MONTHLY ECONOMIC UPDATE

2 JULY 2026

ECONOMIC RESEARCH

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KEY TAKEAWAYS

- **The Federal Reserve held rates steady at 3.50–3.75% in June, but its projections signaled a more hawkish tilt, with nearly half of policymakers expecting at least one hike this year**. Markets initially reacted by pricing out any chance of cuts, though recent PCE inflation data, which rising broadly in line with expectations tempered fears of aggressive tightening and shifted consensus back to a single hike before year-end. Economic resilience, highlighted by stronger-than-expected 1Q26 growth and stable labor market conditions, reinforced the Fed's cautious stance. Treasury yields reflected this mixed backdrop with short-term yields edged higher on hawkish signals, while long-term yields eased as geopolitical tensions subsided and oil prices fell, reducing inflation risks. Overall, the June meeting underscored the Fed's higher-for-longer bias, balancing persistent cost pressures with moderating inflation expectations.

- **The Bank of Japan (BoJ) raised its policy rate to 1.0% in June, signaling a precautionary move against rising inflation risks rather than a direct response to consumer price pressures**. Policymakers emphasized faster cost pass-through in business transactions and a sharp rise in producer inflation, which could spill into broader consumer prices. Import costs and yen weakness were also key considerations, with the hike aimed at curbing imported inflation and improving Japan's trade position. Despite the increase, rates remain below neutral levels and lower than global peers, leaving room for further tightening. Solid economic growth and stable labor market conditions, supported by wage gains, reinforced confidence in the BoJ's normalization path. Overall, the decision highlights a balance between managing inflation risks and leveraging Japan's resilient economic backdrop.

- **Malaysia's exports surged 45.3% y-o-y in May, the fastest pace in nearly four years**, driven by strong gains in manufacturing, mining, and especially electrical & electronics, which jumped 70.5% and made up almost half of total shipments. Industrial production also strengthened, with broad-based growth across export-oriented and domestic industries, underscoring resilient demand. At the same time, producer prices climbed to a four-year high of 7.8% amid widespread cost pressures, though consumer inflation stayed contained at 2.0% thanks to subsidies and price controls. Overall, Malaysia's economy reflects robust external momentum, though rising input costs continue to pose risks to price stability.

- **Malaysia's banking sector maintained steady financing growth in May, with stronger momentum in non-household lending while household financing remained stable amid softer housing demand.** Working capital financing continued to expand, supported by SMEs tapping relief facilities to manage rising costs and supply chain challenges. Asset quality showed mixed trends with overall impairments edged higher, with both household and non-household segments recording slight increases, though improvements were seen in construction and mining. Sector-specific improvements in asset quality helped offset pressures, though rising costs and geopolitical risks continue to challenge overall stability.

SECTION 1

Economic Pulse at a Glance

BANK ISLAM

THE HEAT MAP OF KEY ECONOMIC INDICATORS

Period	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	2Q2025	3Q2025	4Q2025	1Q2026	2024	2025	2026f
Country	Industrial Production Index (IPI), y-o-y %						GDP, y-o-y %				GDP, y-o-y %		GDP Projection, IMF
U.S.	1.4	0.8	0.7	0.5	1.1	1.6	2.0	2.4	2.0	2.0	2.8	2.1	2.3
Euro	2.2	-1.1	-1.0	-2.8	0.3	-	1.5	1.6	1.6	0.6	1.1	1.5	1.1
UK	3.0	-1.5	-0.5	2.1	0.3	-	1.3	1.0	0.8	0.3	1.1	1.4	0.8
Japan	0.9	0.7	0.4	2.4	2.0	-1.7	1.9	0.5	0.3	0.4	-0.2	1.2	0.7
China	5.2	NA	NA	5.7	4.1	4.5	5.2	4.8	4.5	5.0	5.0	5.0	4.4
Singapore	10.9	9.9	6.8	7.8	16.5	13.0	5.4	4.5	5.7	6.0	5.3	5.0	3.5
Malaysia	4.8	5.9	3.1	3.1	8.2	-	4.6	5.3	6.2	5.4	5.1	5.2	4.7
Indonesia	6.1	13.2	5.9	-1.7	-	-	5.1	5.0	5.4	5.6	5.0	5.1	5.0
Thailand	2.6	1.6	-0.2	1.3	-0.4	-	2.8	1.2	2.5	2.8	2.9	2.4	1.5
Philippines	0.1	1.3	3.8	10.2	12.0	-	5.4	4.0	3.0	2.8	5.7	4.4	4.1
Vietnam	10.1	19.4	0.6	6.9	9.3	8.8	8.2	8.3	8.5	7.8	7.0	8.0	7.1

Positive
Neutral
Negative

Sources: IMF, World Bank, CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Indonesia's IPI is published on a quarterly basis

BANK ISLAM

THE HEAT MAP OF KEY ECONOMIC INDICATORS

Period	Mar-26	Apr-26	May-26	Mar-26	Apr-26	May-26	Mar-26	Apr-26	May-26	Mar-26	Apr-26	May-26
Country	Manufacturing PMI			Exports, y-o-y %			Retail Sales, y-o-y %			Unemployment Rate, %		
U.S.	52.3	54.5	55.1	15.8	15.3	12.6	4.2	4.8	6.9	4.3	4.0	4.1
Euro	51.6	52.2	51.6	-8.2	3.2	-	2.1	1.0	-	6.3	6.3	-
UK	51.0	53.7	53.9	-13.5	4.4	-	3.0	-2.4	3.1	5.0	4.9	-
Japan	51.6	55.1	54.5	11.5	14.8	16.8	1.4	2.8	5.4	2.8	2.7	2.6
China	50.8	52.2	51.8	2.5	14.0	19.4	1.7	0.2	-0.6	5.4	5.2	5.1
Singapore	50.5	50.7	51.0	41.0	31.7	36.1	1.9	3.1	-	1.9	NA	NA
Malaysia	50.7	51.6	49.9	8.4	37.3	45.3	5.1	8.2	-	2.9	3.0	-
Indonesia	50.1	49.1	50.0	-3.1	22.0	-	3.4	-3.7	-3.2	NA	NA	NA
Thailand	54.1	52.7	52.6	9.7	19.1	6.8	21.2	-	-	1.0	0.9	1.0
Philippines	51.3	48.3	50.8	20.8	7.2	7.6	NA	NA	NA	5.0	4.7	-
Vietnam	51.2	50.5	52.8	20.3	22.2	18.0	10.3	11.9	12.1	2.2	NA	NA

Positive
Neutral
Negative

Sources: CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Singapore and Vietnam unemployment rate are published on a quarterly basis
Indonesia's unemployment rate is published semiannually

BANK ISLAM

THE HEAT MAP OF KEY ECONOMIC INDICATORS

Period	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Country	Consumer Price Index (CPI), y-o-y %						Producer Price Index (PPI), y-o-y %					
U.S.	2.7	2.4	2.4	3.3	3.8	4.2	3.1	3.1	3.4	4.3	5.7	6.5
Euro	2.3	2.0	2.1	2.8	3.2	3.3	-1.6	-1.5	-2.4	1.6	3.9	-
UK	3.4	3.0	3.0	3.3	2.8	2.8	3.1	2.5	1.8	3.0	4.2	4.0
Japan	2.1	1.5	1.3	1.4	1.3	1.5	2.4	2.4	2.1	2.8	5.3	6.3
China	0.8	0.2	1.3	1.0	1.2	1.2	-1.9	-1.4	-0.9	0.5	2.8	3.9
Singapore	1.2	1.4	1.2	1.8	1.8	1.8	-1.2	1.4	5.4	20.2	27.5	30.8
Malaysia	1.6	1.6	1.4	1.7	1.9	2.0	-2.7	-2.9	-3.4	1.1	5.4	7.8
Indonesia	2.9	3.5	4.8	3.5	2.4	3.1	2.8	1.7	2.4	2.3	3.8	5.8
Thailand	-0.3	-0.7	-0.9	-0.1	2.9	2.8	-1.8	-1.6	-0.5	6.0	9.1	8.5
Philippines	1.8	2.0	2.4	4.1	7.2	6.8	0.8	1.2	1.2	2.5	2.6	2.9
Vietnam	3.5	2.5	3.4	4.7	5.5	5.6	0.5	NA	NA	-0.7	NA	NA

Positive
Neutral
Negative

Sources: CEIC, Bloomberg, Trading Economics, Bank Islam
Note: NA – Data not available, Vietnam's PPI is published on a quarterly basis

SECTION 1

Malaysia's Financial Market

REGIONAL EQUITY: GLOBAL EQUITIES FIRM IN JUNE, BUT LATE-MONTH TECH SELL-OFF LIMITS GAINS

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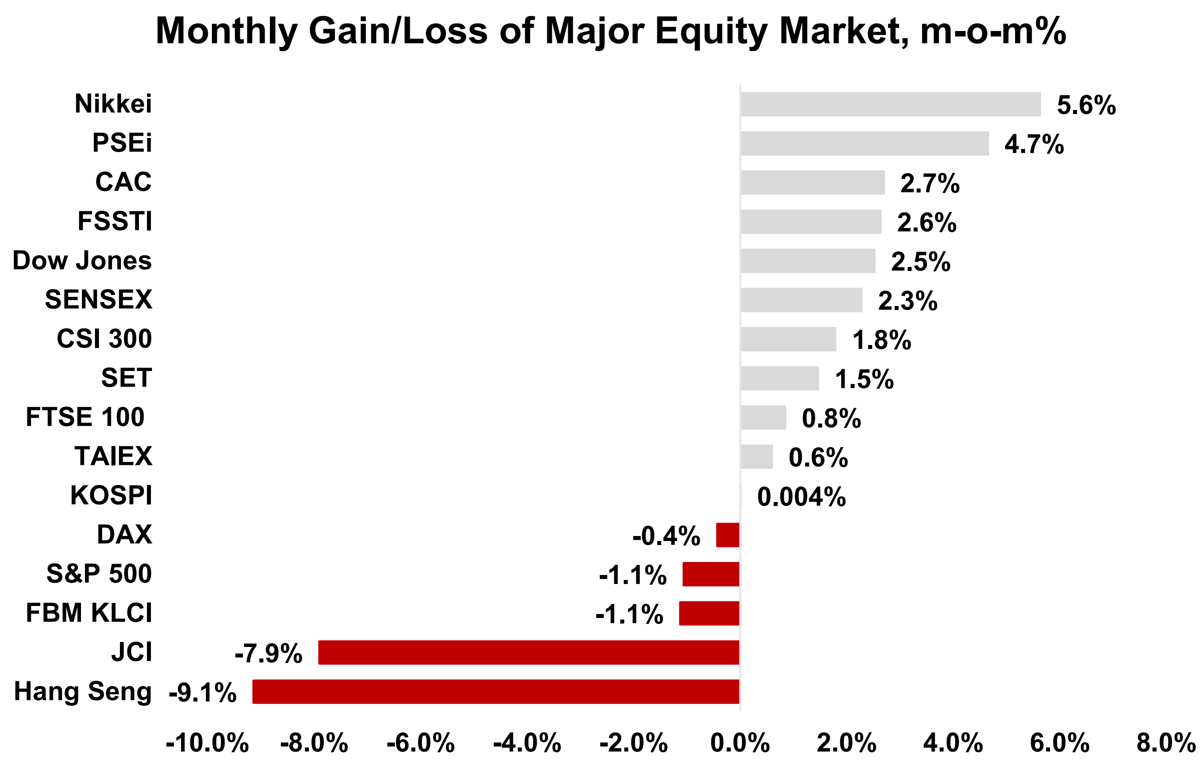

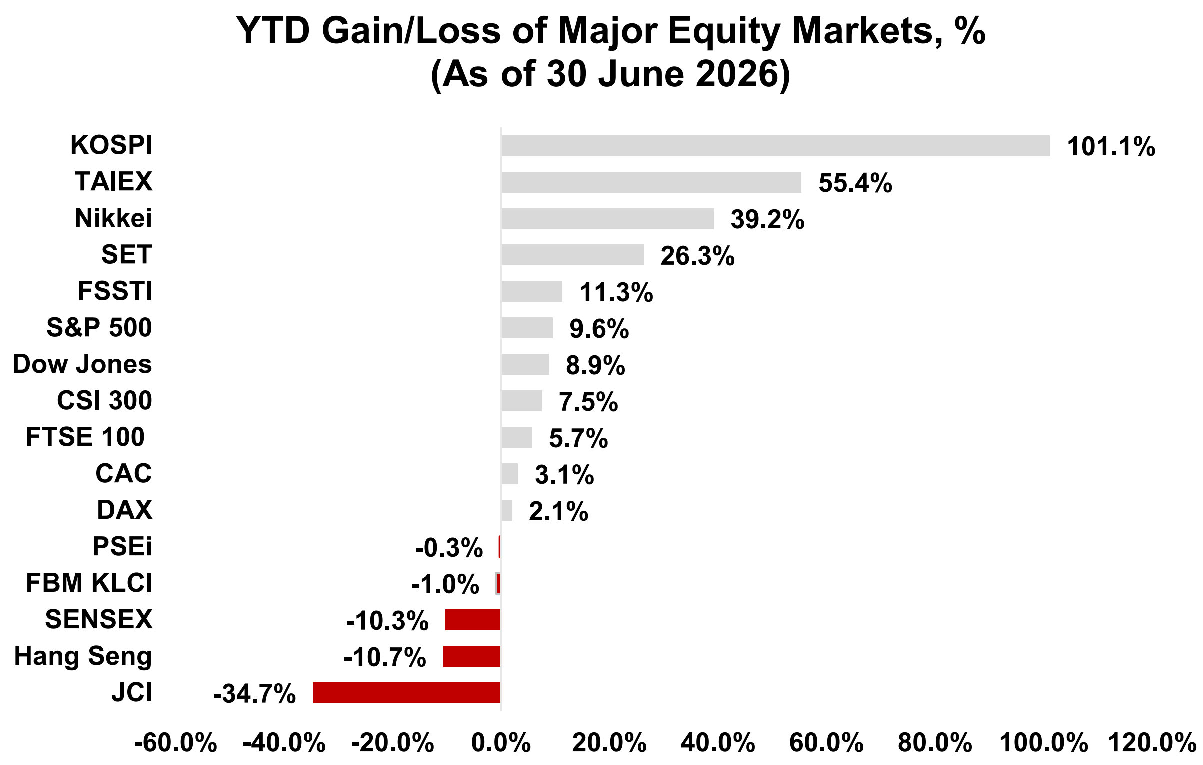

Sources: Bursa, CEIC data

- Regional equity markets ended June on a firm note, supported by AI-related earnings growth, strength in technology sector, and improving geopolitical sentiment following ceasefire discussion between the U.S. and Iran.
- The top performer was Japan's Nikkei (+5.6%), lifted by the strong performance of Japan's semiconductor and technology equipment firms that continue to benefit from the global surge in AI infrastructure investment.
- However, in the final week of the month, global equity sentiment turned sharply negative as a broad sell-off in technology stocks reversed earlier gains. Profit-taking in U.S. megacap tech names such as Apple, Alphabet, and Nvidia triggered a correction that spilled over into semiconductor-heavy indices across Asia. Korea's KOSPI retreated as Samsung and SK Hynix came under pressure, while the Hong Kong's Hang Seng fell on weakness in Chinese tech and financials, compounded by fragile domestic demand signals, making it the top loser for the month.

DOMESTIC EQUITY: RENEWED U.S.-IRAN TENSIONS TESTED THE DURABILITY OF THE PEACE DEAL, KEPT RISK APPETITE MUTED TOWARDS MONTH-END

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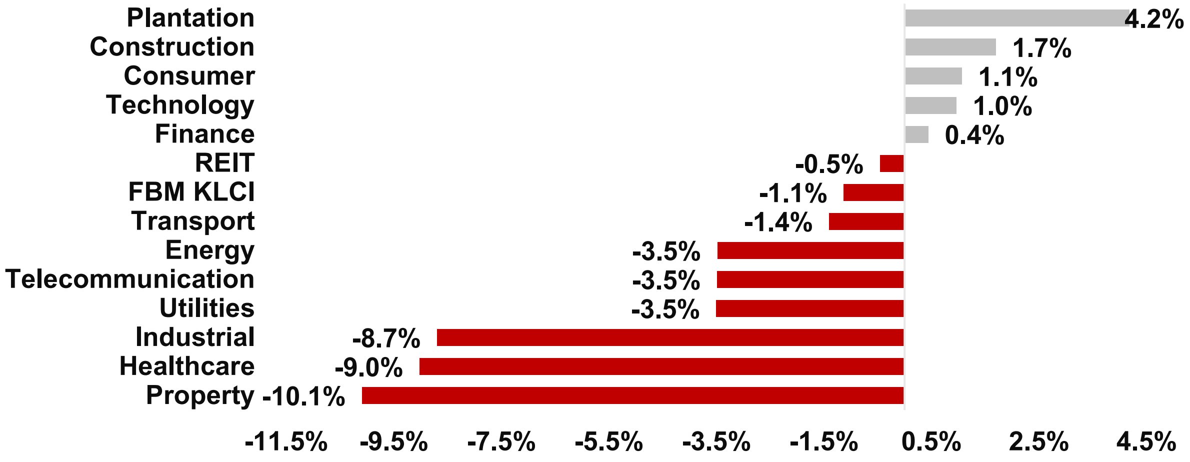
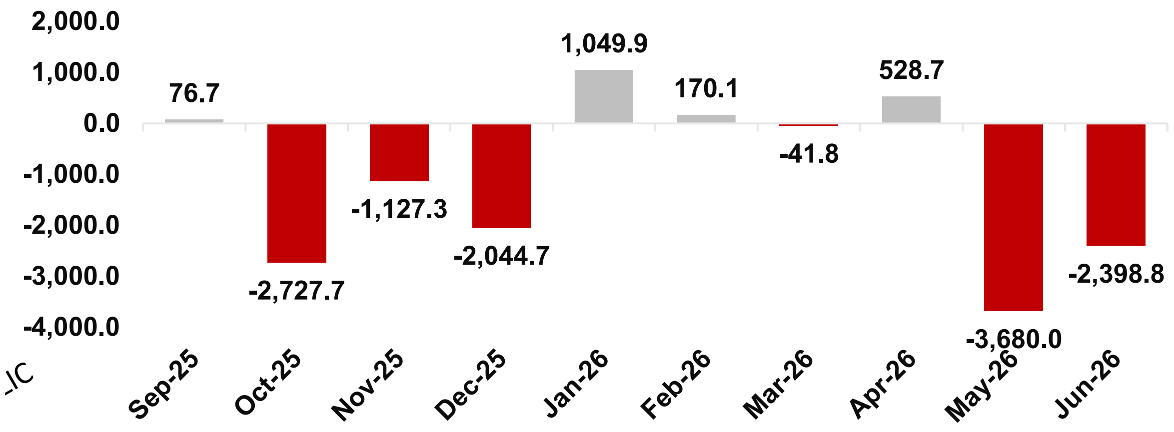
Monthly Bursa Sectoral Performance, m-o-m%



Monthly Foreign Fund Net Inflows/Outflows, RM Million



Sources: DOSM, CEIC Data

- The FBM KLCI underperformed in June, declining by 1.4% as prolonged geopolitical uncertainties sustained the flight to safety, particularly towards the USD. Earlier in the month, sporadic clashes between U.S. and Iran continued to weigh on investor risk appetite, keeping demand for emerging market assets subdued.
- However, by mid-month, Pakistan's Prime Minister announced that U.S. and Iran has finalized a peace agreement. Markets reacted swiftly with the news triggering a broad rotation out of safe-haven assets followed by a period of relative calm.
- The tides turned again when U.S. and Iran exchanged strikes towards the end of the month. Although both parties agreed to halt military operations to make way for diplomatic progress, the bout of escalation has highlighted the fragility of the peace deal and kept investors cautious.
- Performance across Bursa was mixed with the Property index staging the biggest loss, plunging by 10.1%, followed by the Healthcare (-9.0%) and Industrial (-8.7%) indices. Meanwhile, the Plantation index climbed by 4.2%, followed by the Construction index (+1.7%).
- Foreign investors remained as net sellers, recording a net outflow of RM2.4 billion. This increased the cumulative net foreign outflows for 2026 to RM4.4 billion.

FIXED INCOME: UST YIELDS END MIXED AS FED HAWKISHNESS LIFTS SHORT-END WHILE EASING GEOPOLITICAL RISKS ANCHORS LONG-END

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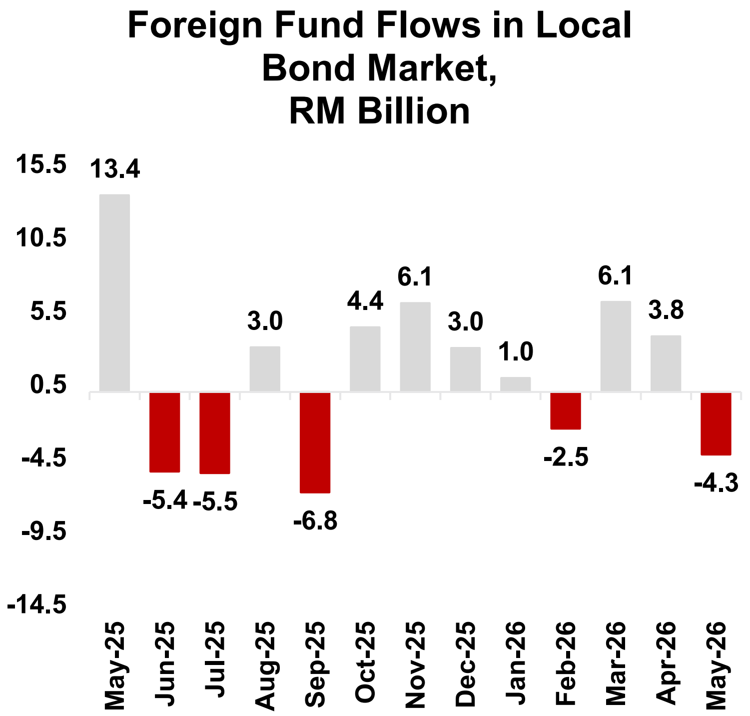
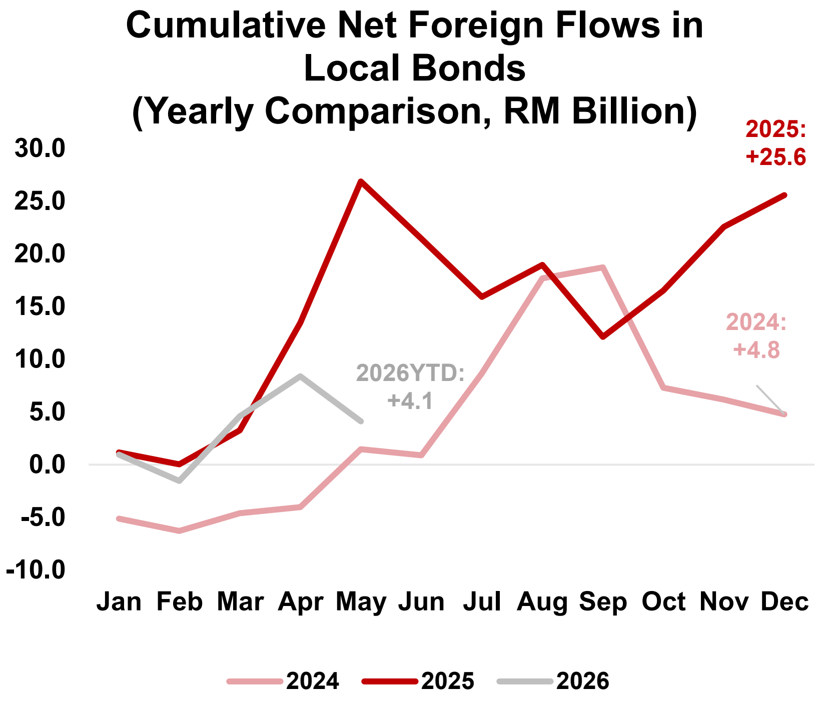
Monthly changes, basis points (bps)

UST	Yields (%) 29-May-26	Yields (%) 30-Jun-26	Change (bps)
3-Y UST	4.06	4.15	9
5-Y UST	4.13	4.19	6
7-Y UST	4.27	4.30	3
10-Y UST	4.45	4.44	-1
MGS	**Yields (%) 29-May-26**	**Yields (%) 30-Jun-26**	**Change (bps)**
3-Y MGS	3.23	3.25	2
5-Y MGS	3.41	3.40	-1
7-Y MGS	3.56	3.54	-2
10-Y MGS	3.59	3.61	2
GII	**Yields (%) 29-May-26**	**Yields (%) 30-Jun-26**	**Change (bps)**
3-Y GII	3.22	3.25	3
5-Y GII	3.37	3.39	2
7-Y GII	3.56	3.54	-1
10-Y GII	3.61	3.61	1

Sources: BNM, Federal Reserve Board





- The U.S. Treasury (UST) yields closed mixed in June, ranging between -1bps and +9bps. Short-term yields rose on hawkish Federal Reserve signals, while long-term yields fell as easing geopolitical tensions between the U.S. and Iran, as well as lower oil prices reduced inflation risks. At the June FOMC meeting, the Fed Funds Rate was held unchanged at 3.50%-3.75%, but the 2026 median projection was raised to 3.8% from 3.4%, erasing expectations of cuts and signaling possible hikes. At the same time, the U.S.-Iran framework deal reduce Middle East tensions and drove oil price lower, tempering inflation expectation and pulling long-term yields down.
- Malaysian Government Securities (MGS) and Government Investment Issues (GII) yields also ended mixed in June by between -2bps and 3bps.
- Foreign fund flows in the local bond market recorded a net foreign outflow of RM4.3 billion in May (Apr: RM3.8 billion). Consequently, local govvies' foreign shareholdings to total outstanding dropped to 20.6% in May (Apr: 21.3%).
- As of the first five months of 2026, the local bond market recorded the cumulative net foreign inflows of RM4.1 billion, lower than the inflows of RM26.9 billion in the same period in the previous year.

FX MARKET: RINGGIT DEPRECIATED AS ANTICIPATION OF WIDENING INTEREST RATE DIFFERENTIALS FAVORED THE USD

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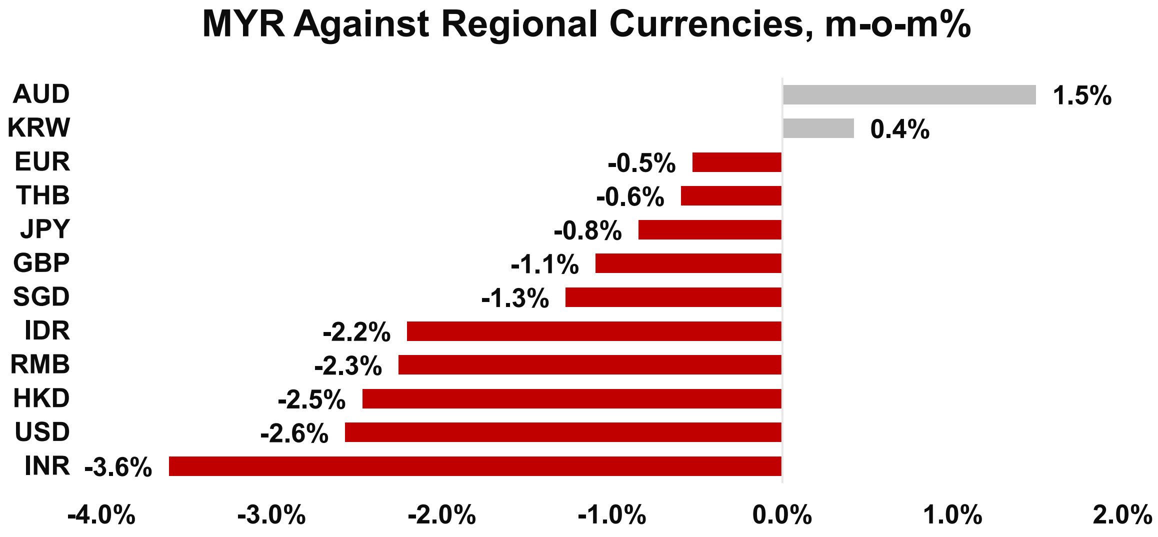
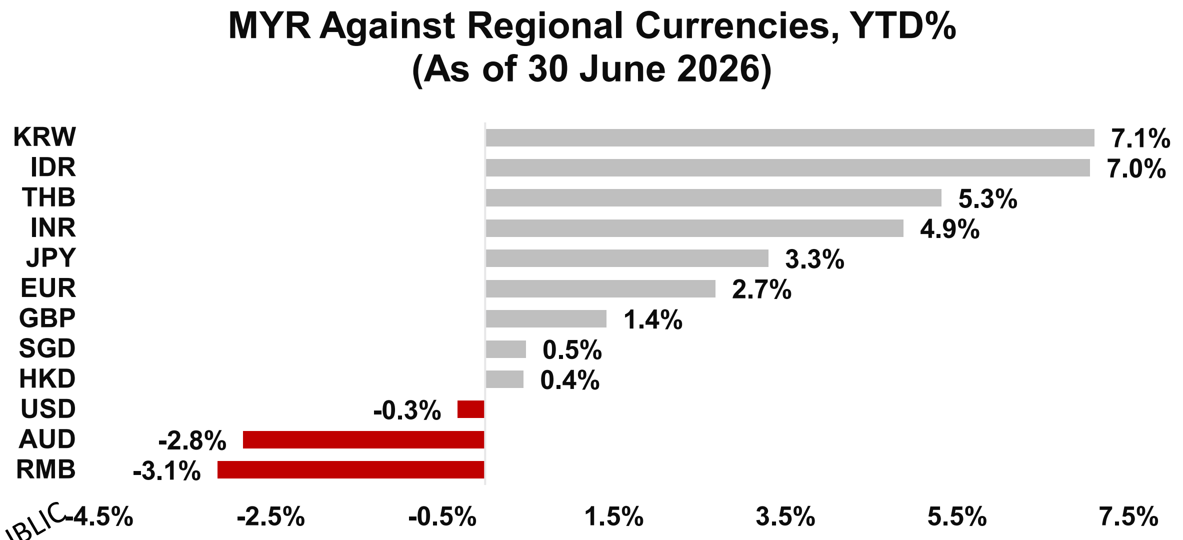




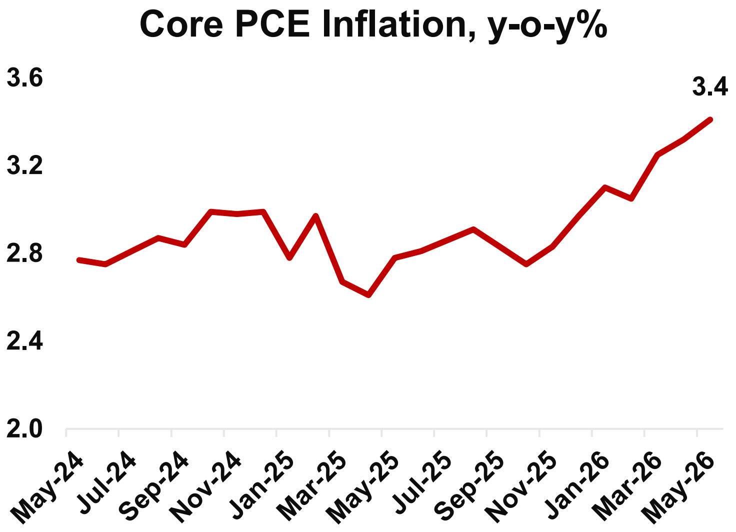
Sources: Bank Negara Malaysia (BNM), Federal Reserve, CEIC Data

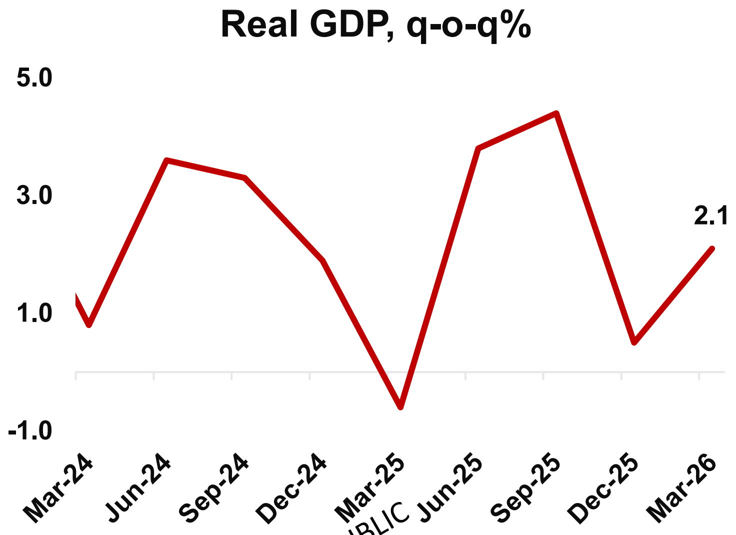
- The Ringgit depreciated by 2.6% m-o-m against the USD in June, weighed the bullish momentum of the USD. Earlier in the month, the Ringgit remained under pressure as prolonged U.S.-Iran geopolitical uncertainties continued to underpin safe-haven demand for the USD.
- Following the finalization of a peace agreement between U.S. and Iran, optimism surrounding a near-term resolution to the conflict improved significantly, lifting investor risk appetite and prompting a recalibration of capital flows away from the USD. As a result, the Ringgit briefly strengthened, touching an intraday low of RM4.048 on 15 June.
- Nevertheless, investors turned bullish on the USD again, driven by the hawkish signals from the Fed's Summary of Economic Projections (SEP). The projections indicated that nine Board members anticipate at least one hike this year while eight others expect the Federal Funds Rate (FFR) to be maintained. Coupled with elevated cost pressures and emerging signs of pass-through into consumer prices, investors begun to price in a more aggressive pace of tightening.
- Towards the end of the month, U.S. PCE inflation data came in largely in line with forecasts, causing investors to dial back the more aggressive bets. Nevertheless, the broader Fed policy outlook remains intact, providing structural support to the USD's bullish trajectory. In contrast, the Ringgit gathered some support from Malaysia's robust 2025 Foreign Direct Investment (FDI) figures, rebounding to the 4.06-4.08 range from 4.10-4.15 a week prior. However, its gains remained limited against the relatively stronger appeal of a higher-yielding dollar.

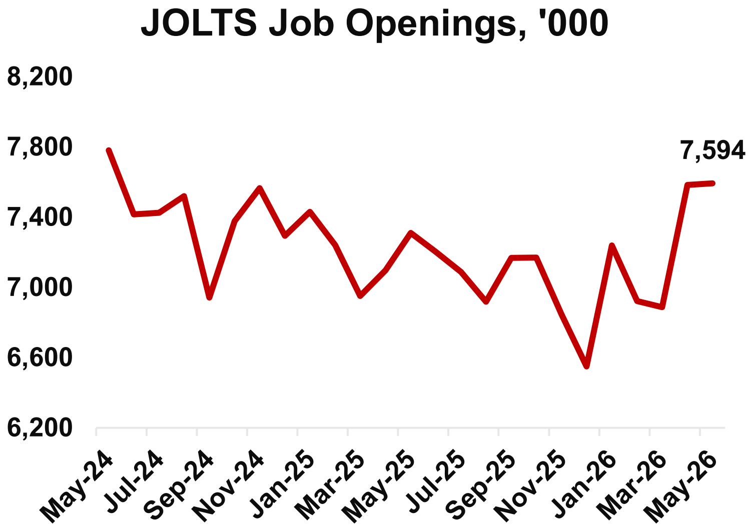
SECTION 2

The Global Economy

U.S. FEDERAL RESERVE TILTED MORE HAWKISH IN JUNE DOT PLOT PROJECTIONS, FUELLING BETS OF AT LEAST ONE HIKE BY YEAR-END



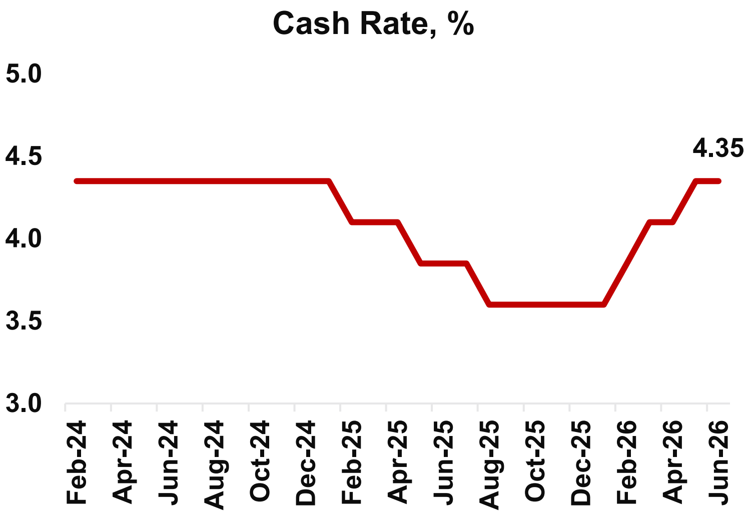


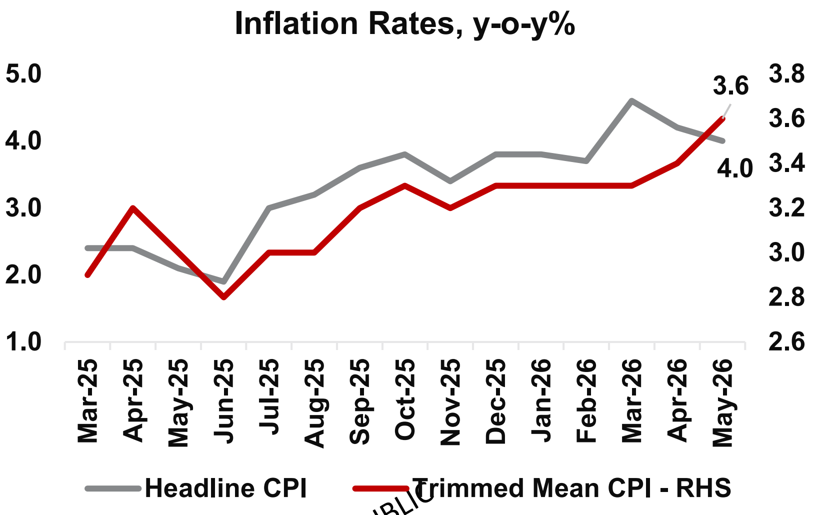


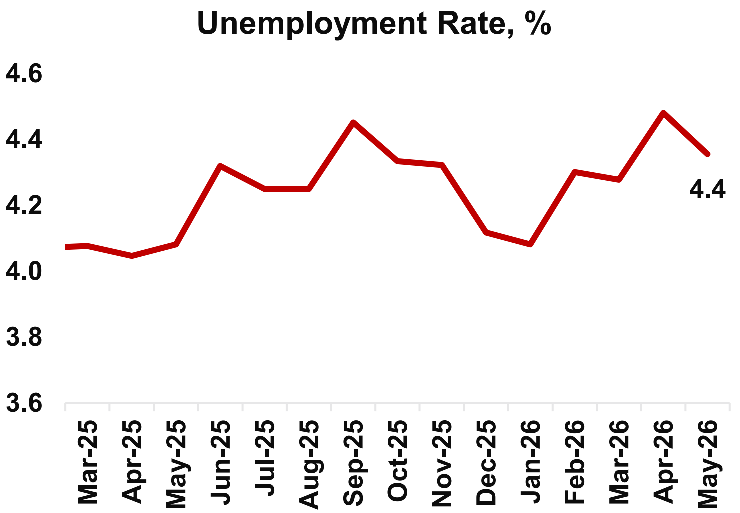
Sources: Federal Reserve, Bureau of Labor Statistics, CEIC Data

- The U.S. Federal Reserve (Fed) kept its FFR unchanged at 3.50-3.75% in June, in line with expectations. While the decision was unanimous, the SEP signaled a more hawkish shift in the Fed's policy stance. Nine out of nineteen policymakers anticipate at least one rate hike this year, with six of those foreseeing the FFR to be raised to at least 4.00-4.25%. Among the remaining members, eight project rates to remain at current levels, while one favors a 25-bps cut.
- The dot plot projections surprised markets as it tilted more hawkish than expected, triggering a swift recalibration of policy expectations. Based on the CME FedWatch tool, markets have fully priced out the probability of a cut while weighing the likelihood of a more aggressive pace of tightening.
- Nevertheless, recent Personal Consumption Expenditure (PCE) data have eased bets of more aggressive tightening. May's headline PCE inflation rose to 4.1% y-o-y (Apr: 3.8%) while core PCE inflation edged up to 3.4% (Apr: 3.3%). While both measures climbed to multi-year highs, the increases were largely in line with consensus estimates. As such, markets fell back to a base case of one rate hike before year-end.
- Stronger-than-expected economy and resilient job market conditions further support the baseline scenario. Notably, the economy grew by 2.1% q-o-q in 1Q2026, higher than the earlier estimate of 1.6%, underscored by firm investment momentum. Meanwhile, job openings increased by 9K to a two-year high of 7.59 million in May, suggesting that job market conditions remained broadly stable despite heightened geopolitical risks.

RESERVE BANK OF AUSTRALIA (RBA) IS WELL POSITIONED TO ASSESS THE EVOLVING GEOPOLITICAL RISKS AND IMPACT OF PAST HIKES



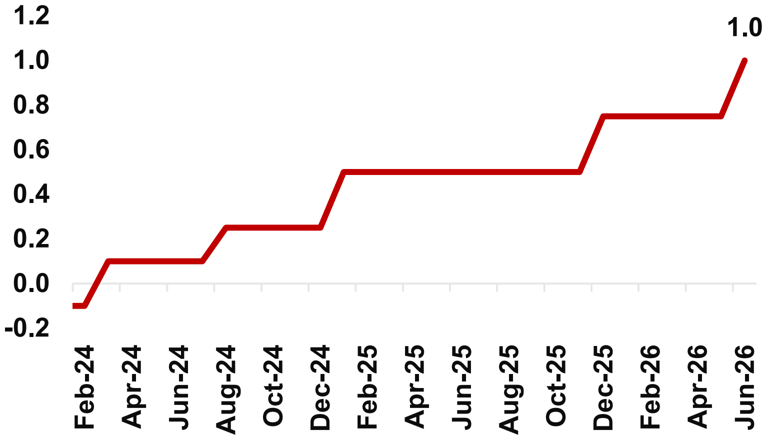


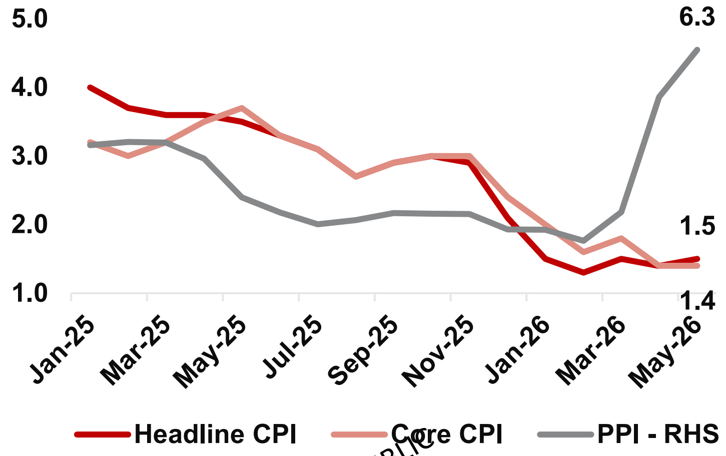


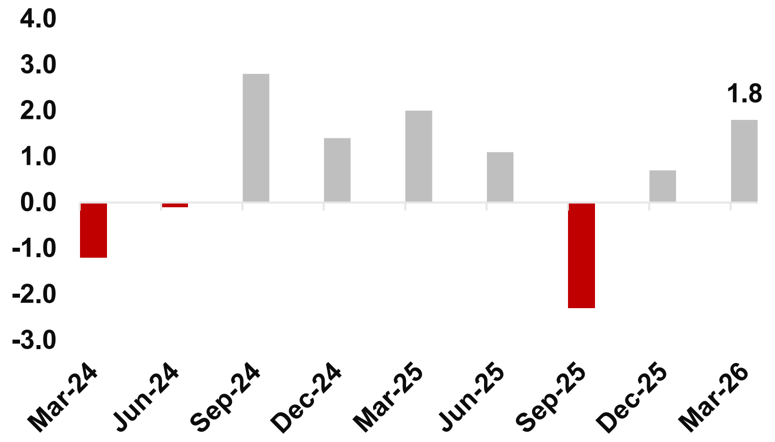
Sources: Reserve Bank of Australia (RBA), Australian Bureau of Statistics, CEIC Data

- The Reserve Bank of Australia (RBA) maintained its Cash Rate at 4.35% in June, with the Board noting that financial conditions have tightened following three rate hikes this year while growth dynamics have softened. Headline inflation also moderated to 4.0% in May, weighed by softer transport costs as global energy prices retreated from their peak in March.
- Following the U.S.-Iran peace agreement, crude oil prices have effectively returned to pre-conflict levels while supply chains are expected to gradually recover, alleviating concerns of persistent supply-driven inflationary pressures.
- Nevertheless, further rate hikes remain on the table, as signaled by RBA Governor Michele Bullock. Elevated input costs are increasingly passed-through into consumer prices, compounding capacity-driven pressures and raising the risk of inflation becoming entrenched.
- Evidently, trimmed mean inflation accelerated to 3.6% y-o-y in May, the fastest pace since September 2024, amid increases across key segments, including food and non-alcoholic beverages (May: 3.3%), housing (May: 6.5%), and services (May: 3.7%).
- Despite the moderation in 1Q2026 growth, early signals suggest that economic activity remains resilient in 2Q2026. Household spending expanded by 5.5% as a more-resilient-than-expected labour market mitigated tighter financial conditions. Unemployment rate eased to 4.4% in May while job gains rose to the highest level this year (+40.3K), signaling that business conditions remain supportive.
- Taken together, the RBA appears well-positioned to remain on hold as sticky inflation builds the case for further tightening.

BANK OF JAPAN'S SUMMARY OF OPINIONS REVEALED THAT THE EVOLVING BALANCE OF RISKS TILT IN FAVOUR OF FURTHER POLICY NORMALIZATION







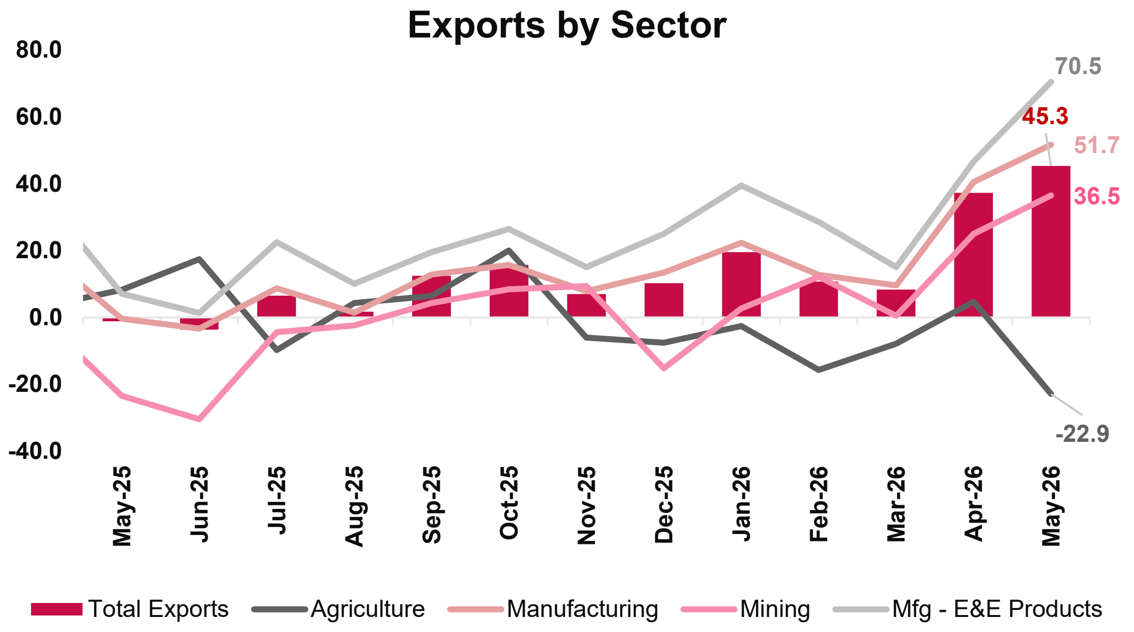
Sources: Bank of Japan (BoJ), CEIC Data

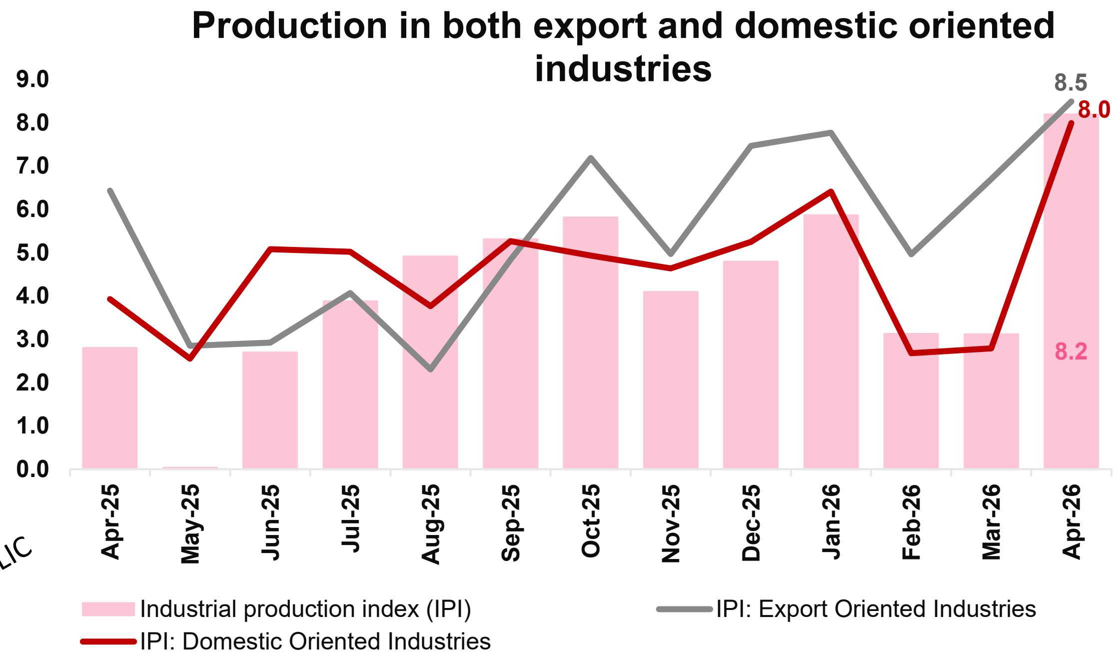
- The Bank of Japan (BoJ) voted 7-1 to raise its policy rate by 25-bp to 1.0% in June, citing growing risks that underlying inflation may overshoot the 2.0% target. Notably, the policy action appeared as risk mitigation amid still-subdued consumer price dynamics, rather than a response to a material uptick in inflation.
- This view is further supported by the BoJ's Summary of Opinions, where intensifying upside risks to inflation reinforce the ongoing policy normalization cycle. The BoJ highlighted the relatively fast pace of price pass-through in business-to-business transactions, which increases the risk of these cost pressures broadening into consumer goods and services. Notably, producers' inflation jumped sharply to a 38-month high of 6.3% in May amid elevated input costs, leading to a rise in medium- and long-term inflation expectations.
- Additionally, the BoJ flagged rising import prices as another consideration in adjusting its monetary policy. Under normal circumstances, the rate hike would mitigate the Japanese Yen's persistent weakness, thus improving Japan's terms of trade and curb imported inflation.
- Furthermore, the BoJ noted that the policy rate remains below the estimated range of neutral interest rate and lower than other major central banks, signaling scope for further tightening.
- Resilient economic conditions also reaffirm the broader policy outlook. Of note, the economy grew at a four-quarter high of 1.8% in 1Q2026 while job market conditions was broadly stable, supported by a robust wage growth and employment gains.

SECTION 3

Domestic Landscape & Banking Sector Update

MALAYSIA'S EXPORTS HIT 45-MONTH HIGH, POWERED BY E&E

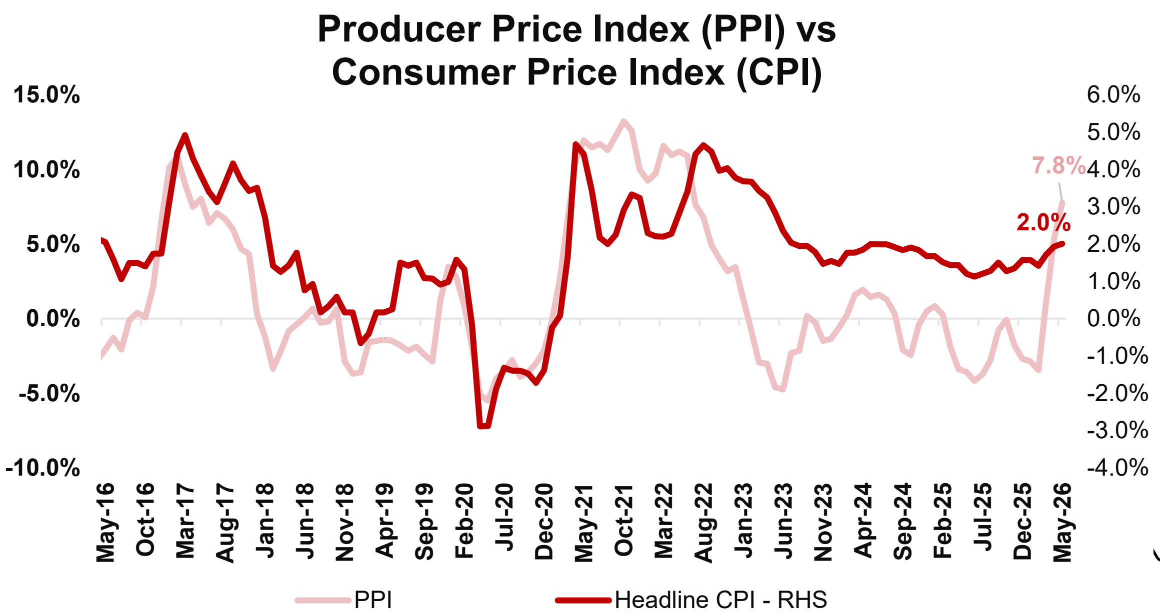




Sources: DOSM, CEIC Data, Bank Islam

- Malaysia's export surged by 45.3% y-o-y in May, marking the fastest pace in 45 month. The expansion was led by robust gains in the manufacturing and mining sectors, rising strongly by 51.7% y-o-y (Apr 26: 40.5%) and 36.5% (Apr 26: 25.0%), respectively. However, agriculture exports contracted sharply by 22.9% y-o-y.
- The electrical & electronics (E&E) segment remained the key driver, soaring 70.5% y-o-y and accounting for nearly half of total exports (49.8%). Strong global demand for semiconductors, particularly linked to AI infrastructure investment, reinforced Malaysia's position as a hub in the global technology supply chain. The manufacturing sector also benefited from sustained strength in petroleum product exports, which rose more than 70% y-o-y for two consecutive months.
- On the production side, Malaysia's Industrial Production Index (IPI) registered its fastest growth in 43 months in April, rising 8.2% y-o-y, with broad-based increases across manufacturing (+8.3%), mining (+6.8%), and electricity (+10.5%).
- In May, output in both export-oriented (+8.6%; Mar: +6.7%) and domestic-oriented (+8.0%; Mar: +2.8%) industries accelerated, reflecting strong demand. E&E production grew 12.8% y-o-y, underscoring the sector's pivotal role in driving Malaysia's export and industrial momentum.

MALAYSIA'S PPI CLIMBS TO 4-YEAR HIGH, CPI HELD IN CHECK BY SUBSIDIES

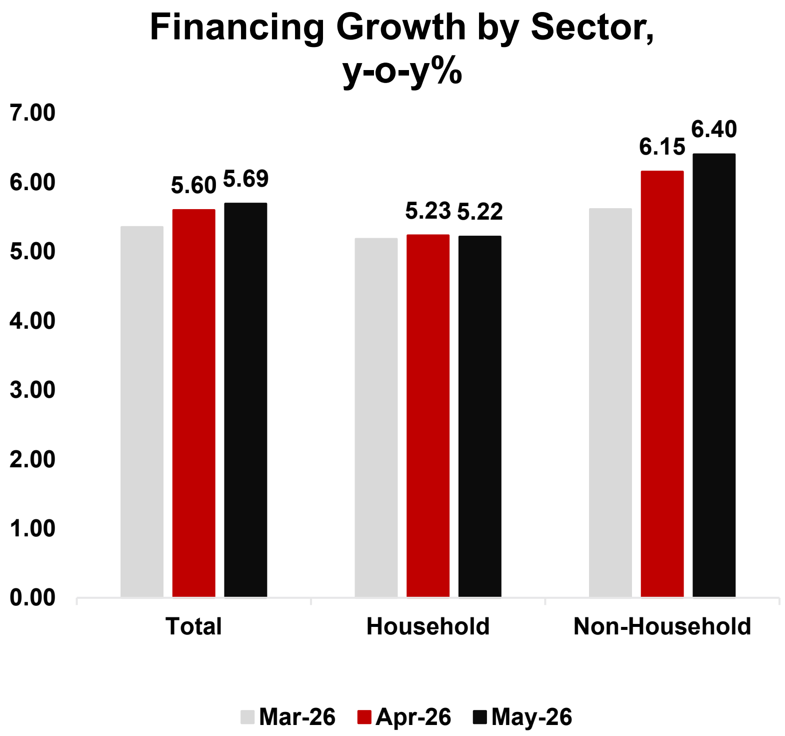


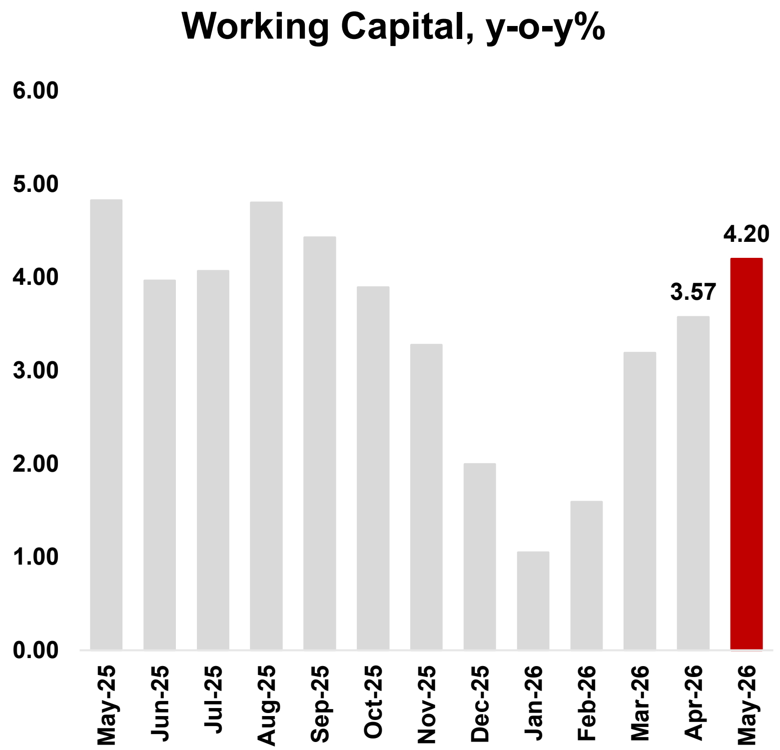
Sources: DOSM, CEIC Data

Component/Sub-component	Weight	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Producer Price Index	**100.0**	-2.9	-3.4	1.1	5.4	7.8
Crude Materials for Further Processing	**16.4**	-7.5	-7.0	9.8	26.1	31.5
Foodstuffs and Feedstuffs	3.2	4.5	4.4	5.5	4.3	4.3
Non-food Materials	13.2	-10.0	-9.5	10.7	31.2	38.1
Intermediate Materials Supplies and Components	**56.1**	-2.3	-3.1	-1.3	0.8	3.0
Materials and Components for Manufacturing	29.6	-3.5	-4.2	-2.5	-0.5	1.6
Materials and Components for Construction	2.9	5.8	5.9	5.9	5.9	5.3
Processed Fuels and Lubricants	11.9	-6.3	-9.3	-4.8	-0.7	3.7
Containers	0.6	3.0	2.1	2.3	2.4	3.6
Supplies	11.2	2.7	2.8	3.5	4.4	5.7
Finished Goods	**27.5**	-0.6	-1.1	-0.1	0.7	1.7
Finished Consumer Foods	3.5	0.5	0.5	0.7	-0.1	0.9
Finished Consumer Goods Excluding Foods	8.0	-0.4	0.3	0.6	0.7	1.3
Capital Equipment	16.0	-0.9	-2.3	-0.6	0.8	2.1

- Malaysia's Producer Price Index (PPI) surged further in May, hitting a four-year high of 7.8% y-o-y, reflecting soaring cost pressures from elevated energy prices amid U.S.-Iran tensions. Sectoral costs increases were broad-based: mining (+52.6%; Apr: 53.4%), manufacturing (+3.5%; Apr: +1.1%), and agriculture (+8.9%; Apr: +2.7%). Meanwhile, electricity & gas (+10.0%; Apr 26: +10.6%), and water supply (+11.2%; Apr 26: 10.8%) sustained double-digit gains, highlighting persistent cost pressures across main sectors.
- By stage of production, crude materials for further processing climbed 31.5% (Apr 26: +26.1%), while intermediate inputs (+3.0%; Apr: +0.8%) and finished goods (+1.7%; Apr: +0.7%) also accelerated, signaling broad-based escalation feeding into factory-level inflation.
- Despite rising producer costs, consumer inflation remained contained at 2.0%, supported by government measures such as fuel prices, food price controls and lagged pass-through of higher input costs.
- The government's recent announcement to standardize diesel subsidies at RM2.10 per litre nationwide may influence CPI readings. However, the impact is expected to remain limited, given diesel's relatively small weight in the CPI basket and the fact that earlier fuel cost increases have already been absorbed into broader price pressures.

BANKING SECTOR: BANKING FINANCING FIRM IN MAY, HOUSING DEMAND SOFT BUT SME WORKING CAPITAL STRENGTHENS

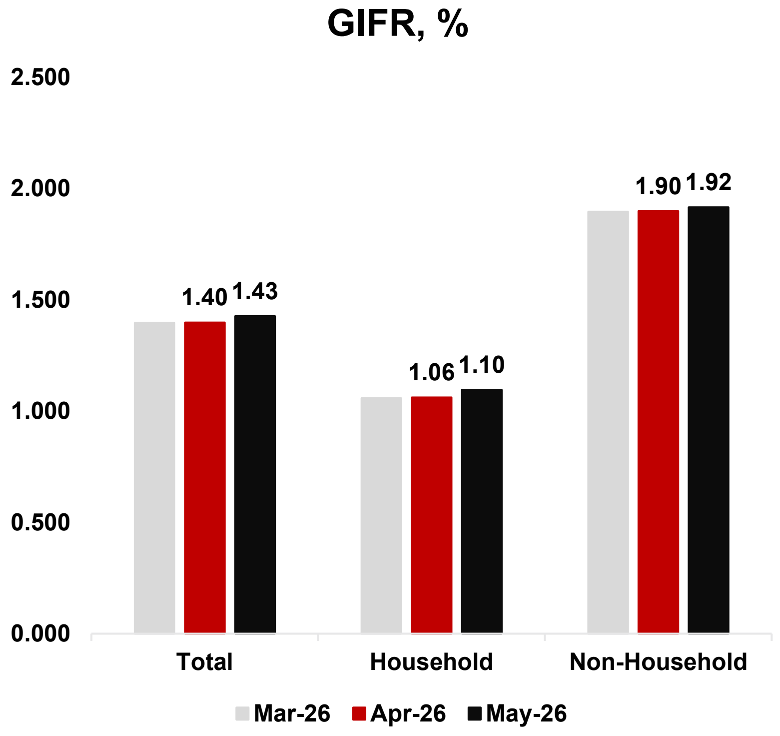


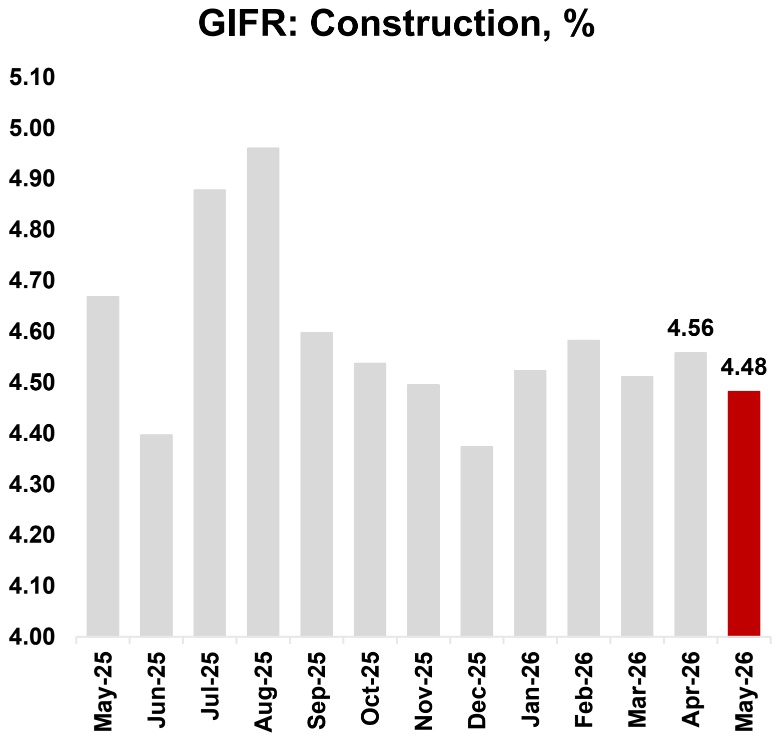


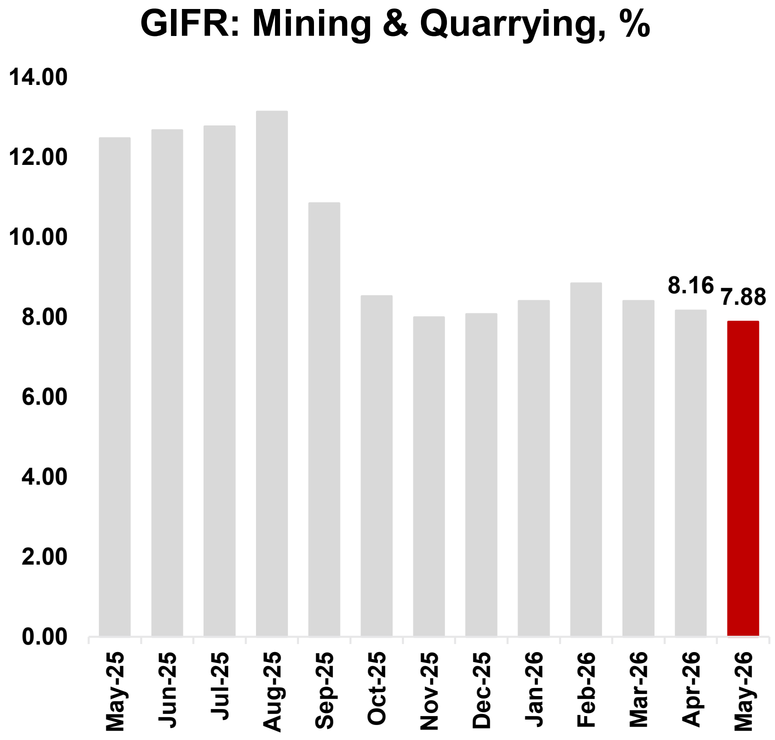
Source: BNM

- Banking sector financing growth remained firm in May, rising to 5.69% (Apr 26: 5.60%), supported by a stronger pickup in non-household financing activities (6.40%, Apr 26: 6.15%), while household financing stayed stable at 5.22%.
- Financing growth for the purchase of residential property which held the largest share of total banking system financing was unchanged at 5.62% for the second consecutive month, reflecting softer housing demand compared to the same period last year (6.40%). Elevated living cost may have discouraged households from taking on long-term commitments such as mortgages.
- In contrast, working capital financing continued to strengthen, growing by 4.20% in May (Apr 26: 3.57%). This short-term financing, typically used by businesses especially SMEs to support daily operations, was boosted by banking relief facilities that helped them manage rising costs and supply chain disruptions despite geopolitical risks.

BANKING SECTOR: FINANCING ASSET QUALITY SLIGHTLY WEAKER IN MAY, CONSTRUCTION AND MINING DIVERGE







Source: BNM

- Total gross impaired financing ratio (GIFR) in the banking sector increased slightly to 1.43% in May from 1.40% in April, suggesting marginally weaken overall asset quality.
- Both household and non-household segments recorded higher impairment, with GIFR edging up to 1.10% and 1.92%, respectively.
- Positively, asset quality in the construction sector improved, with the GIFR declining to 4.48% in May from 4.56% in April, reflecting better cash flow management and stabilizing liquidity that helped reduce impaired financing despite broader cost pressures and geopolitical uncertainties.
- Likewise, the mining and quarrying sector recorded stronger financing quality, with the GIFR falling further to 7.88% from 8.16% previously.

THANK YOU