# Macro Note

## Malaysia: 3Q26 advance GDP delivers another upside surprise

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- Advance estimates indicate that Malaysia's real GDP growth eased to 5.3% y/y in 3Q26 from 6.0% in 2Q26, although the outturn surpassed both the Bloomberg consensus forecast of 5.1% and our projection of 4.5%. This lifted average growth in 9M26 to 5.5% (9M25: +4.8%), placing the economy on track to outperform both the government's revised full-year growth target of 4.8%-5.3% (mid-point: 5.2%) and our 2026 full-year forecast of 5.0%.

- Sectoral growth was broadly resilient in 3Q26, with all major sectors expanding except mining & quarrying. Stronger performances in agriculture and manufacturing sectors helped offset a moderation in construction and services industries amid persistent external headwinds, including the Middle East conflict and heightened global financial market volatility.

- We will reassess our 2026 full-year GDP growth forecast upon the release of the final 3Q26 GDP data on 18 Nov, as 9M26 growth has outpaced our full-year estimate. Economic activity appears to be running above potential for a third consecutive year, while inflation risks remain skewed to the upside, supporting the case for monetary policy normalization by BNM. We keep to the view that BNM may raise the OPR by 25bps to 3.00% at the 5 Nov meeting.

### 3Q26 advance GDP growth held firm above 5.0%

Based on the advance estimate, Malaysia's economy grew by 5.3% y/y in 3Q26, easing from 6.0% in 2Q26 but surpassing both our forecast of 4.5% and the Bloomberg consensus of 5.1%. This lifted average growth in 9M26 to 5.5% (9M25: +4.8%), placing the economy on track to outperform both the government's revised 2026 full-year growth target of 4.8%-5.3% (mid-point: 5.2%) and our full-year forecast of 5.0%.

In 3Q26, sectoral growth was broadly resilient, with all major sectors recording expansion except mining & quarrying, despite persistent external headwinds from the Middle East conflict and heightened global financial market volatility.

- The **services sector** remained the principal growth driver, contributing 2.9ppts to overall GDP growth and improving by 5.4% y/y (2Q26: +5.9%). Growth was mainly driven by the wholesale & retail trade, information & communication and finance & insurance sub-sectors.
- The **manufacturing sector** was the second largest contributor, adding 1.7ppts to GDP growth while expanding 7.5% y/y (2Q26: +7.3%). Performance was supported by export-oriented industries, particularly electrical, electronic & optical products and petroleum, chemical, rubber & plastic products.
- The **agriculture sector** staged a growth rebound to +1.3% y/y from a 3.7% contraction in 2Q26, boosted by higher output in the oil palm and livestock sub-sectors.



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- The **construction sector** grew by 6.0% y/y (2Q26: +6.5%), primarily driven by non-residential building activities and specialized construction works.
- Nevertheless, the **mining & quarrying sector** contracted by 4.9% y/y (2Q26: +9.2%), making it the only laggard, largely due to lower crude oil & condensate production.
- **Import duties** continued to provide a positive, albeit more moderate, contribution of 0.2ppt to overall GDP growth (2Q26: +0.3ppt). Annual growth remained in double digits at 17.4% (2Q26: +19.5%), although this marked the slowest pace in a year.

## Growth momentum remains intact; BNM stands ready to act

We will reassess our 2026 full-year GDP growth forecast upon the release of the final 3Q26 GDP data on 18 Nov, as 9M26 growth (5.5%) has outpaced our full-year estimate of 5.0% (2025: 5.2%). Nevertheless, growth momentum is expected to moderate further in 4Q26, largely reflecting the impact of a year-ago high base effect, lingering El Niño-related disruptions, and haze conditions that have begun to affect selected economic activities since Oct. These factors come against a backdrop of persistent external headwinds, including the Middle East conflict and intensified global financial market volatility.

The anticipated moderation is likely to extend into 2027, although support from the newly announced Budget 2027 measures (details in report) should help cushion somewhat the slowdown. Hence, we maintain our 2027 GDP growth forecast at 4.6% (MOF est: 4.2%-5.2% in 2027, midpoint: 4.6%). Growth next year should continue to be underpinned by resilient domestic demand, policy support measures, various tourism and promotional events, a still-supportive external sector, and a manageable inflation environment. However, growth prospects are still contingent upon geopolitical developments, energy prices and supply security, trade fragmentation, financial stability including MYR movement, climate risks, and potential adjustments to domestic price administered prices, utilities or subsidy mechanisms.

Overall, economic activity appears to be running above potential (BNM's 2026 est: 4.5%-5.5% with mid-point: 5.0%; 2025 est: 4.8%) for a third consecutive year, while inflation risks remain skewed to the upside, supporting the case for monetary policy normalization by Bank Negara Malysia (BNM). We maintain our expectation that BNM may raise the Overnight Policy Rate (OPR) by 25bps to 3.00% at the 5 Nov meeting. Remarks by BNM Governor Abdul Rasheed Ghaffour on Wed (15 Oct) suggest greater flexibility to adjust interest rates. This is coupled with the central bank's readiness to act if inflation pressures intensify amid elevated energy prices, further supporting our normalization thesis.

Our forecast for BNM rates

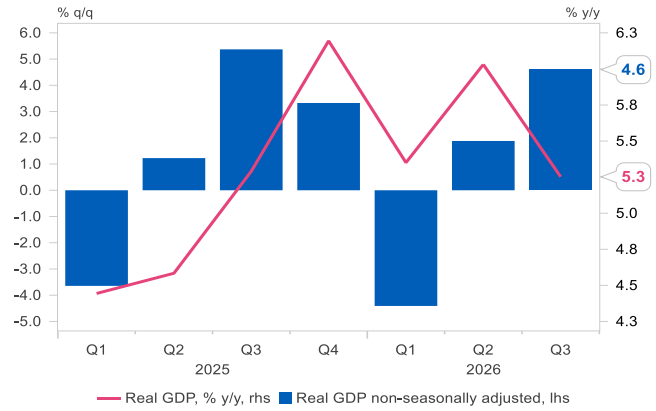
| % | as of 16 Oct | 4Q26 | 1Q27 | 2Q27 | 3Q27 |
|---|---|---|---|---|---|
| Overnight Policy Rate | 2.75 | 3.00 | 3.00 | 3.00 | 3.00 |
| Statutory Reserve Requirement | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

Source: Global Economics & Markets Research


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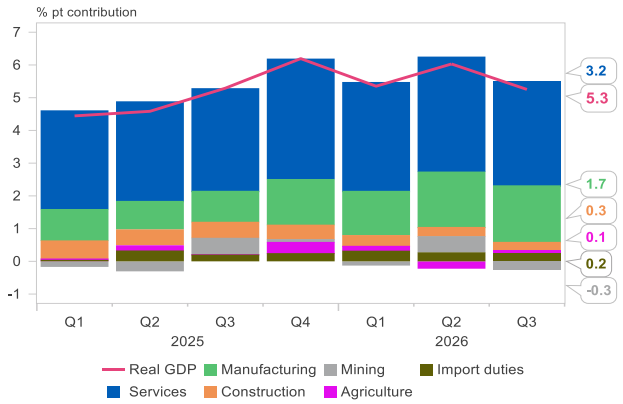
## 3Q26 advance GDP growth surprised on the upside at 5.3%

Source: DOSM, Macrobond, UOB Global Economics & Markets Research



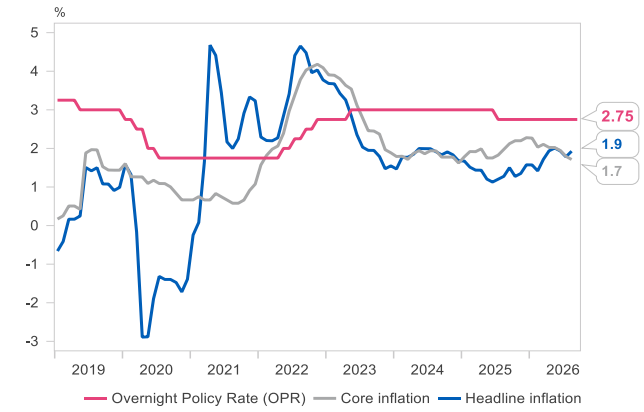

## Broad-based growth with mining & quarrying the sole laggard

Source: DOSM, Macrobond, UOB Global Economics & Markets Research



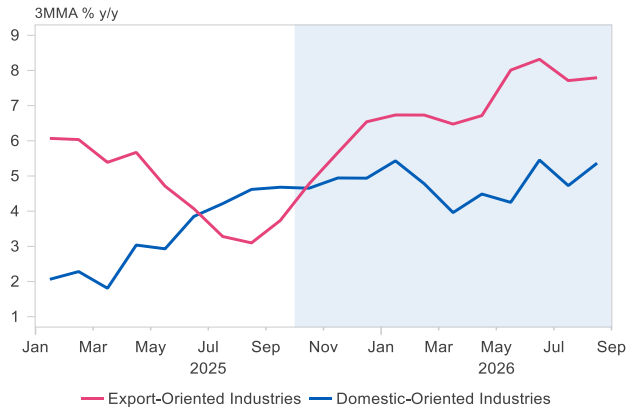

## Inflation reverted higher in Aug

Source: Macrobond, UOB Global Economics & Markets Research



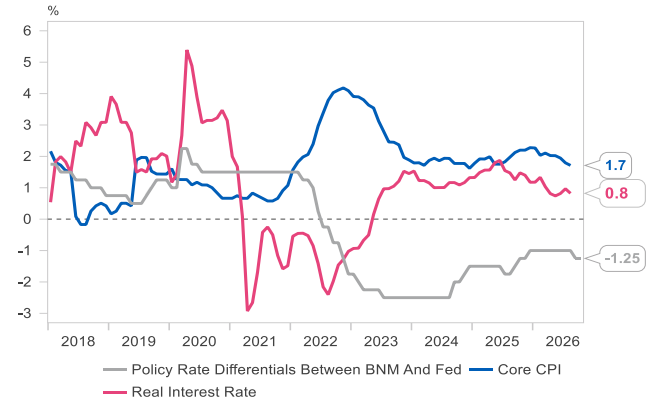

## Higher domestic- and export-oriented manufacturing output

Source: Macrobond, UOB Global Economics & Markets Research



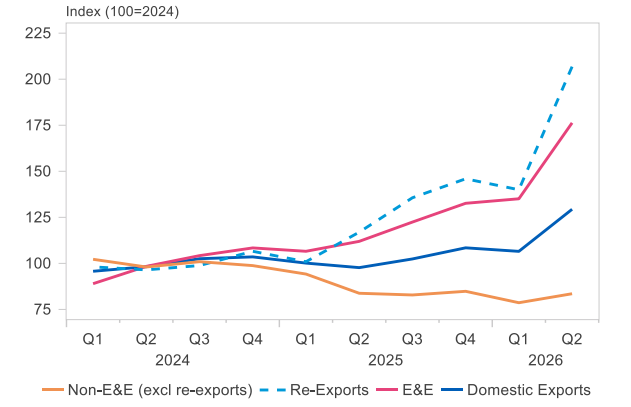

## Interest-rate differential with US rates

Source: Macrobond, UOB Global Economics & Markets Research




## K-shaped trend beneath strong exports

Source: Macrobond, UOB Global Economics & Markets Research






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## Real GDP growth by sector, 2025-2027F

*Total may not add up to 100% due to rounding and exclusion of import duties components.
AE = Advance Estimate
Source: MOF, DOSM, UOB Global Economics & Markets Research

| Component | % Share 2025* | 2025 | 9M25 | 9M26 (AE) | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26 | 3Q26 (AE) | 2026F | | 2027F | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | MOF | UOB | MOF | UOB |
| Agriculture | 6.1 | 2.2 | 1.1 | 0.1 | 0.7 | 2.5 | 0.2 | 5.7 | 2.6 | (3.7) | 1.3 | (2.1) | (1.5) | 0.5 | 0.5 |
| Mining | 5.7 | 0.6 | 0.3 | 0.5 | (2.6) | (5.2) | 9.4 | 1.4 | (2.1) | 9.2 | (4.9) | 2.6 | 1.5 | 1.2 | 1.0 |
| Manufacturing | 23.0 | 4.5 | 4.0 | 6.9 | 4.2 | 3.7 | 4.1 | 6.0 | 5.9 | 7.3 | 7.5 | 6.2 | 6.2 | 4.1 | 4.5 |
| Construction | 4.3 | 12.2 | 12.6 | 6.7 | 14.2 | 12.1 | 11.7 | 10.9 | 7.7 | 6.5 | 6.0 | 6.4 | 5.0 | 5.7 | 6.0 |
| Services | 59.5 | 5.4 | 5.2 | 5.6 | 5.1 | 5.1 | 5.3 | 6.2 | 5.6 | 5.9 | 5.4 | 5.5 | 5.2 | 5.2 | 5.2 |
| **Real GDP** | **100.0** | **5.2** | **4.8** | **5.5** | **4.4** | **4.6** | **5.3** | **6.2** | **5.4** | **6.0** | **5.3** | **4.8 - 5.3** | **5.0** | **4.2 - 5.2** | **4.6** |



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