PIKOM

MALAYSIA ECONOMIC OUTLOOK REVIEW

JULY 2026

5.8% Q2 GDP growth	5.6% H1 2026 growth	1.9% June inflation

A sector-by-sector review of Malaysia's economic performance, structural risks and policy landscape.

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Executive overview

Malaysia's economic performance and outlook as at July 2026

Malaysia's economy has demonstrated remarkable resilience and stronger momentum in the first half of 2026, comfortably outpacing the market's median consensus for the second quarter. The Department of Statistics Malaysia's advance estimate shows that real GDP expanded by 5.8% year-on-year in Q2 2026, improving from the final 5.4% recorded in Q1.

GROWTH	5.8% YoY Q2 2026 advance estimate; H1 2026 growth reached 5.6%.
INFLATION	1.9% YoY June 2026, easing marginally from 2.0% in May.
FORECAST	4.0%–5.0% Bank Negara Malaysia's full-year 2026 GDP growth range.

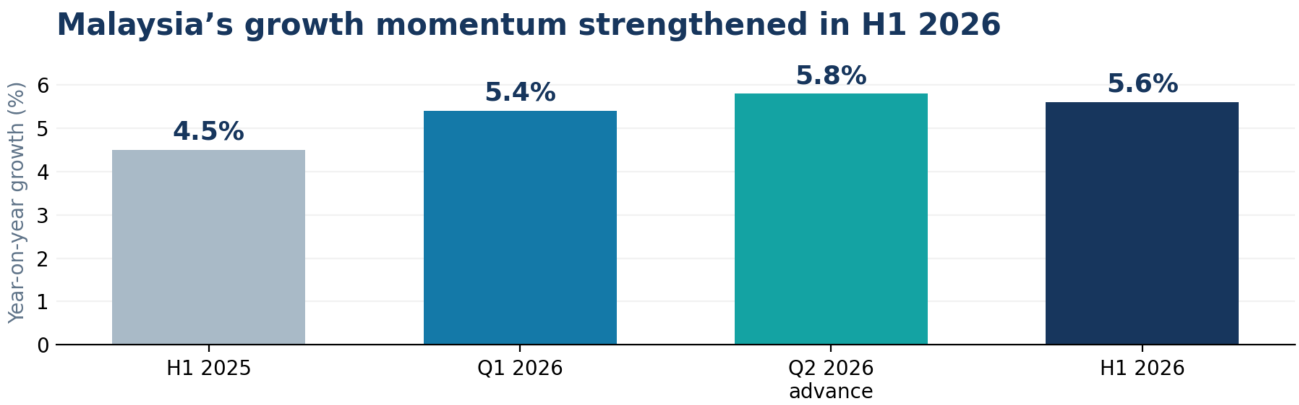

Figure 1. Real GDP growth, year-on-year. Q2 2026 is an advance estimate. Sources: DOSM and BNM.

Key reading

- Manufacturing was the primary growth engine, while mining and quarrying recorded a sharp turnaround on higher natural-gas production.
- Services continued to provide a strong anchor, supported by wholesale and retail trade, information and communication, and transportation and storage.
- Agriculture contracted, reflecting weaker oil-palm and fishing output.
- The strong first half creates upside potential within BNM's forecast range, although external trade, energy prices and policy execution remain important swing factors.

Deep-dive economic analysis

Malaysia 2025–2026

1. Macroeconomic growth momentum

First-half velocity

With Q1 GDP finalised at 5.4% and the Q2 advance estimate registering 5.8%, Malaysia's economic growth for H1 2026 stands at 5.6%. This is a significant step up from the 4.5% growth recorded in H1 2025.

Quarter-on-quarter rebound

On the advance-estimate comparison basis, Q2 GDP increased by 1.7% quarter-on-quarter, partially reversing the 4.4% decline reported for Q1. This measure should be read separately from BNM's final seasonally adjusted Q1 series, which showed output was broadly unchanged from Q4 2025.

Inflationary ease

Despite geopolitical energy pressures, domestic inflation eased marginally to 1.9% in June 2026 from 2.0% in May. DOSM attributed the moderation mainly to slower transport inflation. This helps sustain private consumption, although future energy-price and subsidy adjustments could affect the inflation path.

2. Sectoral performance breakdown

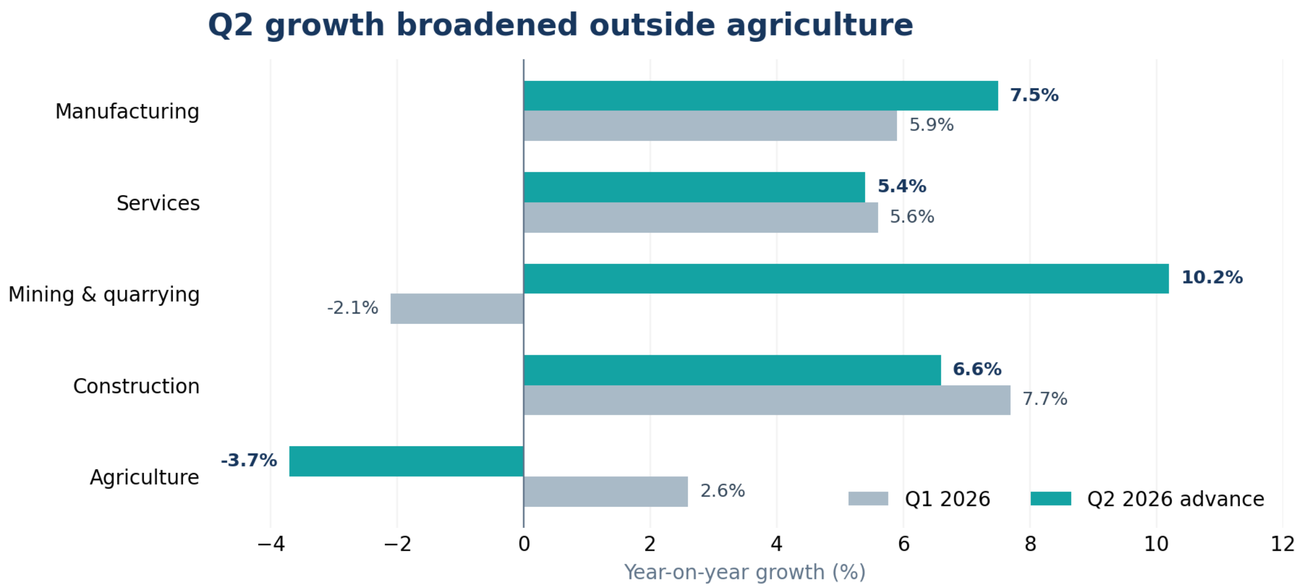

Figure 2. Real GDP by kind of economic activity. Q2 2026 values are advance estimates; Q1 values are final estimates. Source: DOSM.

Sector dynamics and structural headwinds

What is driving growth—and where risks remain

Economic sector	Q2 2026	Key drivers and dynamic analysis
Manufacturing	7.5%	Primary growth engine, driven by electrical, electronic and optical products and petroleum, chemical, rubber and plastic products.
Services	5.4%	Volume anchor, sustained by wholesale and retail trade, information and communication, and transportation and storage.
Mining & quarrying	10.2%	Sharp turnaround from Q1's contraction, supported mainly by higher natural-gas production.
Construction	6.6%	Steady contributor, continuing to benefit from project and investment activity, though growth moderated from Q1.
Agriculture	−3.7%	Underperformer, with weaker oil-palm and fishing output dragging the sector into contraction.

Note: Advance estimates are subject to revision when DOSM releases the detailed national accounts.

3. Structural and geopolitical headwinds

The technology cycle and trade exposure

Electrical and electronic (E&E) products accounted for about 44% of Malaysia's total exports in 2025, with semiconductors forming a major component of the category. While the global technology upcycle is supporting manufacturing growth, any escalation in tariff policies, export controls or supply-chain disruptions poses a material risk to Malaysia's export-reliant economy.

The energy dilemma

Volatility in the Middle East has pushed energy prices upward. Malaysia's position as a net energy exporter can provide some macroeconomic resilience, and higher natural-gas production supported the Q2 mining recovery. However, the overall fiscal effect remains mixed because higher hydrocarbon-related revenue may be offset by subsidy costs, input-price pressures and weaker external demand.

Indicators to monitor

- E&E orders, industrial production and exports amid changing trade restrictions.
- Natural-gas and crude-oil production, global energy prices and fiscal pass-through.
- Services growth and household spending following tax and subsidy adjustments.
- Construction progress and the realisation of approved private investment.

Political risk and policy execution

Balancing strong macroeconomic performance with sensitive structural reforms

4. Policy landscape

The core tension for Malaysia's leadership in the latter half of 2026 lies in balancing strong macroeconomic performance with highly sensitive structural reforms.

Targeted subsidy reform

Supported by the strong 5.8% Q2 growth estimate and relatively contained inflation, the government has a more favourable economic backdrop for its transition from blanket subsidies to targeted assistance. Nevertheless, fuel pricing remains politically sensitive. The effectiveness of the reform will depend on eligibility design, implementation discipline and clear public communication.

Governance and regulatory predictability

Evolving governance reforms and coalition dynamics remain considerations for investors. Businesses should monitor official implementation rules for tax, subsidy, trade and investment measures and distinguish enacted requirements from political or legal commentary.

Strategic business recommendation

With H1 2026 growth tracking at 5.6%, Malaysia has a reasonable prospect of finishing within the upper half of BNM's 4.0%–5.0% forecast range. A result above 5.0% is possible but cannot yet be assumed, given that the Q2 estimate is preliminary and external risks could weaken second-half activity.

Foreign and domestic investors can capitalise on opportunities in manufacturing, services and construction, while maintaining flexible operational strategies to cushion against global trade disruption, energy-price volatility and local policy adjustments.

Business priorities

- Use scenario planning rather than a single-point growth assumption for H2 2026.
- Maintain supply-chain flexibility for technology inputs and energy-intensive operations.
- Track official regulatory developments and implementation timelines.
- Test investment decisions against slower global trade and higher energy-cost scenarios.

Sources

Primary sources prioritised; commentary identified separately

Source	Publication and link
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Prepared by PIKOM Research Committee, assisted by AI agent. This report is an analytical summary and not investment advice. Advance estimates and forecasts are subject to revision.

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