BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia In the First Quarter of 2026

Press Conference Presentation Transcript

The Middle East conflict has caused a major shock to the global economy

Brent crude rose quickly to about USD102 within a month, reflecting the heightened geopolitical risk. Cost pressures intensified through energy and petrochemical channels, alongside emerging shortages in key intermediate inputs, disrupting parts of global supply chains.

Economic impact has been uneven across countries, depending on energy exposure, trade links, and policy buffers, underscoring differentiated spillovers. Despite the elevated uncertainties, financial markets have remained relatively calm. Given the high degree of uncertainty, our assessments are informed by scenario-based analyses to ensure a thorough assessment of potential risks and outcomes.

Global growth remained resilient in 1Q 2026

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Global growth remained resilient in 1Q 2026, supported by sustained domestic demand, alongside continued strength in tech expansion. Regional trade activity remained robust, underpinned by strong demand for technology products, particularly in AI-related segments.

'Inflation pressures rose significantly, driven mainly by higher energy prices following global commodity output and supply chain disruptions.'

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin *berkata, "Pada suku pertama 2026, ekonomi Malaysia berkembang sebanyak 5.4%. Peningkatan ini didorong oleh perbelanjaan isi rumah yang terus mampan dengan pasaran pekerja yang positif; aktiviti pelaburan yang stabil; serta pertumbuhan eksport yang berterusan disokong oleh E&E serta perkhidmatan berkaitan perjalanan dan teknologi maklumat dan komunikasi (ICT).*

"Dari segi pengeluaran, sektor Perkhidmatan meningkat 5.6%, sektor Pembuatan tumbuh 5.9%, sektor Pembinaan pula berkembang 7.7% dan sektor Pertanian meningkat 2.6%. Manakala sektor Perlombongan & Pengkuarian menyusut kepada -2.1%.

"Sementara itu, dari sudut permintaan, Perbelanjaan penggunaan isi rumah meningkat 4.7%. Pelaburan sektor swasta dan awam masing-masing meningkat sebanyak 7.8% dan 5.3%. Perbelanjaan penggunaan kerajaan pula menyederhana kepada 4.1%. Manakala, Eksport bersih kembali pulih sebanyak 13.5%.

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'In the first quarter of 2026, the Malaysian economy recorded a firm growth of 5.4%. This was supported by sustained household spending; steady investment activities; and continued export growth supported by E&E exports and ICT-related services.'

Growth underpinned by expansion in demand and most economic sectors
Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'On the expenditure side, the continued expansion in domestic demand was driven mainly by the private sector.

'Private final consumption expenditure which accounted for 61.6% of Malaysia's GDP grew 4.7% supported by persistent tourism-related activities, positive labour market conditions and continued policy support.

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‘The disbursement of cash assistance programmes, including Sumbangan Tunai Rahmah (STR), Sumbangan Asas Rahmah (SARA), Bantuan Awal Persekolahan (BAP) as well as Bantuan Khas Kewangan (BKK) and second phase salary increment under Sistem Saraan Perkhidmatan Awam (SSPA) for civil servant, enhanced household disposable income. Festive-related spending further stimulated consumption activities, benefiting the Services sector, mainly retail trade, food & beverages and accommodation.

‘In addition, increased mobility during school holidays and the implementation of toll discounts further supported domestic travel. Meanwhile, government interventions including BUDI95 fuel subsidy mechanism continued to cushion cost pressures for households and businesses. These developments were further complemented by stable inflation, favourable labour market conditions and sustained income levels, which collectively reinforced consumer spending momentum.

‘Meanwhile, investment growth was driven by continued structures as well as machinery and equipment spending. On the external front, the expansion in net export was driven by sustained exports and a sharper moderation in imports, particularly for intermediate and capital imports.

‘On the supply side, growth was supported mainly by services and manufacturing sectors. The services sector remains resilient, driven by growth in business-related services including data centre activities as well as Government services. The manufacturing sector registered sustained growth, underpinned by stronger E&E production amid continued demand for AI-related components.

‘For the construction sector, growth was supported by special trade and non-residential subsectors. Finally, in the commodities sectors, the agriculture sector experienced slower growth as oil palm production normalised following strong yields in 4Q 2025. Meanwhile, the mining sector recorded a contraction, reflecting lower oil and gas production output.’

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Wider current account surplus and continued FDI inflows

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'On current account balance, current account surplus improved in 1Q26. Exports continued to anchor Malaysia's external position supported by E&E sustained strength in global technology demand.

'Meanwhile, goods imports recorded a slower growth was mainly attributed to lower imports of Intermediate goods, especially primary fuels and lubricants, as well as capital goods, particularly in non-transport capital goods. Based on QoQ growth, slower volume of commodity exports weighed on the goods account, although this was partly offset by improving crude and refined petroleum prices.

'The services account recorded a higher surplus supported by steady travel and Telecommunications, computer and information (TCI) services, while imports was mainly contributed by trade-related services, particularly other Business segments.

'FDI recorded an inflow of RM22.8 billion for the quarter compared to RM26.6 billion in the fourth quarter 2025, mainly supported by higher inflows in debt instruments, while equity injections and reinvested earnings moderated during this quarter.

'These FDIs were channelled primarily into the services sector, predominantly into ICT and professional, scientific and technical activities subsectors. The FDIs were largely from Singapore, China and Hong Kong.'

Ongoing conflict in Middle East has disrupted global economic activity

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The ongoing conflict in the Middle East has disrupted global economic activity and intensified external headwinds. The conflict has constrained commodities supply, particularly in key energy-producing regions. As a result, commodity prices – particularly for energy and fertilisers – have risen significantly since the onset of the conflict. As shown in this slide, these supply disruptions and higher

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costs are becoming more evident, as reflected in slower delivery times and lower production indicators.'

Global outlook clouded by the Middle East conflict

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Going forward, the global growth outlook is clouded by the escalation of the Middle East conflict. Growth has been revised down for 2026, while the inflation outlook has been revised higher.

'Nevertheless, some offsetting factors remain, including robust tech investments, continued policy support, and carryover momentum from stronger recent growth outturns.

'However, growth prospects could be further weighed down by risks of escalating geopolitical tensions, correction in tech-related asset valuations, and rising trade protectionism.'

Conflict posing risks to the domestic economy

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The damage to energy infrastructure in the Middle East, and the near-total closure of a critical chokepoint for energy trade flows, has created shortages and a supply shock for the global economy.

'This shock is transmitted to global economic activity through multiple channels. Higher prices raise production costs. Disruptions to trade worsen supply constraints and lower global demand. Financial markets grow increasingly risk averse leading to volatile capital flows and negative sentiments will weigh on business and economic decisions.

'The net effect is a moderation in economic activity alongside upward pressure on inflation. These global disruptions also have direct domestic implications via softer demand and higher prices.'

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Malaysia's solid fundamentals provide buffers against the burnt of the shocks

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'At this point, 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 strong fundamentals and initial conditions.

'First, as a net energy exporter, higher oil and gas prices are expected to support Malaysia's net energy trade balance, providing buffer against external pressures.

'Second, Malaysia's diversified growth drivers underpins our economic resilience, supported by firm domestic demand and continued momentum in key export engines—particularly E&E and ICT-related activity.

'Third, a low and stable inflation environment provides a supportive backdrop for macroeconomic stability, helping the economy to absorb external shocks more smoothly.

'Targeted policy measures (i.e. BUDI95) remain important to mitigate spillovers and support adjustment, while preserving policy space and ensuring an orderly pass-through to domestic conditions.'

Several factors mitigating impact on firms

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The Bank has also engaged firms directly to gather on-the-ground insights. Overall, firms reported that the impact has been felt primarily through higher costs, particularly from increases in raw material, energy and logistics costs.

'However, the degree of exposure varies across sectors. Impact to revenue was mixed. While some firms experienced softer revenue due to weaker demand, some commodity-related players may benefit from higher commodity prices.

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‘Investment and hiring intention remained broadly intact, although some signs of increased caution has emerged. Firms have taken proactive steps to mitigate these challenges.

‘This includes utilising existing inventory buffers, diversifying sourcing to alternative countries, exploring new markets, and strengthening internal cost management.’

Domestic demand remains resilient in the face of rising costs and uncertainty

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Consumer spending remains the main anchor for Malaysia’s economic growth with sustained increase in retail transactions.

‘Going forward, household spending is expected to remain resilient amid continued expansion in employment and income prospects.

‘Fundamentals of investments remains healthy. Growth in investments will be supported by the realisation of both new and ongoing projects.

‘MIDA approvals amounted to RM426.7 billion in 2025. Taken together with the high investment realisation rate of close to 85%, investment activity is expected to be sustained. We also see continued progress in the implementation of national masterplans, and initiatives announced under Budget 2026 and RMK-13 which will further lend support to investments and the country.’

Diverse exports structure provides some buffer to external shocks

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Exports performance is expected to remain resilient in 2026, supported by Malaysia’s diverse export structure. This helps cushion the impact of external developments.

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‘The conflict in Middle East is expected to weigh on commodity-related exports volume given weaker external demand and disruptions to input supply. Tourist spending is expected to be sustained, albeit growing at a more moderate pace following disruptions to flight connectivity and higher travel costs.

‘Nevertheless, exports will continue to be supported by strong demand for E&E products and data-centre-related ICT services, driven by the global expansion of AI-related technologies.’

Growth to remain within forecast range of 4.0% - 5.0%

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Despite the heightened geopolitical tensions and global uncertainties, the Malaysian economy is expected to remain growing within the forecast range of 4.0% - 5.0%

‘Malaysia’s strong fundamentals will continue to underpin the economy’s resilience. Domestic demand is expected to remain strong, driven by sustained household spending and forthcoming investments.

‘On the external front, we have taken into consideration the effects of the Middle East conflict on commodities, tourism, global growth, and sentiments. However, continued demand for E&E goods, alongside stronger performance for ICT related services are expected to provide support to growth. There are of course risks, mostly from prolonged conflict and more extensive damage to the energy infrastructures in the Middle East.’

The ringgit appreciated against currencies of most trading partners in 1Q 2026 and remains resilient despite the ongoing conflict in the Middle East

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Turning to the exchange rate, the ringgit strengthened in the first quarter of 2026 against currencies of Malaysia’s major trading partners, as reflected in the 1.4% nominal effective exchange rate (NEER) appreciation. Over the same period, the ringgit also appreciated by 0.5% against the US dollar.

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‘That said, as a small and open economy, Malaysia is inevitably influenced by global developments. Amid the conflict, the ringgit therefore saw some depreciation against the US dollar, in line with regional peers.

‘Nonetheless, the ringgit has partially rebounded following the 8 April ceasefire talks. Overall, on a year-to-date basis as of 13 May 2026, the ringgit has performed well, appreciating by 3.3% against the US dollar and 2.9% on a NEER basis.’

The ringgit continues to be supported by non-resident inflows and strong domestic fundamentals

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘The ringgit’s resilience has been supported by continued non-resident inflows into the domestic bond and equity markets.

‘Underlying the ringgit’s resilience are strong domestic fundamentals, driven by favourable economic prospects and ongoing structural reforms. Nonetheless, movements in the ringgit remain largely influenced by external factors and some near-term volatility is expected amid prevailing uncertainties.

‘This includes reduced expectations for US Federal Reserve policy rate cuts following higher oil prices and elevated inflationary pressures, as well as tighter global financial conditions.

‘BNM will continue to closely monitor global developments and remains committed to ensuring the orderly functioning of the domestic foreign exchange market.’

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Headline inflation rose during the quarter driven by external cost pressures

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Headline inflation rose to 1.6% during the quarter, in part reflecting initial pass-through of higher global cost pressures. The surge in global energy prices led to higher domestic fuel prices in March, namely for RON97 and unsubsidised diesel, contributing to the increase in headline inflation.

'Nevertheless, this was partly offset by lower core inflation, which moderated to 2.1%, suggesting that underlying inflation remained moderate amid steady demand conditions.

'Looking beyond the first quarter CPI data, high-frequency indicators, including daily food and grocery prices from PriceCatcher, suggest that broader price conditions remain relatively contained as of early-May. For example, while food prices rebounded following earlier declines, they remain mostly below pre-conflict levels.

'We are mindful of effects from global supply disruptions on the cost of living. Government measures, such as BUDI95 subsidies, will continue to cushion household cost pressures in the near-term, while targeted assistance to producers will help to limit spillovers to broader consumer prices.'

Inflation is projected to edge higher in 2026

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Turning to the inflation outlook, headline inflation is projected to average between 1.5% and 2.5% in 2026, and may trend closer to the upper end of the range. In line with expectations, inflation is expected to edge higher, mainly reflecting higher global energy prices and related cost pressures following the escalation of the Middle East conflict.

'The upside risks to inflation are largely externally driven. In particular, further escalation in the Middle East conflict could lead to higher and more volatile

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global commodity prices, as well as more persistent input cost pressures arising from broader supply chain disruptions.

‘At the same time, downside risks to inflation remain. Weaker global demand and trade activity could weigh on domestic demand condition, including discretionary spending. Softer global commodity prices and easing imported cost pressures could also contribute to lower inflation outcomes.

‘In the absence of excessive demand pressures, current targeted measures, including existing fuel subsidy mechanisms and other mitigation measures, are expected to continue help limit broader spillovers to domestic inflation in the near term.

‘However, the extent of pass-through to domestic prices will also depend on several factors, including firms’ pricing behaviour and prevailing demand conditions.

‘In this environment, we remain vigilant by tracking these developments closely and will continue to assess how evolving cost and demand conditions affect the inflation outlook.’

Overall growth is subject to both upside and downside risks

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘On to the balance of risks. The growth outlook is subject to both upside and downside risks.

‘Downside risks include prolonged conflict in the middle east, higher cost of living, as well as lower-than-expected commodity production.

‘On the other hand, growth could be higher arising from the de-escalation of the conflict, stronger demand for E&E goods as well as higher tourism activity.

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‘However, the balance of risk is contingent on the evolution of the conflict. If a more adverse scenario materialises, then the balance could be tilted to the downside.’

The OPR was maintained at 2.75% at the May 2026 MPC Meeting
Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘At its recent May 2026 meeting, the MPC decided to maintain the OPR at 2.75%. While uncertainties surrounding developments in the Middle East remain, the MPC assessed that Malaysia’s strong fundamentals will continue to underpin the domestic economy’s resilience.

‘In the first quarter of 2026, growth of the Malaysian economy was driven by sustained domestic demand, underpinned by household spending and investment activity, as well as a strong export performance, particularly in the E&E sector. These factors are expected to continue anchoring Malaysia’s growth for the year, amid external headwinds.

‘For inflation, higher global commodity prices arising from the Middle East conflict are expected to raise domestic cost pressures and cause inflation to edge higher in 2026. Nevertheless, domestic policy measures and stable demand conditions will mitigate the pass-through of external cost pressures to domestic prices.

‘Given this assessment, the MPC considered that the monetary policy stance continues to be appropriate and consistent with the outlook of continued price stability and sustainable economic growth.

‘Nevertheless, in the current environment of continued uncertainty, the MPC will remain vigilant to ongoing developments and assess the balance of risks surrounding the outlook for domestic inflation and growth.’

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Financing conditions remain supportive

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'On aggregate, credit growth to the private non-financial sector increased to 5.6% (4Q 2025:5.3%), particularly among the business segment. Business loans expanded by 5.8% (4Q 2025: 3.9%) with sustained disbursements across segments.

'Meanwhile, growth in corporate bonds moderated to 5.8% (4Q 2025: 6.9%) amid lower issuances during the quarter. As for households, loan growth remained broadly sustained at 5.4% (4Q 2025: 5.5%).

'We now shift our attention to financing conditions. Overall, financing activity remained resilient as banks and DFIs continued to support SMEs' financing needs.

'SME financing outstanding recorded steady growth at 6.0% in the first quarter of 2026. This was supported by continued disbursements and higher approvals, particularly for investment related purposes. Targeted and coordinated support remains available to SMEs affected by the Middle East conflict in navigating heightened uncertainties.'

Financial support available for SMEs: Short-term relief to long-term resilience

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The Bank recognises that the SME community in certain sectors could be more exposed to the conflict. To this end, we wish to assure that the financial sector remains supportive and attentive towards SMEs' needs.

'Beyond the sustained intermediation, the financial industry has developed targeted measures to those who are most affected. "4Rs" are top of mind:

'Firstly, R&R. SMEs facing repayment challenges can access tailored restructuring and rescheduling assistance offered by over 20 financial institutions nationwide. AKPK is also offering a structured repayment solutions

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such as Small Debt Resolution Scheme (SDRS) and Debt Management Programme (DMP) to support SMEs in managing obligations.

‘Secondly, Relief. Targeted facilities are available to ease short-term cash flow pressures, including the RM5 billion SME Stabilisation Relief Facility (SME SRF), CAKNA to manage receivables and Skim Pembiayaan Mikro (SPM) for microentrepreneurs. CGC is also offering a dedicated relief guarantee scheme, to further support R&R as well as fresh working capital financing.

‘Assistance needs to Reach those in need in a timely manner. To this end, banks have committed to approving and disbursing the SME SRF promptly. Dedicated advisory channels are also available to support SMEs in navigating the uncertainty. SMEs may reach out to CGC’s Customer Service Centre, AKPK’s SME Helpdesk or BNMLINK for guidance and facilitation.

‘Last but not least: Resilience. BNM and CGC will establish an RM10 billion guarantee scheme, to support structural enhancements. As SMEs weather the uncertainties of today, I urge you to also consider seizing opportunities of tomorrow, such as driving innovation, automation and the transition to sustainability. Longer term business transformation is equally key, so that SMEs may emerge stronger from this as resilient businesses.’

Summary

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘In summary, the Malaysian economy recorded a strong growth of 5.4% in the first quarter of 2026, driven by sustained household spending, steady investment activities and continued demand for E&E exports and ICT-related services.

‘Growth is expected to remain at 4.0% to 5.0% in 2026 amid ongoing geopolitical and trade disruptions. Balance of risk to the growth outlook is subject to both upside and downside risk. Meanwhile, headline inflation is projected to edge higher.

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‘Looking ahead, global economic conditions will remain challenging, and we need to keep strengthening our economic buffers to weather the headwinds that may come our way.

‘However, this challenge requires a whole-of-nation approach. As we have discussed, the Government, businesses and banks are taking steps to maintain stability in the face of global uncertainty. The public can be part of the effort to manage the challenges ahead.

‘Malaysia has weathered similar periods before and has always pulled through. With steady, collective effort, we can not only navigate the current challenges but also emerge stronger.’

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