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ROBUST 1H26 PERFORMANCE PROMPTS GDP FORECAST UPGRADE TO 5.1%

14 AUGUST 2026

ECONOMIC RESEARCH

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NET EXPORTS DRIVE STRONGER ECONOMIC GROWTH IN 2Q26

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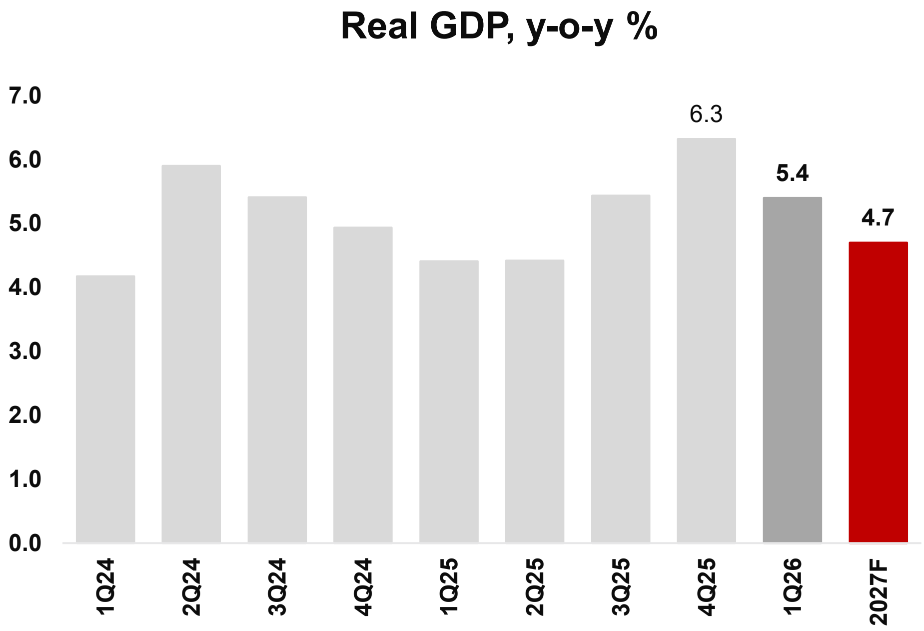


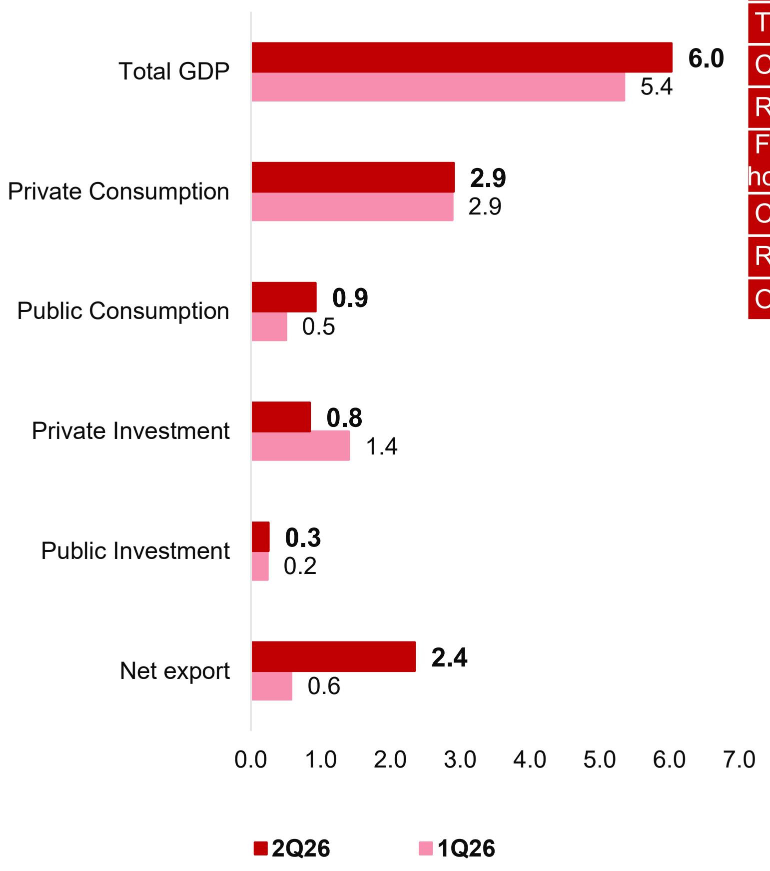
Sources: DOSM, CEIC Data, Bank Islam

Economy	2Q25	3Q25	4Q25	1Q26	2Q26	2025	2026
GDP (by expenditure)	**4.6**	**5.3**	**6.2**	**5.4**	**6.0**	**5.2**	**5.1**
Final Consumption Expenditure	**5.5**	**5.4**	**5.8**	**4.6**	**5.2**	**5.3**	**4.8**
-Private Consumption	5.1	5.8	5.6	4.7	4.8	5.3	4.8
-Public Consumption	5.7	5.8	6.6	4.1	7.6	5.3	5.0
Gross Fixed Capital Formation (GFCF)	**12.0**	**7.4**	**9.3**	**7.3**	**4.6**	**9.6**	**5.4**
-Private Investment	11.7	7.4	9.2	7.8	4.3	9.4	5.5
-Public Investment	13.5	7.5	9.5	5.3	6.3	10.3	5.0
Net Exports of Good and Services	**-58.3**	**32.2**	**-32.9**	**13.5**	**168.5**	**-15.6**	**22.1**
-Exports	4.5	4.6	6.3	5.2	17.0	4.9	8.8
-Imports	7.9	3.0	9.0	4.6	13.9	6.3	8.1
GDP (by economic activity)	**4.6**	**5.3**	**6.2**	**5.4**	**6.0**	**5.2**	**5.1**
-Agriculture	2.5	0.2	5.7	2.6	-3.7	2.2	-1.0
-Mining & Quarrying	-5.2	9.4	1.4	-2.1	9.2	0.6	3.1
-Manufacturing	3.7	4.1	6.0	5.9	7.3	4.5	6.2
-Construction	12.1	11.7	10.9	7.7	6.5	12.2	6.8
-Services	5.1	5.3	6.2	5.6	5.9	5.4	5.4

- **Malaysia's GDP growth accelerated to 6.0% y-o-y in 2Q26 from 5.4% in 1Q26, in line with our expectations and slightly above DOSM's advance estimate of 5.8%.**
- The stronger performance reflected broad-based improvements across most expenditure components, with the exception of **private investment**, which continued to **moderate to 4.3% y-o-y** from 7.8% in the preceding quarter.
- **Net exports emerged as the main driver of growth during the quarter, surging by 168.5% y-o-y (1Q26: 13.5%)**. The significant increase was driven by stronger export growth of 17.0% relative to import growth of 13.9%. Export performance continued to benefit from robust demand for E&E products, supported by the ongoing AI-driven investment cycle and global technology expansion. Base effects also contributed to the strong year-on-year growth recorded during the quarter.
- **Private consumption grew by 4.8% y-o-y (1Q26: 4.7%),** supported by favourable labour market conditions, steady income growth and continued government support measures**.** Public sector expenditure also strengthened, with **public consumption accelerating to 7.6%** (1Q26: 4.1%) and **public investment rising to 6.3%** (1Q26: 5.3%).

RESILIENT CONSUMPTION AND SURGING NET EXPORTS OFFSET MODERATING PRIVATE INVESTMENT

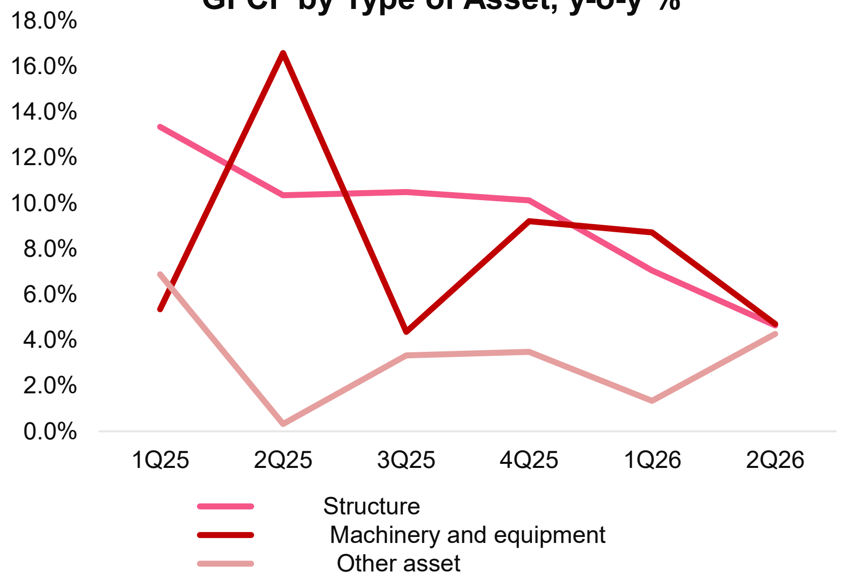
GDP by Type of Expenditure: PPT Contribution to GDP Growth



Private consumption by segment, y-o-y %

	1Q26	2Q26
Private Consumption	4.7	4.8
Food and non-alcoholic beverages	3.7	3.6
Housing, water, electricity, gas and other fuels	2.2	1.8
Transport	9.2	7.1
Communication	5.2	3.5
Restaurants and hotels	12.9	10.9
Furnishings, household equipment and routine household maintenance	4.5	3.8
Clothing and footwear	8.4	7.5
Recreation services and culture	6.0	5.2
Others	-1.8	4.0

GFCF by Type of Asset, y-o-y %



- **Private consumption remained the main driver of growth, contributing 2.9 percentage points (ppt) to overall GDP growth**. However, spending growth moderated across most categories. This suggests that households remained cautious in their spending decisions despite favourable labour market conditions and steady income growth, amid continued cost-of-living pressures.
- **Net exports emerged as the second-largest contributor to growth, contributing 2.4 ppt**. Goods exports accelerated sharply to 16.8% y-o-y (1Q26: 2.5%), while services exports strengthened to 18.0% (1Q26: 17.1%), supported by robust external demand, particularly in the E&E sector and selected services activities.
- **Public consumption also strengthened during the quarter**, driven by higher government operating expenditure, particularly on supplies and services as well as emoluments. This reflected increased spending to support public service delivery and personnel-related expenses.
- **Gross fixed capital formation (GFCF) moderated to 4.6% y-o-y** (1Q26: 7.3%), reflecting **slower private investment growth of 4.3% (1Q26: 7.8%)** as investment activity normalised following a period of strong expansion and as some projects progressed from the initial construction phase to subsequent stages of implementation. **In contrast, public investment accelerated to 6.3% (1Q26: 5.3%),** supported by higher capital expenditure by the Federal Government and public corporations on infrastructure and other productive assets.

Sources: DOSM, CEIC Data, BNM, Bank Islam

GROWTH REMAINED BROAD-BASED, WITH A STRONG REBOUND IN MINING

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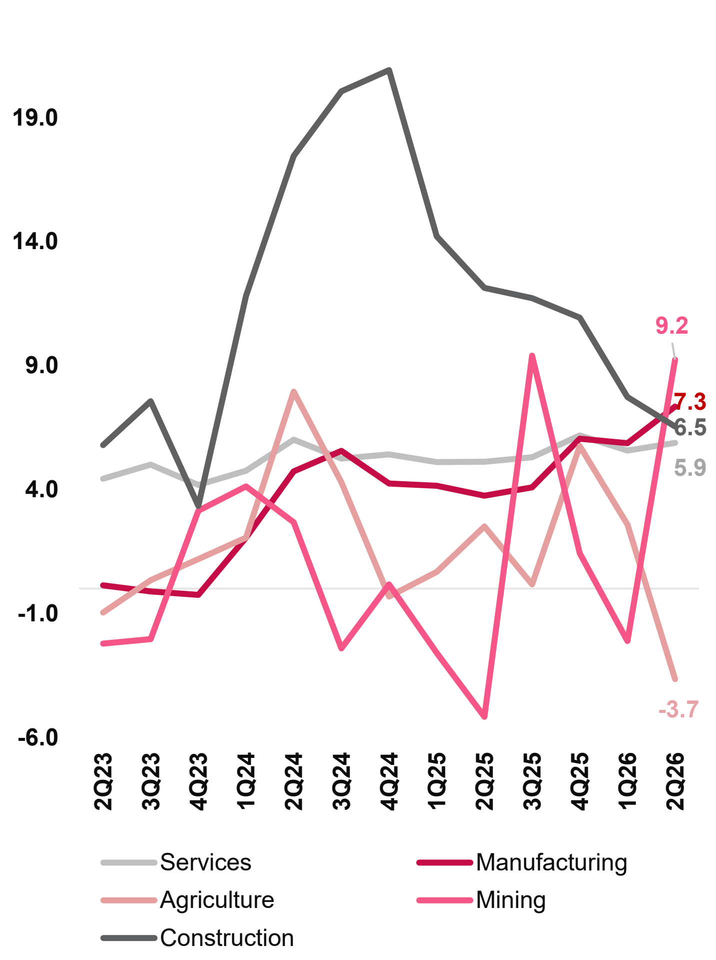
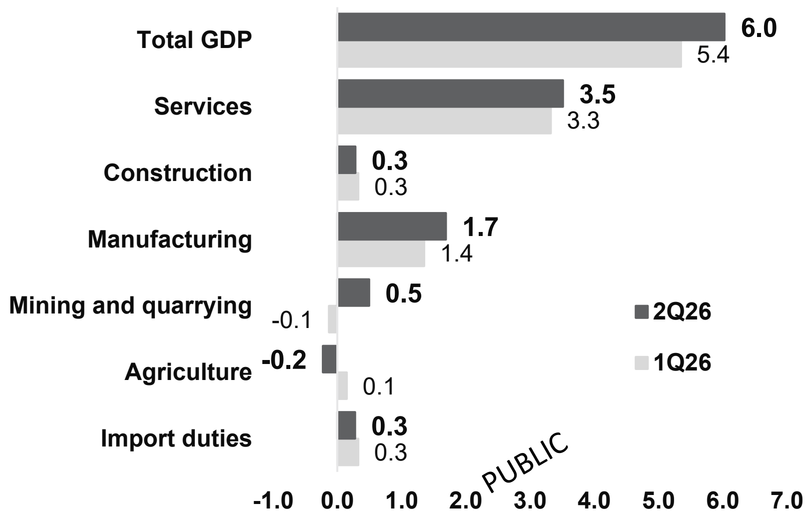
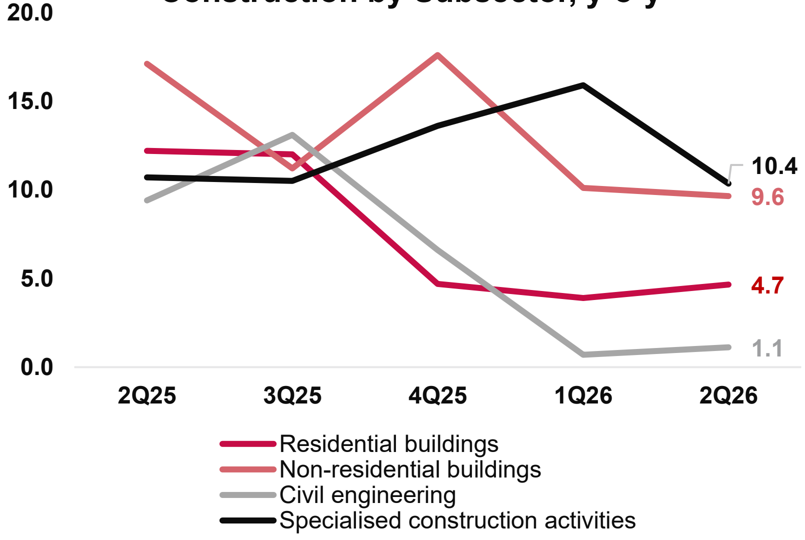
GDP Growth by Sector, y-o-y %



GDP by Economic Activity: PPT Contribution to GDP Growth



Construction by Subsector, y-o-y



Sources: DOSM, CEIC Data, Bank Islam

- A broad-based expansion was evident across all sectors except for agriculture which contracted in 2Q26:

✓ **Services** (5.9%; 1Q26: 5.6%): Growth was primarily driven by business-related services, particularly the ICT and finance & insurance subsectors. These reflect ongoing digitalisation across industries, rising demand for technology-related services, and stronger financial intermediation amid sustained economic activity.

✓ **Manufacturing** (7.3%; 1Q26: 5.9%): Growth was underpinned by export-oriented industries, particularly E&E, supported by sustained semiconductor demand, AI-related investments, expanding data centre activities, and continued supply chain diversification.

✓ **Mining** (9.2%; 1Q26: -2.1%): Growth strengthened significantly, supported mainly by higher natural gas production as output normalised following the completion of scheduled maintenance works at major production facilities. The recovery in gas production provided a substantial boost to overall mining activity.

✓ **Construction** (6.5%; 1Q26: 7.7%): Construction activity continued to expand, albeit at a more moderate pace, supported primarily by sustained growth in special trade activities and non-residential construction projects. The sector benefited from ongoing commercial and industrial developments, as well as steady progress in existing building works.

✓ **Agriculture** (-3.7%; 1Q26: 2.6%): The contraction was driven largely by the oil palm subsector (-9.5%; 1Q26: +5.5%) as production normalised following strong yields in 2025. The high base effect and softer fresh fruit bunch yields weighed on overall agricultural output.

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THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR

y-o-y, %	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Agriculture	**7.9**	**4.3**	**-0.3**	**0.7**	**2.5**	**0.2**	**5.7**	**2.6**	**-3.7**
Rubber	-1.0	13.9	23.3	9.1	-10.6	-11.1	-32.0	-25.0	-4.5
Oil palm	19.1	7.4	-5.3	-3.1	5.3	-0.7	16.2	5.5	-9.5
Livestock	7.8	3.3	3.3	2.4	1.6	2.3	2.7	8.2	2.9
Other agriculture	2.4	3.7	3.3	2.8	1.9	1.3	1.0	1.5	1.1
Forestry and logging	-17.6	-7.5	-14.7	-12.9	-2.5	1.2	7.5	3.8	-10.6
Marine fishing	10.7	2.1	1.3	10.4	1.1	-0.4	-8.8	-9.1	-7.0
Aquaculture	-1.1	-2.1	15.2	-0.2	-1.0	-3.5	-5.7	-1.0	-0.2
Mining and quarrying	**2.7**	**-2.4**	**0.2**	**-2.6**	**-5.2**	**9.4**	**1.4**	**-2.1**	**9.2**
Crude oil and condensate	2.9	-5.2	-4.5	-6.5	-2.9	7.1	4.1	-4.2	-3.6
Natural gas	1.8	-1.6	3.0	-0.7	-7.1	11.8	-0.9	-2.1	19.3
Other mining & quarrying and supporting services	7.4	3.7	1.8	1.5	-2.9	5.3	4.6	4.9	6.7
Manufacturing	**4.7**	**5.6**	**4.2**	**4.2**	**3.7**	**4.1**	**6.0**	**5.9**	**7.3**
Vegetable and animal oils & fats	6.2	15.5	7.2	12.6	15.3	1.1	12.0	11.5	-3.1
Food processing	4.4	3.9	5.8	7.7	10.0	9.7	8.8	8.0	6.1
Beverages	5.9	7.0	8.7	5.6	7.9	13.2	11.4	10.5	7.7
Tobacco products	10.5	15.7	6.9	0.2	-0.4	1.9	2.6	2.8	4.5
Textile and wearing apparel	3.9	4.1	-0.5	0.1	-2.0	-1.4	0.7	0.0	0.5
Leather and related products	2.4	7.7	7.9	6.4	7.4	7.1	8.4	5.1	4.1
Wood products	3.5	6.7	4.7	2.9	1.3	3.1	2.4	3.5	3.6

Sources: DOSM, CEIC Data, Bank Islam

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THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR (CONT)

y-o-y, %	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Manufacturing	**4.7**	**5.6**	**4.2**	**4.2**	**3.7**	**4.1**	**6.0**	**5.9**	**7.3**
Paper and paper products	2.4	3.9	1.3	-0.3	-1.8	-1.9	-2.6	-1.2	4.2
Printing and reproduction of recorded media	8.3	11.3	8.5	7.8	9.0	8.2	7.5	8.8	6.1
Refined petroleum products	3.9	2.4	1.1	-0.3	-3.3	-0.3	-1.9	-1.8	4.6
Chemicals & chemical products and pharmaceutical products	3.4	4.1	1.8	4.3	1.1	-0.4	1.8	-0.3	2.5
Rubber products	6.3	10.1	10.8	5.6	-0.1	-0.8	-1.2	-2.0	1.4
Plastics products	4.4	6.0	6.7	4.9	0.8	-0.7	-1.3	-1.9	2.6
Non-metallic mineral products	9.9	9.4	3.9	2.1	2.8	-0.2	0.7	3.8	5.6
Basic metals	6.6	7.6	2.0	2.5	5.7	6.4	7.3	5.1	7.7
Fabricated metal products	10.6	9.9	5.7	5.0	3.6	4.8	6.7	5.7	4.3
Machinery and equipment	3.9	4.1	6.4	5.8	6.8	8.5	9.7	5.4	9.1
Computers and peripheral equipment	14.8	16.1	12.4	10.1	5.1	4.0	2.8	-2.2	1.0
Electrical equipment	-3.4	-0.4	2.3	4.4	4.9	8.5	13.1	2.8	3.1
Electronic components & boards, communication equipment and consumer electronics	3.2	5.7	7.5	8.3	8.2	9.1	13.9	15.6	17.0
Manufacture of medical, precision & optical instruments, watches and clocks	-2.5	1.0	5.8	6.4	3.0	5.5	14.4	16.2	19.1
Motor vehicles and transport equipment	5.7	0.1	-4.4	-10.3	-3.1	0.5	1.3	-3.4	4.3
Furniture	8.0	5.6	3.6	2.7	6.7	9.0	7.2	5.0	6.3
Other manufacturing and repair & installation of machinery and equipment	4.2	5.3	3.0	5.9	4.8	4.3	4.1	5.7	6.3

Sources: DOSM, CEIC Data, Bank Islam

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THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR (CONT)

y-o-y, %	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26
Construction	**17.5**	**20.1**	**20.9**	**14.2**	**12.1**	**11.7**	**10.9**	**7.7**	**6.5**
Residential buildings	14.8	23.1	30.6	16.9	12.2	12.0	4.7	3.9	4.7
Non-residential buildings	3.6	27.2	23.5	21.1	17.1	11.2	17.6	10.1	9.6
Civil engineering	23.0	11.0	9.1	5.2	9.4	13.1	6.6	0.7	1.1
Specialised construction activities	27.7	22.1	24.4	17.2	10.7	10.5	13.6	15.9	10.4
Services	**6.0**	**5.2**	**5.4**	**5.1**	**5.1**	**5.3**	**6.2**	**5.6**	**5.9**
Electricity and gas	7.3	6.4	3.3	-3.1	-1.4	-0.3	3.0	5.0	7.1
Water, sewerage and waste management	-4.0	-3.9	-5.5	0.7	1.7	3.5	3.5	1.3	3.7
Wholesale trade	3.0	4.5	5.3	5.4	6.1	6.1	6.5	6.0	4.8
Retail trade	5.3	4.0	4.1	5.2	3.7	4.3	4.6	4.7	4.1
Motor vehicles	8.1	3.4	2.2	-3.7	0.2	2.5	8.2	1.1	7.5
Food and beverage	4.0	4.1	4.9	5.7	7.1	8.1	8.6	6.2	5.4
Accommodation	13.0	13.2	14.5	14.2	14.5	13.8	14.2	13.5	9.7
Transportation and storage	10.5	10.8	11.0	9.9	9.0	8.2	8.8	8.5	7.0
Information and communication	3.2	3.6	4.2	5.8	6.3	8.5	8.8	7.2	8.3
Finance	6.1	3.4	4.1	1.5	1.1	-1.8	0.7	-0.2	2.7
Insurance	26.3	3.4	7.6	6.0	2.0	-2.5	0.1	4.3	7.0
Real estate	11.3	13.7	12.9	12.3	9.8	6.8	8.0	7.6	10.0
Business services	8.5	8.6	7.8	7.7	8.0	8.1	7.3	6.4	5.6
Private health services	8.6	8.7	9.0	7.6	8.9	8.9	10.3	10.5	9.3
Private education services	7.9	7.6	6.9	6.1	7.0	7.4	7.1	8.5	6.1
Other services	3.8	4.8	4.9	3.9	4.6	6.2	6.1	5.3	4.1
Government services	4.6	4.9	4.8	4.8	5.1	5.8	6.3	5.9	6.5

Sources: DOSM, CEIC Data, Bank Islam

ECONOMIC OUTLOOK

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- **Malaysia's economy outperformed expectations in 1H26, with GDP growth accelerating from 5.4% in 1Q26 to 6.0% in 2Q26.** The broad-based expansion across the services, manufacturing, construction, and mining sectors provides a strong foundation for growth heading into 2H26. However, economic momentum is expected to moderate in the second half of the year as the temporary boost from the mining sector fades, particularly as favourable base effects diminish, while external uncertainties continue to cloud the global outlook.

- **Domestic demand is expected to remain the key pillar of growth, supported by a stable labour market and sustained investment activity.** Private consumption should continue to underpin economic expansion, benefiting from steady employment and income growth. Meanwhile, investment activity is likely to remain resilient, driven by ongoing private-sector projects and the continued implementation of government-led development initiatives. Consumer-facing sectors such as retail trade, food and beverage, tourism, transportation, and business services are expected to benefit from sustained household spending. Nevertheless, consumption growth is likely to remain measured as households continue to navigate elevated living costs, particularly for housing and essential goods, resulting in more cautious spending behaviour.

- **Investment activity will continue to be supported by a robust pipeline of projects in semiconductors, advanced manufacturing, data centres, digital infrastructure, and industrial facilities.** Beyond their direct contribution to capital expenditure, these investments generate significant spillover effects by supporting demand for construction services, machinery and equipment, logistics, utilities, professional services, and labour, thereby providing broader support to economic activity.

- **Malaysia is also well-positioned to benefit from the ongoing global technology upcycle, particularly in semiconductors and E&E products. This was reflected in the strong performance of related exports in 2Q26.** However, the growing importance of these sectors also increases exposure to fluctuations in the global electronics cycle, making export and manufacturing performance more vulnerable to any slowdown in technology-related demand.

- **Key downside risks remain concentrated in the external environment**. Escalating geopolitical tensions, global trade uncertainties, and evolving U.S. tariff policies could dampen export demand and manufacturing activity. Given Malaysia's deep integration into global supply chains, weaker external demand could eventually weigh on exports, business sentiment, and investment decisions. In addition, elevated energy prices and potential disruptions to critical shipping routes, including the Strait of Hormuz and Bab el-Mandeb, could exacerbate supply chain pressures and raise operating costs. **Rising input costs remain a key concern,** as prolonged cost pressures may compress corporate margins. Should firms pass these costs on to consumers, household purchasing power and spending momentum could moderate over time.

- In light of the stronger-than-expected performance in 1H26, with GDP growth averaging 5.7%, **we have revised our 2026 GDP growth forecast upward to 5.1% from 4.7% previously.** The upward revision reflects the stronger starting point and broad-based economic momentum recorded in the first half of the year, while incorporating a more moderate growth trajectory in 2H26 amid lingering external headwinds.

FINANCING OUTLOOK

- **Financing growth is expected to remain supported in 2H26 by resilient domestic demand, sustained investment activity, and the ongoing technology upcycle, with the manufacturing, services, and construction sectors continuing to drive credit expansion.** Nevertheless, external uncertainties, including geopolitical tensions, evolving global trade dynamics, and commodity price volatility, may encourage a **more cautious approach to borrowing and investment among certain business segments.**

✓ **Manufacturing:** Financing demand is expected to remain supported by continued growth in semiconductor and E&E-related activities amid the global technology upcycle. However, financing momentum could be affected by shifts in global demand, trade policy developments, and supply chain disruptions that may influence business expansion and capital expenditure plans.

✓ **Services:** Financing activity is likely to remain underpinned by resilient domestic demand, particularly across retail trade, tourism, transportation, healthcare, and professional services. Stable labour market conditions and steady household spending should continue to support business activity, although rising operating costs may place pressure on profitability in selected segments.

✓ **Construction:** Financing growth is expected to remain relatively strong albeit moderating, supported by ongoing infrastructure projects, industrial developments, data centres, and investment-related construction activities. The sector should continue to benefit from Malaysia's robust investment pipeline, although rising input costs and labour availability remain key challenges to monitor.

✓ **Mining:** Financing activity is expected to moderate following the sector's strong contribution in 1H26, as production growth normalises and favourable base effects fade. Nonetheless, sector performance will continue to be influenced by global energy demand and commodity price trends.

✓ **Agriculture:** Downside risks remain elevated due to the potential impact of El Niño on agricultural output. Prolonged dry weather could reduce crop yields and weaken farm incomes, particularly among smaller producers, potentially affecting cash flows and increasing repayment risks within the sector.

- **Household financing growth is expected to remain broadly stable in 2H26,** supported by favourable labour market conditions and continued consumer spending**. However, persistent cost-of-living pressures, coupled with potential spillovers from higher energy prices, may temper borrowing demand and place greater financial strain on more vulnerable households**. Overall, asset quality risks within banks' retail portfolios are expected to remain manageable

THANK YOU