.2** | **4.7** | **4.5** | **4.0-4.8** | **4.0-4.5** |

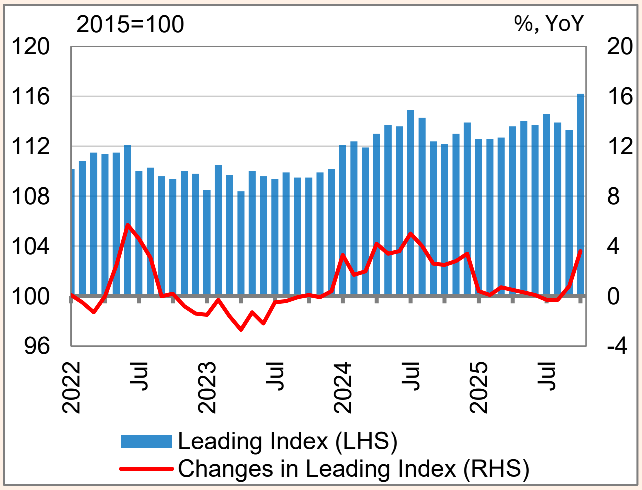
*Source: Department of Statistics, Malaysia (DOSM); Ministry of Finance (MoF); SERC estimates and forecast*

# Spotlight on the Malaysian Economy

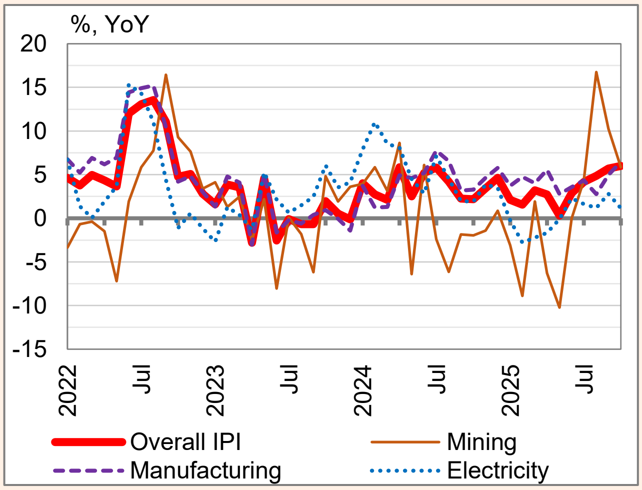
**Malaysia's GDP expanded by 4.7% yoy in Jan-Sep 2025, driven by strong investment activities and sustained consumptions amid weaker external demand.**




### Leading Index (LI) signals optimistic economic momentum ahead

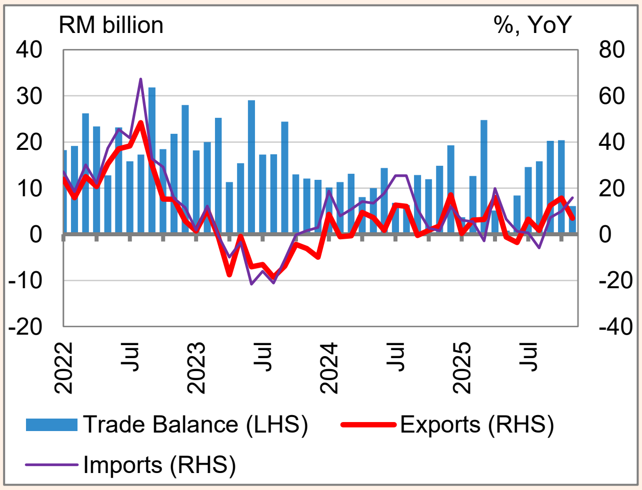



### Stronger industrial production growth in Q3 and Oct, contributed by all segments

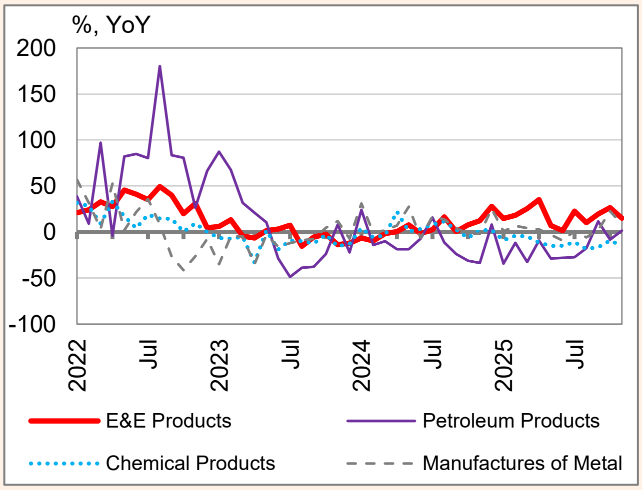



## External Sector

### Export growth extended as trade uncertainties eased

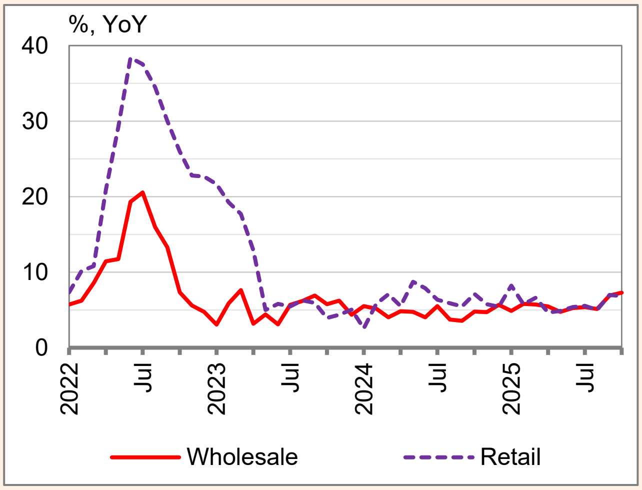



### Exports by major products

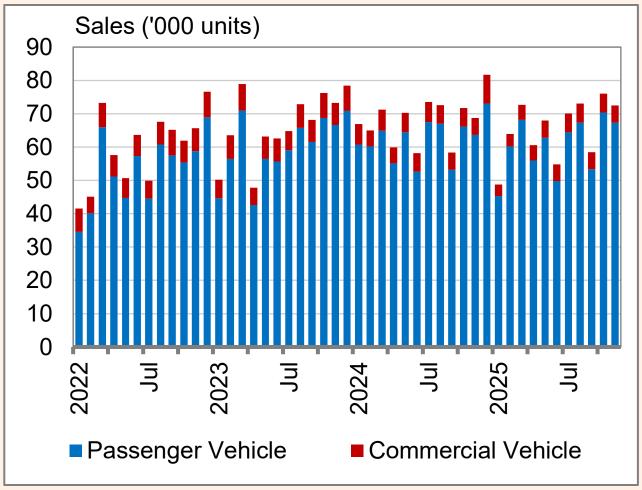


## Domestic Demand

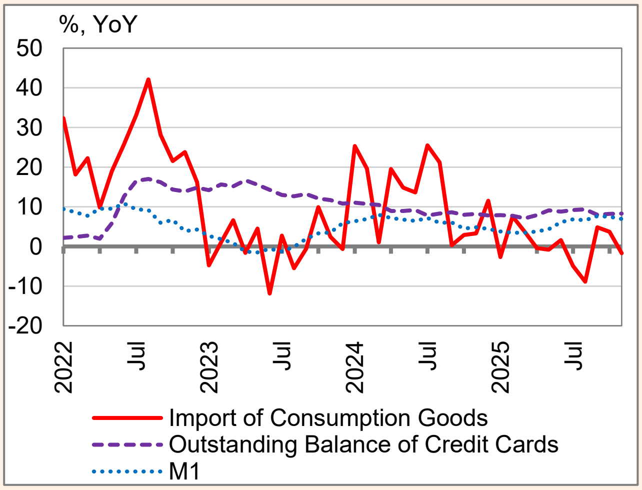
### Both wholesale and retail sales continued to increase higher in Sep-Oct



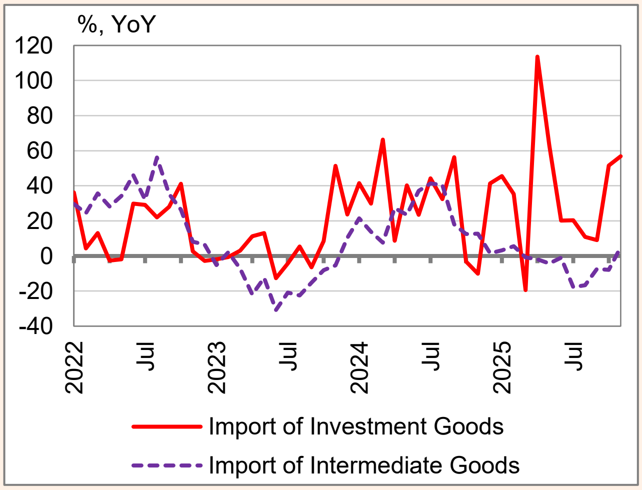

### Passenger car sales remain on track to meet the full year target of 710,000 units




### Selected private consumption indicators

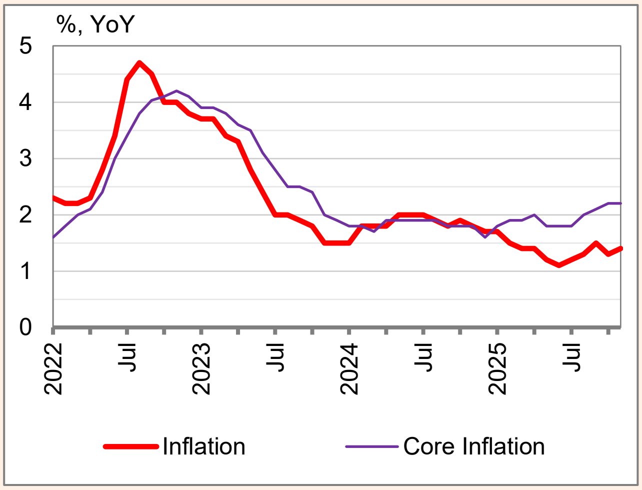



### Selected private investment indicators

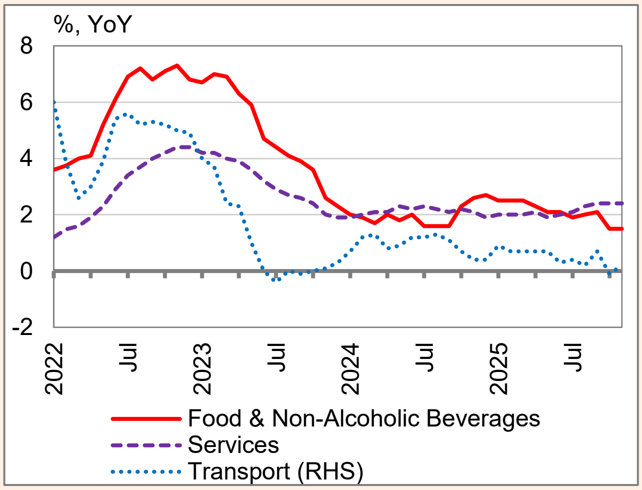



## Price Indicators and Labour Market

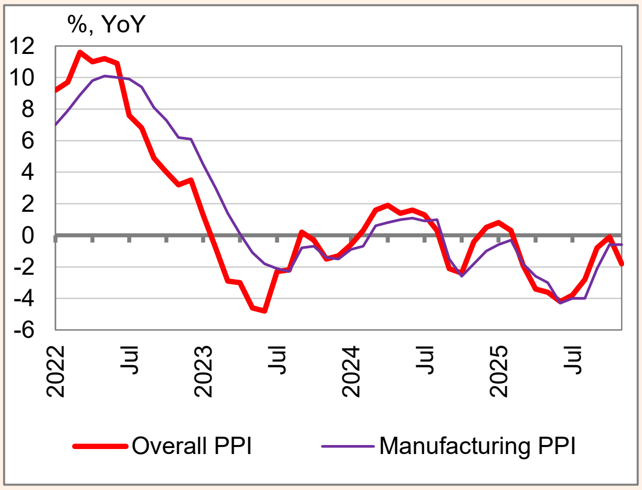
### Inflation increased 1.4% yoy in Jan-Nov



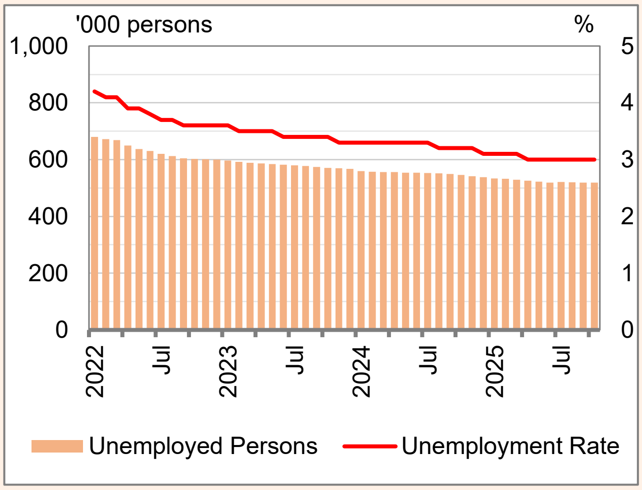

### Food inflation eased, but services inflation picked up



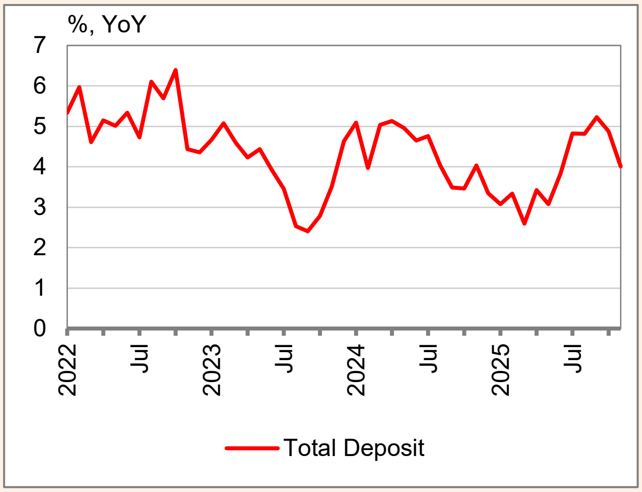

### Overall producer prices deflated for nine months in a row in Nov 2024



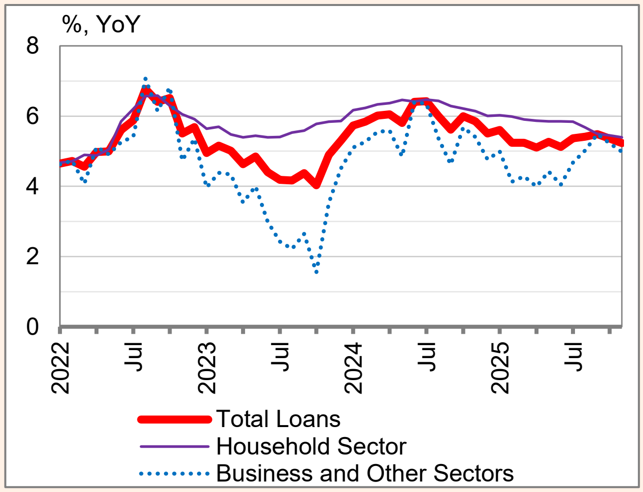

### Unemployment rate held steady at 3.0% since Apr 2025



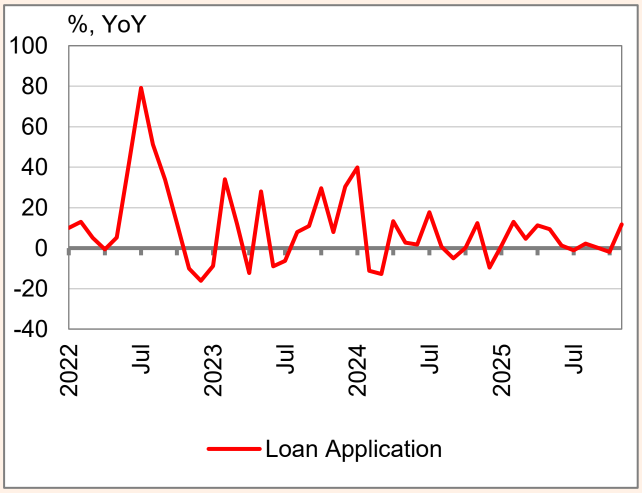

### Banking deposit growth moderated



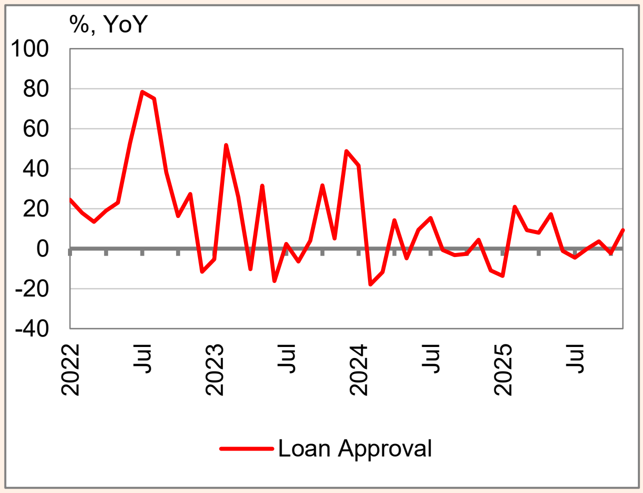

### Overall outstanding loan growth seen easing



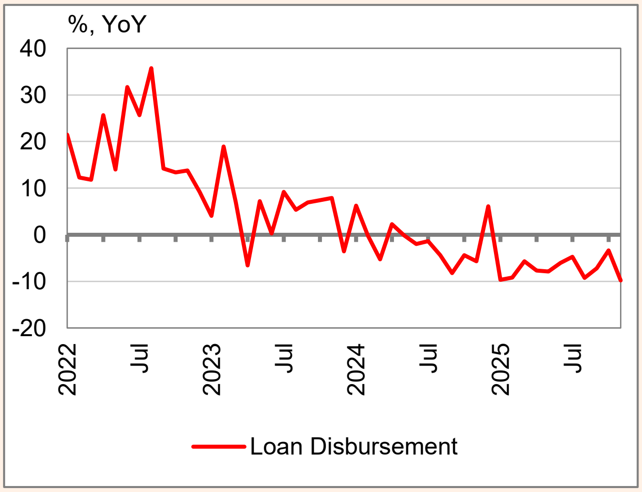

### Loan applications growth



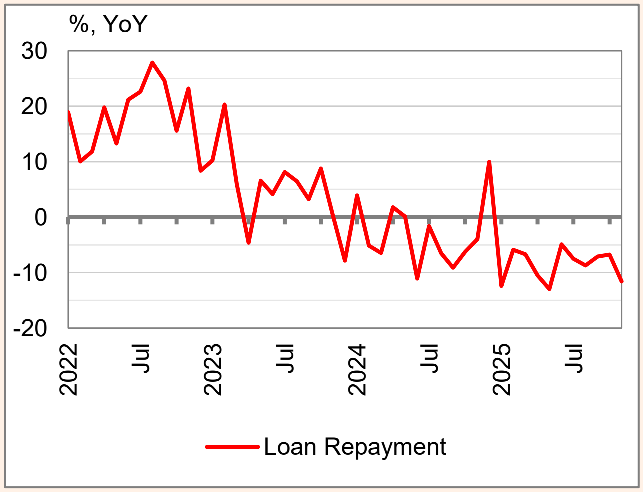

### Loan approvals growth




### Loan disbursements growth

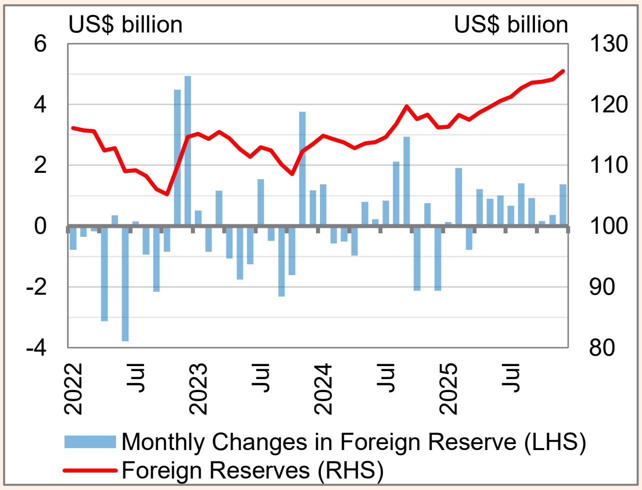



### Loan repayments growth

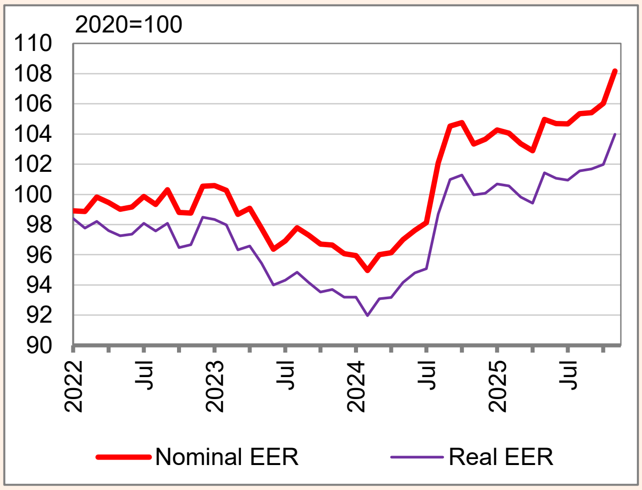



*Note:: Loan data from July 2022 onwards was revised and expanded based on the latest requirements with more accurate data definition and reporting methodology. Outstanding loan excludes DFI.*

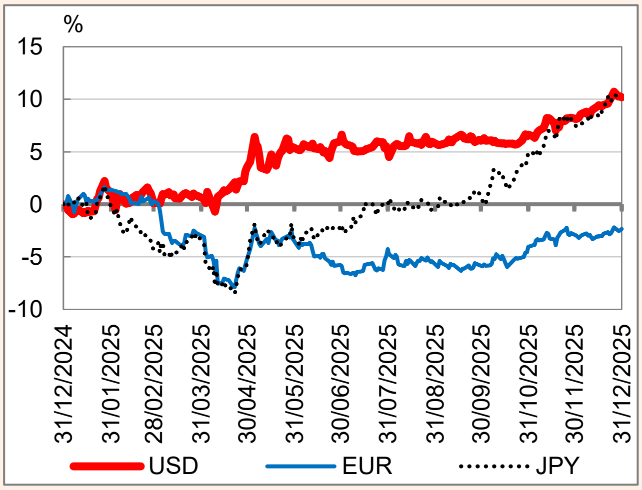
**Foreign reserves expanded by USD9.3bn in 2025 to USD125.5bn as of end-2025**



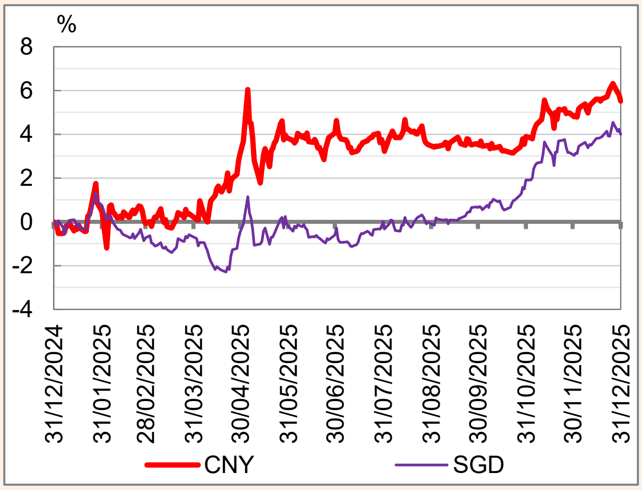

**Ringgit's Effective Exchange Rate (EER)**



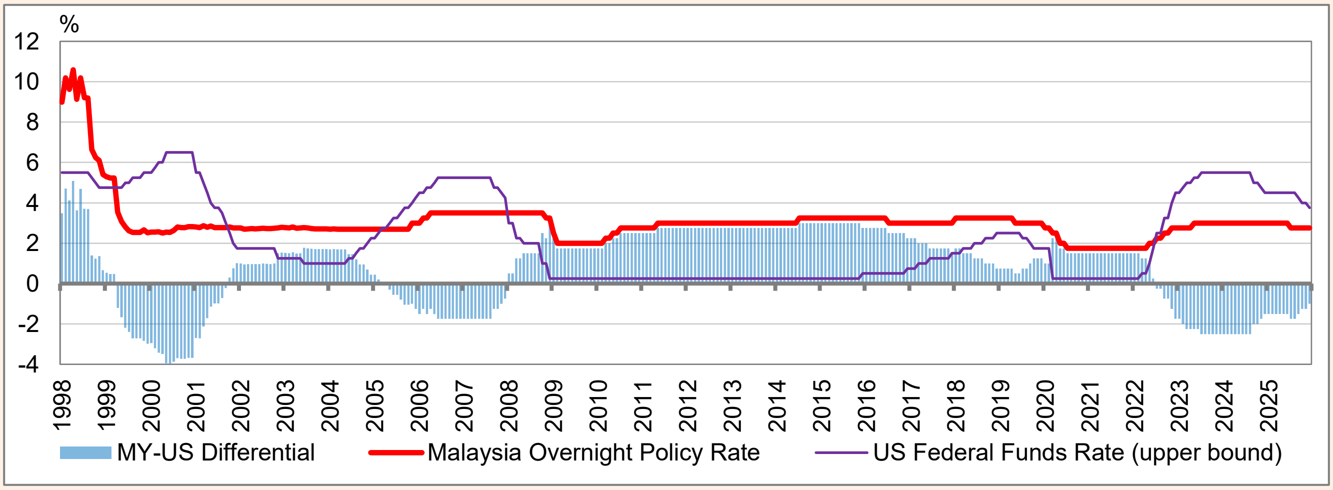

**The Ringgit against the US dollar, euro, and Japanese yen (vs. end-2024)**




**The Ringgit against the Chinese renminbi and Singapore dollar (vs. end-2024)**




**Malaysia-US's interest rate differentials**




*Source: Department of Statistics, Malaysia (DOSM); Bank Negara Malaysia (BNM); Malaysian Automotive Association (MAA); Bank for International Settlements; Federal Reserve*

# Socio-Economic Research Centre

社 会 经 济 研 究 中 心

## About SERC

The Associated Chinese Chambers of Commerce and Industry of Malaysia (ACCCIM)'s Socio-Economic Research Centre (SERC Sdn. Bhd.) was established as an independent and non-profit think tank on 19 October 2010. Officiated by YAB Prime Minister on 28 April 2011, SERC is funded by ACCCIM SERC Trust.

SERC is tasked with carrying out in-depth research and analysis on a wide range of economic, business and social issues in support of the formulation of public policies to shape Malaysia's national socio-economic and industrial development agenda.

The organisation will identify and explore issues and future trends that impact domestic economic and business environments. It will also focus on sharing knowledge and promoting public understanding of socio-economic issues of national importance.

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