BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

BNM Quarterly Bulletin

1Q

First Quarter 2026

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes BNM's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by BNM in pursuit of its mandates.

Contents

Key Highlights for 1Q 2026

GDP recorded resilient growth of 5.4% (4Q 2025: 6.2%)

What are the factors supporting growth?

Continued household spending
Private Consumption: 4.7% (4Q 2025: 5.6%)

Steady investment activities
Gross Fixed Capital Formation: 7.3% (4Q 2025: 9.3%)

Sustained exports growth, driven by E&E, travel and ICT
Exports of Goods and Services: 5.2% (4Q 2025: 6.3%)

Labour market conditions remained favourable

Unemployment Rate
2.9%
(4Q 2025: 3%)

Private Sector Nominal Wages
4.1%
(4Q 2025: 4.1%)

Headline inflation edged higher to 1.6% (4Q 2025: 1.3%)

What are the key factors affecting inflation?

Higher electricity charges slowed the decline in electricity inflation
Electricity inflation: -6%
(4Q 2025: -10.3%)

Higher fuel prices in March slowed the decline in fuel inflation
Fuel inflation: -1.5%
(4Q 2025: -1.9%)

Lower core inflation mainly driven by food away and rental
Core inflation: 2.1%
(4Q 2025: 2.3%)

The ringgit appreciated against currencies of most trading partners in the first quarter

Ringgit NEER*
1.4%
(4Q 2025: 3.8%;
YTD: 2.9%)

MYR/USD
0.5%
(4Q 2025: 3.9%;
YTD: 3.3%)

US Dollar Index
1.7%
(4Q 2025: 0.6%;
YTD: 0.2%)

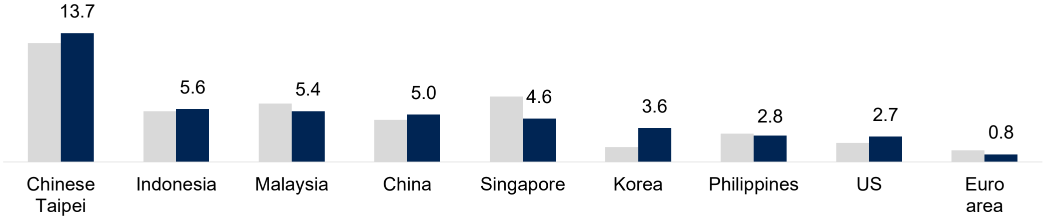
*NEER: Nominal Effective Exchange Rate
Note: YTD as of 13 May 2026.

International Economic Environment

Global Economic Performance

Sustained global growth in 1Q 2026

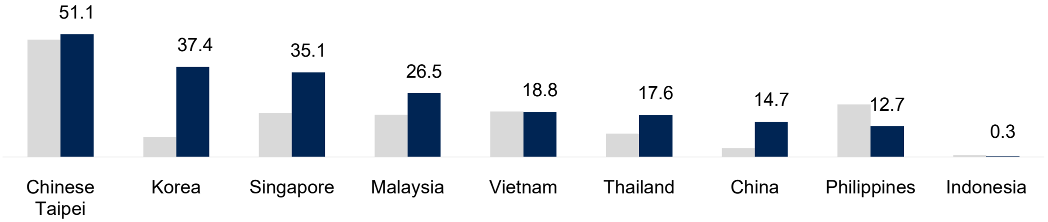
GDP of selected economies,
Annual change, %



Source: National authorities

Regional trade remained supported by tech demand

Exports of selected economies,
Annual change, % (in USD terms)



Source: National authorities

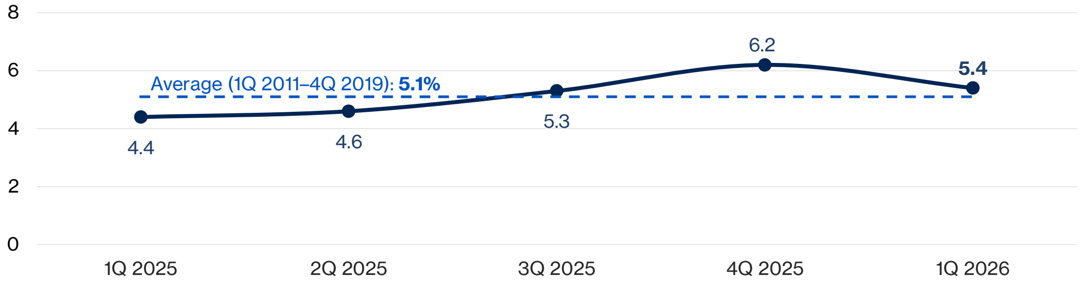
Highlights

- **Global growth remained resilient in 1Q 2026,** supported mainly by sustained domestic demand and continued global tech expansion. The US economy expanded further due to higher investments and government spending. In China, growth was anchored by continued strength in exports, alongside improving domestic activity.
- **Regional trade was broadly sustained**. Several economies that benefited from strong demand for tech products, especially AI-related components, recorded higher export growth. Meanwhile, others experienced slower trade due to lingering impact from tariffs and supply disruptions linked to heightened conflict in the Middle East.
- **Headline inflation edged higher**, exacerbated by rising energy prices amid disruptions in global commodity supply chains.
- **Higher average of Brent crude oil prices in 1Q 2026** at USD80 per barrel (4Q 2025: USD63 per barrel), following the escalation of conflict in the Middle East. The conflict led to the effective closure of the Strait of Hormuz, a critical chokepoint through which over 20% of global oil flows transit. The consequent production shutdowns and damage to energy infrastructure resulted in unprecedented supply disruptions and heightened volatility in global energy markets.

Gross Domestic Product

GDP growth remained resilient at 5.4% in 1Q 2026

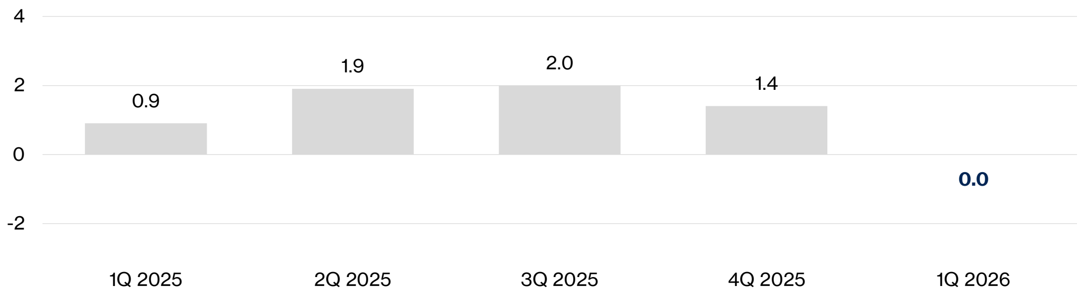
Gross domestic product,
Annual change, %



Source: Department of Statistics, Malaysia

Economic activity was broadly unchanged on a quarter-on-quarter basis

Gross domestic product,
Quarterly change, % (seasonally adjusted)



Source: Department of Statistics, Malaysia

What are the factors supporting growth in 1Q 2026?

Continued growth in household spending supported by firm labour market conditions and ongoing policy support

Resilient private investment underpinned by robust spending on structures, machinery and equipment, particularly for data centres

Export growth remained firm, driven by high demand for electrical and electronics (E&E) products as well as travel and information and communication technology (ICT) services

Malaysia's Economic Performance

Continued expansion in domestic demand driven by private sector

Annual change, %

Private Consumption

4.7%
(4Q 2025: 5.6%)

Positive labour market conditions and continued policy support

Private Investment

7.8%
(4Q 2025: 9.2%)

Continued machinery and equipment spending and structures investment

Public Consumption

4.1%
(4Q 2025: 6.6%)

Slower supplies and services spending

Public Investment

5.3%
(4Q 2025: 9.5%)

Slower government fixed asset spending and lower support from major infrastructure projects nearing completion

Net Exports

13.5%
(4Q 2025: -32.9%)

Steady exports growth amid faster moderation of imports growth

Source: Department of Statistics, Malaysia

Growth supported by services and manufacturing sectors

Annual change, %

Services

5.6%
(4Q 2025: 6.2%)

Resilient growth in business-related and Government services

Manufacturing

5.9%
(4Q 2025: 6.0%)

Sustained growth driven by strong E&E production following continued demand for AI-related components

Agriculture

2.6%
(4Q 2025: 5.7%)

Lower growth as oil palm production normalise following strong yield in 4Q 2025

Mining

-2.1%
(4Q 2025: 1.4%)

Weaker oil and gas production output

Construction

7.7%
(4Q 2025: 10.9%)

Supported by special trade and non-residential activities

Source: Department of Statistics, Malaysia

Labour Market Conditions

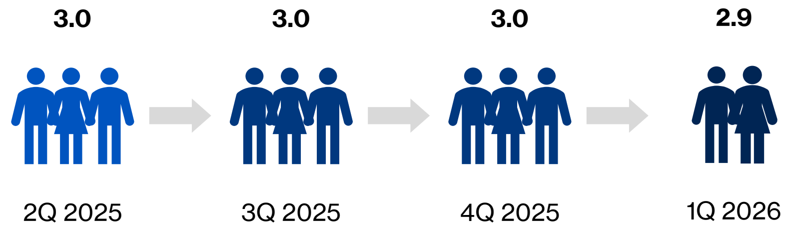
Labour market remained positive

- The unemployment rate declined to 2.9% in 1Q 2026 (4Q 2025: 3% of the labour force).
- Employment increased to 16.73 million persons in 1Q 2026 (4Q 2025: 16.68 million persons) amid continued demand for labour.
- Labour supply remained forthcoming, with the labour force participation rate unchanged at 70.9% in 1Q 2026 (4Q 2025: 70.9%).

Source: Department of Statistics, Malaysia

Low unemployment rate

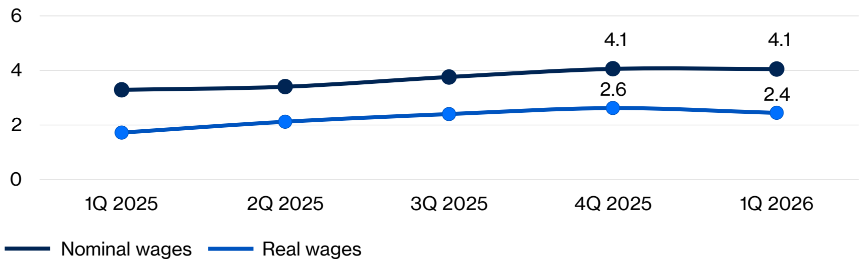
Unemployment rate, % of labour force



Source: Department of Statistics, Malaysia

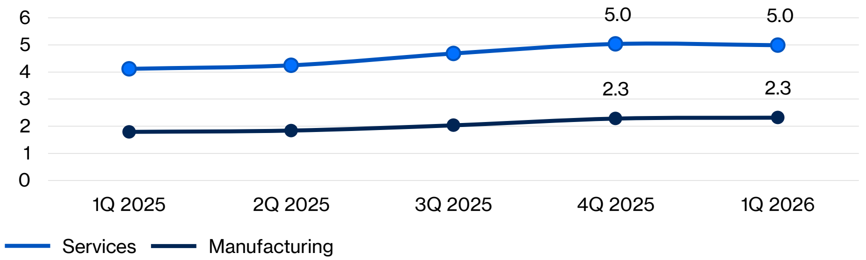
Continued growth in private sector wages

Private sector nominal and real wages,
Annual change, %



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

Sectoral nominal wages,
Annual change, %



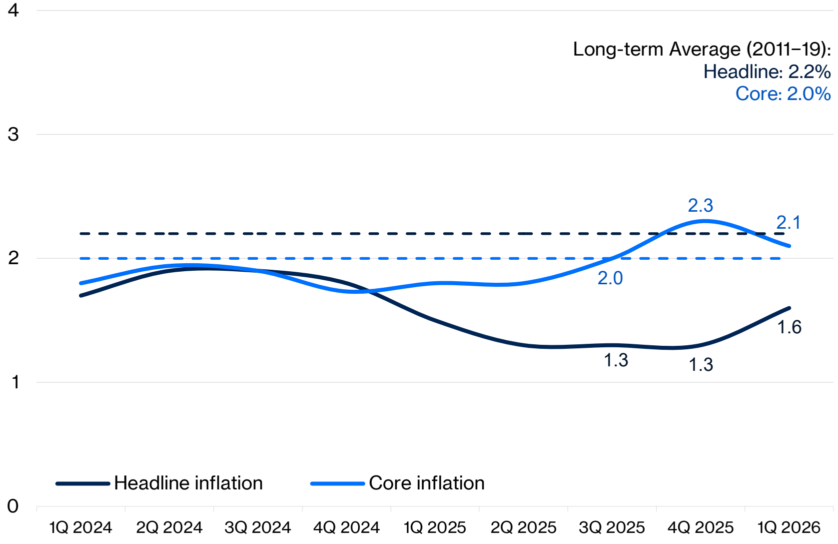
Source: Department of Statistics, Malaysia

Inflation Trend

Headline inflation increased, while core inflation moderated during the quarter

- Headline inflation rose to 1.6%, reflecting some initial pass-through of higher global cost pressures, partly from the Middle East conflict. Electricity charges and fuel prices increased [1] during the quarter, which led to slower declines in electricity and fuel inflation.
- These upward pressures were partly offset by lower core inflation, which moderated to 2.1%, mainly reflecting softer inflation in food away from home and rental.

Headline and core inflation,
Annual change, %

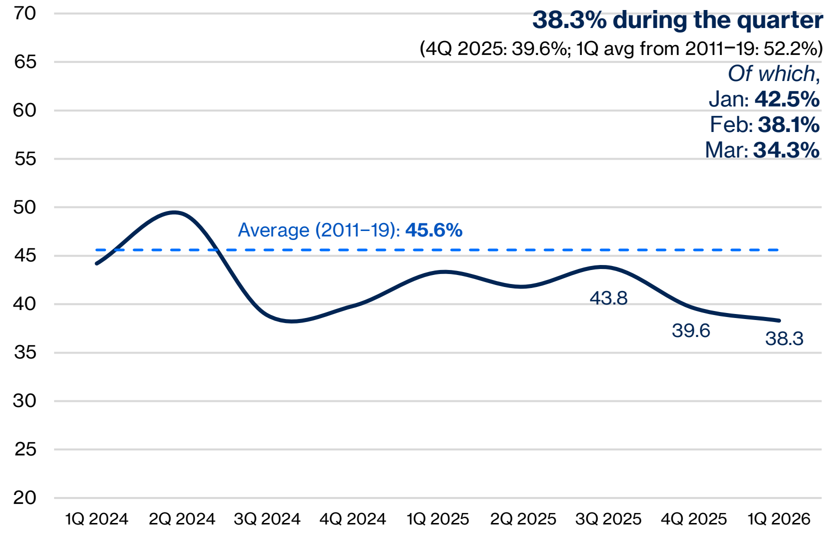


[1] In March, the average market prices of RON95, RON97 and diesel increased to RM2.54/litre, RM3.10/litre and RM2.98/litre respectively. Nevertheless, most Malaysian users of RON95 continued to pay the subsidised price of RM1.99/litre (up to 300 litres) under BUDI95, and eligible diesel users in Sabah and Sarawak continued to pay the subsidised price of RM2.15/litre.
Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Inflation pervasiveness continued to decline in the first quarter

- A smaller share of CPI items recorded month-on-month price increases in the first quarter, remaining below the historical average.
- The lower pervasiveness reflected moderate underlying price pressures, in line with the lower core inflation.

CPI items recording month-on-month price increase,
Share, %



Note: The data for 2024 onwards reflect the additional new items in the CPI basket, based on the HIES 2022.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

External Sector Development

Higher exports growth relative to imports

Gross Exports **12.7%**
4Q 2025: 11.0%
Continued strength in E&E exports, offsetting weaker exports of crude petroleum, liquified natural gas (LNG) and agriculture.

Gross Imports **7.7%**
4Q 2025: 11.7%
Broad-based moderation in capital, intermediate and consumption goods.

Source: Department of Statistics, Malaysia

Higher current account surplus and inflows into the financial account

Current Account
RM15.2 billion; 3% of GDP
(4Q 2025: RM2.7 billion; 0.5%)

Higher surplus driven by
- Larger goods surplus given moderation of imports.
- Higher services surplus amid sustained travel and ICT receipts, as well as slower services payments.
- Narrower primary income deficit due to lower profits recorded by FDI firms.

Which was partially offset by
- Wider secondary income deficit due to continued outward remittances.

Financial Account
Net inflows RM27.4 billion
(4Q 2025: Net inflows RM9.4 billion)

Net inflows into
- Portfolio investments, driven mainly by acquisition of domestic debt and equity securities by non-residents and liquidation of equity securities abroad by residents.
- Direct investments, supported by sustained net foreign direct investment (FDI).
- Other investments, supported by higher deposit placements and repayment of interbank borrowing by non-residents.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Higher external debt

RM1.44 trillion or 70.1% of GDP
(4Q 2025: RM1.40 trillion or 68.9% of GDP)
- Higher intercompany loans by corporates.
- Increased deposits placements by non-residents.

External debt remained manageable
% of total external debt

Currency

Ringgit-denominated: 32.6%
Unaffected by ringgit exchange rate fluctuations.
FCY-denominated: 67.4%
of which 52.8% is subject to BNM's prudential and regulatory requirements and 20.2% are due to intercompany loans.

Maturity

Medium- and long-term: 57.4%
Limited rollover risks.

Net International Investment Position	**-RM67.8 billion** (4Q 2025: -RM26.1 billion)
International Reserves[2]	**USD129.7 billion** (4Q 2025: USD125.5 billion)

- **4.6 months[3]** of imports of goods and services
- **0.9 times** short-term external debt

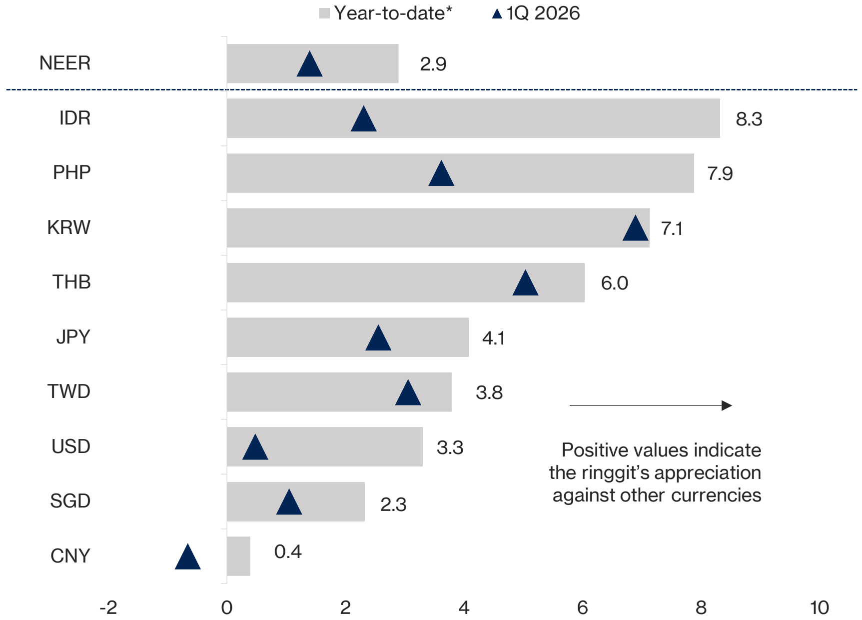
[2] As of 30 April 2026.
[3] Coverage may differ from the press statement on international reserves published on 8 May 2026, as it reflects the latest 1Q 2026 data on imports of goods and services.
Source: Ministry of Finance, Malaysia, Department of Statistics, Malaysia and Bank Negara Malaysia

Financial Markets and Exchange Rate

The ringgit appreciated against currencies of most trading partners

Underpinned by solid domestic fundamentals, the ringgit appreciated despite escalations in geopolitical tensions and reduced expectations for policy rate cuts by the US Federal Reserve.

Performance of the ringgit against selected major and regional currencies
% year-to-date and quarter-on-quarter



Note: *YTD as of 13 May 2026.
NEER refers to the ringgit nominal effective exchange rate, which measures the ringgit's performance against a basket of currencies of Malaysia's major trading partners.
Source: Bank Negara Malaysia

Domestic financial market developments were driven by both global and domestic factors

Bond yields increased in line with bond markets abroad, reflecting heightened global inflation expectations driven by higher oil prices

MGS 10Y Yields +14 bps (4Q 2025: +4 bps)

Equity market rose marginally supported by net foreign inflows into the domestic market

KLCI +0.6% QoQ (4Q 2025: +4.2%)

Key factors influencing global and domestic markets

Reduced expectations for rate cuts by the US Federal Reserve amid higher oil prices and elevated inflationary pressures, following escalation of the Middle East conflict

Tighter global financial conditions as heightened geopolitical uncertainty contributed to elevated market volatility amid global risk-off sentiment

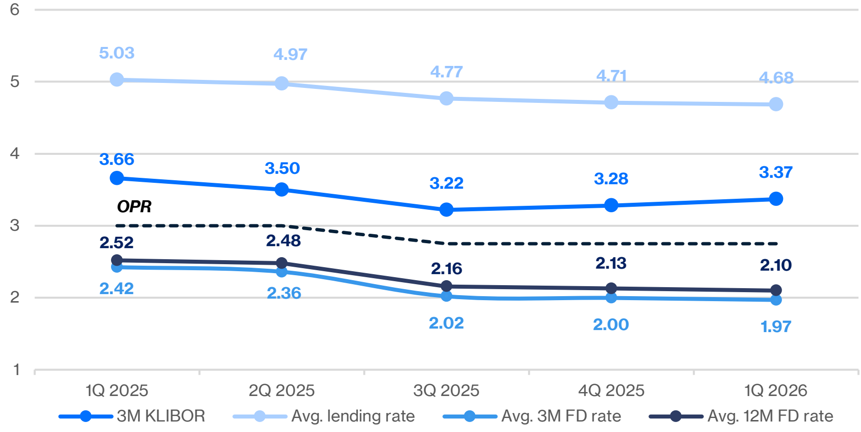
Strong domestic fundamentals, underpinned by firm economic prospects and ongoing structural reforms

Source: Bank Negara Malaysia, Electronic Trading Platform (ETP) and Bursa Malaysia

Interest Rates and Liquidity

Interbank rates increased during the quarter while lending rates remained broadly stable

Interest rates,
End-period, %

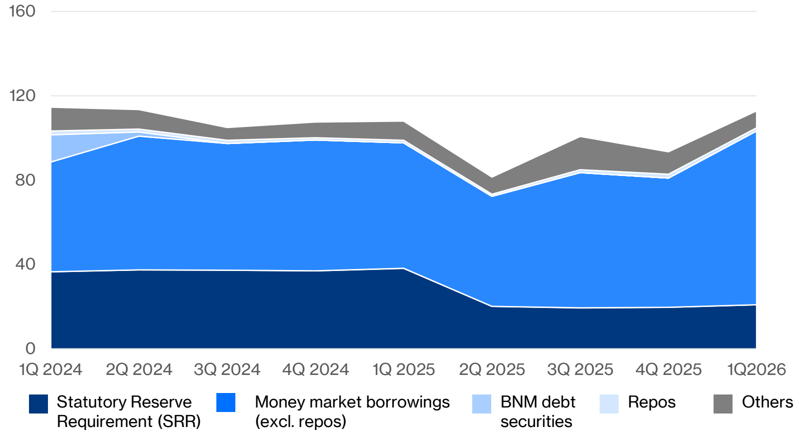


- **The 3M KLIBOR increased** by 9 basis points during the quarter, mainly reflecting higher funding demand by banks towards the quarter-end period.
- **Retail board fixed deposit (FD) rates declined** by 1 to 8 basis points across tenures, reflecting banks' funding strategies to manage their cost of funds.
- **Average lending rate (ALR) on outstanding loans remained broadly stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

Banking system liquidity continued to facilitate financial intermediation

Outstanding ringgit liquidity placed with BNM,
End-period, RM billion



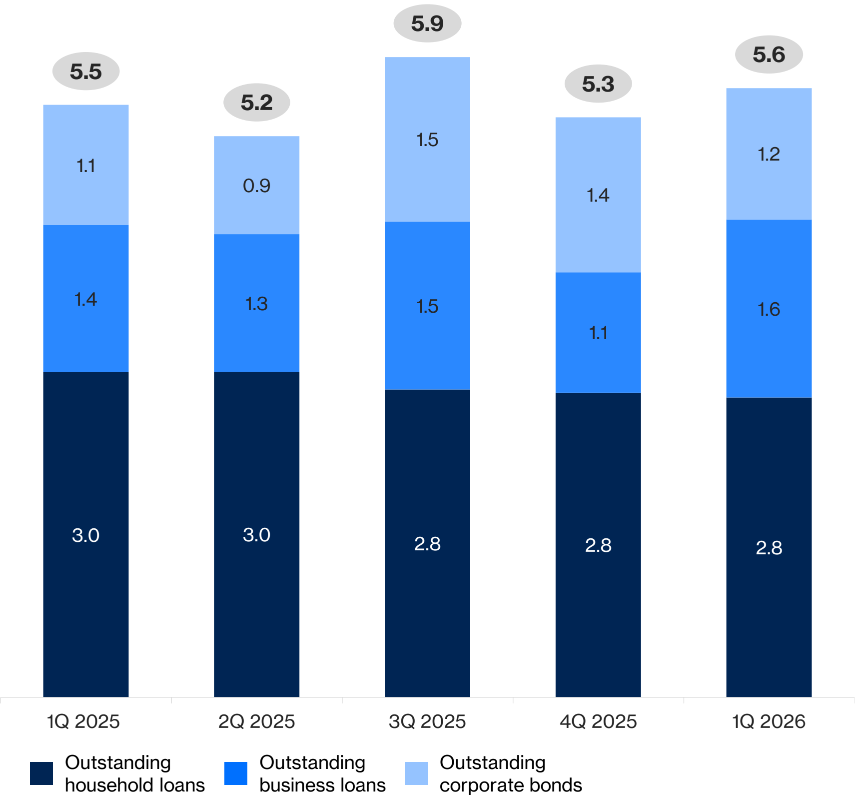
- **Total banking system liquidity increased** during the quarter amid higher liquidity injection by BNM.
- Banking system liquidity remained sufficient to support financial intermediation. At the institutional level, most banks continued to maintain surplus overnight placements with BNM as at end-March 2026.

Source: Bank Negara Malaysia

Credit Conditions

Credit growth increased amid higher growth in outstanding business loans

Credit to the Private Non-Financial Sector,
Contribution to growth, ppt



Note: Figures may not add up due to rounding.
Source: Bank Negara Malaysia

Key developments

Credit to the Private Non-Financial Sector[4]

5.6%
4Q 2025: 5.3%

- Outstanding loans[5] grew by 5.6% (4Q 2025: 4.9%), mainly due to the increase in business loan growth while household loan growth was sustained.
- Growth in outstanding corporate bonds moderated to 5.8% (4Q 2025: 6.9%) amid lower issuances in the quarter.

Business Loans

5.8%
4Q 2025: 3.9%

- Outstanding business loans expanded by 5.8% (4Q 2025: 3.9%) following higher loan growth among non-SMEs across purposes.
- Meanwhile, SME loan growth was broadly sustained.
- Financing demand among businesses remained steady, particularly for working capital needs.

Household Loans

5.4%
4Q 2025: 5.5%

- Household loans rose by 5.4% (4Q 2025: 5.5%) amid steady loan growth across most purposes.
- Demand for household loans remained broadly stable and continued to be met with sustained approvals.

[4] All numbers quoted are in terms of annual change.
[5] Refers to loans from the banking system and development financial institutions (DFIs).
Source: Bank Negara Malaysia

Policy Considerations

Highlights of the May 2026 MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 2.75% at the March 2026 and May 2026 meetings.
- Considering ongoing uncertainties, the MPC will remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic inflation and growth.

Monetary policy is appropriate and consistent with the outlook of continued price stability and sustainable economic growth

At the March 2026 and May 2026 MPC meetings, the MPC maintained the OPR at 2.75%.

As of the May 2026 meeting, global growth remained resilient in the first quarter of 2026, supported mainly by sustained domestic demand and continued global tech expansion. Sharp increases in energy and commodity prices as well as supply chain disruptions from the Middle East conflict are beginning to weigh on the global growth momentum. Downside risks to global growth remain elevated stemming from the uncertainties surrounding the length and severity of the conflict, tighter global financial conditions and concerns over valuations in financial markets. Upside potential includes de-escalation of the conflict leading to improving supply chain conditions, stronger tech spending and pro growth policy measures in key economies.

For Malaysia, latest indicators point towards continued growth momentum in the first quarter, driven by sustained domestic demand and strong export performance. Moving forward, uncertainties surrounding the duration and severity of the Middle East conflict will affect the outlook of domestic growth and inflation. Nevertheless, Malaysia's strong fundamentals will continue to underpin the economy's resilience. Employment, wage growth and policy measures will remain supportive of household spending. Investment activity will be driven by the progress of multi-year projects in both the private and public sectors, implementation of new smaller-scale public projects, continued high realisation of approved investments, as well as the ongoing implementation of national master plans. The external sector will benefit from continued strength in E&E exports, while tourist spending will be sustained albeit at a more moderate pace. This growth outlook remains subject to downside risks from a prolonged conflict in the Middle East and lower commodity production. Meanwhile, upside potential to growth could arise from the de-escalation of the conflict, stronger demand for E&E goods and higher tourism activity.

Headline and core inflation averaged 1.6% and 2.1% in the first quarter of 2026, respectively. Higher global commodity prices arising from the Middle East conflict are expected to raise domestic cost pressures, causing inflation to edge higher. Nevertheless, the impact on both headline and core inflation in 2026 is expected to remain contained, reflecting domestic policy measures and stable demand conditions, which will mitigate the pass-through of external

Policy Considerations

cost pressures to domestic prices.

The MPC acknowledges the uncertainties from the ongoing conflict in the Middle East. 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 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.

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.

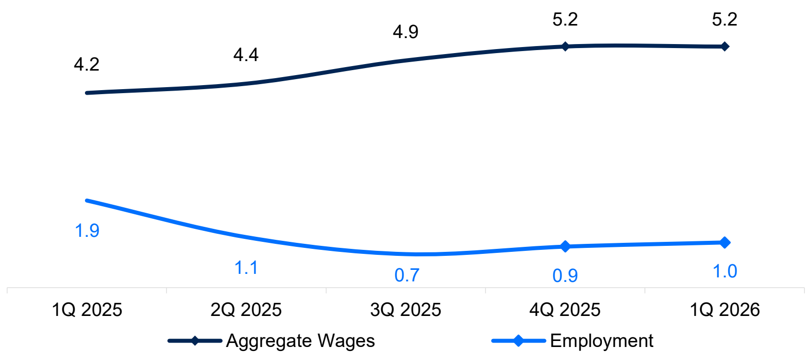
The growth outlook remains supported by resilient domestic demand, amid heightened geopolitical tensions

- **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, %

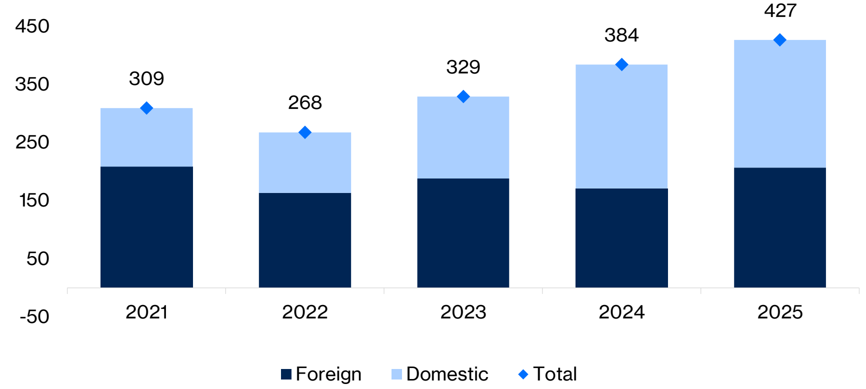


- **Private consumption is expected to continue expanding,** supported by continued growth in wages as well as ongoing policy measures.
- Wage growth will be supported by sustained domestic activity as well as income-related policy measures including Phase 2 of the Civil Servant Salary Revision (CSSR).
- 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



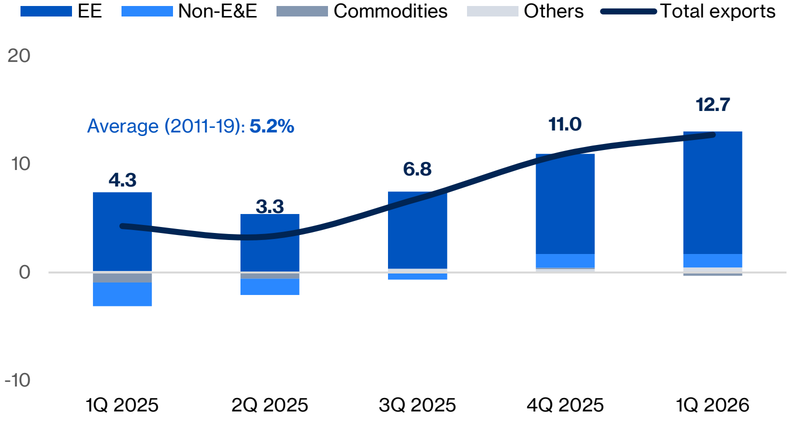
- **Investment intentions continued to remain forthcoming** with higher investment approvals recorded in 2025 at RM426.7 billion, compared to RM384.4 billion in 2024, driven by both domestic and foreign investments. Notably, 84.9% of manufacturing projects approved between 2021 and 2025 are in various 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

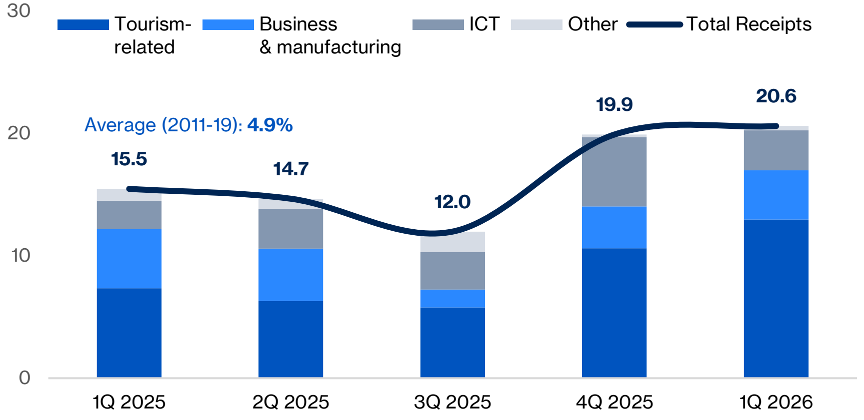


- The **resilience of the E&E exports** is underpinned by global technology expansion and Malaysia's integral role in the E&E global value chain, which will mitigate the impact from the Middle East conflict.
- Commodities-related exports are expected to face downward pressures on export **volumes due 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.

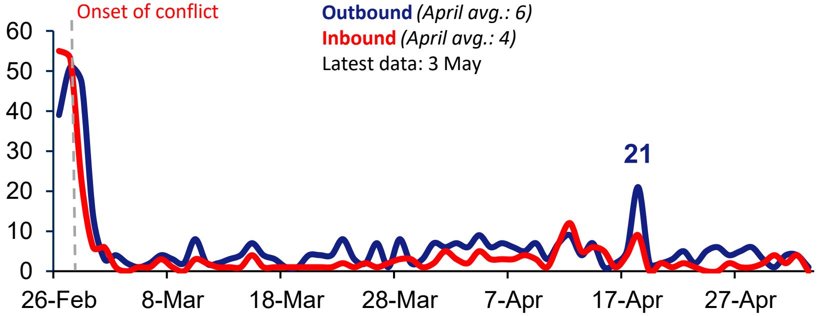
Introduction

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

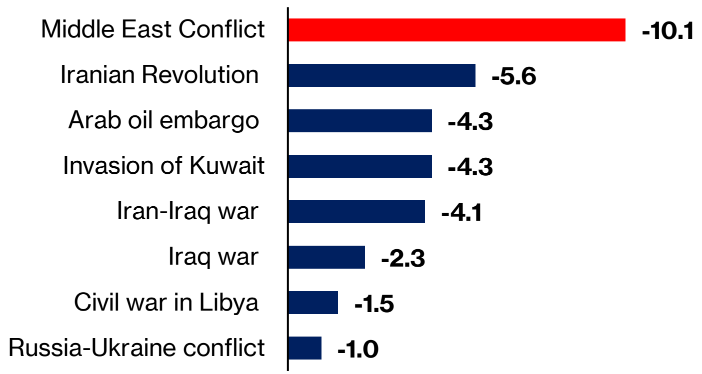


Source: Bloomberg

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

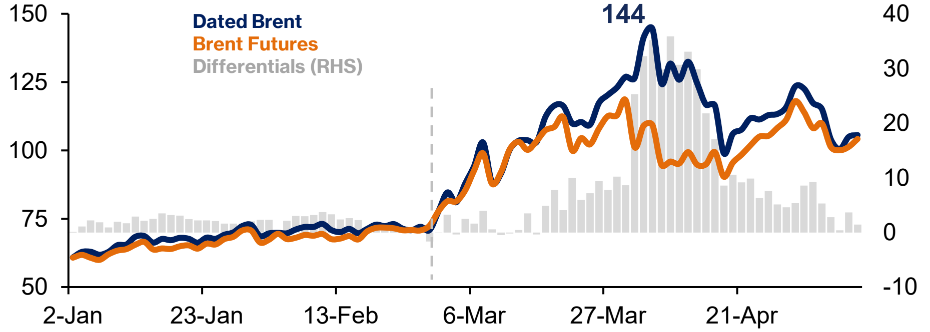
In March 2026, global oil supply declined by an estimated 10 million barrels per day, marking the largest oil shock on record (Figure 2). Global oil prices rose sharply in tandem, with physical oil prices increasing more than prices in the futures market, reflecting acute tightness in immediate supply 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



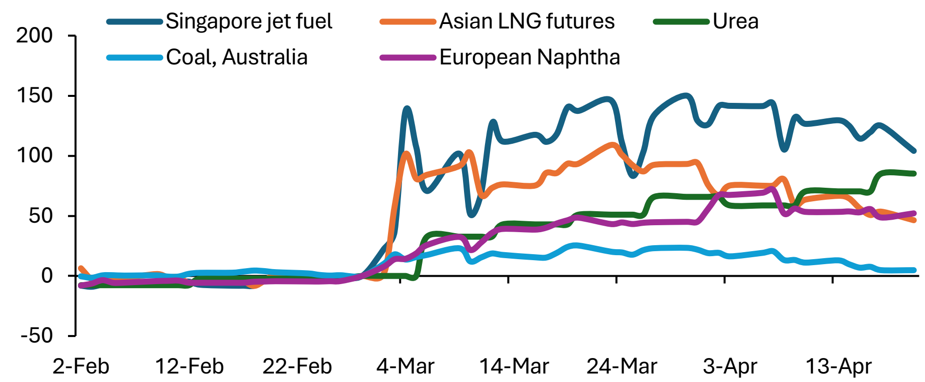
Source: International Energy Agency, U.S. Energy Information Administration, World Bank

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

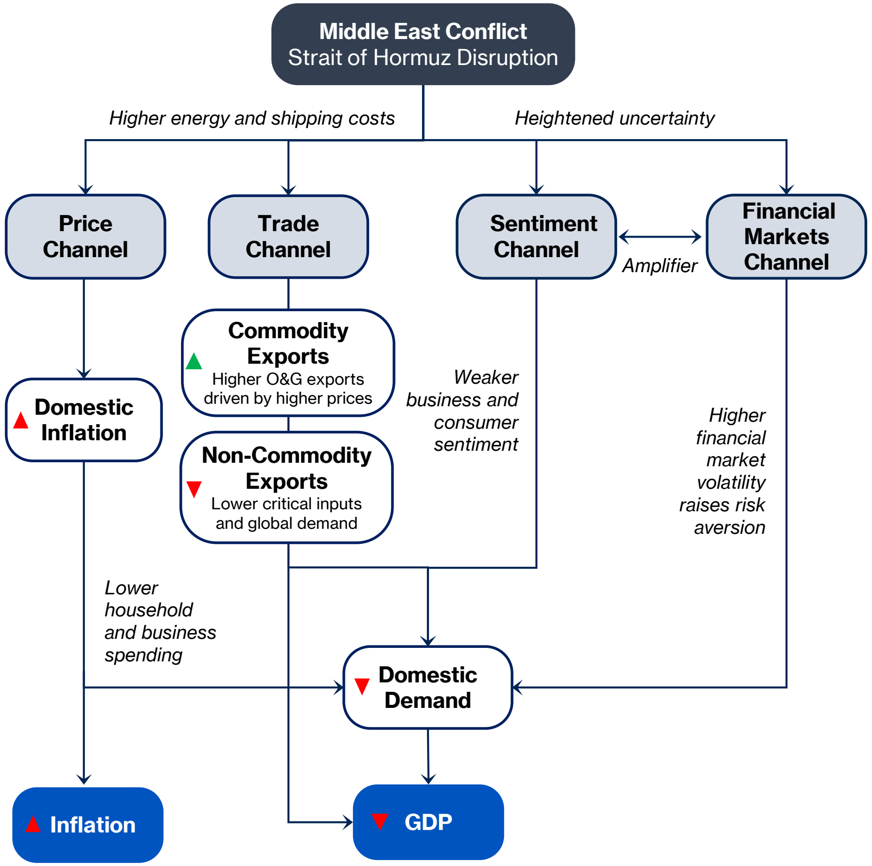
Transmission channels of Middle East conflict to the Malaysian economy

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

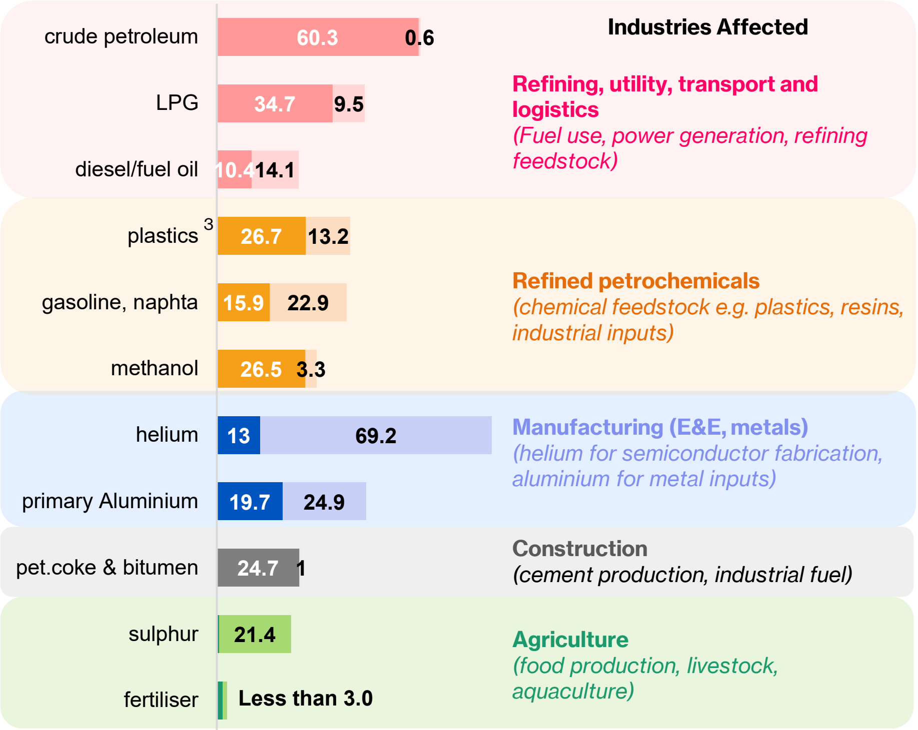


downstream industries such as food and consumer packaging by raising costs and constraining output (Figure 6). At the same time, higher jet fuel costs, safety concerns and air route disruptions have led to flight cancellations and weaker tourism activity. Should the conflict become more prolonged and 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

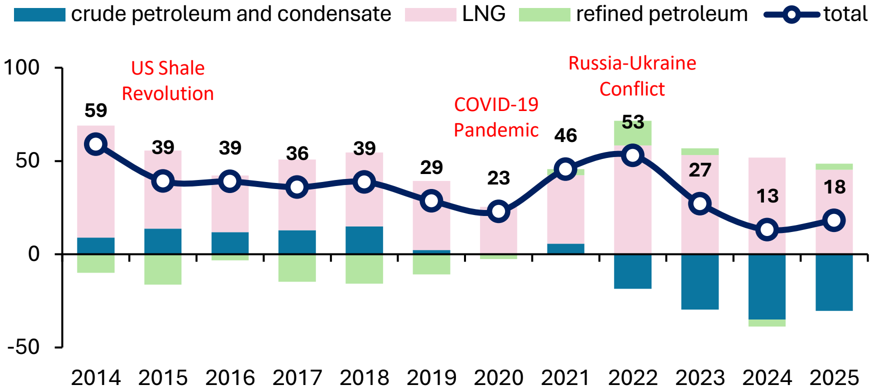
Macroeconomic implications for Malaysia

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

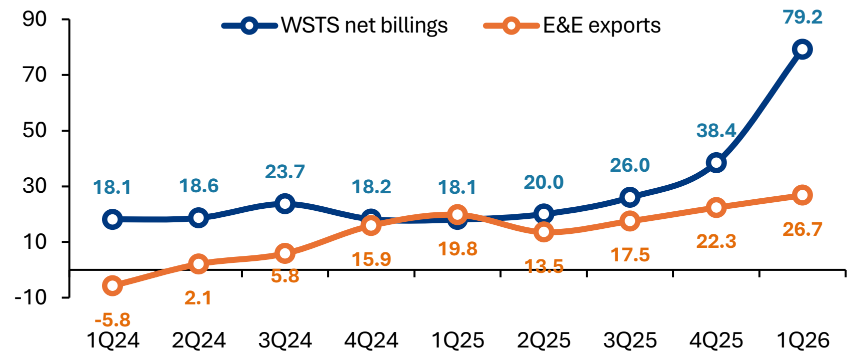
RM billion



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

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

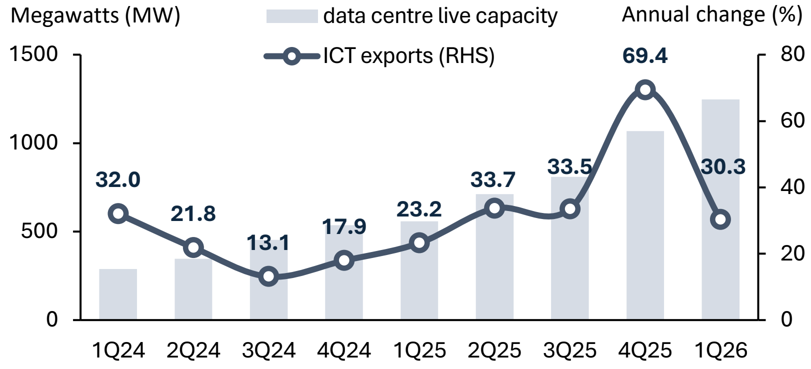
Annual change (%)



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

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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Table 1: **GDP by Expenditure Components (at constant 2015 prices)**

	Share in 2025 (%)	2025					2026^p
		1Q	2Q	3Q	4Q	Year	1Q
		Annual change, %					
Aggregate Domestic Demand (excluding stocks)	96.0	5.6	6.8	6.2	6.6	6.3	5.2
Private sector	77.7	5.8	6.7	6.2	6.3	6.2	5.4
Consumption	60.5	4.8	5.1	5.8	5.6	5.3	4.7
Investment	17.2	9.1	11.7	7.4	9.2	9.4	7.8
Public sector	18.3	4.9	7.5	6.2	7.5	6.6	4.4
Consumption	13.3	2.7	5.7	5.8	6.6	5.3	4.1
Investment	5.1	11.6	13.5	7.5	9.5	10.3	5.3
Net Exports	3.3	-7.9	-58.3	32.2	-32.9	-15.6	13.5
Exports of Goods and Services	68.1	4.3	4.5	4.6	6.3	4.9	5.2
Imports of Goods and Services	64.8	5.2	7.9	3.0	9.0	6.3	4.6
Real GDP, annual change %	**100.0**	**4.4**	**4.6**	**5.3**	**6.2**	**5.2**	**5.4**
GDP, seasonally adjusted, QoQ change %	-	0.9	1.9	2.0	1.4	-	-0.01

Note: Figures may not add up due to rounding and exclusion of stocks.
Source: Department of Statistics, Malaysia

Table 2: **GDP by Economic Activity (at constant 2015 prices)**

	Share in 2025 (%)	2025					2026^p
		1Q	2Q	3Q	4Q	Year	1Q
		Annual change, %					
Services	59.5	5.1	5.1	5.3	6.2	5.4	5.6
Manufacturing	23.0	4.2	3.7	4.1	6.0	4.5	5.9
Agriculture	6.1	0.7	2.5	0.2	5.7	2.2	2.6
Mining	5.7	-2.6	-5.2	9.4	1.4	0.6	-2.1
Construction	4.3	14.2	12.1	11.7	10.9	12.2	7.7
Real GDP, annual change %	**100.0**	**4.4**	**4.6**	**5.3**	**6.2**	**5.2**	**5.4**

Note: Figures may not add up due to rounding and exclusion of import duties component.
Source: Department of Statistics, Malaysia

Table 3: **Balance of Payments**[1]

	2025[r]					2026[p]
	1Q	2Q	3Q	4Q	Year	1Q
	RM billion					
Current account	**13.8**	**2.7**	**13.5**	**2.7**	**32.8**	**15.2**
% of GDP	*2.9*	*0.6*	*2.6*	*0.5*	*1.6*	*3.0*
Goods	32.9	16.0	32.3	24.3	105.4	33.6
Services	-2.2	-0.5	2.7	5.3	5.3	6.4
Primary income	-15.4	-9.5	-19.3	-23.1	-67.3	-20.9
Secondary income	-1.5	-3.2	-2.2	-3.7	-10.6	-4.0
Financial account	**-14.1**	**-1.7**	**-9.5**	**9.4**	**-16.0**	**27.4**
Direct investment	16.5	5.9	8.6	22.5	53.5	14.7
Asset	-16.3	-7.9	-4.0	-11.0	-39.2	-17.7
Liabilities	32.8	13.9	12.5	33.5	92.7	32.5
Portfolio investment	-45.1	15.6	-28.1	-1.9	-59.4	9.1
Asset	-34.4	-22.6	-13.6	-15.9	-86.5	1.3
Liabilities	-10.7	38.2	-14.6	14.0	27.0	7.8
Financial derivatives	-1.7	1.3	-0.8	1.5	0.2	0.8
Other investment	16.2	-24.6	10.8	-12.8	-10.3	2.7
Net errors & omissions	**3.3**	**0.01**	**-0.6**	**-11.0**	**-8.3**	**-26.2**
Overall balance	**3.1**	**1.0**	**3.1**	**1.2**	**8.4**	**16.4**

[r] Revised
[p] Preliminary
Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).
Note: Figures may not add up due to rounding.
Source: Department of Statistics, Malaysia

Table 4: **Outstanding External Debt**

	2025[r]		2026[p]
	end-Mar	end-Dec	end-Mar
	RM billion		
Total External Debt	**1,384.2**	**1,395.5**	**1,439.7**
USD billion equivalent	*312.3*	*343.6*	*356.4*
By instrument			
Bonds and notes	154.8	152.9	153.1
Interbank borrowings	249.3	241.9	242.3
Intercompany loans	240.5	236.5	255.4
Loans	92.4	95.6	97.4
Non-resident holdings of domestic debt securities	276.8	299.4	304.3
Non-resident deposits	150.3	151.5	160.5
IMF allocation of Special Drawing Rights (SDRs)	28.4	26.9	26.5
Others[1]	191.8	190.6	200.2
Maturity profile			
Medium- and long-term	782.5	799.7	826.0
Short-term	601.8	595.8	613.6
Currency denomination			
Ringgit	426.4	457.6	469.2
Foreign	957.8	937.9	970.5
Total external debt/GDP, %	**70.9**	**68.9**	**70.1**
Short-term external debt/Total external debt, %	**43.5**	**42.7**	**42.6**
Reserves/Short-term external debt, time(s)	**0.9**	**0.9**	**0.8**

[r] Revised
[p] Preliminary
[1] Comprises trade credits and miscellaneous.
Note: Figures may not add up due to rounding.
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Table 5: **Credit to the Private Non-Financial Sector**

	2025		2026	2025		2026
	1Q	4Q	1Q	1Q	4Q	1Q
	End-period, RM billion			Annual change, %		
Total Credit to the Private Non-Financial Sector[1]	**2901.4**	**3017.6**	**3064.1**	**5.5**	**5.3**	**5.6**
Outstanding corporate bonds[2]	603.2	633.9	638.3	5.3	6.9	5.8
Outstanding loans[3,4]	2298.2	2383.6	2425.8	5.5	4.9	5.6
Businesses	824.7	848.0	872.2	4.7	3.9	5.8
SMEs	*418.6*	*437.9*	*443.8*	*6.2*	*5.9*	*6.0*
Non-SMEs	*403.0*	*407.3*	*425.0*	*3.4*	*2.1*	*5.5*
Households	1473.5	1535.6	1553.5	5.9	5.5	5.4
Credit to Businesses[5]	1427.9	1481.9	1510.5	5.0	5.1	5.8

[1] Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector was introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.
[2] Includes conventional and Islamic short-term papers in addition to longer-term bonds and sukuk; excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.
[3] Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[4] Excludes loans sold to Cagamas without recourse.
[5] Comprises outstanding loans to businesses and outstanding corporate bonds.
Note: Figures may not add up due to rounding.

Source: Bank Negara Malaysia

Table 6: **Loan Indicators**[1]

	2025		2026	2025		2026
	1Q	4Q	1Q	1Q	4Q	1Q
	During the period, RM billion			Annual change, %		
Total Private Non-Financial Sector[2]						
Loan applications	383.4	426.0	396.2	7.1	3.5	3.3
Loan approvals	191.9	231.4	209.6	9.8	3.6	9.2
Loan disbursements	512.7	544.4	523.8	2.5	-1.3	2.2
Loan repayments	500.8	514.4	497.1	1.4	-3.1	-0.7
Of which:						
Businesses[3]						
Loan applications	153.2	178.3	163.2	12.5	2.4	6.5
Loan approvals	87.8	116.0	103.1	12.0	0.8	17.5
Loan disbursements	368.2	393.5	374.9	1.8	-3.2	1.8
Loan repayments	358.0	371.4	348.9	0.2	-5.6	-2.5
SMEs						
Loan applications	86.1	90.0	82.2	6.9	-5.0	-4.6
Loan approvals	38.8	49.4	41.7	-3.4	-8.7	7.5
Loan disbursements	139.5	147.5	132.5	9.2	-2.0	-5.0
Loan repayments	132.5	139.7	127.6	7.6	-2.2	-3.7
Non-SMEs						
Loan applications	67.1	88.3	81.1	20.5	11.3	20.9
Loan approvals	49.0	66.6	61.4	28.9	9.3	25.3
Loan disbursements	227.4	243.4	240.4	-2.2	-4.2	5.7
Loan repayments	224.6	230.4	219.8	-3.6	-7.5	-2.1
Households						
Loan applications	230.3	247.7	233.0	3.7	4.3	1.2
Loan approvals	104.1	115.4	106.4	8.0	6.7	2.2
Loan disbursements	144.5	150.9	149.0	4.2	4.2	3.1
Loan repayments	142.8	143.0	148.3	4.7	3.9	3.8

[1] Loans for all segments include data from banking system and development financial institutions (DFIs).
[2] Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[3] Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.
Note: Figures may not add up due to rounding.
Source: Bank Negara Malaysia

Table 7: **Banking System Profitability Indicators**

	2025		2026[p]	2025		2026[p]
	1Q	4Q	1Q[p]	1Q	4Q	1Q[p]
	%			Annual change, percentage points		
Return on equity[1] (based on pre-tax profit)	13.9	13.1	10.6	3.0	1.0	-3.3
Return on equity[1] (based on profit after tax)	11.0	10.2	8.0	2.8	0.9	-3.0
Return on assets[1]	1.5	1.5	1.2	0.34	0.11	-0.38
	RM million			Annual change, %		
Net interest income	15,938	16,798	16,257	5.0	4.4	2.0
Add: Fee-based income	3,365	3,621	3,518	1.6	9.1	4.6
Less: Operating cost[2]	11,444	12,200	11,692	3.5	1.1	2.2
Gross operating profit	7,859	8,219	8,084	5.7	11.9	2.9
Less: Impairment[3] and other provisions	426	239	1,051	-56.6	-60.3	146.7
Gross operating profit after provision	7,433	7,890	7,033	15.2	18.3	-5.4
Add: Other income[1]	6,825	5,708	4,238	60.6	19.8	-37.9
Pre-tax profit[1]	**14,258**	**13,688**	**11,271**	**33.2**	**18.9**	**-20.9**
Profit after tax[1]	**11,211**	**10,674**	**8,522**	**40.1**	**17.0**	**-24.0**

p Preliminary
1 Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.
2 Refers to staff costs and overheads.
3 Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).
Source: Bank Negara Malaysia

Table 8: **Insurance and Takaful Sector Profitability Indicators**

	2025		2026[p]	2025		2026[p]
	1Q	4Q	1Q[p]	1Q	4Q	1Q[p]
	RM million			Annual change, %[2]		
Life Insurance & Family Takaful						
Excess income over outgo[1]	1,392	734	1,617	-74.3	-28.7	16.1
General Insurance & General Takaful						
Operating profit	787	909	756	-10.0	-13.7	-4.0
Claims ratio (%)	59	55	59	3.0	-2.0	0.2

p Preliminary
1 Excess income over outgo excludes investment-linked unit funds to reflect the core performance of insurers' and takaful operators' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.
2 Refers to percentage points for the annual change of claims ratio.
Source: Bank Negara Malaysia