Stability without symmetry

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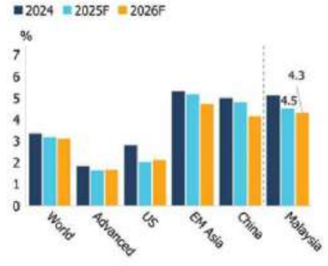
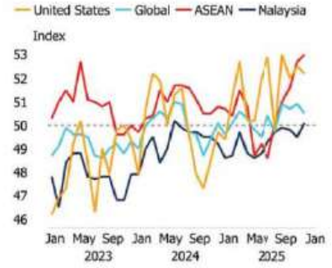
Global GDP growth in 2026 is expected to be moderate yet resilient, with uneven momentum across regions



Note: Malaysia's 2025 and 2026 are in-house forecasts.
Sources: IMF, Macrobond, MARC Ratings

Global and ASEAN manufacturing PMIs strengthened as external demand gradually recovered amid easing US tariff risks



Note: As at Nov 2025.
Sources: Macrobond, MARC Ratings

The transition to 2026 is occurring at a time when global economic conditions are defined not by sharp inflection points, but the gradual settling of policy choices that have shaped markets since late 2023. In my 2025 outlook, I noted that US monetary easing would materialise later than consensus expected, and the fiscal stance under the newly elected Trump administration would anchor bond yields at higher levels for longer. Both developments unfolded as anticipated, with interest rate cuts deferred and fiscal expansion upheld by strong political alignment in Washington. Despite episodes of volatility in emerging markets, currencies avoided the disorderly depreciation often associated with policy uncertainty. The ringgit, in particular, strengthened against larger global forces, affirming the earlier view that Malaysia's position within the broader matrix of rate differentials, global trade adjustments and domestic policy clarity would shield it from deeper stress.

A second dynamic shaping the 2026 outlook is the continued evolution of global trade. I previously highlighted that rising protectionism would produce a web of overlapping constraints and opportunities, resembling a "spaghetti bowl" of policy rules rather than a clean redistribution of trade flows. This continues to hold true. The interplay between bilateral agreements, "minilateral" arrangements, rules-of-origin requirements and evolving compliance regimes has introduced layers of second-order effects across supply chains. Firms have diversified production sites but not disengaged from China, and tariff frameworks have interacted with regulatory obligations in ways that complicate planning and pricing. The result is a trade system that is adjusting but not in a linear or predictable manner. This complexity has limited the persistence of trade-related risk premia in financial markets, keeping tariff shocks modest and temporary. That pattern is likely to continue into 2026 as markets struggle to price shocks whose channels are diffuse and whose impacts are uneven across industries.

Evolving but fairly robust global growth conditions in 2026

Global gross domestic product (GDP) growth, which is expected to stabilise near 3.2% in 2025, is projected to moderate slightly to around 3.0% in 2026. The deceleration reflects slower fiscal expenditure in Europe, a maturing labour market in the US and softer consumer sentiment in several advanced economies. Global inflation continues to ease, falling from an estimated 3.8% in 2025 to a forecast 3.3% in 2026. In the US, services inflation remains persistent, and wage growth, while normalising, continues to exceed pre-pandemic trends. These conditions narrow the scope for aggressive monetary easing, implying that US policy rates may settle near 3% by end-2026, a level at the higher end of the long-run neutral estimate of 2.5%-3.0%. The normalisation of monetary policy in the US is therefore likely to extend beyond 2026, maintaining a moderate but non-disruptive risk anchor for global markets.

Global manufacturing performance remains steady, with the recovery led by electronics and semiconductor-related demand, particularly for artificial intelligence computing hardware. Yet even with resilience in these sectors, the combined effects of tariff frictions, supply chain bottlenecks and pockets of weaker global demand are expected to weigh on trade growth. Both the World Trade Organization (WTO) and the Organisation for Economic Co-operation and Development (OECD) have adjusted forecasts downwards, projecting low single-digit global trade expansion for 2026. These patterns suggest uneven growth dynamics across regions, with stronger performance in technology-linked economies and more subdued momentum in consumption-driven advanced markets.

Asean's emerging structural role and Malaysia's rising importance

A more pronounced development for 2026 will be the strengthening of Asean's position within global production networks. The diversification initiatives that began in 2023 have accelerated, and the region now captures a larger share of activities in electronics, modern automotive components and renewable energy technologies. Asean's GDP growth, estimated at 4.3% in 2025, is expected to stabilise in 2026 as investment inflows deepen and external demand gradually revives, supported by fewer disruptive surprises in US tariff policy.

Manufacturing Purchasing Managers' Indices (PMIs) across the region tell a consistent story: Vietnam, Indonesia and Malaysia have all recorded readings above 50, signalling continuing expansion, while Singapore maintains activity levels that are aligned with stable but more moderate global financial flows. Indonesia, Malaysia and Vietnam benefit from rising foreign direct investment, supportive commodity revenues and favourable demographics. Malaysia, in particular, continues to strengthen its industrial position through policy stability and targeted investments, especially in semiconductor testing, packaging and ancillary services. Thailand and the Philippines, meanwhile, face constraints from slower tourism recovery and widening fiscal pressures.

Malaysia's 2026 outlook reflects a shift from short-term resilience towards a clearer structural momentum. Real GDP growth, projected at 4.5% or higher in 2025, is expected to sustain close to this range, at around 4.3% in 2026. Growth is underpinned by the recovery in the global electronics cycle, stronger private investment and steady domestic consumption. The scale of new investments, particularly in data centres, advanced manufacturing and fixed capital formation, signals a level shift in the country's industrial trajectory. Several national and cross-border mega projects, including the Johor-Singapore Special Economic Zone, are now positioned to support Malaysia's medium-term growth path, reinforced by broader national frameworks such as the New Energy Transition Roadmap, the New Industrial Master Plan 2030 and the Malaysia Digital Economy Blueprint.

Inflation in 2026 is expected to remain contained at around 2%. Low inflation will support the possibility of a single interest rate cut in Malaysia in 2026, in contrast with deeper rate cuts in the US. Although subsidy rationalisation introduces upward pressure in selected categories, these effects are likely to be temporary, as demonstrated in 2025. Market participants have shown willingness to look beyond short-lived price adjustments when reforms are implemented gradually, transparently and with clear social objectives.

Fiscal consolidation and improving public financial management

Malaysia's fiscal deficit, which narrowed to roughly 4.1% of GDP in 2024 and is projected at 3.8% in 2025, is targeted to fall further to around 3.5% in 2026. The annual improvement of roughly 30 basis points reflects ongoing restructuring in expenditure and revenue systems: (i) subsidy rationalisation provides fiscal space while allowing for more targeted social support and investment spending; (ii) tax administration is being strengthened through digitalisation and e-invoicing, reducing leakages and broadening the tax net; and (iii) public-private partnerships are increasingly used to undertake development projects, allowing the government to limit direct capital expenditure while safeguarding medium-term priorities.

As I have mentioned in the prior year's outlook narrative, fiscal consolidation cannot rely solely on expenditure reduction; revenue measures are essential for medium-term sustainability. While reforms remain politically complex, progress is evident in the expansion of the sales and service tax (SST) base and improvements in tax enforcement. Broader consumption tax discussions continue to feature in policy circles, and although implementation may not be immediate, they remain a credible part of the long-term revenue strategy.

Currency and bond market performance to remain positive

Malaysia's currency and bond markets are expected to remain supported by favourable macroeconomic and policy conditions through 2026, amid supportive domestic interest rates. As global interest rates decline gradually, demand for Malaysian Government Securities (MGS) is likely to strengthen, supported by a stable inflation profile and attractive real yield differentials relative to developed market bonds. The fixed income outlook is further reinforced by firm domestic growth, clearer fiscal direction and the continued absence of material credit events. Corporate credit spreads, which remained narrow in 2025 due to supportive liquidity and measured supply, are expected to remain resilient as economic conditions stabilise.

The ringgit is underpinned by improving institutional reform, stronger export performance, a steadier global environment and improving interest rate differentials, providing scope for gradual appreciation. If external conditions unfold in line with expectations, Malaysia's currency could strengthen towards levels below 4.00 against the US dollar by mid-2026, reflecting both improving global risk appetite and confidence in Malaysia's policy framework.

However, one emerging global risk warrants attention. Japan's gradual shift away from ultra-low interest rates, alongside upward pressure on Japanese government bonds (JGB) yields, may trigger a partial unwinding of long-standing yen carry trades. Such a reversal could generate short-term volatility in emerging market currencies, particularly in economies with sizeable foreign participation in local bond markets. While Malaysia's strong fundamentals mitigate this risk, episodes of currency adjustment linked to Japanese yield dynamics should be expected. These bouts of volatility are likely to be temporary and externally driven rather than indicative of domestic weakness.

Conclusion

The outlook for 2026 is shaped less by sharp cyclical swings and more by the maturation of structural shifts already in motion. Monetary policy in major economies continues to ease, albeit at a measured pace. Global trade remains fragmented but increasingly favourable to Asean as supply chain diversification becomes a sustained operational strategy. Malaysia has positioned itself effectively within this realignment, maintaining macroeconomic stability, advancing fiscal reforms and attracting higher-value investments that anchor medium-term growth.

Yet the global environment contains risks that warrant careful monitoring: (i) Japan's ongoing normalisation of monetary policy introduces the possibility of a partial unwinding of global carry trades; (ii) US disinflation may progress more slowly than expected, constraining the pace of rate cuts; (iii) China's recovery remains uneven, with implications for regional demand; (iv) Europe faces fiscal challenges that may dampen growth; (v) tariff uncertainty, particularly around rules of origin and enforcement, could generate episodic supply chain frictions; and (vi) converging geoeconomic and geopolitical risks, including tensions in energy-producing regions, remain a potential source of market volatility.

These risks are unlikely to derail Malaysia's constructive trajectory, although they may create short periods of volatility in currencies and asset markets. The priority is to manage these fluctuations while continuing to strengthen the industrial base, improve fiscal resilience and deepen integration within regional supply chains. In this context, 2026 is likely a year of continued robust growth within a landscape of structural divergence, and the opportunities lie in reinforcing these gains and sustaining confidence. If foundations towards structural reform and institutional quality are preserved, Malaysia is well positioned to navigate ongoing realignments and to benefit from the next phase of global economic restructuring. E

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