Global Economic Outlook

Moderate global growth amid the Middle East conflict and tariff headwinds

Global economy:

- For 2026, growth is expected to expand at a more moderate pace. Headwinds from the conflict in the Middle East is expected to weigh on growth.
- Nevertheless, growth will continue to be supported by robust investment in technology and digitalisation, as well as supportive fiscal policies.

Global trade:

- Global trade growth is projected to trend lower, partly reflecting high base effect in 2025 driven by frontloaded shipments and robust AI-related demand.
- The ongoing Middle East conflict is also expected to disrupt supply chains, keeping global trade growth below its historical average.
- This slowdown will be partly cushioned by sustained demand for E&E products, especially AI-related components, alongside structural drivers such as rising digitalisation.

Global growth risks are tilted to the downside

- **Balance of risks has shifted to the downside** from previous expectations following the escalation of the Middle East conflict.
- **Downside risks** to growth could arise from a prolonged and more disruptive Middle East conflict that could further push up commodity prices, as well as the potential higher and more product-specific tariffs. Additionally, there are continued concerns over the elevated valuations in financial markets.
- **Upside risks** would stem from stronger tech spending, milder tariff impact as well as larger policy support in major economies.

Domestic Economic Outlook

Resilient domestic demand and exports to continue supporting growth

- Growth projection for 2026 is expected to be within the range of 4%–5%, supported primarily by continued domestic demand and exports.
- Household spending will be driven by positive labour market conditions and policy support.
- Investment activity will be driven by the progress of multi-year projects in both the private and public sectors, continued high realisation of approved investments, as well as the ongoing implementation of national master plans.
- Exports growth will be supported by the global technology expansion, particularly demand for E&E products, reflecting Malaysia's role in global value chains.

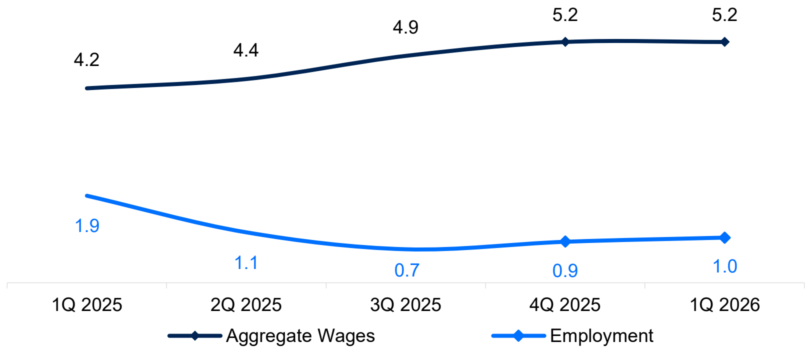
The growth outlook remains supported by resilient domestic demand, amid heightened geopolitical tensions

- **The domestic economy continues to be supported by resilient fundamentals.** The outlook, however, is subject to uncertainties stemming from heightened global developments
- **Downside risks to growth outlook** include the prolonged Middle East conflict, potential economic slowdown in key trading partners, higher cost of living as well as lower-than-expected commodity production.
- **Upside risks to growth outlook** could arise from a better global growth outlook, increased inbound tourism as well as trade and investment diversion.

Domestic Demand Conditions

Household spending will be supported by positive labour market conditions and continued policy measures

Nominal aggregate wages[6] and employment
Annual change, %

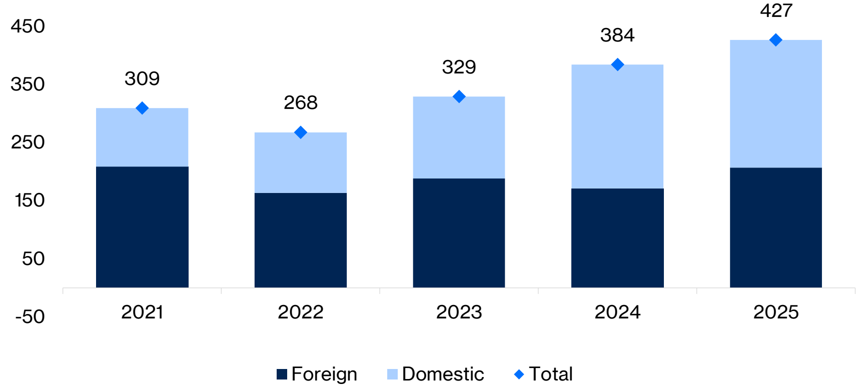


- **Private consumption is expected to continue expanding,** supported by continued growth in wages as well as ongoing policy measures.
- Wage growth will be supported by sustained domestic activity as well as income-related policy measures including Phase 2 of the Civil Servant Salary Revision (CSSR).
- Additionally, cash transfers, such as Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) will provide support to household spending.
- The BUDI95 subsidy will also help limit the pressure from higher oil prices to household spending.

[6] Refers to private and public sector wages. Private sector wages are derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics. Public sector wages refers to the salaries paid to civil servants.
Source: Department of Statistics, Malaysia

Investment activities remain forthcoming, with continued concentration in high-complexity sub-sectors

MIDA Total Investment Approvals by Foreign and Domestic Investment
RM billion



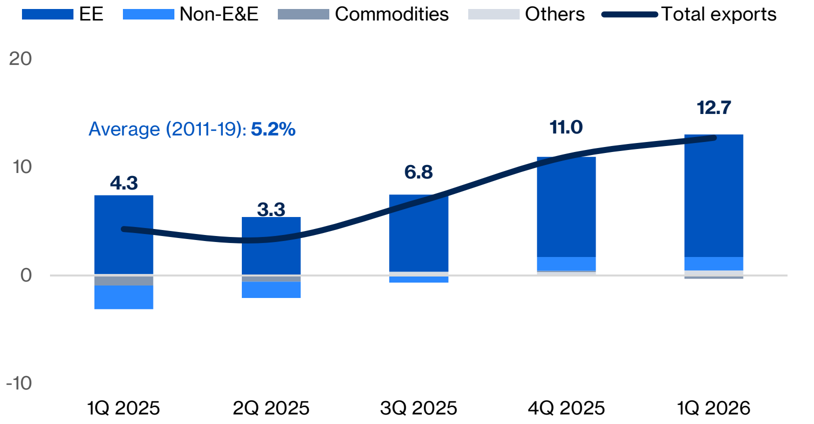
- **Investment intentions continued to remain forthcoming** with higher investment approvals recorded in 2025 at RM426.7 billion, compared to RM384.4 billion in 2024, driven by both domestic and foreign investments. Notably, 84.9% of manufacturing projects approved between 2021 and 2025 are in various phases of implementation.
- Foreign investments continue to be concentrated in high-complexity subsectors such as ICT, E&E and chemical products which accounted for 64.3% of foreign investment approvals in 2025. Within ICT, data centre investments remain a key contributor, reflecting strong demand for digital infrastructure.
- Meanwhile, the global technology expansion has also provided support to sustained investments in E&E and other manufacturing projects.

Source: MIDA

External Demand Conditions

Export growth to be supported by resilient E&E

Gross exports growth
Annual change and contribution to growth, % and ppt

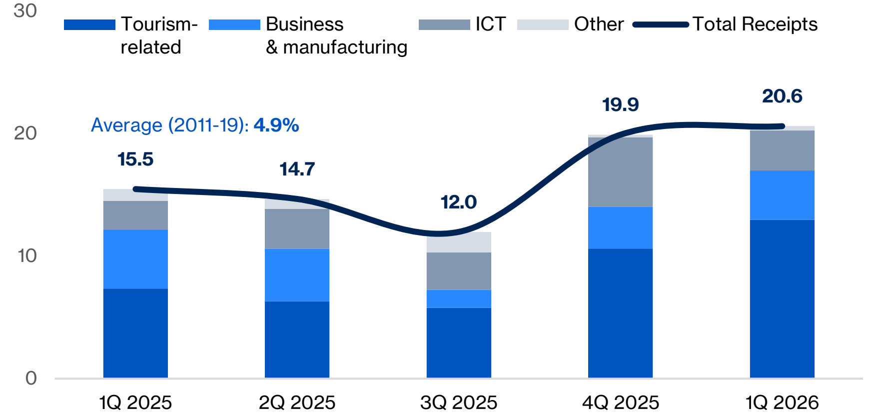


- The **resilience of the E&E exports** is underpinned by global technology expansion and Malaysia's integral role in the E&E global value chain, which will mitigate the impact from the Middle East conflict.
- Commodities-related exports are expected to face downward pressures on export **volumes due to the Middle East conflict** and domestic maintenance activities. However, as a net energy exporter, these effects are likely to be **partially offset by higher prices**.

Source: Department of Statistics, Malaysia

Diversity in services export to partly cushion impact of external shocks

Services receipts growth[7]
Annual change and contribution to growth, % and ppt



- The Middle East conflict has disrupted key aviation hubs and raised travel costs, weighing on the tourism outlook. Despite this, travel receipts are expected to **remain sustained but growing at a more moderate pace**. While a prolonged conflict could dampen tourism further, resilient regional travel could partially offset these effects.
- Services receipts will also be supported by **resilient demand for data centre services** underpinning ICT services exports as well as steady growth in **business and manufacturing-related services.**

[7] Tourism-related includes travel & transportation services. Business services includes professional and technical services as well as operational leasing. Other services include personal, cultural, recreational, insurance and financial services.
Source: CEIC

Inflation Outlook

Inflation is expected to edge higher in 2026

- Headline inflation is projected to average within 1.5%–2.5% in 2026, and may trend closer to the upper end of the range. Following the Middle East conflict, higher global prices for energy and other key commodities are causing inflation to edge higher, broadly in line with expectations. High frequency indicators up to early May point to a modest impact on prices thus far.
- Global commodity shocks affect domestic inflation through two channels.
  - Directly, via higher prices of imported consumer goods and energy-related components linked to global benchmarks. For example, this can be observed in retail fuel prices (e.g. RON97, unsubsidised diesel[8]).
  - Indirectly, through higher input costs that pass through domestic production chains before reaching final prices. For example, higher raw material and packaging costs can raise the price of consumer goods (e.g. packaged food items).
- The extent and pace of pass-through to domestic prices will depend on several factors, including firms' pricing behaviour and demand conditions, as well as the presence of mitigating factors in the absence of excessive demand pressures. In this context, existing policy measures, such as targeted fuel subsidies, are expected to help limit near-term spillovers to broader inflation.

[8] Diesel users in Sabah and Sarawak continue to pay a subsidised price of RM2.15/litre.

Inflation outlook will remain dependent on evolving global developments

- Since the last quarter, the balance of risks to inflation has shifted to the upside, following the escalation of the Middle East conflict.
  - **Upside risks** stem from elevated and more volatile global commodity prices across energy and non-energy inputs, arising from further geopolitical escalations. These could lead to stronger and more persistent input cost pressures, particularly if supply disruptions broaden.
  - **Downside risks** could arise from weaker-than-expected global demand and trade activity, which may weigh on domestic growth and demand conditions, including more cautious discretionary spending by households. Easing global commodity prices and imported cost pressures could also contribute to lower inflation outcomes.

Box Article

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

Summary

- The escalation of the Middle East conflict has led to a sharp rise in global energy and commodity prices. Accessibility constraints through the Strait of Hormuz have also impeded global supply chains and the flow of critical inputs.
- These developments pose downside risks to global growth while intensifying inflationary pressures, with potential spillovers to Malaysia's growth and inflation outlook.
- The magnitude of impact will depend on the persistence and severity of the conflict. High uncertainty and the wide range of possibilities underscore the need for scenario analysis to assess potential outcomes.

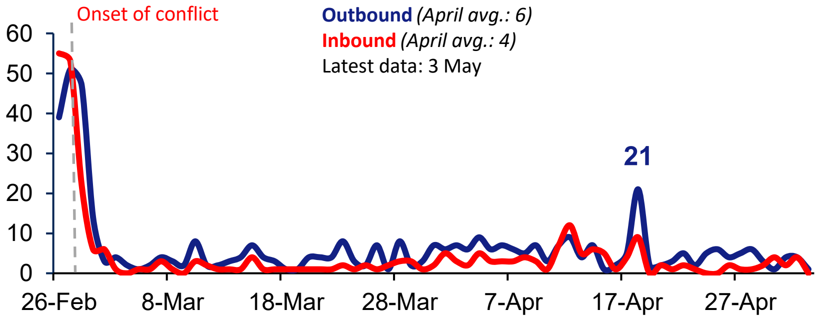
Introduction

The conflict in the Middle East that started in end-February has intensified in recent months, elevating risks to the global economic landscape. The near-total closure of the Strait of Hormuz, a critical artery for approximately 20% of global energy flows and a range of essential inputs, has resulted in significant disruptions to global supply chains. Prolonged conflict could weigh heavily on global growth, exacerbate inflationary pressures and heighten financial market volatility, with adverse spillovers to many economies including Malaysia. Against this backdrop, this box article updates the baseline and severe scenarios presented in the Economic and Monetary Review 2025 released in March 2026 to reflect recent developments in the conflict and the associated shifts in the risk environment. It further assesses the key transmission channels, evaluates the macroeconomic implications for Malaysia and outlines relevant policy considerations.

Taking stock of the latest developments in the Middle East conflict: increasing duration, scope and severity

More than two months into the conflict, geopolitical conditions in the Middle East show little sign of meaningful improvement. Despite ongoing diplomatic efforts and intermittent ceasefire initiatives, the environment remains highly volatile, characterised by repeated disruptions to maritime routes, vessel seizures and escalating military posturing. Commercial shipping activity through the Strait of Hormuz has remained subdued following the sharp contraction at the onset of the conflict (Figure 1). Although there have been occasional and short-lived upticks in vessel movements, both inbound and outbound flows remained weak throughout April, with transit volumes well below pre-conflict levels, reflecting heightened risk aversion among shipowners and insurers.

Figure 1: Commercial ships transiting the Strait of Hormuz
Number of ships

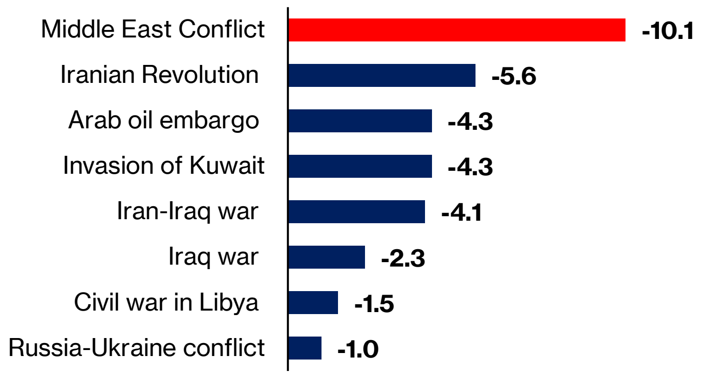


Source: Bloomberg

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

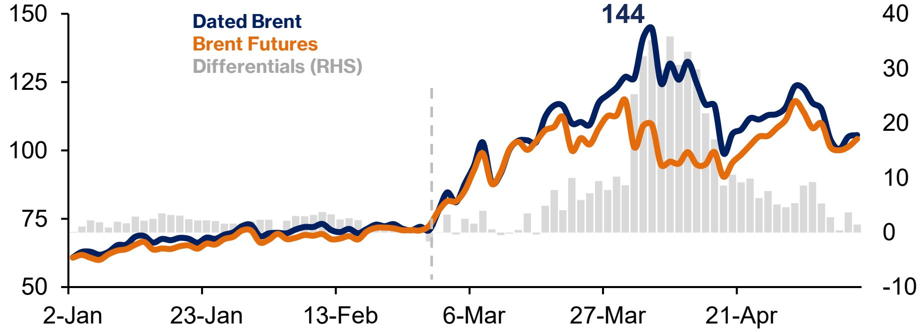
In March 2026, global oil supply declined by an estimated 10 million barrels per day, marking the largest oil shock on record (Figure 2). Global oil prices rose sharply in tandem, with physical oil prices increasing more than prices in the futures market, reflecting acute tightness in immediate supply conditions (Figure 3). Beyond crude and refined petroleum products, the Gulf region is also a key source of critical inputs, including liquefied natural gas, fertilisers, helium and aluminium. As such, the conflict has led to broad-based price increases across these commodities, highlighting wider spillovers from energy market tightness to supply chain disruptions (Figure 4).

Figure 2: Initial oil supply losses in previous geopolitical conflicts
million barrels per day



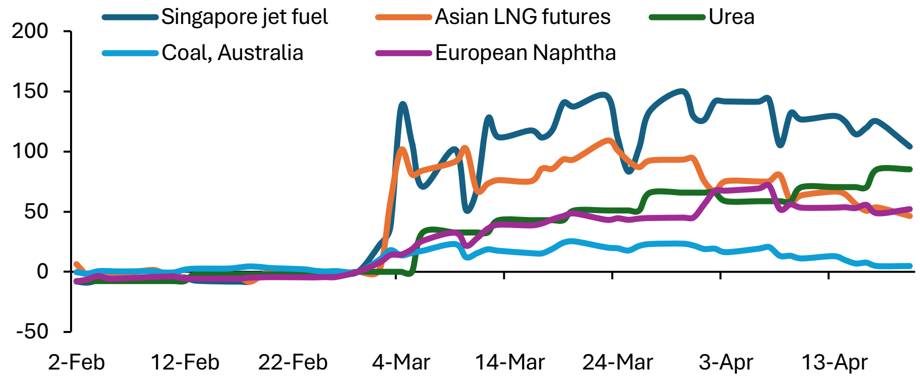
Source: International Energy Agency, U.S. Energy Information Administration, World Bank

Figure 3: 2026 dated Brent vs Brent futures
USD per barrel



Notes: Dated Brent prices reflect conditions in the physical oil market and therefore tend to respond more sharply to near-term supply disruptions, elevated shipping and insurance costs and precautionary procurement. In contrast, Brent futures prices embody market expectations over a longer horizon and typically incorporate the likelihood of easing supply constraints over time, resulting in a more muted price response.
Source: Bloomberg, U.S. Energy Information Administration, Bank Negara Malaysia estimates

Figure 4: Commodity price changes since the onset of the conflict
Index, 0 = Feb 28, 2026



Notes: Daily data, last observation is April 20, 2026.
Source: Bloomberg, World Bank, Bank Negara Malaysia estimates

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

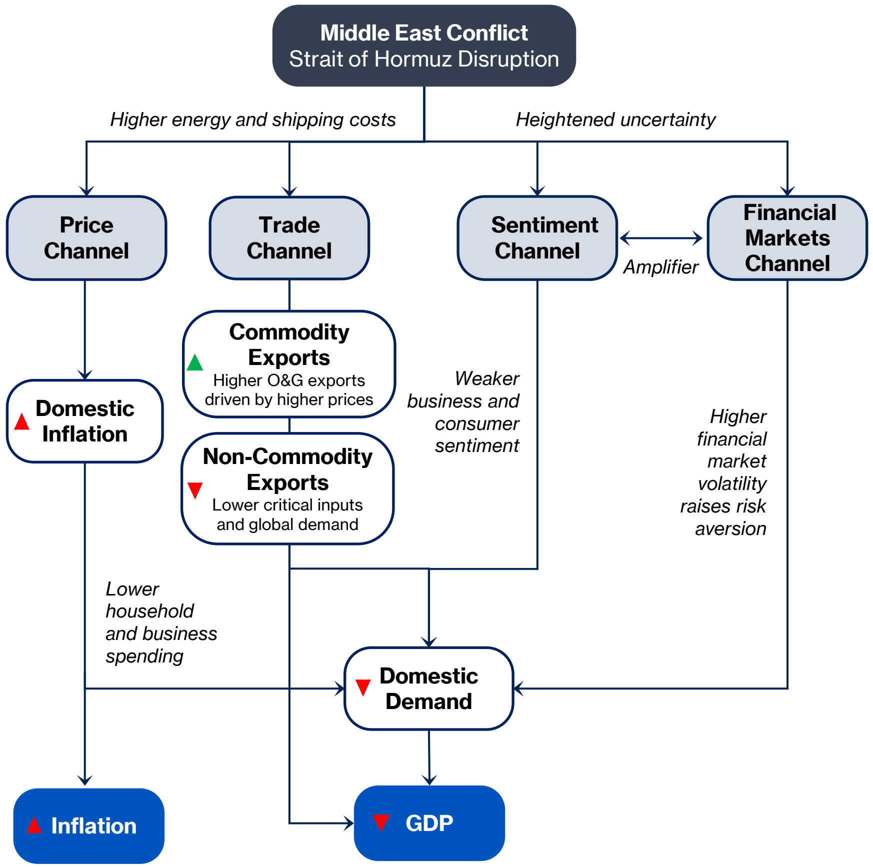
Transmission channels of Middle East conflict to the Malaysian economy

The Middle East conflict affects the domestic economy via four main channels (Figure 5).

1. Price channel: Higher global energy and non-energy commodity prices, together with disruptions to international shipping routes, raise energy, transportation and production costs, exerting upward pressure on domestic costs. Some of these cost pressures are subsequently transmitted to selected consumer prices, particularly transport-related services and food items that rely on imported inputs. Elevated inflation, in turn, erodes households' real purchasing power and increases firms' operating costs, leading to more cautious consumption and production, even as existing policy measures and cost absorption help to moderate near-term pass-through.

2. Trade channel: Disruptions to energy flows and shipping routes weigh on global trade, with spillovers to Malaysia's trade activity. In addition to softer external demand, supply chain disruptions impede the flow of critical inputs and feedstock required for the production of manufactured goods. For instance, supply disruptions to naphtha, which is an important input in plastics production, could affect

Figure 5: Stylised illustration of transmission channels of Middle East conflict to the Malaysian economy

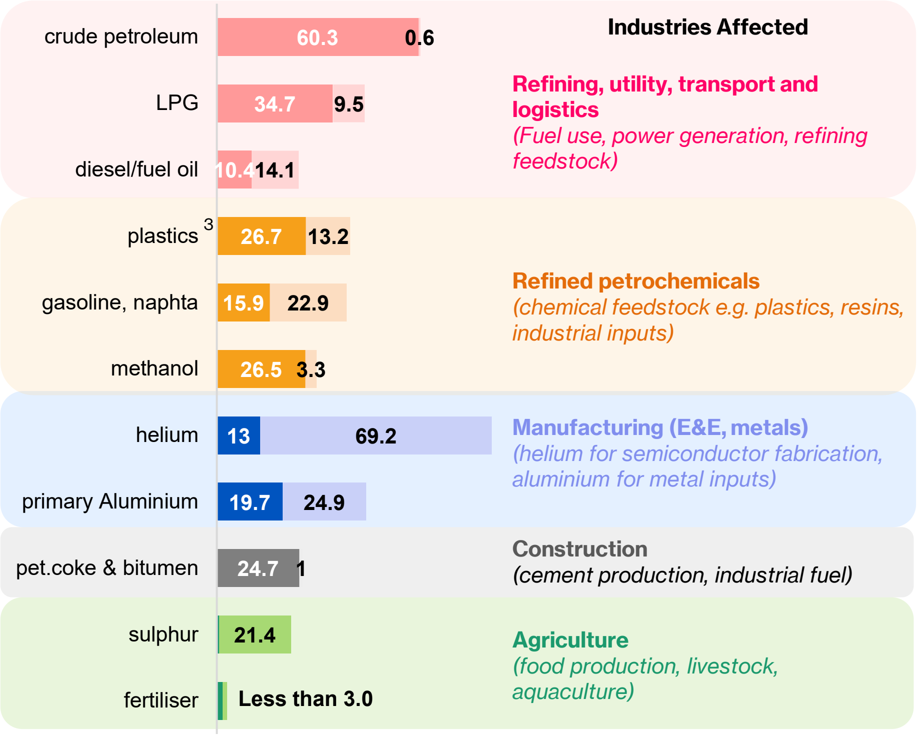


downstream industries such as food and consumer packaging by raising costs and constraining output (Figure 6). At the same time, higher jet fuel costs, safety concerns and air route disruptions have led to flight cancellations and weaker tourism activity. Should the conflict become more prolonged and severe, compounded supply chain disruptions and weaker services receipts could further weigh on export earnings, dampen income, and weaken domestic demand.

3. Sentiment channel: The uncertainties surrounding the conflict, together with the rising cost pressures and financial market volatility, may weigh on business and consumer sentiment, prompting firms to defer investment decisions and households to adopt more precautionary consumption behaviour. These responses, in turn, may amplify the overall effects on domestic demand.

4. Financial markets channel: Elevated geopolitical uncertainty tends to heighten global risk aversion, contributing to increased financial market volatility and tighter global financial conditions. Deterioration in investor sentiment could trigger a risk-off behaviour in global financial markets, resulting in higher volatility and widening risk premia. For many countries, including Malaysia, this may manifest in greater capital flow volatility, exchange rate pressures and fluctuations in asset prices.

Figure 6: Malaysia's exposure to Gulf[1] supply by imported products
% exposure to Middle East supply (direct and indirect[2])



Note: [1] Gulf countries include Saudi Arabia, UAE, Kuwait, Qatar, Bahrain, Iran, Iraq. [2] Indirect exposure measured by weighting Malaysia's imports from each trading partner by that partner's exposure on Middle East imports, capturing the extent to which upstream shocks may transmit through alternative suppliers. [3] Interpreted as 26.7% of imported plastics is directly from Gulf, with a further 13.2% exposed via trade partners' exposure to Gulf.
Source: Department of Statistics, Malaysia, S&P Global Trade Atlas, UN COMTRADE, Bank Negara Malaysia estimates

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

Table 1: Key assumptions for the Middle East conflict scenarios

	Baseline: Protracted conflict	Severe Scenario: Prolonged escalation
Brent prices (USD/barrel)	**USD85–105 (Point: USD95)[1]**	**USD120–140 (Point: USD130)**
March 2026 estimates	USD70–90 (Point: USD80)	USD110–130 (Point: USD120)
Strait of Hormuz	**Persistent conflict** Hormuz closure duration: three to six months (up to end-August) • Selective passage for Iranian and allied tankers • De facto closure through insurance withdrawal and risk aversion	**Prolonged and wider conflict** Hormuz closure duration: > 6 months • Complete halt of vessel flows (e.g. fully effective US naval blockade) • De facto closure through insurance withdrawal and risk aversion
Oil and gas output	• **Oil**: Production shut-ins due to damaged infra and saturated inventories • **LNG**[2]: Permanent disruptions causing tight supply in EU and Asia	• **Oil**: Significant and prolonged production shut-ins due to damaged infra and saturated inventories. Disruptions to the pipeline bypass • **LNG**: Prolonged disruptions causing shortages in Europe and Asia
Post-resolution	• **Some production scarring** from infrastructure damages • Gradual price moderation as risk premiums normalise, shipowner confidence restores and countries restock depleted inventories	• **Severe production scarring** from infrastructure damages • Higher-for-longer prices due to elevated risk premiums, delayed resumption hinged upon Hormuz flows and production restart timeline
Offsetting factors	• Release of strategic reserves • Pipeline rerouting for Saudi and UAE • Selective tanker flows through the Strait of Hormuz • Worldwide government demand-supportive policy measures	• Further reserve releases, albeit insufficient to cover physical shortages • Recessionary demand destruction begins to contain demand pressure • Ramp up in non-Gulf producers

Note: [1] As of 11th May, year-to-date average of Dated Brent crude prices is USD91.6 per barrel (Brent Futures: USD 86.3 per barrel). [2] Liquefied Natural Gas

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

Revised outlook: baseline and severe scenarios

Compared to the assessment in March, the revised **baseline scenario** assumes a more protracted conflict environment rather than a short-lived escalation. Accordingly, oil prices are expected to remain elevated for a longer period, reflecting sustained geopolitical uncertainty and persistent risks to global energy supply. Assumptions related to maritime disruptions in the Strait of Hormuz have also been revised. Beyond the risk of outright physical closures, greater emphasis is placed on indirect frictions, including the withdrawal of insurance coverage and heightened risk aversion among shipowners, which can materially constrain shipping activity even in the absence of a full blockade. These disruptions are expected to persist for several months. The revised assessment also places greater weight on prolonged oil and gas supply disruptions and a slower post-conflict normalisation. In contrast to earlier assumptions of short-lived outages and a swift recovery, the baseline now allows for more extended production shut-ins, tighter global LNG market conditions and a more gradual restoration of output. While mitigating factors, such as strategic petroleum reserve releases and increased production from non-Gulf producers, remain relevant, their capacity to fully offset supply shortfalls is assessed to be limited.

The **severe scenario** assumes a more prolonged conflict, characterised by a material deterioration in maritime security conditions. Disruptions to the Strait of Hormuz are assumed to extend beyond six months, effectively resulting in a near-complete halt in commercial vessel movements and a de facto closure of one of the world's most critical energy transit chokepoints. Under this scenario, oil and gas markets would experience significant and persistent supply dislocations. Production shut-ins are deeper and more prolonged, driven by infrastructure damage, limited evacuation capacity and disruptions to alternative pipeline routes. Global LNG supply conditions also tighten sharply, with prolonged outages leading to acute shortages in Europe and Asia. Relative to the baseline, post-conflict normalisation is substantially delayed, with more pronounced production scarring and a slower-than-expected recovery in oil and gas output in the Gulf region. Oil prices are therefore expected to remain elevated for an extended period, supported by sustained risk premia and uncertainty surrounding both the timing and reliability of supply recovery. While additional strategic reserve releases and a ramp-up in non-Gulf production provide some offset, these measures are insufficient to fully alleviate physical shortages, with recessionary demand destruction only gradually easing price pressures over time.

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

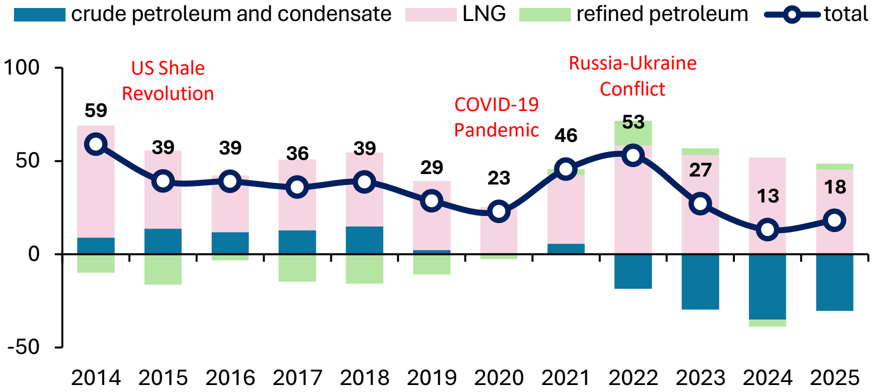
Macroeconomic implications for Malaysia

Under the revised baseline scenario, the impact of the Middle East conflict on Malaysia is assessed to be contained, as the economy enters this period from a position of strength, supported by relatively better initial conditions. First, as a net energy exporter, higher oil and gas prices are expected to support Malaysia's net energy trade balance (Figure 7). Second, Malaysia benefits from strong growth momentum carried over from the fourth quarter of 2025 and the first quarter of 2026, underpinned by the resilience of electrical and electronics (E&E) (Figure 8) and ICT exports (Figure 9). Third, a low and stable inflation environment helps mitigate domestic cost pressures and supports overall macroeconomic stability. These strong fundamentals will continue to underpin the economy's resilience.

Structurally, the ongoing AI-driven technology cycle is expected to continue supporting E&E exports, reflecting Malaysia's well-established position within the global semiconductor and electronics manufacturing services ecosystem. The country's increasing involvement in advanced packaging and the supply of critical components has further strengthened its participation in higher value-added activities. These developments have also generated positive spillovers to supporting machinery and equipment segments, thereby broadening the sources of growth momentum.

Figure 7: Malaysia's oil and gas trade balance

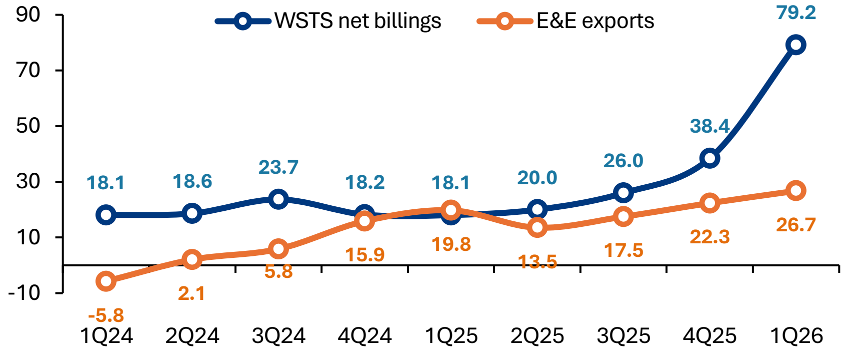
RM billion



Source: Department of Statistics, Malaysia, Bank Negara Malaysia estimates

Figure 8: Malaysia's E&E exports, WSTS net billings

Annual change (%)

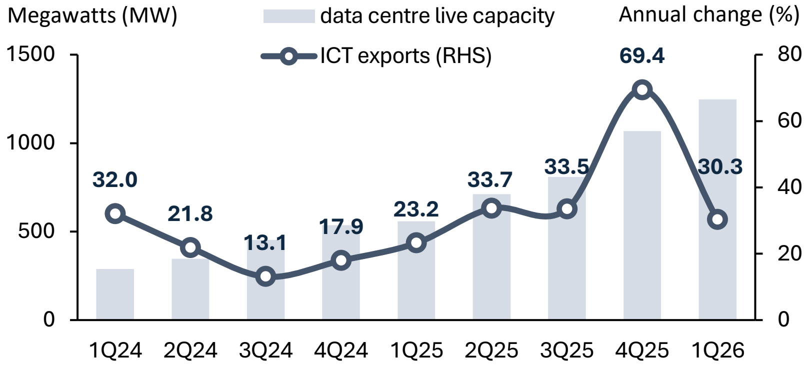


Source: Department of Statistics, Malaysia, World Semiconductor Trade Statistics, CEIC

Box Article

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

Figure 9: Malaysia's nominal ICT exports, data centre live capacity



Source: Department of Statistics, Malaysia, CEIC and DC Byte

The impact is also expected to be cushioned by firm domestic demand. Household spending will be supported by favourable labour market conditions and income-related policy measures. Investment activity is projected to remain robust, underpinned by the continued realisation of previously approved projects, particularly in high-technology sectors such as E&E and ICT-related activities, as well as ongoing infrastructure spending.

Targeted fuel subsidy plays a central role in containing inflationary pressures. Existing mechanisms, such as BUDI95, help to limit the direct pass-through from global price increases to domestic fuel inflation (weight of petrol in CPI: 5.5%), while the targeted diesel subsidy framework (SKDS 2.0)[1] partly mitigates cost impact to eligible logistics and commercial transport vehicles, limiting the degree of spillovers from higher diesel prices to inflation across the broader CPI basket. While higher costs of production inputs, including energy, fertilisers and other petroleum-related raw materials, are expected to exert upward pressure on selected consumer prices, the overall magnitude of the increase is likely to remain manageable, owing to these policy measures alongside moderate demand conditions.

Under the severe scenario, the impact is significantly more pronounced. Prolonged disruptions to energy flows and the supply of critical inputs place acute strain on global supply chains, weighing on global growth. Constrained by shortages of key inputs and weaker external demand, the more persistent and severe external shock dampens trade activity, which subsequently transmits to weaker domestic growth. Elevated inflation, more cautious sentiment and heightened financial market volatility further amplify these negative spillovers. Inflationary pressures are also expected to be stronger and more persistent, driven by higher and more prolonged external cost pressures. In this environment, Malaysia's strong fundamentals partially offset weaknesses in external sector.

Note: [1] Under the SKDS 2.0, eligible logistics and transport vehicles continue to purchase diesel at subsidised prices, with almost 150,000 companies approved under the scheme. Targeted cash assistance is also provided to eligible individuals and selected sectors (e.g. smallholders, farmers, small traders).

Navigating the Great Commodities Disruption: Macroeconomic Implications of the Middle East Conflict to Malaysia

Firm-level implications due to the Middle East conflict

Industrial engagements were conducted in March–April 2026[1] to get insights on the impact of the conflict on costs, prices, revenue, investment and labour in the second quarter of 2026. Overall, firms were affected mainly via cost, while investment and hiring intentions remained broadly intact.

More than half of the firms reported higher costs, affecting both domestic and export-oriented firms. This was driven mainly by high raw material prices due to shortages and higher logistics costs, including freight and insurance. Raw material shortages include industrial chemicals such as methanol, plastic-related inputs and industrial gases such as helium. Higher fertiliser costs also affected some agricultural firms.

More than a third of the firms planned to pass on the cost increases, both fully and partially. Factors contributing to firms passing on fully include the cost-plus pricing model practised by some manufacturers, inelastic demand for logistics providers and high commodity prices giving space for commodity producers to offset higher costs via higher selling prices. For those passing on partially, some have thin margins such as retail and F&B firms, while others were wary of losing price-sensitive customers and hence intend to stagger price increases.

Note: [1] Insights were derived from 85 firms across all economic sectors; manufacturing (40%), services (39%), agriculture (9%), construction (8%), mining (4%). 55% are domestic-oriented firms, while 45% are export-oriented firms.

Meanwhile, slightly less than a third of the firms planned to absorb costs due to stiff competition and regulatory constraints – for example, government approval is needed for price adjustments in port- and aviation-related services. The remaining one-third of firms cited no impact on their costs and hence would retain selling prices.

Revenue outcomes were mixed across firms. Less than a third of the firms recorded lower revenue, with tourism-related sectors accounting for roughly half of these cases amid flight disruptions and booking cancellations. Some car manufacturers also faced cancellation for internal combustion engine (ICE) cars given higher fuel cost, although partially offset by higher electric vehicle (EV) demand. Meanwhile, some primary and consumer-related manufacturers expect lower orders due to higher selling prices and material shortages. A few firms reported higher revenue, largely among commodity-related firms and logistics providers.

Investment and hiring intentions remained broadly intact, although signs of increased caution had emerged. Ongoing investment activities, including committed multi-year projects, were expected to proceed as planned. Nonetheless, about a fifth of the firms adopted a wait-and-see approach, including temporarily pausing or deferring planned investments. This was mainly among tourism-related and certain export-oriented manufacturers. In terms of labour, firms did not report retrenchments. However, a small share of affected firms indicated they may leave vacancies unfilled and allow employment levels to adjust through natural attrition.

Resilience of firms remained evident in the near term (2Q 2026), given mitigation measures such as inventories and alternate sourcing strategies. Firstly, while level of inventories can differ, these firms are holding on average of three to four months of inventory. These can be deployed to sustain production and buffer against higher raw material cost. Secondly, some firms sourced inputs from alternative suppliers such as China and the United States, albeit at higher premium and subject to export controls. Lastly, firms are also exploring new export markets beyond the Middle East and shifting towards less fuel-reliant machinery. Although these mitigation strategies could help to partly limit cost increases and supply disruptions, concerns remained on the downside risk in the second half of 2026 should the conflict prolong.

Policy priorities: Preserving macroeconomic stability and medium-term resilience

The scale of the supply shock associated with a near-total disruption of the Strait of Hormuz is unprecedented, with far-reaching implications for global energy markets and supply chains. Under these circumstances, Malaysia's economy is experiencing a supply shock, reflecting disruptions to global production networks, energy flows and input costs, rather than a weakening in domestic demand. In this environment, near-term policy priorities should focus on preserving macroeconomic stability while safeguarding critical buffers. The immediate priority is to secure essential supplies and prolong the use of existing buffers, such as fuel inventories and critical inputs, to cushion the supply shock.

Policy responses should remain prudent, targeted, and proportionate, focusing on managing cost pressures and preventing disorderly price adjustments while protecting the most affected segments of the economy. In addition to the continuation of targeted subsidy measures, BNM has also introduced SME Stabilisation Relief Facility (SME SRF), a RM5 billion financing facility to support viable SMEs affected by the conflict. Together with credit guarantee schemes and ongoing financing support, these measures help cushion near-term cash flow pressures and ensure continued access to working capital.

At the same time, preserving monetary and financial stability remains essential. The Monetary Policy Committee (MPC) acknowledges the uncertainties from the ongoing conflict in the Middle East.[1] The impact to the global and Malaysian economy will depend on how these developments evolve. At the current OPR level, the MPC considers the monetary policy stance to be appropriate and consistent with the outlook of continued price

[1] Source: BNM Monetary Policy Statement May 2026

stability and sustainable economic growth. The MPC will remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic inflation and growth.

Beyond near-term stabilisation, the focus shifts towards strengthening resilience through resource conservation and more secure supply chains. Strengthening national food and energy security, diversifying import sources, and enhancing domestic supply capacity are critical to reducing vulnerability to external shocks. Efforts to deepen regional and alternative trade linkages can also help mitigate supply chain disruptions and improve access to critical inputs. Accelerating the transition to renewable energy and the green economy remains a key medium-term priority, helping to ease supply constraints and reduce reliance on fossil fuels and global energy price volatility.

Conclusion

Heightened geopolitical uncertainty in the Middle East continues to pose material, though manageable, external risks to Malaysia. As a small and open economy, Malaysia is not fully insulated from these developments. While the baseline scenario assumes a protracted but contained conflict, characterised by episodic disruptions to energy flows and global supply chains, the balance of risks to growth remains tilted to the downside should tensions escalate further or disruptions become more persistent.

Ultimately, the magnitude of the macroeconomic impact will depend on the persistence and severity of the conflict, as well as the effectiveness of policy responses and firm-level adjustments in mitigating spillovers to the real economy. Malaysia's diversified economic structure, existing policy buffers, and adaptive firm-level strategies provide an important layer of near-term resilience. In this environment, policy efforts remain focused on preserving macroeconomic and financial stability. This includes ensuring orderly financial conditions, supporting affected households and firms through targeted measures, and safeguarding domestic supply conditions. Continued vigilance and policy flexibility will therefore be critical to contain second-round effects arising from higher costs, trade disruptions and shifts in financial market sentiment amid an uncertain global environment.

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