



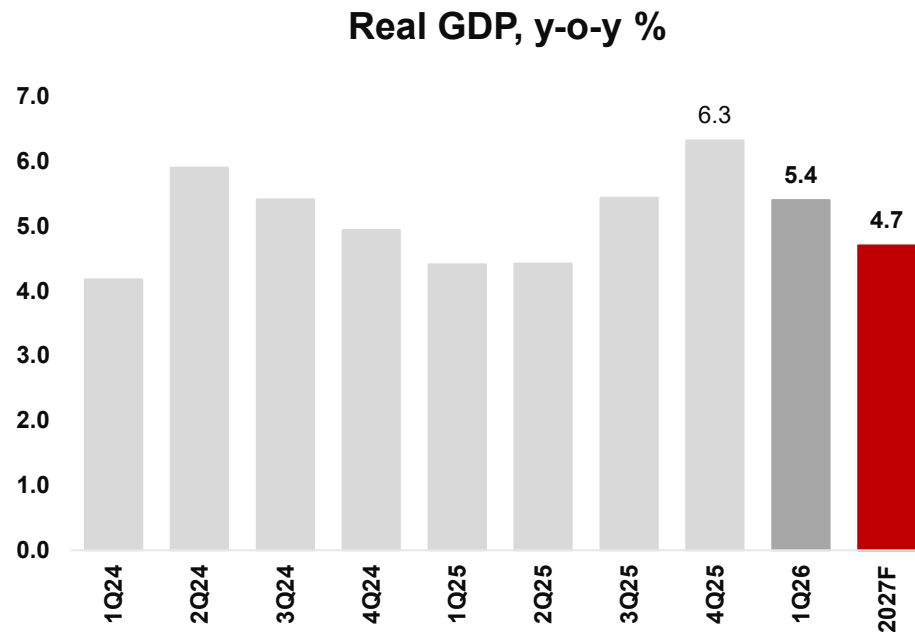
MALAYSIA 1Q26 GDP EXPANDS 5.4%, RISKS TILT TO DOWNSIDE

15 MAY 2026

ECONOMIC RESEARCH

FARAH ZAZREEN ZAINUDIN

BROAD-BASED SLOWDOWN EASES MALAYSIA'S 1Q26 GROWTH TO 5.4%



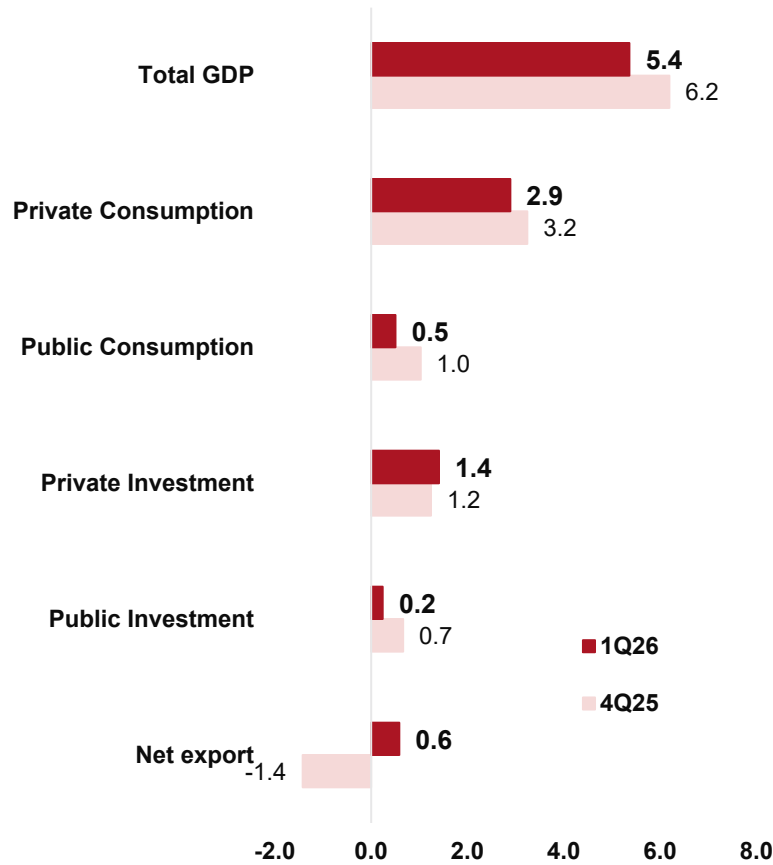
Sources: DOSM, CEIC Data, Bank Islam

Economy	1Q25	2Q25	3Q25	4Q25	1Q26
GDP (by expenditure)	4.4	4.6	5.3	6.2	5.4
Final Consumption Expenditure	4.9	5.5	5.4	5.8	4.6
-Private Consumption	4.8	5.1	5.8	5.6	4.7
-Public Consumption	2.7	5.7	5.8	6.6	4.1
Gross Fixed Capital Formation (GFCF)	9.6	12.0	7.4	9.3	7.3
-Private Investment	9.1	11.7	7.4	9.2	7.8
-Public Investment	11.6	13.5	7.5	9.5	5.3
Net Exports of Good and Services	-7.9	-58.3	32.2	-32.9	13.5
-Exports	4.3	4.5	4.6	6.3	5.2
-Imports	5.2	7.9	3.0	9.0	4.6
GDP (by economic activity)	4.4	4.6	5.3	6.2	5.4
-Agriculture	0.7	2.5	0.2	5.7	2.6
-Mining & Quarrying	-2.6	-5.2	9.4	1.4	-2.1
-Manufacturing	4.2	3.7	4.1	6.0	5.9
-Construction	14.2	12.1	11.7	10.9	7.7
-Services	5.1	5.1	5.3	6.2	5.6
-Import duties	4.1	29.1	16.6	19.6	29.2

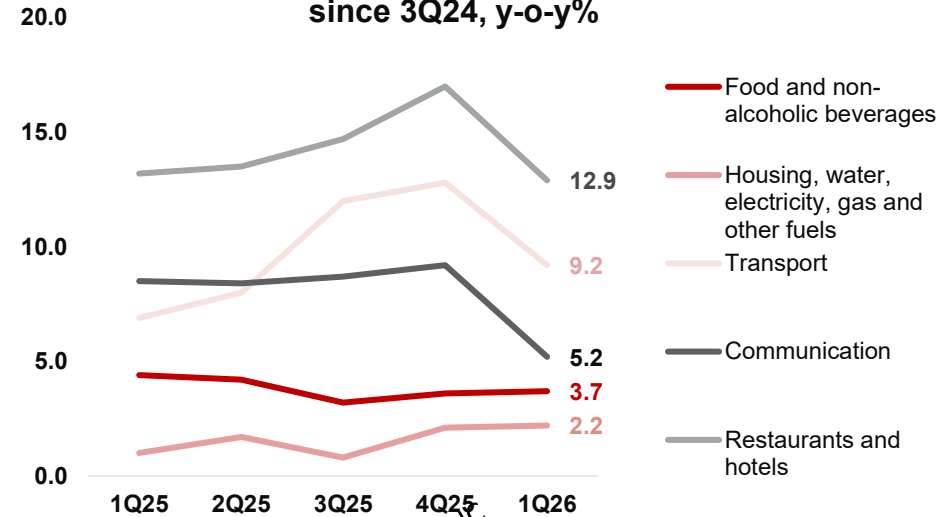
- **Malaysia's 1Q26 growth remained robust but moderated to 5.4% y-o-y**, easing from the sharp 6.3% expansion in 4Q25 yet slightly above the advance estimate of 5.3%.
- **The slowdown was broad-based, led by softer private consumption which accounts for 62% of total GDP, slipping to 4.7% y-o-y** (4Q25: 5.6%), the weakest pace since 3Q24 (4.2%). Even so, a stable labour market, contained inflation, government policy supports festive spending and sustained wage growth continue to underpin household demand. Public consumption also weakened, rising just 4.1% (4Q25: 6.6%) amid slower supplies and services spending.
- Meanwhile, **gross fixed capital formation (GFCF) posted its slowest expansion since 4Q23**, at 7.3% (4Q25: 9.3%), with both private and public investment easing to 7.8% y-o-y (4Q25: 9.2%) and 5.3% y-o-y (4Q25: 9.5%), respectively.
- **In contrast, net exports provided a strong offset, rebounding 13.5% y-o-y after four consecutive quarters of contraction**, driven by firmer exports growth relative to imports. Imports growth slowed sharply to 4.6% y-o-y, nearly halving from 9.0% in 4Q25. The onset of West Asia geopolitical tensions at end-February dampened sentiment, slowing investment activity and reducing demand for imported intermediate goods.

CONTRIBUTION TO REAL GDP GROWTH BY TYPE OF EXPENDITURE

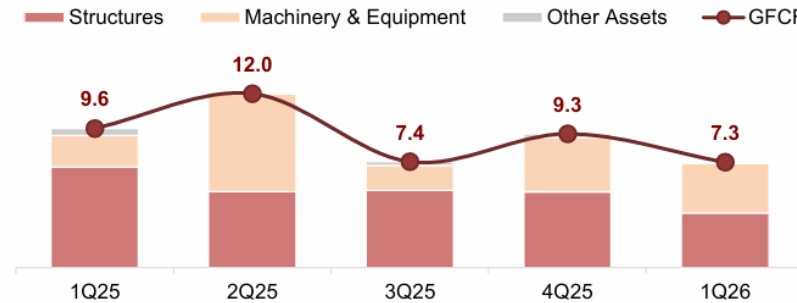
GDP by Type of Expenditure: PPT Contribution to GDP Growth



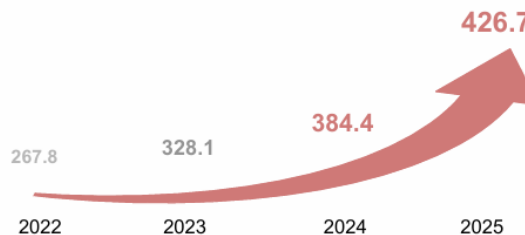
Private consumption recorded slowest growth since 3Q24, y-o-y%



Real Gross Fixed Capital Formation Annual change (%) / Cont. to growth (ppt)



MIDA: Total Approved Investments RM bil

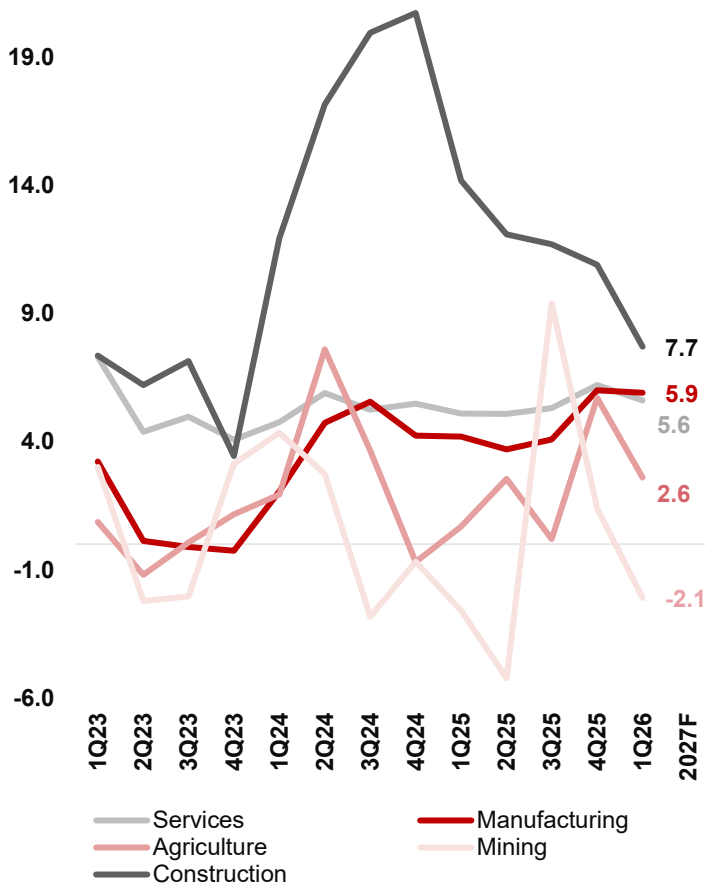


- Although private consumption remained the key anchor of growth, its contributed only 2.9 percentage point (ppt) to overall GDP in 1Q26 (4Q25: 3.2 ppt), dragged by weaker spending on transport, communication, and restaurants & hotels, **reflecting more cautious household demand amid rising energy prices triggered by the U.S.-Iran conflict.**
- Net exports rebounded strongly, up 13.5% y-o-y, though they added only 0.6 ppt to GDP.
- Meanwhile, private investment edged higher to 1.4 ppt (4Q25: 1.2 ppt), supported by sustained spending on machinery, equipment, and construction structures amid high conversion of approved investments into actual projects, supported by ongoing national master plan initiatives.
- Public investment growth was sluggish, weighed down by reduced government spending on fixed assets and diminishing support from major infrastructure projects nearing completion.
- **Looking ahead, investment momentum may soften as global uncertainty delays infrastructure projects and raises costs for imported construction materials.**

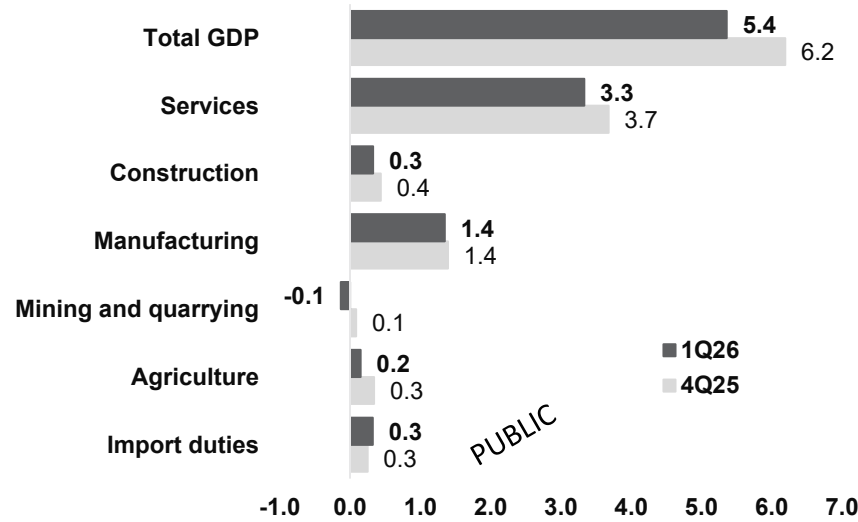
Sources: DOSM, CEIC Data, BNM, Bank Islam

CONTRIBUTION TO REAL GDP GROWTH BY ECONOMIC ACTIVITY

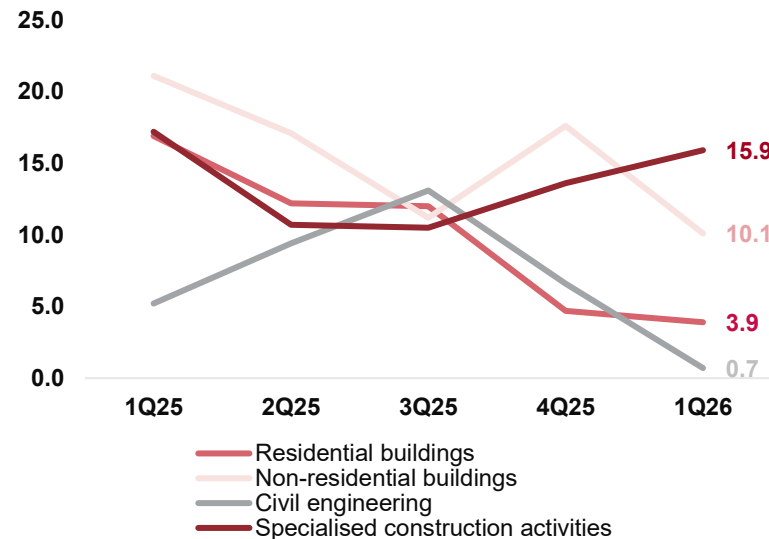
GDP Growth by Sector, y-o-y %



GDP by Economic Activity: PPT Contribution to GDP Growth



Construction by Subsector, y-o-y %



- A broad-based slowdown was evident across all sectors:
- ✓ **Services** (5.6%; 4Q25: 6.2%): Motor vehicle sales moderated significantly (1.1%; 4Q25: 8.2%) ahead of expiration of import duty waivers for electric vehicles as well as contraction in finance services (-0.2%; 4Q25: 0.7%).
- ✓ **Construction** (7.7%; 4Q25: 10.9%): Growth continue to normalized after eight consecutive quarters of double-digit growth, dragged by moderation growth in civil engineering (0.7%; 4Q25: 6.6%), non-residential (10.1%; 4Q25: 17.6%) and residential building (3.9%; 4Q25: 4.7%).
- ✓ **Agriculture** (2.6%; 4Q25: 5.7%): Normalization of palm oil output (5.5%; 4Q25: 16.2%) after earlier high production, as well as the replanting activities weighed on production. Marine fishing, aquaculture and rubber also remained in contraction.
- ✓ **Manufacturing** (5.9%; 4Q25: 6.0%): The sector remained supported by E&E manufactured activity, driven by sustained demand for AI and data center-related components. Nonetheless, rubber and plastic products recorded a deeper contraction, while chemicals & chemical products and pharmaceutical products turned negative.
- In contrast, **mining** sector declined during the quarter (-2.1%; 4Q25: 1.4%), reflecting weaker output in crude oil (-4.2%; 4Q25: 4.1%) and natural gas (-2.1%; 4Q25: -0.9%).

Sources: DOSM, CEIC Data, Bank Islam

THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR

y-o-y, %	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Agriculture	1.1	-1.0	0.3	1.2	2.1	7.9	4.3	-0.3	0.7	2.5	0.2	5.7	2.6
Rubber	-13.5	3.7	-16.2	3.8	3.6	-1.0	13.9	23.3	9.1	-10.6	-11.1	-32.0	-25.0
Oil palm	3.4	-6.9	2.2	1.6	2.5	19.1	7.4	-5.3	-3.1	5.3	-0.7	16.2	5.5
Livestock	-1.4	0.7	3.2	4.9	7.8	7.8	3.3	3.3	2.4	1.6	2.3	2.7	8.7
Other agriculture	1.0	3.2	1.4	1.9	0.9	2.4	3.7	3.3	2.8	1.9	1.3	1.0	1.5
Forestry and logging	0.4	0.1	-22.8	-9.2	-14.2	-17.6	-7.5	-14.7	-12.9	-2.5	1.2	7.5	3.8
Marine fishing	-3.2	-2.9	-1.4	6.6	7.0	10.7	2.1	1.3	10.4	1.1	-0.4	-8.8	-9.4
Aquaculture	10.2	11.1	6.2	-17.9	-6.5	-1.1	-2.1	15.2	-0.2	-1.0	-3.5	-5.7	-1.0
Mining and quarrying	3.0	-2.2	-2.0	3.1	4.1	2.7	-2.4	0.2	-2.6	-5.2	9.4	1.4	-2.1
Crude oil and condensate	1.6	-3.4	-1.7	1.8	1.5	2.9	-5.2	-4.5	-6.5	-2.9	7.1	4.1	-4.2
Natural gas	3.1	-2.3	-3.3	4.4	5.7	1.8	-1.6	3.0	-0.7	-7.1	11.8	-0.9	-2.1
Other mining & quarrying and supporting services	8.5	4.7	3.7	1.2	5.5	7.4	3.7	1.8	1.5	-2.9	5.3	4.6	4.9
Manufacturing	3.2	0.1	-0.1	-0.3	2.1	4.7	5.6	4.2	4.2	3.7	4.1	6.0	5.9
Vegetable and animal oils & fats	13.7	0.7	-0.1	5.0	-9.6	6.2	15.5	7.2	12.6	15.3	1.1	12.0	11.5
Food processing	4.0	3.0	6.3	8.8	5.0	4.4	3.9	5.8	7.7	10.0	9.7	8.8	8.0
Beverages	-1.7	1.4	0.5	5.3	5.8	5.9	7.0	8.7	5.6	7.9	13.2	11.4	10.5
Tobacco products	15.4	19.4	13.8	5.7	7.6	10.5	15.7	6.9	0.2	-0.4	1.9	2.6	2.8
Textile and wearing apparel	-0.2	2.5	-0.3	-1.2	0.8	3.9	4.1	-0.5	0.1	-2.0	-1.4	0.7	0.0
Leather and related products	7.4	9.2	4.9	8.4	6.3	2.4	7.7	7.9	6.4	7.4	7.1	8.4	5.1
Wood products	-8.4	-4.9	-2.7	-0.3	-0.2	3.5	6.7	4.7	2.9	1.3	3.1	2.4	3.5

Sources: DOSM, CEIC Data, Bank Islam

THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR (CONT)

y-o-y, %	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Manufacturing (Cont.)	3.2	0.1	-0.1	-0.3	2.1	4.7	5.6	4.2	4.2	3.7	4.1	6.0	5.9
Paper and paper products	3.6	3.2	2.7	6.2	3.8	2.4	3.9	1.3	-0.3	-1.8	-1.9	-2.6	-1.2
Printing and reproduction of recorded media	3.6	6.5	8.9	5.4	5.2	8.3	11.3	8.5	7.8	9.0	8.2	7.5	8.8
Refined petroleum products	6.3	-2.3	-8.4	-3.3	0.5	3.9	2.4	1.1	-0.3	-3.3	-0.3	-1.9	-1.8
Chemicals & chemical products and pharmaceutical products	2.6	4.1	5.8	2.1	0.3	3.4	4.1	1.8	4.3	1.1	-0.4	1.8	-0.3
Rubber products	-7.2	-12.4	-6.4	-2.0	5.7	6.3	10.1	10.8	5.6	-0.1	-0.8	-1.2	-2.0
Plastics products	-8.8	-3.3	-1.1	1.6	3.9	4.4	6.0	6.7	4.9	0.8	-0.7	-1.3	-1.9
Non-metallic mineral products	3.4	2.7	4.7	6.1	6.4	9.9	9.4	3.9	2.1	2.8	-0.2	0.7	3.8
Basic metals	1.6	4.8	2.7	2.5	2.1	6.6	7.6	2.0	2.5	5.7	6.4	7.3	5.1
Fabricated metal products	4.4	7.7	7.7	8.5	10.5	10.6	9.9	5.7	5.0	3.6	4.8	6.7	5.7
Machinery and equipment	1.1	-2.1	-4.5	-3.2	1.8	3.9	4.1	6.4	5.8	6.8	8.5	9.7	5.4
Computers and peripheral equipment	-7.8	-8.6	14.9	19.8	12.5	14.8	16.1	12.4	10.1	5.1	4.0	2.8	-2.2
Electrical equipment	2.0	3.7	1.8	0.3	-0.7	-3.4	-0.4	2.3	4.4	4.9	8.5	13.1	2.8
Electronic components & boards, communication equipment and consumer electronics	5.0	-1.9	-4.8	-10.0	-0.1	3.2	5.7	7.5	8.3	8.2	9.1	13.9	15.6
Manufacture of medical, precision & optical instruments, watches and clocks	7.6	5.7	6.6	7.5	3.3	-2.5	1.0	5.8	6.4	3.0	5.5	14.4	16.2
Motor vehicles and transport equipment	8.3	0.3	5.0	2.2	2.0	5.7	0.1	-4.4	-10.3	-3.1	0.5	1.3	-3.4
Furniture	-11.1	-6.7	-3.1	6.2	10.0	8.0	5.6	3.6	2.7	6.7	9.0	7.2	5.0
Other manufacturing and repair & installation of machinery and equipment	4.4	3.3	2.2	3.0	3.2	4.2	5.3	3.0	5.9	4.8	4.3	4.1	5.7

Sources: DOSM, CEIC Data, Bank Islam

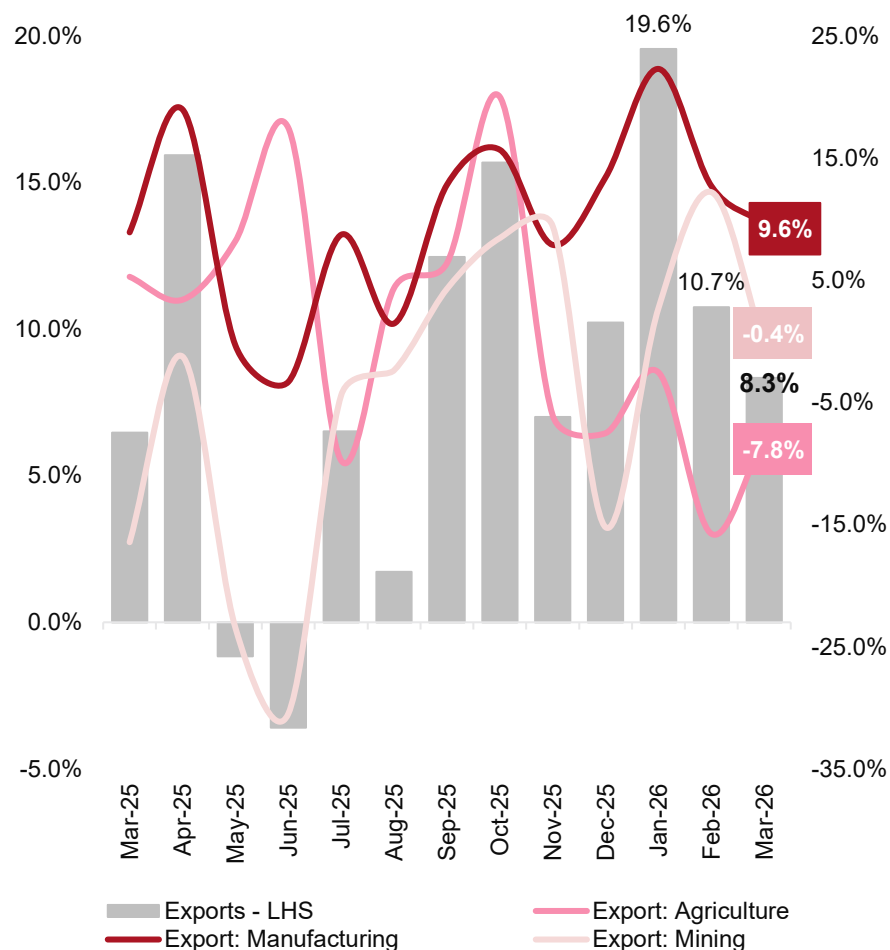
THE HEAT MAP FOR THE KEY SECTOR/SUBSECTOR (CONT)

y-o-y, %	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Construction	7.1	5.8	7.6	3.3	11.8	17.5	20.1	20.9	14.2	12.1	11.7	10.9	7.7
Residential buildings	-4.3	5.4	6.5	0.9	8.2	14.8	23.1	30.6	16.9	12.2	12.0	4.7	3.9
Non-residential buildings	7.1	2.4	-3.9	-4.5	1.5	3.6	27.2	23.5	21.1	17.1	11.2	17.6	10.1
Civil engineering	15.8	10.2	15.5	16.9	23.1	23.0	11.0	9.1	5.2	9.4	13.1	6.6	0.7
Specialised construction activities	8.0	5.3	10.7	0.2	12.0	27.7	22.1	24.4	17.2	10.7	10.5	13.6	15.9
Services	7.3	4.4	5.0	4.2	4.8	6.0	5.2	5.4	5.1	5.1	5.3	6.2	5.6
Electricity and gas	-0.2	2.6	2.0	5.0	10.6	7.3	6.4	3.3	-3.1	-1.4	-0.3	3.0	5.0
Water, sewerage and waste management	4.4	7.1	2.8	2.8	0.1	-4.0	-3.9	-5.5	0.7	1.7	3.5	3.5	1.3
Wholesale trade	3.5	4.5	6.4	4.8	3.7	3.0	4.5	5.3	5.4	6.1	6.1	6.5	6.0
Retail trade	14.8	5.0	3.7	3.0	3.8	5.3	4.0	4.1	5.2	3.7	4.3	4.6	4.7
Motor vehicles	12.3	3.6	10.6	9.9	5.3	8.1	3.4	2.2	-3.7	0.2	2.5	8.2	1.1
Food and beverage	4.0	0.5	1.8	2.0	3.3	4.0	4.1	4.9	5.7	7.1	8.1	8.6	6.2
Accommodation	51.5	33.9	18.3	11.1	12.8	13.0	13.2	14.5	14.2	14.5	13.8	14.2	13.5
Transportation and storage	15.5	13.7	12.1	12.8	11.3	10.5	10.8	11.0	9.9	9.0	8.2	8.8	8.5
Information and communication	3.8	3.7	3.6	3.3	3.0	3.2	3.6	4.2	5.8	6.3	8.5	8.8	8.1
Finance	2.2	-2.7	-0.9	-2.9	3.0	6.1	3.4	4.1	1.5	1.1	-1.8	0.7	-0.2
Insurance	-0.2	-14.6	-1.6	-11.7	-5.1	26.3	3.4	7.6	6.0	2.0	-2.5	0.1	1.4
Real estate	1.6	1.5	6.0	5.6	9.3	11.3	13.7	12.9	12.3	9.8	6.8	8.0	7.6
Business services	16.1	10.4	8.6	8.1	8.5	8.5	8.6	7.8	7.7	8.0	8.1	7.3	6.4
Private health services	10.7	8.9	10.4	10.6	9.0	8.6	8.7	9.0	7.6	8.9	8.9	10.3	10.5
Private education services	11.1	8.4	4.5	5.9	7.1	7.9	7.6	6.9	6.1	7.0	7.4	7.1	8.5
Other services	6.6	6.0	5.5	3.9	4.3	3.8	4.8	4.9	3.9	4.6	6.2	6.1	5.3
Government services	4.9	5.2	5.4	5.6	4.3	4.6	4.9	4.8	4.8	5.1	5.8	6.3	5.9

Sources: DOSM, CEIC Data, Bank Islam

EXPORTS REMAINED FIRM IN 1Q26, BUT MOMENTUM SHOWED SIGNS OF EASING

Exports show a downward trend, with single-digit growth recorded in March, y-o-y



Top 10 Exports by Subsectors	% Share in Mar 2026	y-o-y %		
		Jan-26	Feb-26	Mar-26
Manufacturing: Electrical & Electronic Products	47.6%	39.5	28.5	15.0
Manufacturing: Petroleum Products	5.7%	-16.7	-23.5	23.7
Manufacturing: Machinery, Equipment & Parts	4.6%	12.7	-0.2	2.4
Manufacturing: Optical & Scientific Equipment	4.5%	36.4	42.9	29.3
Agriculture: Palm Oil and Palm Based Products	4.1%	-2.1	-12.8	-6.1
Manufacturing: Manufactures of Metal	3.9%	5.4	-7.0	21.2
Manufacturing: Chemical & Chemical Products	3.4%	-7.8	-16.7	-20.1
Agriculture: Palm Oil	3.4%	-1.4	-16.5	-8.3
Manufacturing: Palm Oil-Based Manufactured Products	2.2%	-4.5	-3.4	-5.3
Manufacturing: Processed Food	2.0%	16.7	-14.9	-26.1

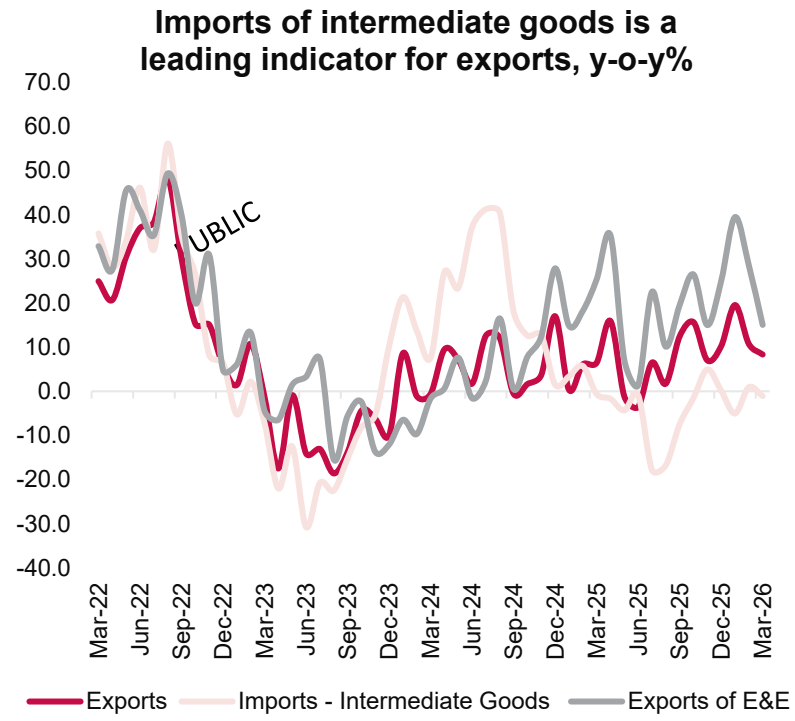
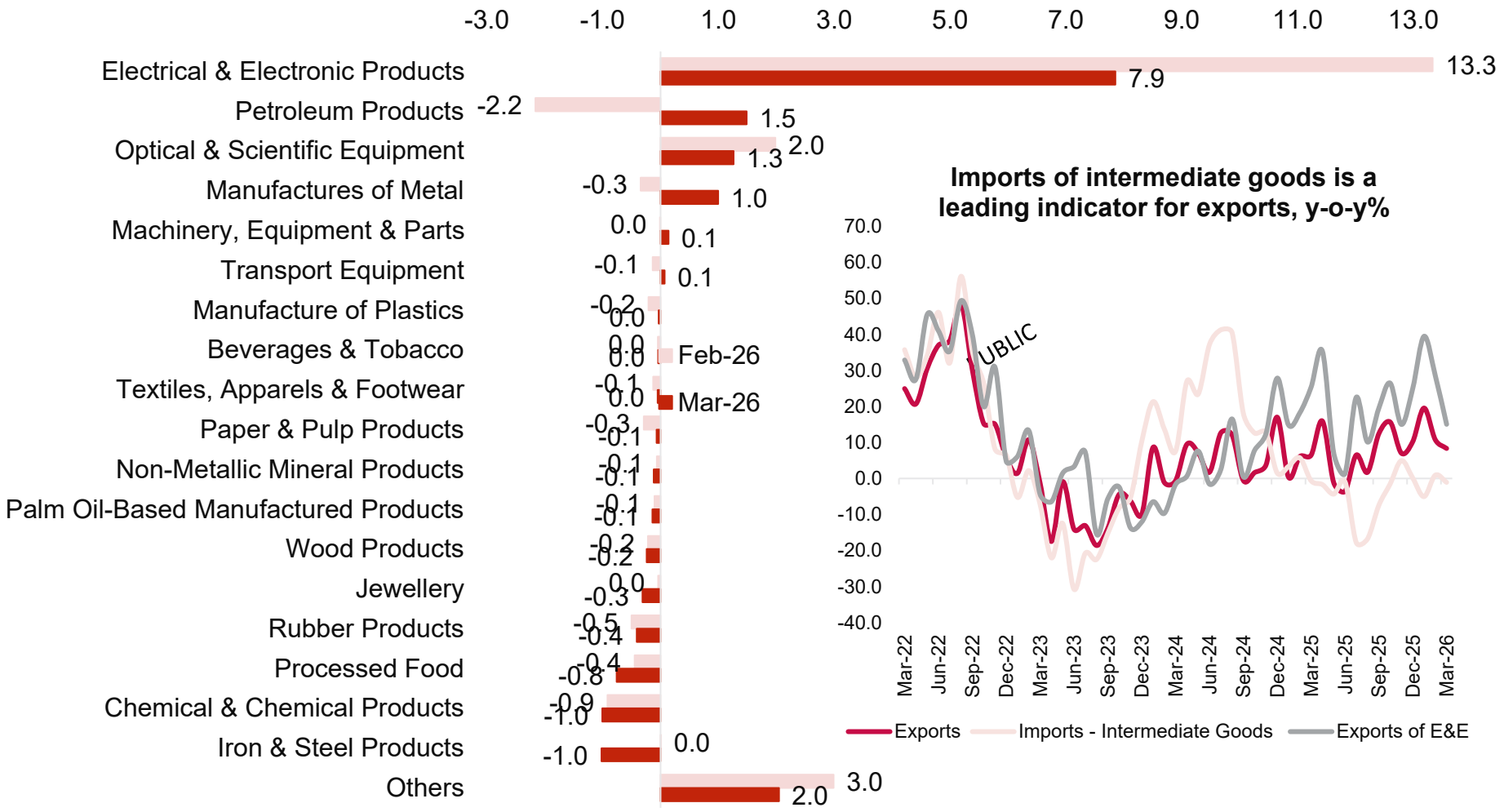
- Malaysia's total export growth trended downward, driven primarily by weaker shipments of electrical and electronic (E&E) products.
- As correlation between total exports and E&E performance remains significant, at around 82%, the subsector exerts an outsized influence on overall exports trends. Although Malaysia's export base is diversified, nearly half of total exports are accounted for by E&E, leaving overall performance vulnerable to shifts in global demand.
- The outlook is becoming increasingly uncertain. Continued weakening in E&E demand, amid ongoing supply chain disruptions and a softer global economy, would place significant pressure on exports. A prolonged conflict in West Asia could keep oil prices elevated, raising production costs and undermining competitiveness.
- While demand for AI- and data-centre-related components may offer some support, this momentum could dissipate if global growth slows further.
- Risks are also building across other subsectors. Persistently high input costs are likely to dampen demand in both manufacturing and agriculture, weakening Malaysia's overall export resilience.

Sources: DOSM, CEIC Data, Bank Islam

SLUGGISH E&E SHIPMENTS WEIGHS ON OVERALL MANUFACTURING EXPORTS GROWTH IN MARCH



PPT Contribution by Subsector to Total Manufacturing Exports Growth



- In March 2026, E&E products contributed only 7.9 ppt to overall manufacturing exports growth, down from 13.3 ppt in the prior month, suggesting that weaker demand is becoming more evident amid adverse sentiment linked to the U.S.-Iran tension.
- Intermediate goods imports, widely regarded as a leading indicator of export performance, are slowing, suggesting that Malaysia's strong export momentum may moderate in the months ahead.
- Rising global energy and transportation costs, together with supply chain disruptions triggered by the U.S.–Iran conflict, are increasing the cost of imported inputs and discouraging firms from restocking aggressively. This implies near-term resilience in exports, but a likely softening in momentum once existing inventories are drawn down.
- Overall, the external environment points to moderating export growth, with downside risks stemming from both sector-specific vulnerabilities and broader geopolitical tensions.

Sources: DOSM, CEIC Data, Bank Islam

OUTLOOK

- Despite the moderation in growth in 1Q2026, we maintain our full-year forecast at 4.7% (2025: 5.2%), in line with the IMF's latest projection. However, the balance of risks has tilted to the downside. As highlighted in our earlier preview, momentum in Malaysia's key economic indicators began to soften toward the end of the quarter, suggesting that rising global uncertainty and moderating external demand, amid the U.S.–Iran conflict, are exerting increasing pressure on the outlook.
 - ✓ **Export growth** slowed to 8.3% in March, down from double-digit gains earlier in the quarter, with broad-based easing across manufacturing, agriculture, and mining.
 - ✓ **Industrial production index (IPI)** also moderated, holding at 3.1% in February and March after a strong January (5.9%). Domestic demand provided some resilience, supported by festive spending. However, with seasonal factors fading and oil-driven inflationary pressures emerging, household purchasing power is likely to weaken.
- High inflationary pressures, compounded by second-round effects from elevated oil prices, are expected to temper household spending going forward. Rising fuel costs are already eroding purchasing power, and risks could intensify if food prices increase further as producers pass higher input costs to consumers. This dynamic points to slower private consumption, a trend already visible in the sluggish 4.7% growth in 1Q25, mirrored in weaker spending on transport, communication, and restaurants and hotels. Household demand has become more cautious, reflecting the impact of rising energy prices triggered by the U.S.–Iran conflict.
- On the investment front, risks are also building. Public investment could face delays if economic conditions weaken more noticeably, as fiscal space tightens and project priorities are reassessed. At the same time, private investment remains vulnerable to elevated input costs, which may compress profitability and dampen capital expenditure plans. Higher energy and raw material prices are increasing business uncertainty, potentially discouraging new investments in manufacturing and infrastructure. In addition, foreign direct investment inflows may soften if global sentiment deteriorates further, particularly in technology-related sectors that have been a key driver of Malaysia's investment landscape.
- The IMF's recent downgrade of global growth to 3.1% underscores the fragility of the external environment. The trajectory of the U.S.-Iran conflict, both its duration and severity will be pivotal to monitor. A prolonged confrontation could push energy prices higher, intensify inflationary pressures, and dampen global trade sentiment, thereby amplifying risks to Malaysia's export performance and investment climate.
- Bank Negara Malaysia has also cautioned that extended Middle East tensions could disrupt supply chains and fuel costs, with adverse implications for global growth and inflation dynamics. For Malaysia, the challenge lies in balancing resilient domestic demand against mounting external headwinds. While the baseline forecast remains positive, the outlook is increasingly vulnerable to geopolitical shocks and weaker demand from major trading partners.

PUBLIC

OUTLOOK (CONT)

- Malaysia's 2026 growth outlook of 4.7% remains intact, though risks are increasingly skewed to the downside. Economic activity is expected to moderate in the coming quarters, with a softer contribution from exports and domestic demand facing pressure from rising inflation. The external environment will be a key determinant of the growth trajectory, particularly the duration and intensity of the U.S.–Iran conflict, which could influence global demand, commodity prices, and overall investor sentiment.
- For financial sector, the banks likely to face rising vulnerabilities amid slower growth expectations and persistent inflationary pressures. Moderating GDP growth and weaker export performance could heighten repayment risks among businesses, particularly SMEs in manufacturing, agriculture, and trade-related sectors, thereby increasing the likelihood of higher non-performing loans (NPLs).
- ✓ **Manufacturing:** Export-oriented industries may experience margin compression amid rising input costs, especially energy and raw materials. This could erode profitability, which may weaken asset quality and increase credit risks for firms reliant on external demand.
- ✓ **Services:** Consumer-facing segments such as retail, transport, and hospitality are vulnerable to slower household spending as inflation reduces purchasing power. This could dampen demand for financing products and raise repayment risks in retail loan portfolios.
- ✓ **Agriculture:** Higher fertilizer and fuel costs are squeezing farm operations, while weaker palm oil demand likely to weigh on export earnings. SMEs in this sector may struggle with cash flow, increasing the risk of defaults.
- ✓ **Construction:** Elevated input costs and weaker demand for new housing projects could delay project implementation. Contractors and developers face tighter margins, raising the risk of project cancellations and loan repayment difficulties.
- ✓ **Mining:** Output has already shown signs of contraction, and prolonged volatility in global commodity prices could further undermine profitability, affecting debt servicing capacity in resource-linked firms.
- Prolonged conflict-driven oil price shocks could feed into domestic inflation, eroding household purchasing power and dampening demand for **household financing** products. Rising living costs are likely to strain debt-servicing capacity, increasing vulnerabilities within retail loan portfolios. The second-round effects of higher energy and food prices may further weaken household demand, amplifying risks to banks' consumer lending segments.

BANK ISLAM

THANK YOU