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Malaysia

Structurally strong, cyclically soft in 2026

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- November industrial production growth slowed to 4.3%YoY versus 6.0% in October. 4Q25 GDP growth is tracking 5.4%YoY, which will put 2025 GDP growth at 4.8%.

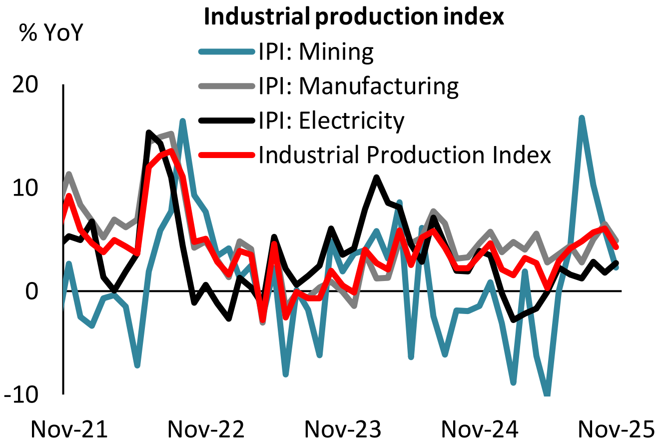
- For 2026, we forecast slower GDP growth of 3.8% reflecting slower export growth as well as some moderation in investment spending, even as domestic demand conditions remain resilient.

- More fundamentally, structural reforms will push growth to 4.0 -4.5% in 2027-28 namely through continued progress on economic masterplans.

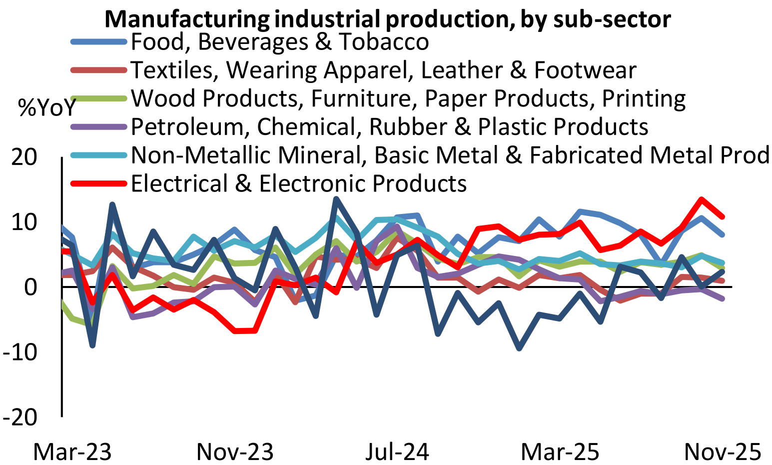
- Fiscal policy support will likely remain targeted in 2026, leaving monetary policy some room to manoeuvre. We remain comfortable with our call for a 25bp rate cut from Bank Negara Malaysia (BNM) in 1H26.

Softer November industrial production growth

Industrial production (IP) growth slowed to 4.3% YoY in November from 6.0% in October (Consensus: 5.3%; OCBC: 4.6%). The slowdown was driven by the mining (2.3% from 5.8%) and manufacturing (4.9% from 6.5%) sectors while electricity production rose by 2.7% YoY from 1.8% in October.



Source: CEIC, OCBC Group Research.



Source: CEIC; OCBC Group Research.

Within the manufacturing sector, which accounts for ~68% of total IP, the slowdown was relatively broad-based. Production slowed for the food, textiles, petroleum, non-metallic sectors and electrical & electronics products (E&E) sectors. E&E production growth, however, remained resilient at 10.8%YoY versus 13.4% in October. By orientation, export-oriented IP growth slowed to 5.0% YoY versus 7.2% in October while domestic-oriented IP growth slowed to 4.6% YoY from 4.9% in October.

Solid end to 2025

Our tracking estimate for 4Q25 GDP growth is 5.4%. This takes into account solid IP growth of 5.1% in October and November 2025 but also resilient services growth across the wholesale and retail trade sectors as well as motor vehicle sales. This will take full year 2025 GDP growth to 4.8%, which is at the top end of the government's 4.0-4.8% target for the year.

Services sector indicators, % YoY	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
IPI: Electricity	-0.2	-2.8	-2.2	-1.7	-0.1	2.3	1.6	1.2	2.8	1.8	2.7
Wholesale Trade	4.5	5.4	6.3	6.6	6.0	6.1	5.9	5.5	6.6	6.7	6.0
Retail Trade	6.6	4.0	4.9	3.4	3.7	4.1	4.4	3.7	4.8	4.6	4.3
Motor Vehicles	-11.1	-0.8	0.9	0.8	0.4	-0.6	0.9	3.1	3.3	7.2	6.8
Retail Trade: Food, Beverages & Tobacco	8.3	5.2	6.7	6.4	5.4	5.7	5.1	4.3	5.0	5.7	4.9

Source: CEIC; OCBC Group Research.

We see slower growth in 2026 for cyclical rather than structural reasons

We maintain our conservative 2026 GDP growth forecast of 3.8% YoY compared to 4.8% in 2025. Our GDP growth profile suggests that the weakness in growth will be gradual to 3.9%

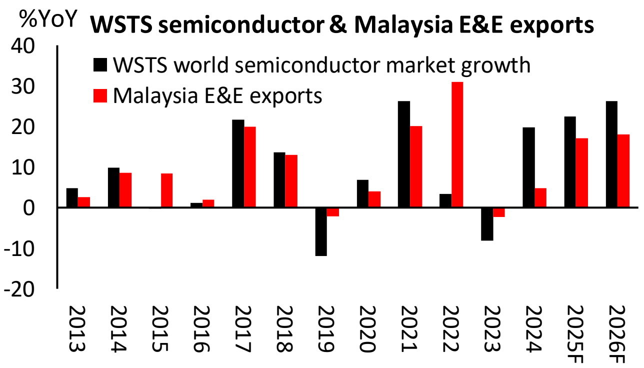
YoY in 1H26 and 3.8% in 2H26. We see slower economic growth being driven by mainly a payback from frontloading of exports to the US through 2025 as well as modestly slower investment spending.

%YoY	1Q26	2Q26	3Q26	4Q26		2026F	2027F	2028F
Real GDP growth	4.0	3.8	3.7	3.8		3.8	4.2	4.3
Government consumption expenditures	-0.4	1.5	3.3	4.2		2.3	1.7	4.2
Private consumption expenditures	4.8	5.0	5.0	5.3		5.0	5.4	5.3
Gross Fixed Capital Formation	4.6	5.6	5.0	5.5		5.2	5.7	7.0
Exports of Goods & Services	**0.2**	**-1.8**	**0.8**	**3.7**		**0.8**	**5.8**	**5.4**
Imports of Goods & Services	0.2	-0.6	2.3	5.8		1.9	7.1	7.4

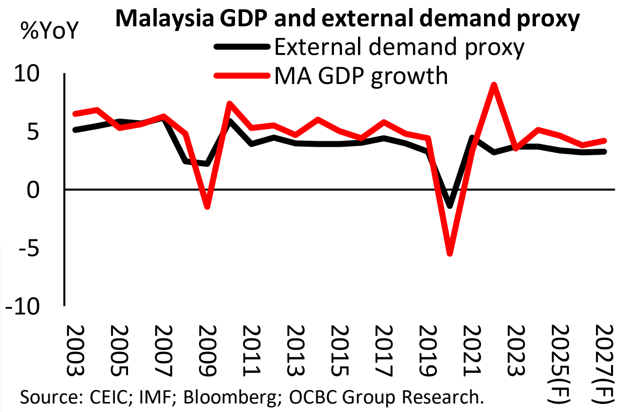
Source: OCBC Group Research

1. Slower export growth and reduced frontloading to the US

We forecast slower global growth of 3.3% YoY in 2026 from 3.4% in 2025. As an open economy, Malaysia's GDP growth is exposed to fluctuations in the growth of key trading partners including China, Japan, Euro Area and ASEAN, which are forecasted to slow in 2026 versus 2025. Malaysia's E&E exports are expected to move largely in tandem with the World Semiconductor Trade Statistics (WSTS) forecasts for global semiconductor shipments in 2025. The latest forecast for WSTS is bullish for 2026, with semiconductor exports forecasted to grow by 26.3% YoY from 22.5% in 2025. This suggests that E&E exports will likely remain resilient in 2026, albeit volatile as underscored by the November export growth, which slowed to 7% YoY from 15.7% in October.



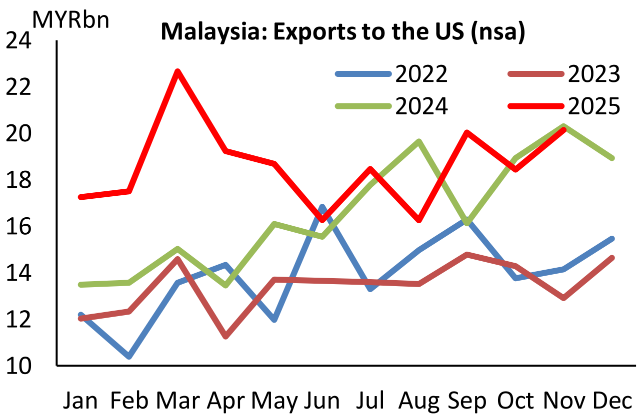
Note: The 2026 forecasts are from WSTS world semiconductor market growth and OCBC forecasts. Source: WSTS; OCBC Group Research.



Source: CEIC; IMF; Bloomberg; OCBC Group Research.

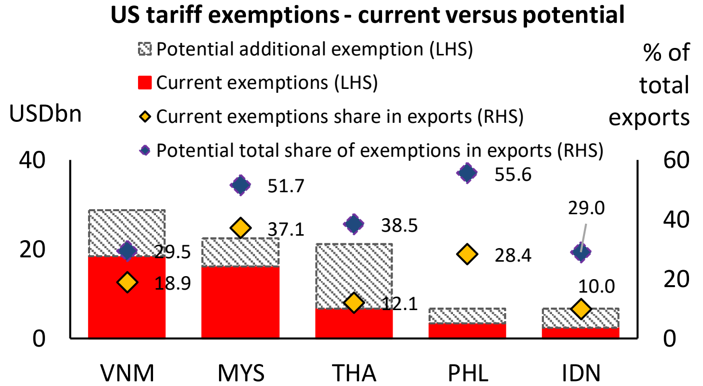
The tariff impact in 2025 has been hard to discern given strong sharp frontloading of goods exports in 1H26. However, the drop in exports to the US at -2.6% YoY and -0.9% in October and November, respectively, suggest that some of the impact from front-loading is likely fading. Moreover, the frontloading of exports to the US was more obvious from January-May 2025, suggesting that export growth for this period in 2026 could become more volatile. The US has also continued to provide additional exemptions to tariffs, which suggest that the need to frontload exports to the US is minimised into 2026. We estimate that current list of exemptions is already quite significant at ~37% for Malaysia. As such, we expect this impact to fade in 2026 and for export growth to the US at -5.0% YoY in 2026 from +14.3% in 2025.

The main unknown remains US sector specific semiconductor tariffs. By our estimates, electronics and electrical appliances exports (HS codes 84 and 85) accounted for 60.2% of total exports to the US in 1H25. Under a worse-case scenario that the tariffs on semiconductor exports are similar to reciprocal tariffs at 19% without exemptions, GDP growth could be lower by 0.4pp[1].



Source: CEIC; OCBC Group Research.

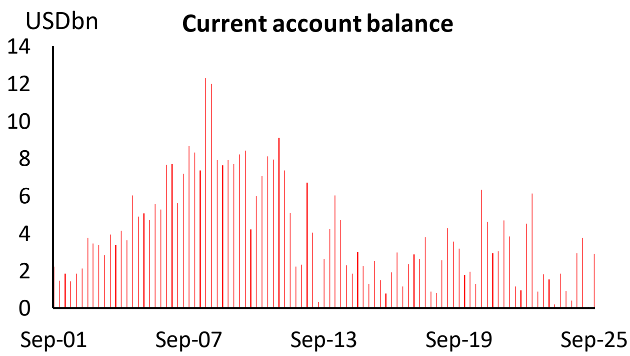
US tariff exemptions - current versus potential



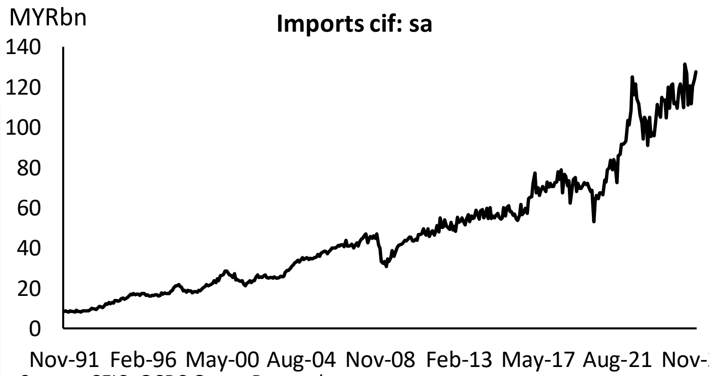
Source: UN Comtrade, WITS, OCBC Group Research.
This does not include the exemptions announced on 14 November 2025.

2. **Slower but still resilient investment spending in 2026**

We expect large import bills to be staggered, allowing for the trade balance to remain in a comfortable surplus, against a backdrop of slowing export growth in 2026. The preservation of the trade and current account balances are, in our view, pillars of Malaysia's macroeconomic stability. Imports, in seasonally adjusted terms, peaked in April 2025.



Source: CEIC; OCBC Group Research.

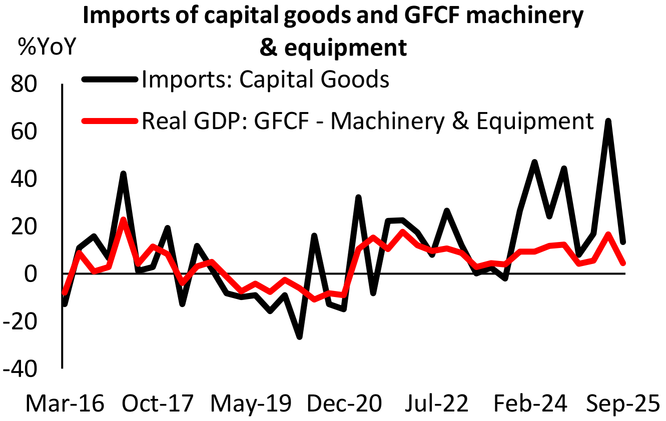


Source: CEIC; OCBC Group Research.

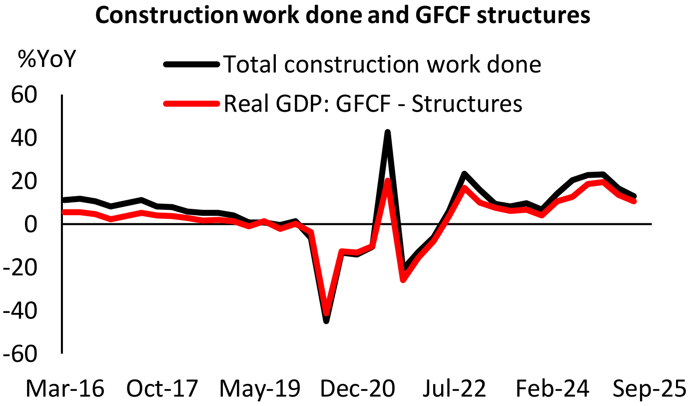
Looking ahead, we believe there is a case for a moderation in imports which will likely have a knock-on effect on investments. Specifically, capital goods imports are closely linked to machinery and equipment investment spending; this accounted for

[1] The government estimates that the imposition of tariffs (based on its assumptions) will reduce Malaysia's GDP growth by 0.76 ppt in 2026, with a direct impact of 0.15 ppt and indirect effect of 0.61ppt. Ministry of Finance, Economic Report 2026.

40.5% of gross fixed capital formation (GFCF) in 1Q-3Q25. The other component of GFCF, i.e. structures, is closely linked to construction work done and will likely moderate in 2026. This is broadly consistent with the 13Malaysia Plan, which targets growth of 5% in the construction sector from 2026-30 compared to 8.0% from 2021-3Q25.



Source: CEIC; OCBC Group Research.

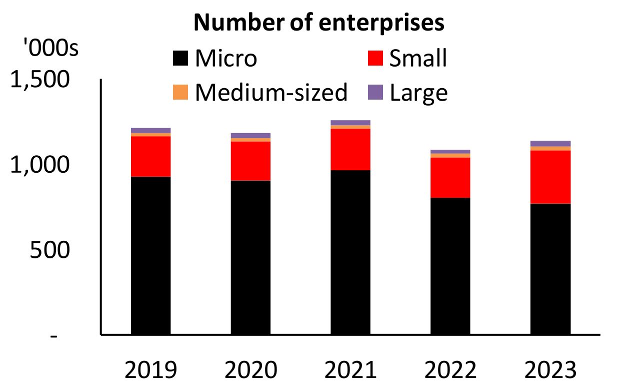


Source: CEIC; OCBC Group Research.

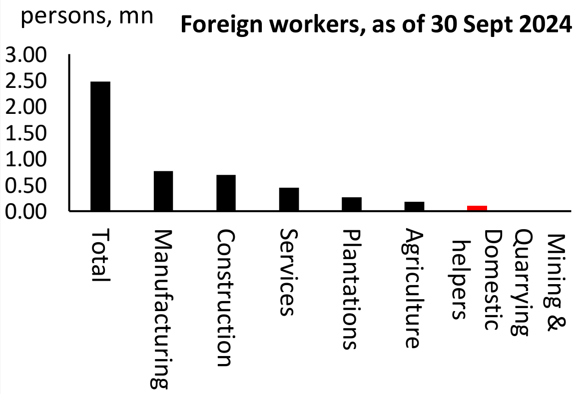
3. Pipeline pressures on Small and Medium Enterprises (SMEs)

There could be some pipeline challenges for SMEs as well in 2026. The adoption of the final phases of e-invoicing will likely impact the smaller enterprises in 2026 compared to more medium enterprises in 2025. The number of small and micro enterprises are significantly higher than the medium and large enterprises. Although the contribution of small versus medium enterprises is more difficult to ascertain, Micro, Small and Medium Enterprises (MSMEs) grew 5.8% YoY in 2024 with a share of 39.5% to GDP.

There are also some labour market changes to reduce the reliance on foreign workers, which will likely impact SMEs. EPF contributions for non-Malaysian employees became mandatory at a rate of 2% for both employees and employers per month from 1 October 2025. A multi-tier levy mechanism (MTLM) will also be



Source: ADB; OCBC Group Research.



Source: The Star; OCBC Group Research.

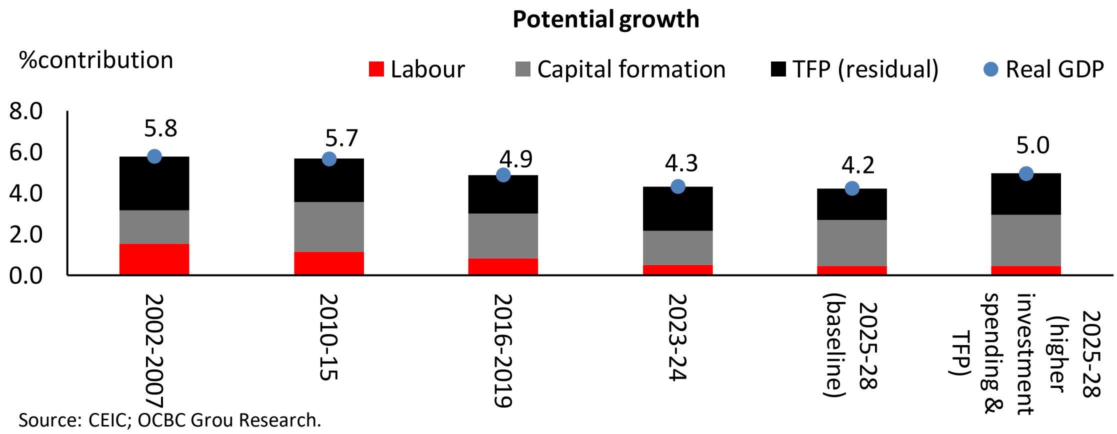
implemented from 2026 with the aim of reducing the number of foreign workers to 10% of the workforce by 2030 from 15% as outlined in the 13MP.

Higher electricity and water bills along with the expansion of sales and services tax suggest pipeline cost pressures, which could disproportionately impact SMEs compared to larger corporations. The SAMENTA-Ipsos SME Outlook Survey 2025/26 released in September 2025 showed that 69% of SMEs plan to raise prices in the following six months to deal with higher input costs. Notwithstanding, 91% expected to see stable or higher revenues in the following six months but had limited buffer to absorb further shocks, i.e. 70% had less than six months' cash reserves.

Fundamentals remain strong

Notwithstanding the cyclical softness we forecast in 2026, we expect GDP growth to return to within the 4.0-4.5% range over the medium-term. This matches with our baseline potential growth estimates. Under this baseline, we expect capital formation, closely linked with investment spending, to average 4.5% from 2025-28 similar to 2015-19.

Labour force dynamics will remain positive along with total factor productivity contributions as has been the case in recent decades. Should capital formation growth pick up to 5% over the forecast horizon and TFP contributions increase on account of digitalisation, benefits of AI and continued reforms, potential growth could be lifted to 5% over the medium-term, by our estimates.



Source: CEIC; OCBC Grou Research.

Targeted reforms are underway and bearing fruit

Reforms have been undertaken through the various national masterplans including the New Industrial Master Plan 2030, National Energy Transition Roadmap, National Semiconductor Strategy and 13 Malaysia Plan.

a) **National master plans provide strong medium-term direction**

These are focused on developing key sectors such as semiconductors, green industries, automotives while incentivising greater public and private sector participation. The authorities have also made broadening economic growth across the various regions of the country a clear policy priority. These initiatives have been underscored by higher manufacturing FDI approvals into these states in 1H25. The development funding for Sabah and Sarawak was raised to MYR6.9bn and MYR6bn, respectively in Budget 2026 with the annual special grants for both states doubling to MYR600mn from MYR300mn. The Johor-Singapore Special Economic Zone continues to gain traction (see *Johor-Singapore Special Economic Zone gets another official boost*, 15 October 2025).

Key national masterplans	
New Industrial Master Plan 2030 (NIMP 2030)	Budget 2025 allocated MYR131.5mn as seed funding to facilitate investment in industrial development initiatives under the Strategic Co-Investment Fund (CoSIF). This initiative enables government co-investment, at predetermined matching ratios, in businesses across 21 strategic sectors and four emerging areas, namely carbon capture, utilisation and storage (CCUS), electric vehicles (EVs), RE and advanced materials.
National Energy Transition Roadmap (NETR)	PETRONAS's Kasawari Carbon Capture and Storage (CCS) project
	Tenaga Nasional Berhad's Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project
	Kenyir green hydrogen hub, a collaborative venture between PETRONAS and TNB, which will produce green hydrogen using renewable energy from the HHFS.
	Both the Kenyir HHFS and green hydrogen hub will be part of the Kenyir-Kerteh Corridor and linked to the ASEAN Power Grid
National Semiconductor Strategy	Secure at least MR500bn in investments for Phase I, driven by domestic direct investments in IC design, advanced packaging, and manufacturing equipment, coupled with foreign direct investments in wafer fabs and semiconductor equipment;
	Establish at least 10 Malaysian companies in the design and advanced packaging segments, each with revenues ranging from MYR1-4.7bn by Phase II.
	Position Malaysia as a globally recognized R&D hub for semiconductors, bolstered by world-class universities, corporate research centers, and centers of excellence that blend top Malaysian and international talent.
	Train and upskill a highly skilled semiconductor workforce comprising 60,000 Malaysian engineers in the next five to ten years.
	Allocate no less than MYR25bn in fiscal support and targeted incentives to ensure successful operationalization of the NSS.
13th Malaysia Plan (RMK-13)	The Thirteenth Plan is expected to involve significant investment, of which MYR430bn will be allocated for development expenditure while MYR120bn will be invested by the government-linked investment companies (GLICs) in domestic direct investment.
	Additionally, the implementation for development projects will be complemented via public-private partnerships (PPPs) over the next five years.
Johor-Singapore Special Economic Zone (JS-SEZ)	Approved investments into the JS-SEZ reached MYR37bn in 1H25, accounting for the bulk of investments into the state of Johor which reached MYR56bn.

Source: NIMP 2030; NETR, NSS, RMK-13, OCBC Group Research.

b) **The infrastructure pipeline is strong for the next few years**

Infrastructure spending will sustain over the medium-term supported by a strong pipeline of projects and support from both the public and private sectors. Some of these projects, as listed in the 13MP, include the Elevated Autonomous Rapid Transit (E-Art) in Iskandar Johor Baru, the LRT Laluan Mutiara and the building of hospitals such as Sultanah Aminah 2 JB and Cancer Centre Sg Petani. The private sector will also be involved in projects such as the development of T3 at Carey Island, the Penang Pearl LRT and affordable housing.

Key infrastructure projects	Project owner	Expected cost, MYRbn	Tentative completion date
East Coast Rail Link (ECRL)	Malaysia Rail Link (Belt and Road Initiative project)	50.3	Jan 2027 (Gombak to Kota Bharu); Jan 2028 (Port Klang to Gombak)
Regasification Terminal 3	Petronas	n.a.	n.a.
Electricity grid Sarawak to Peninsular Malaysia	Tenaga Nasional Bhd	n.a.	Pre-feasibility study completed (as of Oct '25)
Westports 2 container terminal	Westports Malaysia Sdn Bhd	39.6	2028 (CT10); full project 2040
Elevated Autonomous Rapid Transit (E-Art) in Iskandar Johor Baru	MMC Corp Bhd, DOM Industries (M) Sdn Bhd, WCT Holdings Bhd, Lion Pacific Sdn Bhd, and YTL Corp Bhd, SIPP Rail Sdn Bhd submitted UKAS proposals	7.0	Phased roll outs in 2026 and 2027
Penang Pearl Light Rail Transit	Mass Rapid Transit Corporation (MRT Corp)	16.8	2025-31
Widening of PLUS highway for Senai Utara-Machap, Johor and Juru-Sg Dua, Penang	PLUS Malaysia Bhd	0.9	2028; 2030
Upgrading Tok Bali, Kelantan port	n.a.	n.a.	Feasibility study phase
Upgrading Sepanggar, Sabah port	Sabah Economic Development and Investment Authority	0.9	2026
Hospitals - Sultanah Aminah 2 JB, Cancer Centre Sg Petani	n.a.	n.a.	Construction expected to start 2026
Third terminal: Carey Island	Port Klang Authority	28	2060
Affordable housing and housing in Kota MADANI	n.a.	1.2	2026-35
Water catchment-water treatment-flood mitigation plant - Sg Klang to Sg Rasau Selangor	Water Supply Department; Irrigation and Drainage Department	5.6	2031

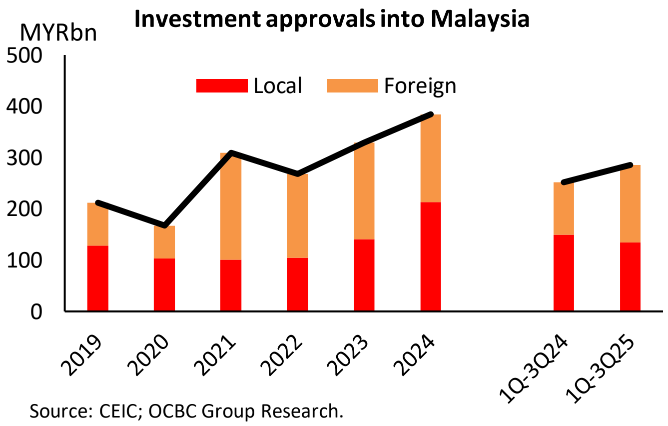
Source: 13th Malaysia Plan, Channel News Asia, Malaysian Reserve, Bernama, The Star, OCBC Group Research.

There is also a strong push to involve Government Linked Companies (GLCs) and Government Linked Investment Companies (GLICs) in the investment landscape. The Government-linked Enterprises Activation and Reform Programme (GEAR-uP) identified MYR22bn in domestic investments, of which MYR11bn was deployed as of 30 June 2025.

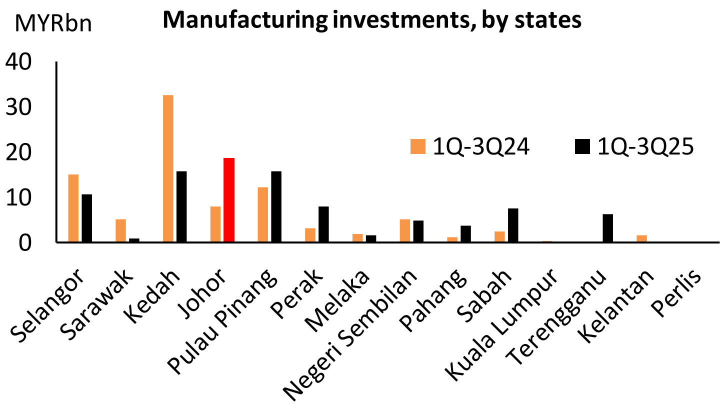
The 13MP notes that GLC and GLIC investment spending is pegged at MYR120bn, along with MYR430bn from the federal government and MYR60bn from Public-Private Partnerships. There is also a strong push through the national masterplans to push manufacturing into strategic sectors including semiconductors and energy transition. There are also support measures to bolster startups, digital adoption and transformation.

c) Investment approvals are expected to remain resilient

Corroborating the strong reform agenda and infrastructure pipeline, investment approvals into Malaysia were strong in 1Q-3Q25, rising to MYR285.2bn from MYR252bn in during the same period in 2024 (i.e. +13.2% YoY). The bulk of the investments were directed towards to the services sector followed by the manufacturing sectors while approvals for the primary sector declined. Foreign investment approvals increased to MYR150.8bn in 1Q-3Q25 from MYR102.2bn in 1Q-3Q24 while domestic approvals were modestly lower at MR134.4bn from MYR149.7bn during the same period in 2024.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.

There are some nuances, however, that we have observed. Approved investments into the E&E manufacturing sector moderated in 1Q-3Q25 compared to 1Q-3Q24 even as these inflows into have remained solid since 2021. Interestingly, private foreign approvals for the services sector shows that the telecommunication saw a substantive increase during the first three quarters of 2025. This follows strong manufacturing inflows from 2022-24 and likely reflects further works in data centres following the construction phase. Indeed, the news flows regarding data centres suggests that the pipeline is strong even into 2026.

d) Legislative action is moving in the right direction

The legislation framework is getting stronger. The has pushed ahead with some crucial reforms to reduce bureaucratic redundancies, establish clear procurement protocols, enhance labour market protection to gig workers and push ahead with the sustainability agenda. The government also announced a new Data Centre Framework to streamline policies and guide sector development in July 2025. Efforts to boost the quality of the labour force as well as creating a stronger economic safety net are also underway.

The authorities aim to create employment opportunities in high value sectors such as semiconductors, introduce dedicated legislation for technical and vocational education and training. The legislation for formalising the gig economy work and EPF contributions could help with better information flow. The Government is also finalising the implementation of a defined-contribution scheme to replace the current defined-benefits pension scheme for public servants; the new scheme will be administered by the EPF.

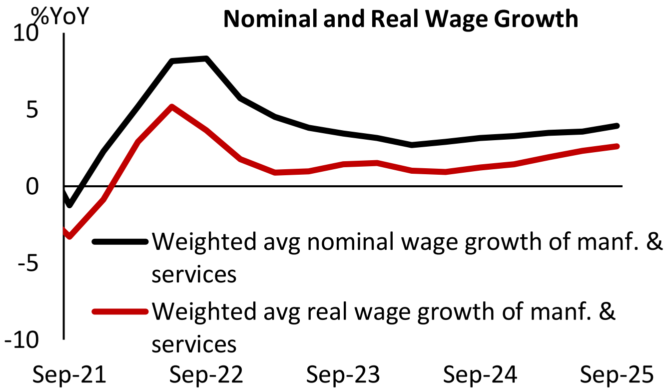
Some important bills passed in the Dewan Rakyat in 2025		
06-Mar-25	Government Service Efficiency Commitment Bill 2025	Under the Act, Government entities are required to reduce the regulatory burden by at least 25% every three years, as well as review the procedures under their regulatory instruments.
		The law extends reporting to statutory bodies, state government entities and even local governments.
06-Mar-25	Employees Provident Fund (Amendment) Bill 2025	The bill introduced mandatory EPF contributions for non-Malaysian citizen employees starting October 1, 2025, with both employers and employees required to contribute 2% of monthly wages
06-Mar-25	Carbon Capture, Utilization and Storage Bill 2025	The CCUS Act 2025 provides a first national level legal framework governing the capture, transportation and permanent storage of carbon dioxide.
		A dedicated Malaysia CCUS Agency will be set up to support implementation of the CCUS Act 2025, with responsibilities such as overseeing, regulating, and promoting CCUS activities across the value chain, issuing permits, managing resources and funding mechanisms, advising the government, and ensuring compliance with the CCUS Act 2025.
28-Aug-25	Government Procurement Bill 2025	The bill aims to reform public procurement by establishing a comprehensive legal framework, increasing transparency, and reducing corruption.
		Key features include the creation of a Government Procurement Appeal Tribunal to review contract award decisions, mechanisms for challenging the Finance Minister's decisions, and punitive action for violations.

Source: Malaysia Parliament, Fulcrum.sg, Skrine, MyCCUS, OCBC Group Research.

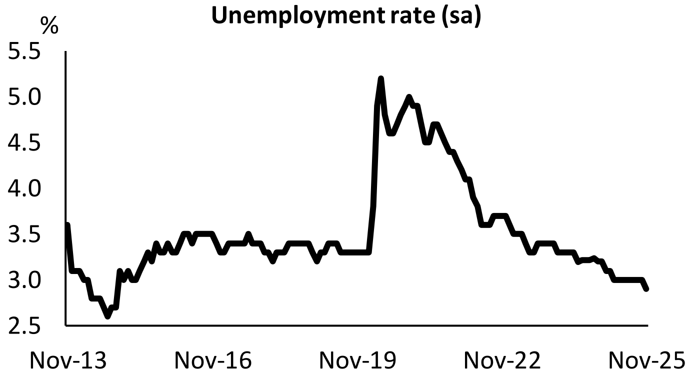
e) Labour market conditions remain strong

The conditions to support resilient household consumption will likely be sustained into 2026. This is reflected in resilient wage growth, including higher minimum wages, lower unemployment rates and steady employment gains. Indeed, the unemployment rate at 2.9% for November 2025 is the lowest since November 2014. The government raised minimum wages in February 2025 and will implement the second phase of the Public Service Remuneration System (SSPA) increase for certain ranks from January 2026[2]. Retail sales, car sales and household credit growth have been resilient through 2025.

2 The increase is expected to be between 3-7%.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.

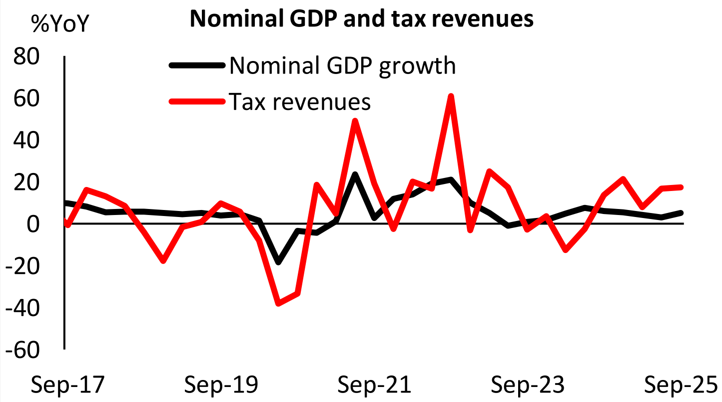
f) Fiscal consolidation remains on track

The government has been steadfast in its approach to fiscal consolidation as outlined in the 2023 Public Finance and Fiscal Responsibility Act. This Act stipulates that the fiscal deficit ceiling will be brought to 3% of GDP or below, with the federal government debt ceiling at 60% of GDP or below amongst its key objectives.

Public Finance and Fiscal Responsibility Act (2023)	
Fiscal deficit ceiling	<=3% of GDP
Development expenditure floor	>= 3% of GDP
Federal government debt ceiling	<= 60% of GDP
Federal government guarantees ceiling	<= 25% of GDP
Source: Federal Government; OCBC Group Research.	

The government has followed through on various revenue generation measures since 2024 including the introduction of a dividend tax, broadening the scope of the sales and services tax, raising excise duties on 'sin products' and introducing a carbon tax. The government also followed through on the adoption of e-invoicing in phases, with the final phases due in 2026. Tax collections have risen at a faster pace compared to nominal GDP since 3Q24 pointing to improved tax buoyancy.

Targeted Taxpayers	Implementation Date
Taxpayers with an annual turnover or revenue of more than MYR100mn	01-Aug-24
Taxpayers with an annual turnover or revenue of more than MYR25mn and up to MYR100mn	01-Jan-25
Taxpayers with an annual turnover or revenue of more than MYR5mn and up to MYR25mn	01-Jul-25
Taxpayers with an annual turnover or revenue of more than MR1mn and up to MYR5mn	01-Jan-26
Taxpayers with an annual turnover or revenue of up to MYR1mn	01-Jul-26
Source: KMPG; OCBC.	



Source: CEIC; OCBC Group Research.

Tax measures announced in 2025		
Dividend tax	Introduction of a 2% dividend tax on certain dividend income received by individual shareholders.	AY2025
Sales tax	Sales tax rates would be increased on nonessential and imported goods, such as premium foods, although sales tax exemption would be maintained on basic food items consumed by the public.	Delayed from 1 May to 1 July 2025
Services tax	The scope of the service tax would be expanded to include commercial service transactions between businesses, such as fee-based financial services.	Delayed from 1 May to 1 July 2025
Carbon tax	Carbon Tax will be imposed on the iron, steel and energy industries. Initial proposal is at USD3.6/ton to cut pollution	2026
Excise duties	Increase the excise duty on specific sugar sweetened beverages. The proposed rate is an increase from MYR0.50 to MYR0.90 per litre.	Increases in phases, starting 1 Jan 2025

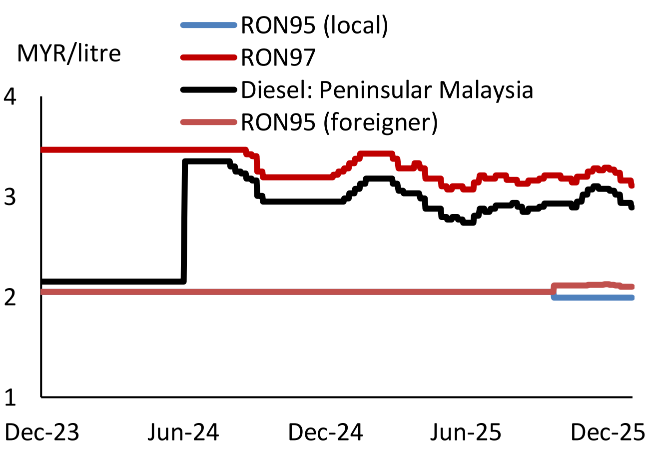
Source: MoF; PwC; OCBC Group Research.

Meanwhile, expenditure consolidation has continued. The government pushed ahead with electricity and water tariff reforms, removal of chicken egg subsidies and Budi95 – which the newly introduced mechanism for RON95 rationalisation. Under Budi95, we initially estimated fiscal savings of 0.1% of GDP (see *RON95 rationalisation – the wait will have to continue*, 22 September 2025). The authorities are, however, tweaking the non-subsidised prices of RON95 higher in December.

Subsidy rationalisation measures in 2025		
Budi95	Sep-25	RON95 prices increased by 3% on a weighted average basis of non-subsidised and subsidised fuel. Adjustments were made to non-subsidised RON95 prices to MYR2.65/liter from MYR2.6/liter for 13-19 November
Electricity tariff reform	Jul-25	The new base electricity tariff incorporates efficiency incentives and tiered mechanisms, which reflects real time global fuel prices
Water tariff reform	Sep-25	Malaysia's water tariffs vary by state and usage tier. Households that use between 20 to 35 cubic metres (m3) of water monthly in Selangor, KL and Putrajaya will now have to pay MYR1.62/m3, 30sen increase.
Chicken egg subsidies	May-25	The blanket tariffs on chicken eggs were removed in phases from May to August 2025

Source: Ministry of Finance; OCBC.

Retail fuel prices



Source: CEIC; OCBC Group Research.

The fiscal savings calculations will change accordingly. Indeed, the recent adjustments to RON95 prices for non-locals suggests that subsidy savings could be higher than initially estimated. This will likely allow the government to achieve a fiscal deficit lower than the targeted 3.8% of GDP in 2025. Indeed, Treasury Secretary Johan Merican noted that fiscal deficit could come in lower than the budget estimate.

The government's capacity for counter cyclical policies will be targeted rather than broad-based. The fiscal impulse will largely remain neutral to contractionary with support to growth coming mainly from the private rather than public sector. Budget 2026 saw expanded social assistance allocations via the Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA). MYR2bn from STR phase 4 will be distributed starting 18 October (earlier than expected) while a 50% toll discount will be provided coinciding with Diwali celebrations. Under SARA, all Malaysians will receive a one-off MYR100 payment in mid-February in conjunction with Ramadhan and Chinese New Year.

The focus on broadening the tax base and subsidy rationalisation will support sovereign credit ratings. The government remains on track to narrowing the 2025 fiscal deficit to 3.8% of GDP from 4.1% in 2024. Indeed, S&P Ratings (A-), Fitch Ratings (BBB+) and Moody's (A3) reaffirmed their sovereign credit ratings for Malaysia in 2025.

Country	Moody's		S&P		Fitch		Outlook
	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	
Indonesia	Baa2	Baa2	BBB	BBB	BBB	BBB	STABLE; STABLE; STABLE
Malaysia	A3	A3	A-	A-	BBB+	BBB+	STABLE; STABLE; STABLE
Philippines	Baa2	Baa2	BBB+	BBB+	BBB	BBB	STABLE; POS; STABLE
Thailand	Baa1	Baa1	A-	BBB+	BBB+	BBB+	NEG; STABLE; NEG
Vietnam	Ba2	Baa2	BB+	BBB	BB+	BBB	STABLE; STABLE; STABLE

Source: Moody's, SS&P Global, Fitch, Bloomberg, OCBC Group Research. Last updated: 8 January 2026.

g) **Other initiatives are also being undertaken across various sectors**

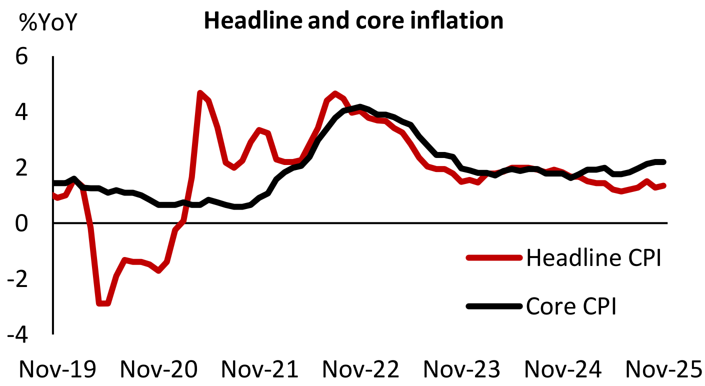
The government is also looking to push other initiatives such as Visit Malaysia 2026. The aim is to attract 35.6mn tourist arrivals and generate MYR147.1bn in tourist receipts. Tourist arrivals from Jan-Aug 2025 totalled MYR17.8bn, with Malaysia benefiting from some tourist diversion from Thailand. This is particularly true for tourists from China, which saw a sharp pick up since May 2025. For 2026, there is also a broader agenda to push tourism not only for recreation but also medical tourism purposes.

Policy continuity will be critical for the authorities to follow through on these initiatives. The next Federal election cycle falls within the 13MP (2026-30) and needs to be held by 17 February 2028. The political cycle will remain of interest in light of policy continuity. The state of Sabah goes to the polls on 29 November 2025, and the states of Malacca and Sarawak will also likely be election bound in late 2026/early 2027.

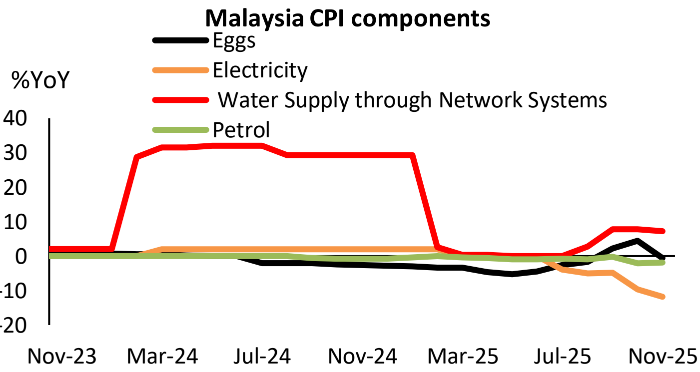
Monetary policy implications: we expect a 25bp cut from BNM in 2026

We do expect monetary policy to remain nimble. We are comfortable with our forecast for another 25bp rate cut from BNM next year, likely in 2Q26. Our forecast for softer economic growth and limited room for broad-based fiscal support suggests that monetary policy still has wiggle room, particularly since inflationary pressures have been largely well managed.

The subsidy rationalisation efforts by the government have been well executed. Prices of targeted items rose in 2025, but overall headline and core inflation remained in check. The risk to our call for another 25bp rate cut from BNM is that GDP growth does not slow as we anticipate. This will allow BNM to remain on prolonged hold in 2026.



Source: DOSM, CEIC, OCBC Group Research.



Source: CEIC; OCBC Group Research.

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