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| | |
|-----------------------------------|-------|
| 2025 GDP Growth | +5.2% |
| 2026 GDP Growth Forecast: | +4.7% |
| 2025 Export Growth: | +6.4% |
| 2026 Export Growth Forecast: | +4.8% |
| 2025 Unemployment Rate | 3.0% |
| 2026 Unemployment Rate Forecast: | 3.0% |
| 2025 Headline Inflation: | +1.4% |
| 2026 Headline Inflation Forecast: | +1.8% |
| End-2025 OPR | 2.75% |
| End-2026 OPR Forecast: | 2.75% |

BNM Economic & Monetary Review 2025

Growth outlook subject to external risks

- **BNM projects Malaysia’s GDP to expand between 4.0-5.0% in 2026 (2025: +5.2%), broadly in line with our forecast of +4.7%. Downside risks stem from weaker global trade amid the Middle East conflict and tariff uncertainties, as well as softer commodity production.**
- **BNM expects inflation to average 1.5-2.5% in 2026 (2025: +1.4%), with risks tilted to the upside, contingent on external developments and domestic fuel policy.**
- **In assessing the policy path, BNM will monitor spillovers from elevated oil prices to business costs, the extent of pass-through to consumer prices, and domestic demand conditions.**
- **Barring a sharp rise in inflation or a material deterioration in the growth outlook, we expect BNM to keep the OPR unchanged at 2.75% throughout 2026.**

Official 2026 growth forecast at 4.0-5.0%

BNM projects **Malaysia’s GDP to expand between 4.0–5.0% in 2026** (2025: +5.2%), broadly in line with our in-house forecast of +4.7%. BNM flagged downside risks from weaker global trade amid the Middle East conflict and tariff uncertainties, as well as softer commodity production. Upside risks could stem from better-than-expected global growth, stronger E&E demand and firmer tourism activity.

The key takeaway from the Economic and Monetary Review (EMR) and engagement session is that despite the growth forecast range appearing benign, risks are skewed to the downside. BNM’s forecast range of 4.0-5.0% is wider than the Ministry of Finance’s (MoF) 4.0–4.5% projection tabled in Budget 2026. The upper bound of the forecast range reflects the strong momentum seen in 2H25 prior to the recent escalation in geopolitical tensions. Conversely, BNM guided that a six-month Middle East conflict scenario, with Brent price rising to USD110/bbl, would push growth towards the lower bound of +4.0%.

Notably, BNM’s implied point estimate is at +4.0%, slightly below MoF’s +4.1%, reflecting its cautious stance on the external environment. Any further deterioration beyond this baseline would likely warrant a downward revision to its growth projection. Judging by current external development, downside risks remain material, with growth potentially undershooting the lower-bound of 4.0% under a more adverse scenario.

Domestic demand to steer growth

Domestic demand will remain the key growth anchor. Private consumption (+5.0%; 2025: +5.2%) should be supported by resilient labour market conditions, steady income growth and continued fiscal support measures. Total investment (+7.5%; 2025: +9.6%) will be underpinned by capacity expansion in E&E and ICT sectors amid the AI-driven upcycle, alongside ongoing public infrastructure projects.

On the external front, export growth (+2.8%; 2025: +3.1%) faces headwinds from tariffs and geopolitical tensions. Nonetheless, sustained demand for E&E products, ICT services and tourism-related activities should mitigate the downsides.

On the supply side, sectoral outlook is mixed. The services (+5.2%; 2025: +5.5%) will remain resilient, supported by household spending, tourism activity and the ramp-up of ICT-related services alongside data centre operations. Manufacturing (+4.3%; 2025: +4.5%) will continue to expand, driven by the E&E subsector amid the global AI upcycle.

In contrast, agriculture (-1.0%; 2025: +2.2%) is expected to contract as crude palm oil output normalises following strong yields in late 2025. Similarly, mining (-1.2%; 2025: +0.7%) will likely decline due to maturing oil fields and planned maintenance activities.

Inflation outlook hinges on external developments

BNM projects inflation to average between 1.5–2.5% in 2026 (2025: +1.4%). Headline inflation is expected to remain moderate, as a stronger ringgit should keep imported cost pressures contained, while domestic policy measures will help limit pass-through from higher global commodity prices. Nonetheless, risks are tilted to the upside. BNM highlighted that a prolonged Middle East conflict, coupled with crude oil prices rising to USD110/bbl, could push inflation towards the upper bound of +2.5%.

We broadly concur with BNM’s assessment that inflation will be highly contingent on external developments and domestic fuel policy. Notably, BNM’s projection does not incorporate changes in subsidised fuel prices. **Our sensitivity analysis suggests that every RM0.10/litre increase in subsidised RON95 price could raise headline inflation by about 0.11ppt.**

If Brent stays near USD100/bbl, an upward adjustment in RON95 prices to around RM2.40/litre or higher could push inflation above 3.0%, exceeding Malaysia’s 10-year average of 1.8% (refer to our [Malaysia CPI report](#)). For now, we maintain our 2026 inflation forecast at +1.8%, pending adjustments in domestic subsidised fuel prices.

Monetary policy dilemma

BNM’s assessment of a “downside to growth, upside to inflation” environment underscores the growing complexity of the monetary policy trade-off. BNM guided that monetary policy typically does not respond to one-off supply shocks. Instead, the focus will be on whether cost pressures become broad-based and persistent. In assessing the policy path, BNM will monitor the extent of spillovers from elevated crude oil prices to business costs, the degree of pass-through to consumer prices, and the strength of domestic demand.

This reinforces our view that BNM will remain cautious. Tightening policy in a cost-push inflation environment could risk undermining household consumption and business investment, particularly in the absence of demand-driven inflation pressures. Barring a sharp rise in inflation or a material deterioration in the growth outlook, we **maintain our view that BNM will keep the OPR unchanged at 2.75%** throughout 2026.

Figure 1: GDP by Sector Approach

| % YoY | Actual | MoF* | BNM** | In-house |
|----------------------|--------|---------|---------|----------|
| | 2025 | 2026F | 2026F | 2026F |
| GDP | 5.2 | 4.0-4.5 | 4.0-5.0 | 4.7 |
| Agriculture | 2.2 | 2.2 | -1.0 | 0.5 |
| Mining | 0.7 | -1.0 | -1.2 | -0.8 |
| Manufacturing | 4.5 | 3.0 | 4.3 | 4.5 |
| Construction | 12.2 | 6.1 | 9.1 | 11.0 |
| Services | 5.5 | 5.2 | 5.2 | 5.1 |

*Budget 2026 (Oct 2025)

**BNM Economic & Monetary Review 2025 (Mar 2026)

Source: BNM, MoF, Department of Statistics, Apex Securities

Figure 2: GDP by Demand Approach

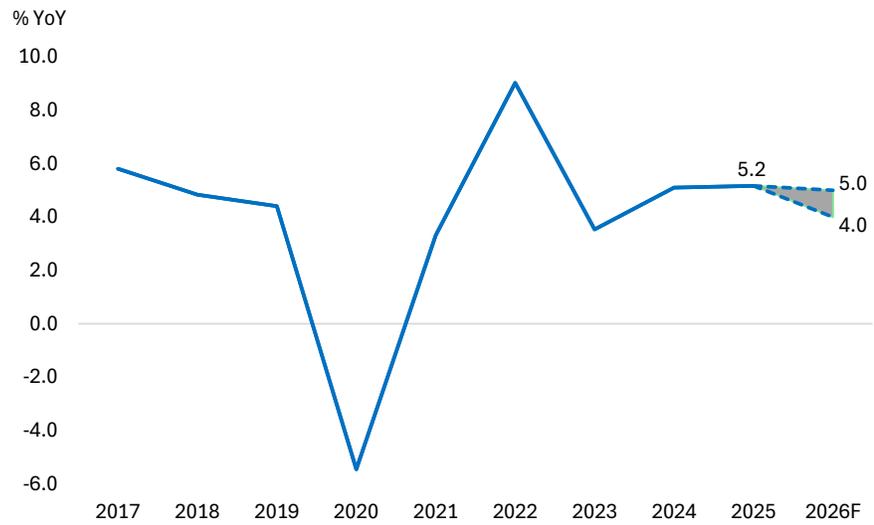
| % YoY | Actual | MoF* | BNM** | In-house |
|---------------------|--------|---------|---------|----------|
| | 2025 | 2026F | 2026F | 2026F |
| GDP | 5.2 | 4.0-4.5 | 4.0-5.0 | 4.7 |
| Private consumption | 5.2 | 5.1 | 5.0 | 5.1 |
| Public consumption | 6.6 | 3.2 | 4.9 | 3.8 |
| Private investment | 9.4 | 7.8 | 7.5 | 10.0 |
| Public investment | 10.3 | 7.3 | 7.3 | 6.8 |
| Exports | 3.1 | 3.8 | 2.8 | 2.3 |
| Imports | 4.6 | 5.8 | 4.3 | 3.8 |

*Budget 2026 (Oct 2025)

**BNM Economic & Monetary Review 2025 (Mar 2026)

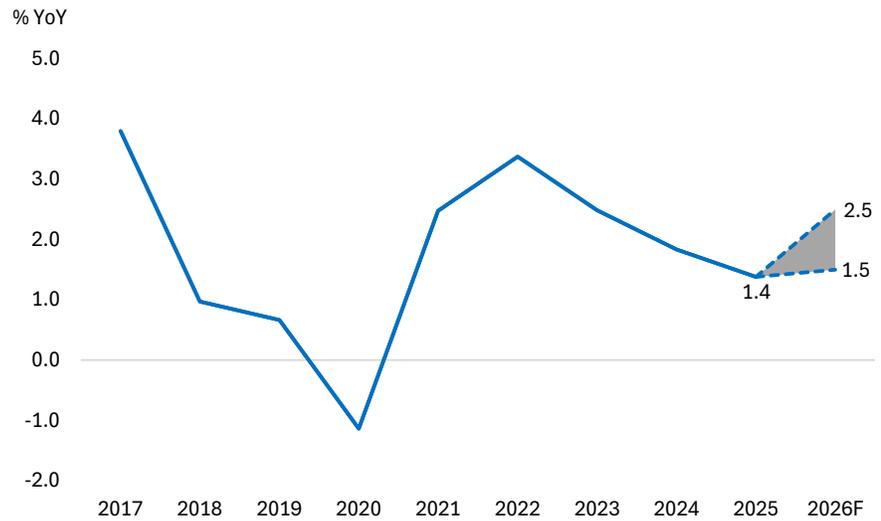
Source: BNM, MoF, Department of Statistics, Apex Securities

Figure 3: GDP to expand between 4.0-5.0% in 2026



Source: BNM, Apex Securities

Figure 4: Inflation to average 1.5-2.5% in 2026



Source: BNM, Apex Securities

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to -10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.
