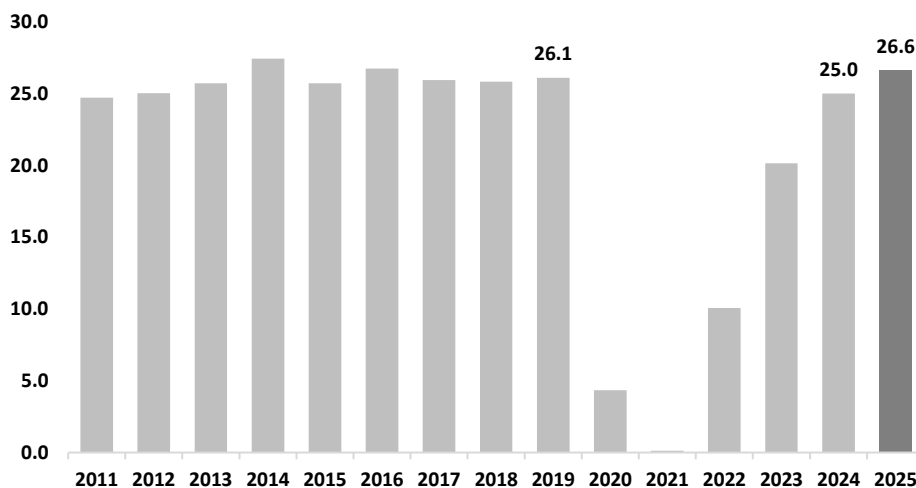


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VISIT MALAYSIA 2026 HITS A SPEEDBUMP AMID GROWING EXTERNAL HEADWINDS

- Higher transportation costs amid elevated energy prices will constrain demand
- Inbound tourism will likely slow as geopolitical concerns pose as a key drag
- Heightened security risks along the Gulf corridor continue to weigh on air travel
- Domestic demand faces downside risks from subdued household sentiments
- Visit Malaysia Year 2026 (VM2026) extended to 2027

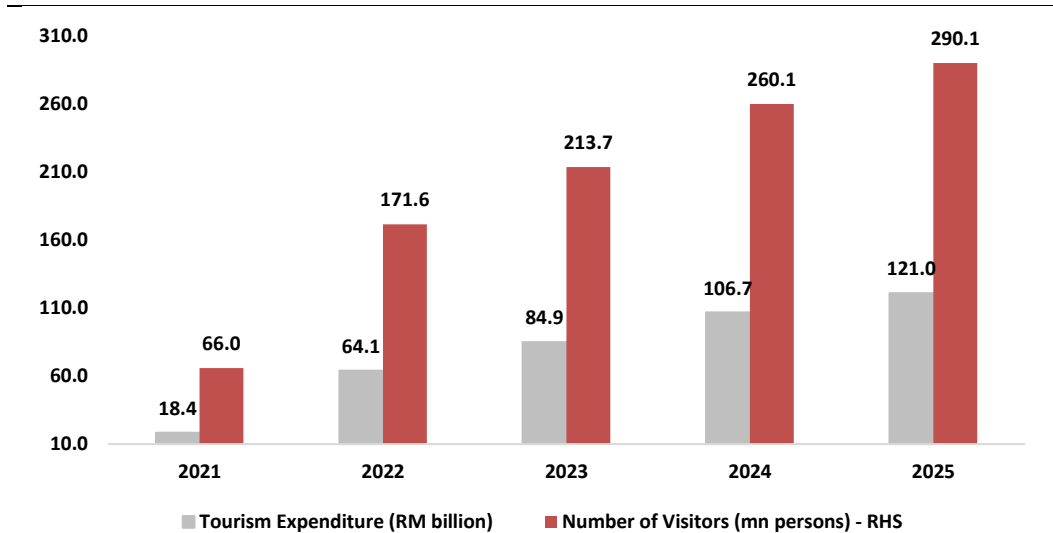
Chart 1: Tourist Arrivals, mn persons



Sources: Department of Statistics Malaysia (DOSM), CEIC Data, Bank Islam

- Malaysia's tourism sector entered 2026 on a strong footing, following a solid performance in 2025 where international tourist arrivals rose by 6.4% y-o-y to 26.6 million (2024: 25.0 million). This performance reflects not only the continued normalisation of global travel but also the effectiveness of targeted policy measures, including visa liberalisation for key markets, enhanced air connectivity, and sustained promotional campaigns. Growth was broad-based across regions, with ASEAN remaining the dominant source, complemented by improving inflows from East Asia, South Asia, and Europe.
- Visa exemptions for visitors from China and India, targeted marketing campaigns and international roadshows, and improved air connectivity, played a critical role in driving stronger external demand, underpinning broad-based growth across tourism-related industries. ASEAN remained the dominant contributor, accounting for 16.8 million arrivals in 2025, led by Singapore (9.3 million), Indonesia (3.8 million), and Thailand (1.7 million). East Asia contributed approximately 5.2 million visitors, reflecting continued recovery in regional travel flows, while arrivals from South Asia (1.7 million) and Europe (1.3 million) broadly improved.

Chart 2: Domestic Tourism



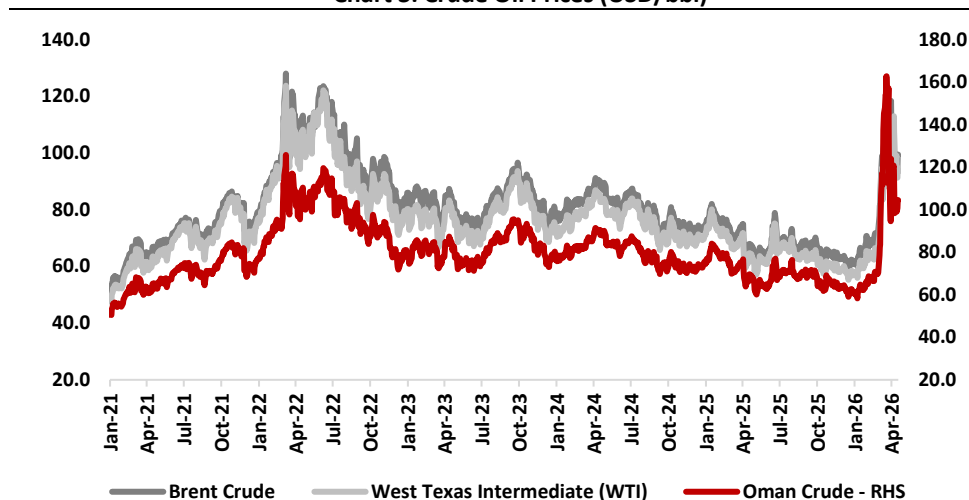
Sources: DOSM, CEIC Data, Bank Islam

- Domestic tourism also demonstrated notable resilience, underpinned by firm labour market conditions, improving household income, and supportive policy measures, stimulating stronger discretionary and leisure-related spending. Evidently, domestic visitors rose sharply by 11.5% y-o-y to 290.1 million in 2025 (2024: 260.1 million) while tourism expenditure grew by 13.5% y-o-y to RM121.0 billion (2024: RM106.7 billion).
- Against this backdrop, Visit Malaysia Year 2026 (VMY2026) was launched with ambitious targets of 47 million international arrivals and RM329 billion in receipts. However, the escalation of geopolitical tensions in the Middle East, particularly the U.S.-Iran conflict, has introduced significant external headwinds, prompting a reassessment of the sector's near-term trajectory. The subsequent extension of the campaign to 2027 underscores the growing recognition of these risks.

How Geopolitical Tensions Are Disrupting Tourism

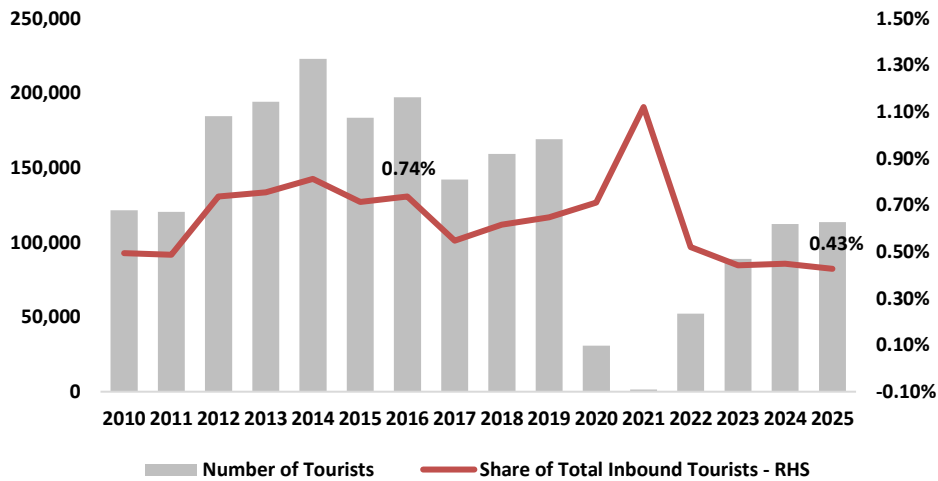
- The ongoing Middle East conflict is affecting Malaysia's tourism sector through multiple interconnected channels, namely:
 - Aviation disruptions
 - Higher transportation costs
 - Reduced travel frequencies
 - Deteriorating consumer confidence
 - Slowing external demand

Chart 3: Crude Oil Prices (USD/bbl)



Sources: Bloomberg, Bank Islam

- Global energy prices skyrocketed following the escalation of U.S.-Iran tensions and have remained elevated amid ongoing supply disruptions and concerns of a broader, protracted conflict. Brent crude prices have increased over 56.0% YTD (15 April: USD94.8 bbl), West Texas Intermediate (WTI) crude by 59.0% YTD (15 April: USD91.29 bbl) and Oman crude by 61.5% (15 April: USD99.03). Elevated oil prices translate directly into higher jet fuel costs, which are being passed on to consumers through steeper airfares and additional surcharges.
- While airline operators may attempt to mitigate margin pressures by reducing flight frequencies, the magnitude of recent oil price increases have made cost absorption challenging, particularly for small and mid-sized operators. This capacity rationalisation also risks constraining seat availability, further increasing upward pressure on ticket prices. As such, higher airfares and reduced air capacity pose as key drags to tourism demand, which is expected to result in a moderation of inbound travelers to Malaysia.
- Beyond the level effects, heightened geopolitical uncertainties have injected fresh volatility into global energy markets, resulting in material swings in oil prices and thus, complicating travel planning. Such volatility could further weigh on consumer confidence as prospective travelers adopt a wait-and-see approach, driven by expectations that travel costs will ease once conditions stabilise. In the absence of clear and sustained de-escalation signals, prolonged concerns over renewed military operations and potential regional spillovers will likely continue to weigh on travel sentiments. Consequently, tourism demand will likely moderate as consumers postpone immediate travel activity in favor of price and security clarity.

Chart 4: Tourist Arrivals from West Asia


Sources: DOSM, CEIC Data, Bank Islam

- A key risk that emerged immediately following the onset of the conflict was disruptions to aviation services, particularly across the Gulf region. Flights operations were swiftly grounded while inbound aircrafts were rerouted amid escalating strikes from U.S., Israel, and Iran. By the second day of hostilities, Iran, Israel, Qatar, Bahrain, and Iraq had closed their airspaces to commercial flights while the United Arab Emirates (UAE) announced a partial airspace closure.
- The Gulf region serves as a critical global aviation hub linking Asia with Europe, the Americas, and Africa. Airspace closures and heightened security risks across key transit corridors—including major hubs such as Dubai, Doha, and Abu Dhabi—have led to widespread flight cancellations and rerouting. In early March 2026 alone, more than 20,000 flight cancellations were reported globally, significantly disrupting long-haul connectivity. Evidently, inbound tourists from the Middle East had plunged by 40.3% y-o-y to 4.4K persons for the period between 1 to 26 March, underscoring the direct fallout from escalating geopolitical tensions.
- While direct tourist arrivals from the Middle East account for only a small proportion of Malaysia's total inbound arrivals (approximately 0.4%), ongoing geopolitical tensions in the region pose broader and more material risks to external travel demand. The Middle East plays a critical role as a global aviation transit hub, linking Europe, the Americas and Africa with Asia. Restrictions on key air corridors have therefore had outsized spillover effects on long-haul travel flows beyond the region itself. Airlines have been forced to reroute flights over longer distances, resulting in extended travel times, higher fuel consumption, and elevated operating costs.
- These cost pressures are increasingly being passed through to consumers via higher airfares and fuel surcharges, which could dampen discretionary travel demand along affected long-haul routes, including to Malaysia. At the same time, airlines may respond to sustained operational challenges by trimming flight frequencies to preserve margins, further constraining seat capacity. Collectively, these developments risk weighing on Malaysia's tourism recovery momentum not through direct

Middle Eastern arrivals, but via reduced connectivity, higher travel costs, and softer long-haul demand from key source markets reliant on Middle Eastern transit hubs.

- While immediate military activity eased following the two-week U.S.-Iran ceasefire, security risks in the region also remained elevated, especially as uncertainties surrounding the fragile nature of the U.S.-Iran truce persisted. As such, despite the gradual reopening of airspace by several countries, including Bahrain, Iraq and Syria, flight volumes across the high-risk Gulf corridors are expected to remain subdued as airlines continue to operate with heightened caution.

Table 1: Share of Tourist Arrivals by Country

Contribution (%)	2010	2015	2020	2025
Asean	77.1%	74.4%	68.1%	63.2%
Eastern Asia	8.2%	11.1%	15.2%	19.4%
Southern Asia	3.3%	4.5%	4.9%	6.5%
Western Asia	0.5%	0.7%	0.7%	0.4%
Americas	1.3%	1.3%	1.5%	1.5%
Oceania	2.6%	2.1%	1.9%	1.8%
Europe	4.1%	4.2%	5.2%	5.0%
Africa	0.1%	0.2%	0.2%	0.2%

Sources: DOSM, CEIC Data, Bank Islam

Rising Downside Risks to VMY2026 Momentum

- Malaysia's tourism sector is facing growing downside risks amid a convergence of geopolitical tensions, elevated oil prices, and prolonged aviation disruptions, which together threaten to dampen travel demand ahead of Visit Malaysia Year (VMY) 2026. While Middle Eastern tourists account for a relatively small share of total inbound arrivals, around 6.9% combined with the Americas and Europe as of 2025, the impact of geopolitical instability in the Gulf region extends well beyond direct source markets. The Middle East's role as a critical global aviation transit hub means restricted air corridors have outsized spillover effects on long-haul travel flows connecting Europe, the Americas and Africa to Asia.
- Persistent security risks have forced airlines to reroute flights along longer paths, resulting in extended travel times, higher fuel consumption and rising operating costs. These pressures, exacerbated by elevated global energy prices, are increasingly being passed on to consumers via higher airfares and fuel surcharges. At the same time, airlines are rationalising capacity to protect margins, reducing flight frequencies and further constraining seat availability. Collectively, higher costs and reduced connectivity are weighing on discretionary travel demand, particularly among long-haul and price-sensitive travelers.
- Early indicators already point to a moderation in inbound tourism. Tourism, Culture and Arts Minister Datuk Seri Tiong King Sing reported that as of March 2026, tourist arrivals declined on an annual basis from the Americas (-0.4%), Africa (-7.5%) and South Asia (-0.4%), while arrivals from the Middle East reportedly plunged by more than 40% y-o-y, underscoring the immediate impact of regional conflict. Although the affected markets represent a relatively smaller share of total

arrivals, the trend suggests scope for a broader slowdown, especially if geopolitical tensions persist. Under current conditions, estimates suggest inbound arrivals could fall short of VMY2026 targets.

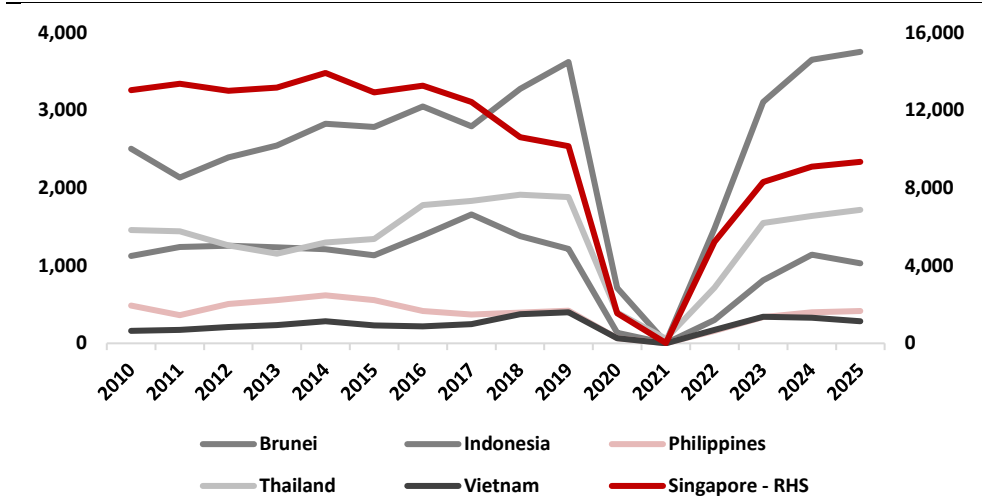
Table 2: Tourist Arrivals between 1 to 26 March 2026

Region	Number of visitors	Growth
ASEAN	2,093,096	0.6%
East Asia	407,171	12.8%
South Asia	123,270	-0.4%
Central Asia	6,569	21.0%
Middle East	4,398	-40.3%
Europe	124,824	5.2%
Americas	36,099	-0.4%
Oceania	33,127	20.2%
Africa	7,165	-7.5%

Sources: DOSM, CEIC Data, Bank Islam

- Rising travel costs pose a disproportionate challenge for price-sensitive travelers, particularly those from emerging markets and long-haul destinations. The sharp increase in global oil prices, driven by supply disruptions and heightened geopolitical risk premiums, has significantly raised jet fuel costs, feeding directly into airfare inflation. Beyond aviation, higher fuel prices are spilling over into land transportation, increasing logistics and operating costs for tour operators and travel agents. This may translate into higher tour package prices and reduced service frequencies, further dampening demand.
- Beyond cost considerations, heightened geopolitical uncertainty is also weighing on global travel sentiment. Travel advisories across multiple Middle Eastern countries, coupled with volatility in oil prices, have reinforced a more cautious “wait-and-see” approach among international travelers. Together, these dynamics cloud the outlook for Malaysia’s inbound tourism growth and raise the risk that ambitious VMY2026 targets may prove increasingly difficult to achieve.
- Despite mounting external headwinds, Malaysia’s tourism sector retains several important structural buffers that should help mitigate downside risks.

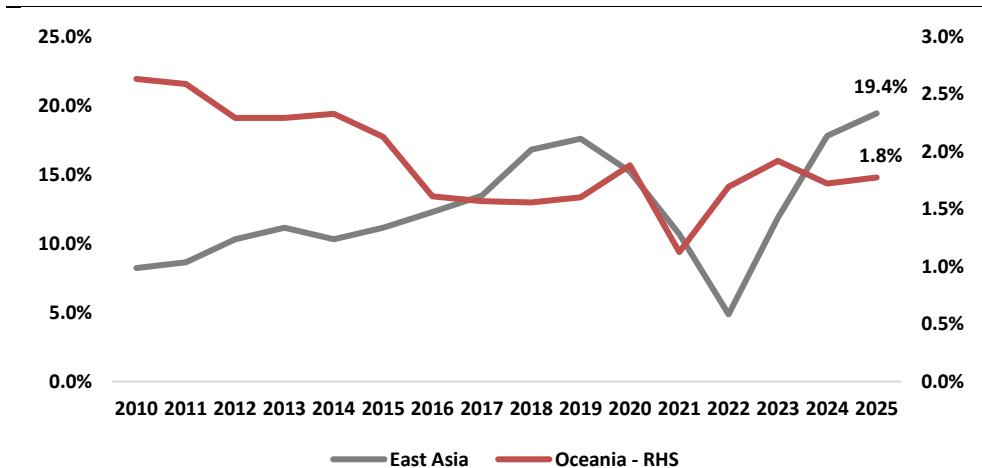
Chart 5: ASEAN Tourist Arrivals ('000 persons)



Sources: DOSM, CEIC Data, Bank Islam

- Malaysia’s tourism profile remains heavily anchored in regional markets, particularly ASEAN and East Asia, which are less exposed to long-haul travel disruptions and generally more resilient to rising costs. ASEAN tourists have long accounted for the majority of arrivals (2015: 74.4%; 2025: 63.4%), providing a stable demand base. According to the Tourism, Culture and Arts Ministry, tourist flows from ASEAN rose by 0.6% y-o-y to 2.1 million between 1–26 March 2026. Meanwhile, East Asian markets, especially China, have emerged as key growth drivers, supported by improved air connectivity, visa facilitation and sustained promotional efforts. East Asian tourists to total arrivals rising to almost 20.0% in 2025 from 11.1% in 2015. Furthermore, tourist arrivals from Oceania have also remained broadly stable (2015: 2.1%, 2025: 1.8%), providing another anchored source market. As such, external demand from these regional markets is expected to remain supportive. Evidently, visitor arrivals from East Asia (+12.8% y-o-y) and Oceania (+20.2% y-o-y) displayed double-digit growths in March with visitors from China notably surging by 22.7%, underscoring the reliability of these markets.

Chart 6: Share of Tourist Arrivals of Total Inbound Tourism



Sources: DOSM, CEIC Data, Bank Islam

- This regional concentration provides a natural buffer, allowing Malaysia to pivot towards shorter-haul, lower-cost travel segments that are less sensitive to geopolitical shocks. Indeed, despite external uncertainties, overall tourist arrivals rose by 2.4% y-o-y in March 2026 to 2.84 million, driven primarily by regional markets.
- Malaysia's geopolitical neutrality and relative domestic stability position it as a perceived "safe haven" destination during periods of global uncertainty. This may generate some degree of travel diversion into Southeast Asia as travelers avoid high-risk regions. However, such upside is likely to be limited and insufficient to fully offset softness from high-spending long-haul markets.
- The continued diversification of tourism offerings, including health tourism, eco-tourism and education-related travel, has broadened Malaysia's appeal across multiple visitor segments. At the same time, domestic tourism remains a key stabiliser, supported by festive travel cycles, improving labour market conditions and ongoing government initiatives. While domestic demand may moderate amid softer consumer confidence, it is expected to remain broadly supportive of overall sector performance.

Fiscal Pressures and Domestic Demand Risks

- Elevated global oil prices are also creating meaningful macroeconomic and fiscal spillovers. Higher crude prices significantly raise the government's fuel subsidy burden, intensifying the trade-off between maintaining social support and preserving fiscal sustainability. According to the Ministry of Finance, BUDI95 and diesel subsidies amounted to RM0.7 billion in January, broadly in line with the Budget 2026 allocation of about RM0.9 billion per month with the assumption of Brent crude at USD70/bbl (Projected total subsidy for 2026: RM11.0 billion). However, with Bank Negara Malaysia widening its Brent crude forecast range to USD70–USD90 per barrel, subsidy expenditure risks exceeding initial budget assumptions. Should Brent crude average at the upper end of this range, estimated subsidy spending could more than double relative to the original Budget 2026 projections.
- Against this backdrop, the government has tightened fuel subsidy parameters, including reducing the monthly BUDI95 quota to 200 litres from 300 litres per individual from 1 April. While subsidised RON95 prices remain unchanged, reduced coverage increases the likelihood that households will incur higher fuel costs, potentially curbing discretionary spending such as travel. Transport operators are also facing steeper diesel prices, which may prompt reduced service frequencies despite modest increases in diesel subsidy allocations. These dynamics could further constrain domestic travel capacity and weigh on internal tourism activity.

Table 3: Estimated Unsubsidised Fuel Prices and Government Subsidy Burden

Brent Price (USD/bbl)	Unsubsidised Price (RM/litre)	Subsidy per Litre (RM)	Total Subsidy (RM billion)
70	2.6	0.61	11
90	3.34	1.35	24
100	3.71	1.72	30
120	4.45	2.46	44

Sources: DOSM, CEIC Data, Bank Islam

- Assuming the unsubsidised pump price moves proportionally with Brent crude, estimated at RM0.037 per liter for every USD1 increase in Brent, a rise in global oil prices to USD90/barrel could hike subsidy expenditure under BUDI95 to around RM24.0 billion. Consistent with this, the Ministry of Finance projected that the total petrol and diesel subsidy bill will reach RM3.0 billion per month if Brent crude averages USD90/bbl, and further to RM4.0 billion per month should Brent crude reach USD100/bbl. Thus, assuming that Brent crude averaged at the upper bound of BNM's forecast, total subsidy expenditure may increase more than double than the initial budget estimate.
- Amid mounting fiscal pressures, the government decided to temporarily adjust the monthly BUDI95 quota to 200 litres from 300 litres per individual, citing that the revised quota remains sufficient based on observed average monthly consumption thus far. Although the subsidized RON95 price remains at RM1.99, the tighter quota will have implications for consumer spending patterns. Consumers are likely to dial back discretionary spending, including travel-related activities, amid the reduced subsidy coverage and an increased likelihood of having to purchase fuel at higher market prices.
- Furthermore, domestic transport operators are also facing steeper diesel prices, potentially leading to reduced service frequencies. While the government has announced an increase in monthly diesel subsidy to RM400 from RM300 under the Budi Diesel and Budi Agri-Komoditi programs, effective 21 April, the additional allocation remains relatively limited relative to the sharp spike in market prices. As a result, domestic travel agents and bus operators may rationalise operations by reducing trip frequencies to contain fuel consumption and transportation costs, further constraining transport capacity and domestic travel.
- Weaker tourism demand is expected to ripple across a broad ecosystem of tourism-linked sectors, including hospitality, retail, healthcare tourism, transport services, and real estate (particularly tourism-exposed REITs). From a macroeconomic perspective, a slowdown in tourism-related activity could trim its contribution to GDP growth. For instance, if tourism-related gross value added expands at a slower pace of around 7% instead of an earlier expectation of 9%, its contribution to overall economic growth would ease modestly, though tourism would remain a key pillar of activity.

Outlook

- Overall, Malaysia's tourism sector is likely to experience a moderation in growth rather than a sharp contraction. Higher travel costs, constrained flight capacity, and persistent geopolitical risks will cap inbound tourism expansion, particularly from long-haul and price-sensitive markets such as the Middle East, the Americas and Europe. Against this backdrop, achieving the original VMY2026 targets appears increasingly challenging, underpinning the government's decision to extend the campaign into 2027.
- Looking ahead, international arrivals are expected to remain skewed towards ASEAN and East Asian markets, with China continuing to play a pivotal role. Central Asia, East Asia, and Oceania will remain important supplementary source markets, while domestic tourism should continue to provide a stabilising base, albeit with downside risks from tighter subsidy policies and softer consumer sentiment. While external shocks such as geopolitical tensions are clouding Malaysia's near-term tourism outlook, strong structural fundamentals, diversified demand sources, and policy flexibility should enable the sector to navigate current challenges. These should allow the sector to absorb the shock and sustain growth, albeit at a more measured pace and with a narrower contribution to overall economic expansion.

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