BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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

Press Conference Presentation Transcript

Global growth was broadly resilient in 2Q 2026

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Global growth was broadly resilient in 2Q 2026, supported by strong global tech expansion and trade that is adapting to supply disruptions. Regional trade activity remained robust, driven by ongoing demand for tech products, particularly AI-related components, as well as higher fuel-related products.

'Meanwhile, inflation pressures continued rising as higher prices of oil and other key commodities raised producer costs and consumer prices.'

Interim peace talks eased Middle East tensions, but renewed clashes have revived geopolitical uncertainty

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'The conflict in the Middle East remains a key source of uncertainty for the global economy. The interim ceasefire agreement between the US and Iran in June provided some relief to geopolitical tensions and contributed to a decline in oil prices.

'However, recent developments have reignited tensions and driven oil prices higher, highlighting the continued sensitivity of global energy markets to events in the region. This reflects the persistent fragility and unpredictability of the geopolitical environment, which could generate broader spillover effects through

increased volatility in global commodity prices, financial markets, and inflation expectations.'

Malaysia's supply chains remain resilient albeit at higher prices

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'For Malaysia, the impact of the conflict on supply chains has remained limited thus far. Key production inputs have continued to be available, as reflected in the recent rebound in intermediate imports following a temporary moderation in April.

'The rebound in intermediate imports was broad-based across both E&E and non-E&E inputs, with increases recorded in both value and volume terms. At the same time, higher imports of energy commodities and other industrial inputs from alternative sources outside the Gulf region, helped mitigate supply disruptions and cushion potential pressures arising from the conflict.'

Businesses adjusting to shocks from the Middle East conflict

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said 'The Bank also engages directly with firms to assess the impact of the Middle East conflict. Most firms are still able to secure supplies, from both local and overseas suppliers. Some opted to build up inventories where possible to shield against cost increases and potential shortages. Production therefore remains largely unaffected.

'Nonetheless, these supplies comes at a premium, given the Middle East disruption and higher logistics cost. We will monitor whether this higher cost translates to higher inflation going forward. We also observe that some SMEs continue to face supply constraints due to weak bargaining power, high inventory holding costs, lean inventories and high switching costs to alternative suppliers.'

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Ketua Perangkawan Malaysia Puan Siti Asiah Ahmad *berkata, "Pada suku kedua tahun 2026 ini, ekonomi Malaysia berkembang 6%. Peningkatan ini didorong oleh pertumbuhan eksport yang mampan, terutamanya dalam subsektor Elektrik & Elektronik serta aktiviti Minyak & Gas; perbelanjaan isi rumah yang stabil; dan aktiviti pelaburan yang berterusan.*

"Dari sudut permintaan, perbelanjaan penggunaan isi rumah meningkat sebanyak 4.8% manakala pelaburan swasta bertumbuh kepada 4.3%. Perbelanjaan penggunaan Kerajaan dan pelaburan sektor awam pula masing-masing meningkat sebanyak 7.6% dan 6.3%. Di samping itu, eksport bersih meningkat ketara sebanyak 168.5% pada suku ini.

"Dari sudut pengeluaran, pertumbuhan ekonomi pada suku ini disokong oleh pengembangan dalam sektor Perkhidmatan sebanyak 5.9%, sektor Pembuatan pada 7.3% dan sektor Perlombongan & Pengkuarian yang kembali positif pada 9.2%. Sektor Pembinaan pula terus mencatatkan peningkatan pada suku ini dengan kadar 6.5%. Namun begitu, sektor Pertanian menguncup -3.7%.

Chief Statistician of Malaysia Puan Siti Asiah Ahmad said, 'In the second quarter of 2026, Malaysia's economy expanded by 6%. This was supported by higher export growth, led by E&E and O&G-related exports; steady household spending; and continued investment activities.'

Growth underpinned by external demand and expansion in most economic sectors

Chief Statistician of Malaysia Puan Siti Asiah Ahmad said, 'On the expenditure side, the strong growth is underpinned by the strength in external sector, supported by continued expansion in domestic demand.

'Private consumption which accounted for 60.3% of Malaysia's GDP, grew at 4.8% supported by positive labour market conditions, steady income growth and continued policy support. Investment growth was driven by continued structure component, as well as machinery and equipment spending. Meanwhile, the

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Government consumption was lifted by higher operating and development expenditure.

‘On the external front, the expansion in net export was mainly driven by robust E&E-related export amid the global tech expansion, while supported by continued tourism-related activities, manufacturing and ICT services.

‘On the supply side, growth was driven mainly by services, manufacturing and mining sectors. The services sector grew higher, underpinned by strong performance in business-related services, in particular data centre activities as well as improved performance in finance and insurance subsector.

‘The manufacturing sector improved further, underpinned by stronger E&E production amid continued demand for AI-related components, as well as a rebound in the production of petroleum-related products.

The mining sector rebounded on account of stronger natural gas production, following the recovery from maintenance activities in 2Q 2025. As for construction sector, growth was supported by continued special trade and non-residential activities. And the agriculture sector growth declined as oil palm production normalised following strong yields in 2025.’

Continued current account surplus and FDI inflows

Chief Statistician of Malaysia Puan Siti Asiah Ahmad said, ‘On the balance of payment performance, current account balance recorded a surplus of RM10.8 billion in 2Q 2026. Exports of goods were strong, supported by sustained strength in manufacturing exports. This was mainly contributed by the surging demand for E&E products, driven by ongoing AI and data center expansion.

‘The services account however, recorded a marginal deficit mainly due to higher Other Business Services payments, while travel remained a key contributor and ICT services exports strengthened.

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‘On Foreign Direct Investment (FDI), the FDI recorded a net inflow of RM7.4 billion during the quarter. This is mainly supported by higher equity capital injections from abroad and reinvestment of earnings by foreign-owned enterprises in Malaysia. However, the inflows were partially offset by outflows in debt instruments arising from intercompany loans and trade credit activities.

‘These FDIs were channelled largely into the services sector, mainly in ICT and professional & technical subsectors. These FDIs were mostly from China, Hong Kong and Singapore.’

Domestic demand remains resilient, impact from the Middle East conflict generally contained

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘Consumer spending continues to be a key driver of Malaysia’s economic growth. The sustained increase in retail transactions points toward resilient spending by households.

‘Looking ahead, household spending is expected to remain well-supported, underpinned by continued improvements in income prospects. On the other hand, investment activities continued to be supported by foreign investments and a steady pipeline of new approved projects.

‘Foreign investment inflows continue to be directed towards high-value-added activities in the manufacturing and services sectors, such as E&E, chemicals and ICT. As of June 2026, 85% of manufacturing projects approved between 2021 and February 2026 have progressed to implementation, ranging from factory construction to production and machinery installations.’

Diverse export base helps cushion external headwinds

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘Moving on the external sector, Malaysia’s export grew strongly in 2Q 2026, driven by broad-based expansion across key export segments. This reflects the

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strength of Malaysia's diverse export structure in supporting overall export performance.

'Beyond E&E exports, commodity-related exports benefited from a rebound in LNG production output, while non-E&E manufacturing exports continued to expand. Services exports also remained resilient, supported by sustained tourism receipts as well as continued growth in ICT-related services.

'Looking ahead, Malaysia's diverse export base will continue to support external sector performance. In particular, E&E exports remain well-positioned to benefit from continued global technology demand while sustained investment in data centre projects is expected to provide further support to exports of digital services.'

E&E exports recorded strong growth

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said,

'E&E exports remained the key driver of export growth in 2Q 2026, reflecting strong external demand amid the ongoing global technology upcycle. Demand remained broad-based across major trading partners, with strong contributions from the US, Singapore, China, and other regional markets.

'Growth has been driven mainly by semiconductors and electronic components, alongside electrical and telecommunication-related equipment, reflecting robust demand from the global AI-driven technology cycle.

'Malaysia is well-positioned to benefit from the growing adoption of AI, given its integral role in the global AI value chain through semiconductor manufacturing, advanced packaging, and electronics manufacturing services. Against this backdrop, E&E exports are expected to remain the key driver of export growth, supporting Malaysia's external sector performance going forward.'

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Growth will be driven by domestic spending and strong external demand

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said,

'With the strong performance of 5.7% in the first half of the year, growth for the whole year 2026 is likely to be around 5%. Domestic demand is expected to remain resilient, driven by household spending and investment activities. On the external front, strong E&E exports and continued demand for non-E&E are expected to provide support to growth.

'However, headwinds to growth remain, mainly arising from lingering impacts of the Middle East conflicts, weaker global growth and sentiments from continued global uncertainties. However, Malaysia's strong fundamentals will continue to underpin the economy's resilience.'

Headline inflation increased during the quarter, while underlying inflation remained contained

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said,

'Headline inflation rose to 1.9% in the second quarter, driven mainly by the pass-through of higher global energy prices to RON97 and unsubsidised diesel.

'Producer cost pressures remained largely confined to the upstream stages, with crude material prices continuing to outpace intermediate inputs and finished goods, indicating limited broader cost pass-through. Consistent with this, broader consumer price pressures remained moderate. Core inflation remained at 1.9%, reflecting limited pass-through beyond fuel and other directly affected items, amid steady demand conditions and firms' cautious pricing behaviour.

'Looking beyond the second quarter, high-frequency indicators suggest price movements have broadly normalised, driven by normalisation of market conditions rather than effects from the Middle East conflict. Food prices have rebounded from earlier declines, returning close to pre-conflict levels.

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‘Going forward, we remain attentive to risks from global supply disruptions. At the same time, targeted Government support measures will continue to cushion cost pressures and limit broader spillovers to consumer prices.’

Inflation is projected to remain moderate in 2026

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘Turning to the outlook, headline inflation is projected to average between 1.5% and 2.5% in 2026. As of early August, inflation outturns and high-frequency indicators remain broadly in line with this projection.

‘However, the outlook remains subject to upside risks coming mainly from external uncertainties. Further escalation in the Middle East conflict could push global commodity prices higher. Larger and more persistent input cost pressures may also arise from broader supply chain disruptions, including due to adverse weather conditions.

‘At the same time, downside risks to inflation remain. Softer global demand could weigh on commodity prices and inflation through weaker demand conditions. Further improvements in global supply conditions could also ease cost pressures, contributing to lower inflation outturns.

‘Overall, inflation is projected to remain moderate. While external cost pressures may place some upward pressure on prices, stable domestic demand conditions, together with targeted Government measures such as fuel subsidies, are expected to continue limiting pass-through to consumer prices.

‘Given continued uncertainty in the global environment, we will remain vigilant and monitor developments closely. We shall assess the effect of evolving cost and demand conditions on the inflation outlook.’

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Overall, the ringgit remained broadly stable against currencies of major trading partners during the quarter

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'Turning to the exchange rate, the ringgit remained broadly stable against currencies of Malaysia's major trading partners in the second quarter of 2026. This was reflected in the relatively stable nominal effective exchange rate (NEER) in the second quarter (2Q 2026: -0.8%; 1Q 2026: +1.4%).

'As a small and open economy, Malaysia was inevitably influenced by global developments, including shifts in market expectations regarding the direction of US monetary policy and developments surrounding the Middle East conflict.

'Nonetheless, despite global uncertainties the ringgit continued to demonstrate resilience, supported by the strong fundamentals of the Malaysian economy and the sustained growth momentum. Additionally, ongoing initiatives to support healthy two-way flows, such as the roll-out of the Qualified Resident Investor (QRI) programme have also helped underpin the ringgit's resilience.

'On a year-to-date basis, the ringgit's overall performance has remained broadly in line with the currencies of major trading partners, reflected in the relatively stable NEER as at 12 August 2026 (YTD as at 12 August 2026: -1%).'

Overall growth is subject to both upside and downside risks

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'The growth outlook is subject to both upside and downside risks. Upside risk could arise from the de-escalation of the conflict, stronger demand for E&E goods as well as higher tourism activity.

'On the other hand, growth could be lower from a prolonged conflict in the Middle East, as well as lower-than-expected commodity production. The balance of risk is contingent on how the conflict evolves. Should conditions deteriorate further, risks could be tilted to the downside.'

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The OPR was maintained at 2.75% at the July 2026 MPC meeting

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'At its recent July 2026 meeting, the MPC decided to maintain the OPR at 2.75%.

'While developments surrounding the Middle East conflict remain fluid, the MPC assessed that Malaysia's strong fundamentals will continue to underpin the economy's resilience against external shocks.

'During the first half of 2026, Malaysia's growth was driven by sustained domestic demand, underpinned by household spending and investment activity, as well as strong export performance, particularly in the E&E sector. These factors are expected to support Malaysia's growth in 2026.

'For inflation, elevated global commodity prices arising from the Middle East conflict are expected to exert upward pressure on inflation. Nevertheless, the impact on inflation is expected to remain contained in 2026, reflecting domestic policy measures and stable demand conditions.

'Given this assessment on domestic inflation and growth prospects, 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.

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

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Dato' Sri Abdul Rasheed Ghaffour said, 'The banking system continues to support economic growth. Banks' healthy capital and liquidity buffers ensure that they remain well-positioned to meet the financing needs of the domestic economy.

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‘The quality of business and household loans also remains sound, with low and stable impairment ratios. Newly restructured and rescheduled (R&R) loans are also limited. These reflect robust loan affordability assessments and prudent provisioning practices by banks that help preserve their loss-absorbing capacity.’

Financing conditions remain supportive

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘On aggregate, credit growth to the private non-financial sector increased to 6.4% (1Q26: 5.6%), particularly among the business segment. Corporate bonds expanded by 8.1% (1Q26: 5.9%) amid higher issuances for working capital needs. This was accompanied by stronger business loan growth of 7.2% (1Q26: 5.7%) with sustained disbursements across business segments. Meanwhile, household loan growth remained broadly stable at 5.4% during the quarter (1Q26: 5.5%).

‘Financing conditions also remain healthy. Overall, banks and DFIs continue to finance SMEs. SME financing outstanding continued to grow by 4.2% in the second quarter of 2026. Financing activity remained supported by higher financing approvals, particularly for investment-related purposes. Approval rates continued to be sustained, as banks continue to meet financing demand across all sectors, particularly in agriculture, mining and quarrying, and construction.’

Support for SMEs: Stabilising short-term shocks, while maintaining focus on long-term resilience

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘BNM remains mindful of economic disruptions from the Middle East conflict and its impact on SMEs. While the immediate focus is on short-term stabilisation, we must not lose sight of longer-term resilience.

‘To this end, BNM proactively introduced the RM5 billion SME Stabilisation Relief Facility (SME SRF) to assist SMEs, including microentrepreneurs,

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affected by the Middle East conflict. The facility provides working capital support for viable businesses to sustain operations and navigate this period of uncertainty.

‘To date, BNM has approved about RM2.8 billion under SME SRF, benefiting more than 4900 SME accounts. This facility remains open for applications until 31 December 2026 or until fully utilised.

‘Meanwhile, structural enhancements in the financing ecosystem are equally key, in helping today’s SMEs weather shocks, capture new opportunities, and emerge as future domestic champions.

‘To support this, BNM has introduced a RM10 billion guarantee scheme, delivered by the Credit Guarantee Corporation. The scheme aims to mobilise private sector financing more effectively, focusing on key areas of inclusion, climate, productivity and resilience.’

Summary

Bank Negara Malaysia Governor Dato’ Sri Abdul Rasheed Ghaffour said, ‘The Malaysian economy recorded a stronger growth of 6% in the second quarter of 2026, driven by sustained household spending, steady investment activities and continued demand for E&E exports.

‘Growth is expected remain firmly within 4% to 5% range in 2026, perhaps likely to be around 5%, despite ongoing geopolitical and trade disruptions. The growth outlook is subject to both upside and downside risks. Meanwhile, headline inflation is projected to remain moderate in 2026.

‘Looking ahead, global economic conditions will remain challenging. This makes it even more important for Malaysia to continue strengthening its economic buffers and resilience against potential headwinds.

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‘Malaysia is well placed to navigate these challenges, supported by strong initial conditions, sound economic fundamentals, timely policy measures that have been introduced, and the continued dynamism of our businesses. These strengths provide important buffers against external shocks and help preserve stability amid global uncertainty.

‘Building on this foundation, a whole-of-nation effort remains essential. With coordinated action by the Government, businesses, formal sector, and the public, Malaysia can manage the challenges ahead and emerge stronger.’

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