31 March 2026

Global Markets Research

Malaysia - Economics

Resilient growth outlook despite lingering risks

BNM expects growth to stay resilient at 4.0-5.0% in 2026; well-contained inflation at 1.5-2.5%

Domestic demand will continue to anchor growth amid looming external uncertainties

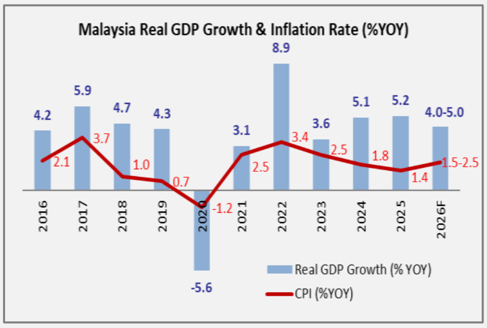
Monetary policy will likely remain status quo barring further escalation in geopolitical risks

Summary

Despite prevalent external uncertainties, Bank Negara Malaysia (BNM) expects the Malaysian economy to grow at a relatively decent pace of 4.0-5.0% in 2026 (midpoint: 4.5%). While a slight downshift from 5.2% in 2025, the growth projection range is wider than MOF's earlier projection of 4.0-4.5% and within ours at 4.6%. BNM expects domestic demand to remain firm supported by steady household spending amid firm labour market and policy supportive measures, strong but moderated investment activity amid realization of approved projects and roll-out of projects under the various national master plans, as well as continued export growth supported by higher global demand for semiconductors (SIA expects double-digit growth for the year) and steady inbound tourism.

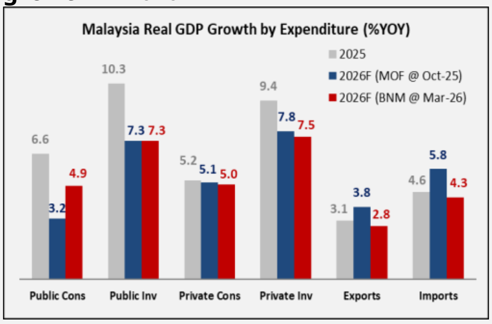
Risks to growth is balanced but largely emanating from the external front. Upside risks could stem from stronger global demand for E&E, tourism and global growth, while downside risks could emanate from a prolonged Middle East conflict, its resulting repercussion on global inflation, economy, trade activities and on the domestic front, downside risks could arise from the disruption in domestic commodity production.

Figure 1: Resilient growth outlook underpinned by domestic demand amid external uncertainties



Source: BNM

Figure 2: Broad moderation; private consumption will continue to anchor growth in 2026



Source: BNM

Domestic demand will continue to anchor growth

In short, domestic demand (+5.3ppts to growth vs 6.0ppts), in particularly private sector spending, will continue to spearhead growth in 2026, while the external sector (-0.9ppts vs -0.8ppts) will be supported by continued global technology expansion and steady tourism activity in line with Visit Malaysia Year 2026 and visa-exemptions for visitors from China and India.

On the domestic front, private consumption is expected to stay resilient at 5.0% (2025: 5.2%), supported by firm labour market conditions and continued income growth. Employment growth will be led by hiring in the manufacturing and services sectors, and consequently, unemployment rate is expected to improve to 2.9% (2025: 3.0%). Income growth will be supported by supportive policy measures like the civil servant salary adjustment and indirectly from cash transfers and BUDI95.

On the investment front, both private and public investments are expected to grow at a more moderate pace of 7.5% y/y (2025: 9.4% y/y) and 7.3% y/y (2025: 10.3% y/y), the former due to high base effect and the latter, with focus on ***projects to enhance electricity generation capacity, upgrade railway networks and improve public transport services.***

On the external front, gross exports are expected to grow by 8.6% in 2026 (2025: 6.4%) underpinned by manufactured exports (9.6% y/y vs 7.7% y/y) especially for E&E and a recovery in mining exports (13.0% y/y vs -10.8% y/y) in line with high prices for crude oil and LNG. Exports of agriculture products are expected to decline due to lower CPO output.

These, will however be negated by an equally robust import growth (9.0% y/y vs 6.0% y/y) underpinned by a pick-up in the imports of consumption goods (7.3% y/y vs 1.8% y/y) and intermediate goods (6.9% y/y vs -4.0% y/y), the latter in line with the stronger manufactured exports. Capital goods imports are expected to normalize to 2.3% y/y (prior: 29.0% y/y) following the high base effect in 2025 due to investment in data centers and E&E.

Services and manufacturing to grow; mining and quarrying to contract

On the supply side, the services and manufacturing sector will be the main growth impetus (Figure 3). Construction sector will continue to grow at a robust rate at 9.1% y/y (prior: 12.2% y/y). On the contrary, agriculture (-1.0% y/y vs 2.2% y/y) is expected to contract as a result of lower CPO production while the contraction in mining (-1.2% y/y vs 0.7% y/y) is due to maturing oilfields and planned maintenance.

Within services (5.2% vs 5.5% y/y) the consumer-related and transport & storage sub-sectors will be supported by sustained household spending and tourism, ICT buoyed by continued operationalisation of data centre activities and real estate & business services subsector from construction activities. BNM expects growth of the finance and insurance subsector to be underpinned by sustained loan demand and rollout of insurance products aligned with consumer needs.

Inflation to remain moderate and close to long term average

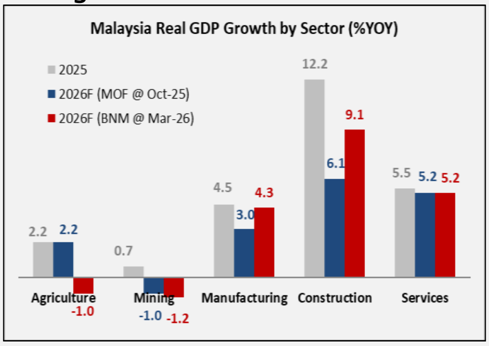
In terms of inflation, BNM has penciled a wider forecast range of 1.5-2.5% for headline (2025: 1.4%) and 1.8-2.3% for core inflation. The headline CPI forecast in a slight upward tweak from MOF's 1.3-2.0%, and in line with ours at 1.9%. The large range has taken into account the uncertainty from the global commodity prices, and expectations that a stronger Ringgit, domestic policy measures and absence of demand-pull inflation, will help mitigate the upward pressure on imported and domestic price pressure. Similar to growth, inflation risks are primarily external driven, upside from prolonged supply disruptions and trade policy uncertainty, as well as weather disruption on food prices, and downside, from weaker global demand.

Household balance sheet remains healthy

Household debt as a percentage of GDP have been holding rather steady in the last four years, although it inched slightly higher to 84.8% as at end-2025 (end-2024: 84.1%). Total household debt grew 5.6% y/y to RM1.72 trillion in 2025 (2024: +5.9% y/y), supported by positive labour market condition with housing and car loans accounted for the bulk (75%) of total household debt. Meanwhile, total household financial assets grew at an even faster pace of 6.2% y/y to RM3.67 trillion in 2025 (2024: +8.7% y/y).

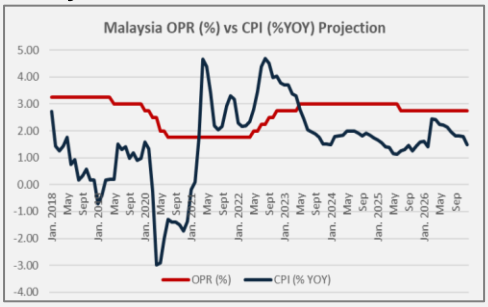
This should allay concerns on household balance sheets as the household financial assets-household debt ratio remains firmly above

Figure 3: Services and manufacturing will continue to lead growth; cushioning declines in agriculture and mining



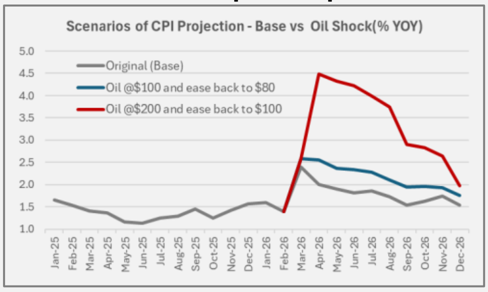
Source: BNM

Figure 4: Expectation for still manageable inflation despite upside price risks is expected to keep OPR steady in 2026



Source: DOSM; HLBB Global Markets Research

Figure 5: CPI scenarios suggest inflation will likely remain well-contained for the year despite the imminent increase post oil price shocks



Source: DOSM; HLBB Global Markets Research

2.0x (2025: 2.14x vs 2.12x in 2024). Other micro level indicators also suggested household debt servicing capacity remained sound. The median debt-to-income ratio, a measure of borrower leverage, remained broadly stable at 1.3x. The median debt service ratio (DSR) of outstanding household loans also remained steady at 33%, indicating sustained ability among consumers to meet loan repayment. This should help underpin household health and consumer spending especially in the wake of looming uncertainties on the external front, be it geopolitical or tariff risks.

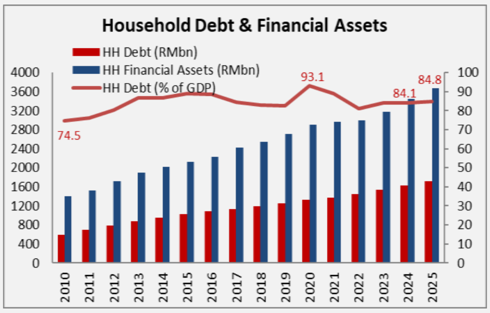
Monetary Policy Committee will remain vigilant; expect no change in OPR for now

In terms of monetary policy, the Monetary Policy Committee (MPC) remains committed to ensure sustainable economic growth while maintaining price stability. There is also no change to the central bank guidance as per the March policy statement that the central bank will stay vigilant to development in the Middle-east, which will have implications to financial markets, growth and inflation.

The central bank reiterated that the overall impact on the Malaysian economy will depend on the duration as well as the severity of the conflict on global energy production and logistics, especially with the continued blockage at the Straits of Hormuz and damages to some oil and gas facilities at the Gulf. That said, the central bank reassured that Malaysia is facing the conflict from a position of strength, riding on robust domestic demand, moderate inflation, sound financial sector and a resilient external position, as well as Malaysia's position as a net energy exporter, all of which should help cushion the blow from the current turmoil.

Premising on our house views for resilient growth of 4.6% and well-contained inflation of 1.9% for 2026, we maintain our view that the central bank will maintain OPR unchanged at 2.75% for the year, barring further escalation in geopolitical tension or renewed threats from trade policies.

Figure 6: Households remained healthy amid favourable labour market conditions; household financial assets were growing faster than household debt



Source: BNM

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