

MIER Monthly Macro

May 2026

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The BNM annual report and IMF economic outlook affirmed growth expectations stronger than the government forecasted in October's budget release. However, as the Middle East conflict drags on, economic attention has increasingly shifted towards the imminent impact on domestic economic conditions.

On the fiscal front, we expect the government to reprioritise expenditure adjustments elsewhere while continuing to protect household assistance programmes. Through engagements conducted by MIER with industry players, business and trade associations indicated that the impact of higher energy costs is likely to materialise more visibly over the next one to two months. Having said that, both businesses and the financial sector appear to have contingency measures and support mechanisms already in place.

We expect the ringgit to remain supported as Bank Negara Malaysia maintains its current policy stance, while the US dollar's traditional safe-haven appeal has weakened compared to previous crisis periods.

Official Forecasts

	2025	Belanjawan 2026	BNM Annual Report	IMF World Economic Outlook
Date		October 10, 2025	March 31, 2026	April 14, 2026
World GDP	3.3	3.1	2.7-3.2	3.1
United States	2.1	2.0	-	2.3
China	5.0	4.2	-	4.4
ASEAN		4.5-4.7	-	4.3-4.4
Malaysia GDP		4.0-4.5	4.0-5.0	4.7
Malaysia Inflation		-	1.5-2.6	1.9

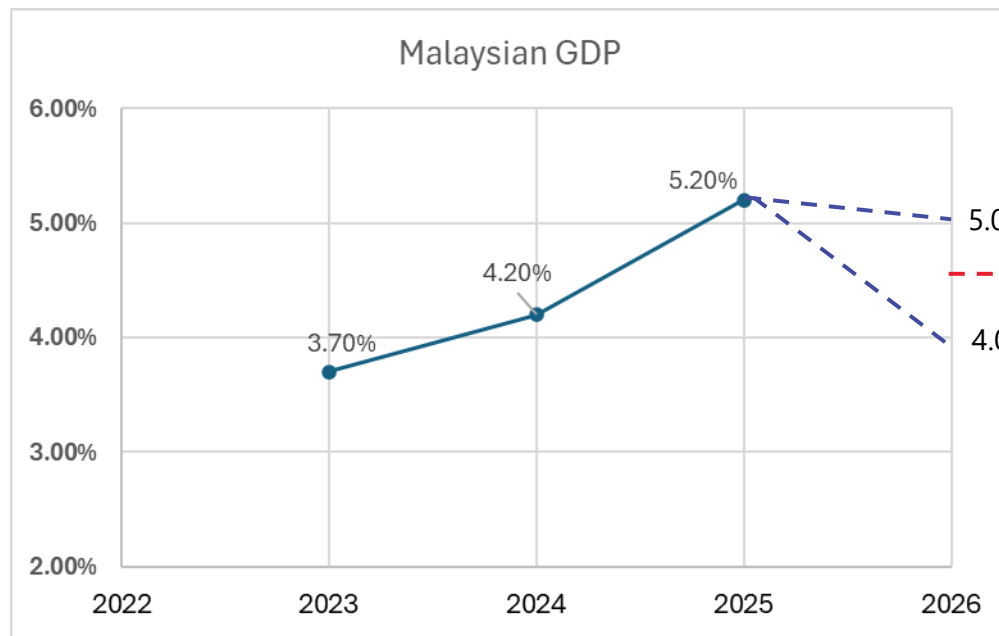
Bank Negara Malaysia's upper-bound GDP forecast exceeded the Government's projection in the October 2025 Budget. This optimism was later reinforced by the outlook from the International Monetary Fund, which projected growth of 4.7%, reflecting confidence in Malaysia's underlying economic fundamentals. Going forward, domestic demand is expected to remain the main driver of growth, while semiconductor exports are likely to be supportive, albeit at a more moderate pace of expansion.

The outlook so far...

According to advance estimates, the economy grew by 5.3% year-on-year in Q1 2026, supported by continued strength in the services sector (5.4%) and manufacturing sector (5.8%). Domestic demand is expected to remain resilient, with consumer spending continuing to support overall economic activity.

The outlook for exports also remains positive in the near term. Robust AI-related investments reflected in the U.S. Q1 GDP figures (2.0%) further affirm sustained manufacturing demand for E&E products. However, broader indicators from the U.S. economy also point to a possible slowdown ahead. The impact of high fuel prices is already becoming evident in the United States and will soon begin to materialise here as well.

Household consumption and E&E export to be driver of growth...



... but balance of risks move towards downside in prolonged crisis

- Solid household demand
 - E&E export strength on continued global AI investment
 - Stronger than expected tourism arrivals
 - Materialisation of inward investments
-
- Prolonged Middle East conflict dampening business and consumer sentiments
 - AI take a step back on bubble concerns
 - Disappointing tourism receipts as higher jet fuel costs weigh on travel demand, dampening tourist arrivals even from regional markets

Ongoing drive to improve tax revenue collection

The LHDN collected a record RM200 billion in direct taxes in 2025. While efforts to improve tax collection efficiency may be too gradual to fully address the immediate demands of crisis management, they nonetheless represent an important long-term structural reform aimed at reducing Malaysia's overreliance on petroleum-related revenue.

Malaysia is improving tax revenue collection efficiency mainly through digitalisation, broader tax coverage, stronger enforcement, and enhanced compliance monitoring.

Key initiatives include:

Implementation of e-Invoicing which enables real-time transaction reporting, improves audit trails, reduces underreporting, and helps identify tax leakages more effectively.

Digital Tax Administration and Data Integration

The government is increasingly relying on digital platforms and automated systems to improve compliance monitoring and cross-check taxpayer information.

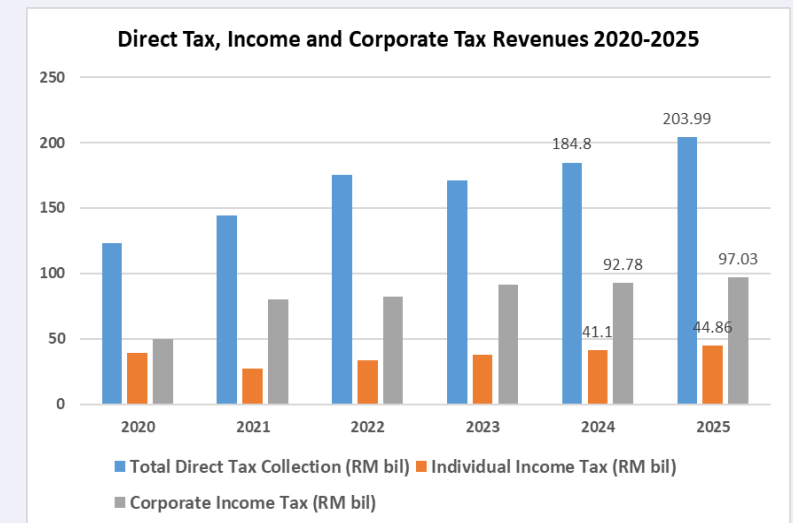
Targeted Enforcement and "Nudge" Compliance Strategy

LHDN has intensified enforcement using e-invoice data analytics to detect undeclared income and inconsistencies. Authorities have also adopted softer "nudge" approaches by issuing reminder notices encouraging voluntary disclosures before punitive action.

Phased Inclusion of SMEs into the Formal Tax System

The phased rollout of e-invoicing to SMEs is intended to gradually improve compliance among smaller businesses, traditionally an area with higher leakages and informality

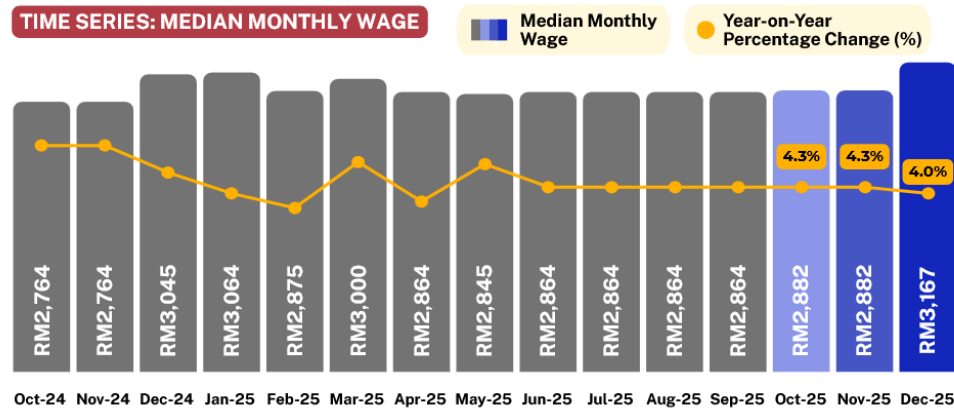
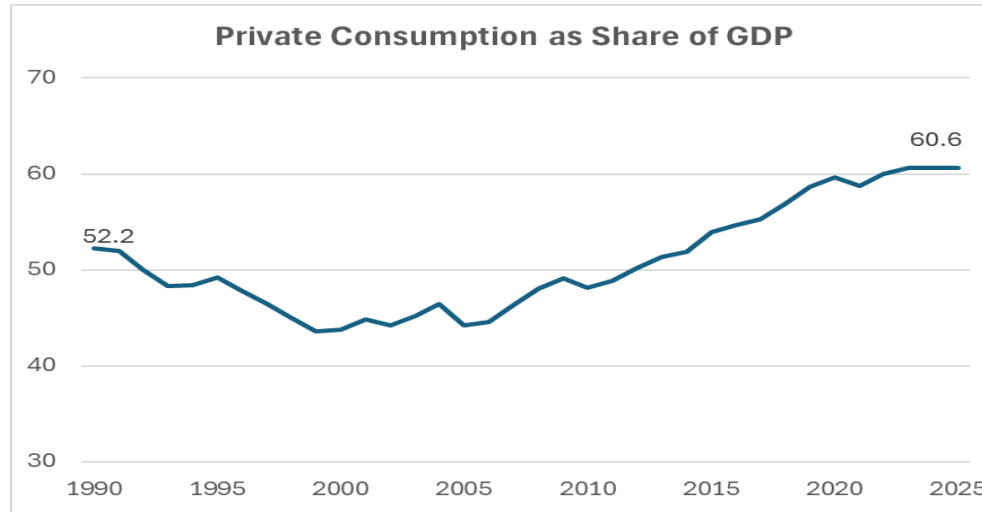
Revenue improvement to be gradual



Source: LHDN

Government to continue policy support to households ...

... as domestic consumption remain as key driver



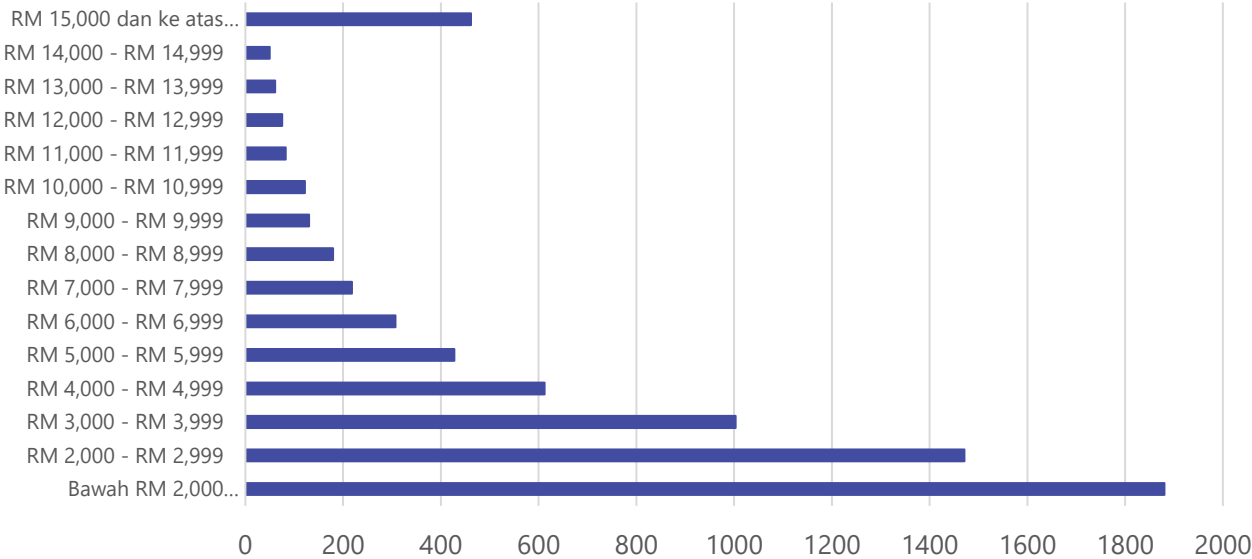
Domestic consumption is expected to remain supported, as key household-targeted policies such as Sumbangan Tunai Rahmah (STR) and BUDI95 are likely to be shielded from the main impact of potential budget cuts. Stable wage growth is also expected to support households.

The MoF has reportedly instructed ministries to implement significant reductions in operating expenditure to manage rising subsidy commitments, including a proposed RM5.4 billion cut affecting the health and higher education sectors. The measures are understood to focus primarily on non-critical spending items such as travel and events.

Wage distribution is heavily skewed towards the bottom

	Labour Force ('000)	Employed	Unemployed	Outside Labour Force	Labour Force Participation Rate	Unemployment Rate
Jan	17,281.0	16,771.4	509.6	7,105.6	70.9	2.9
Feb	17,297.6	16,790.9	506.8	7,102.9	70.9	2.9
+/-	16.6	19.5	-2.8	-2.7	0.0	0.0

Distribution of Formal Workers According to Wage Scales



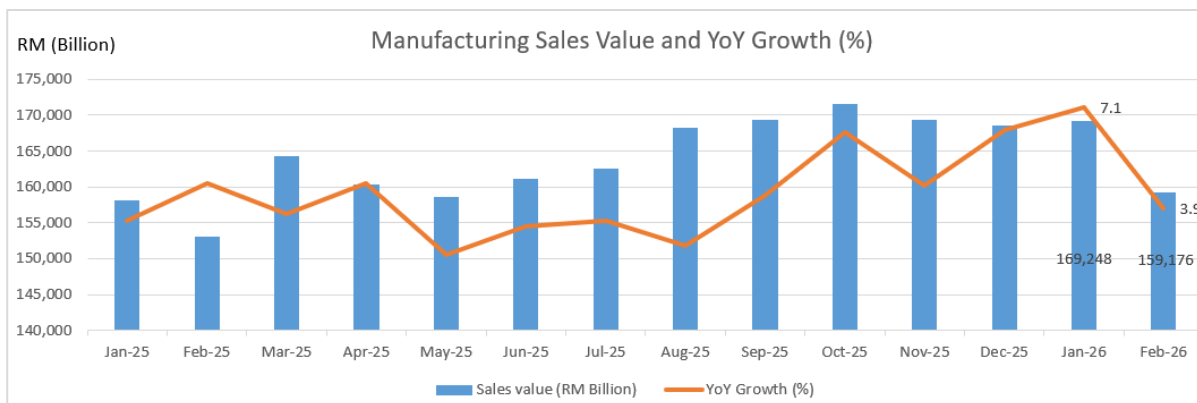
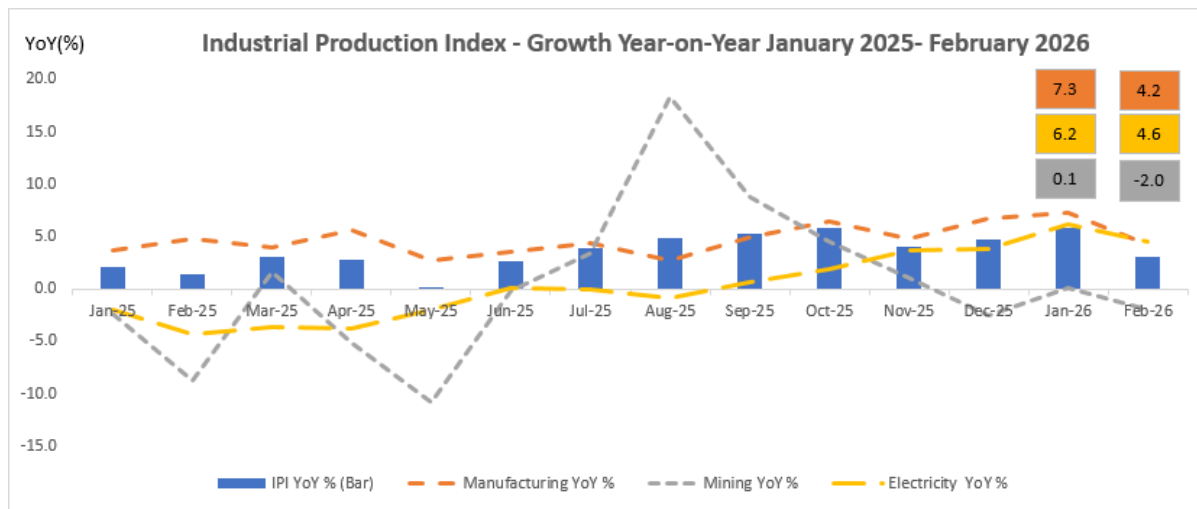
Support for low-income households to continue

Labour market fundamentals have continued to gradually strengthened. However, with income distribution still concentrated in the lower-income brackets, the government is expected to continue supporting consumption through targeted initiatives such as BUDI and mySARA.

This underpins our view that, amid mounting pressures from the energy crisis, the government will likely pursue fiscal savings in other areas while maintaining support for lower-income households. Existing subsidies may be further rationalised, but the structure of the labour market suggests that a full withdrawal of subsidies would have a significant adverse impact on many households.



Industrial Production



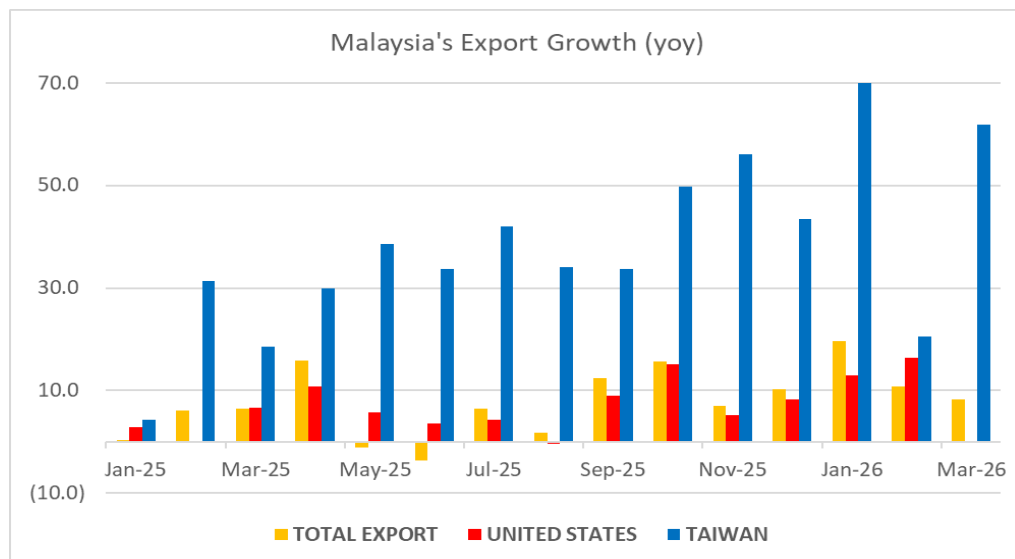
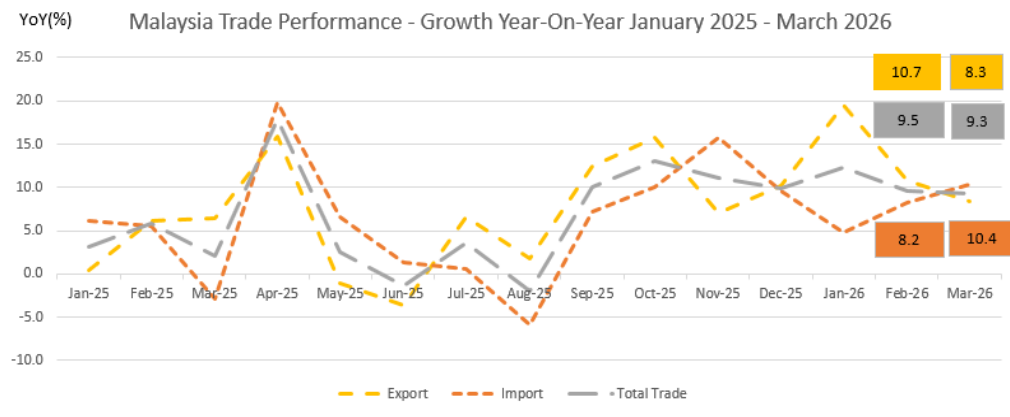
AI investments in the US will determine E&E support

The manufacturing sector, especially the E&E industry showed strength in 2025 on the back of AI boom in the United States.

However, with ongoing trade uncertainties and geopolitical tensions in the Middle East weighing on business sentiment, production indicators are likely to moderate from last year's strong performance, which was partly supported by front-loading of trade activities ahead of the Trump tariff deadlines.

The February production figures were also affected by a shorter number of working days. Nonetheless, we expect the moderation to persist as the economy continues to absorb the impact of higher energy prices.

Export supported by E&E



... but trade challenges remain

Total trade and export growth in March moderated to 9.3% and 8.3% respectively (compared to 9.5% and 10.8% in February), while import growth accelerated to 10.4% (from 8.2%). This moderation in export momentum is primarily due to the escalating geopolitical crisis in the Middle East. Malaysia's trade position remains positive, maintaining a robust surplus of RM 24.6 billion.

The E&E sector has continued to support the export sector through a challenging 2025. Thus far, strong demand for E&E end-products and intermediate goods has boosted exports to the U.S., Taiwan, and Vietnam.

The U.S. remains the largest source of demand for E&E products, while a significant share of intermediate E&E exports ultimately ends up in the hands of American consumers as final end users.

Transport and input prices spiked in March



Inflation coming to you in very near future

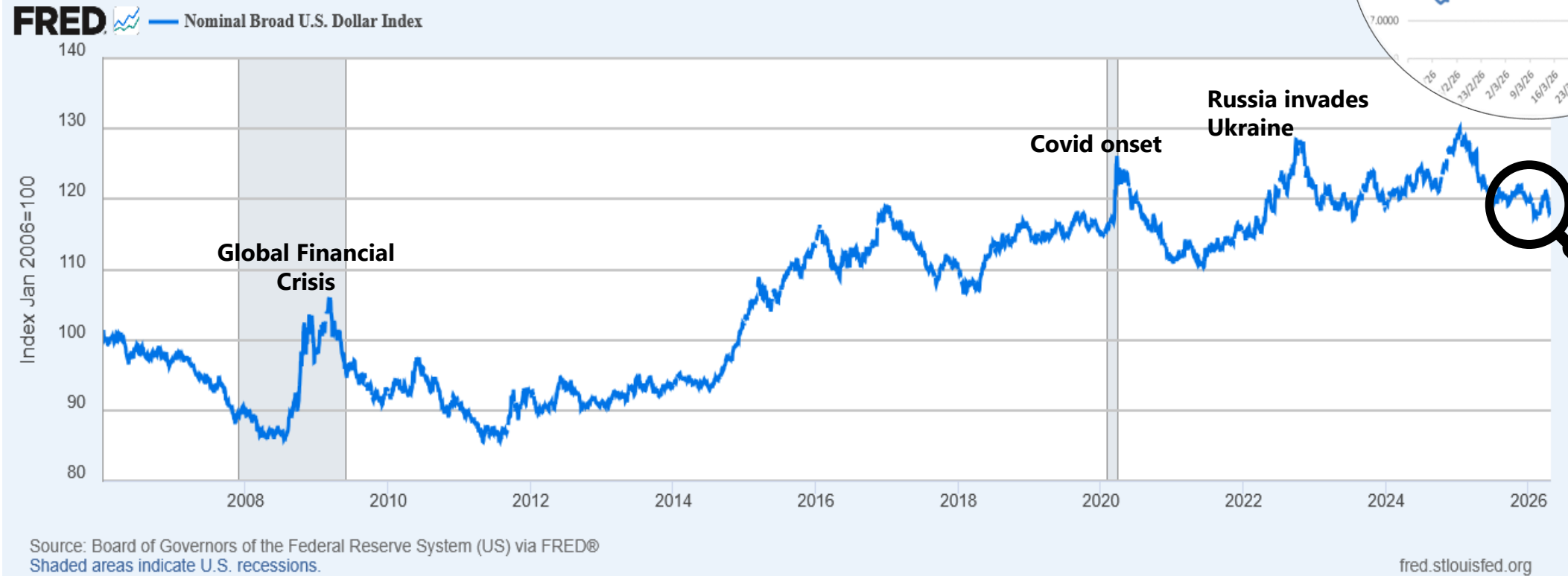
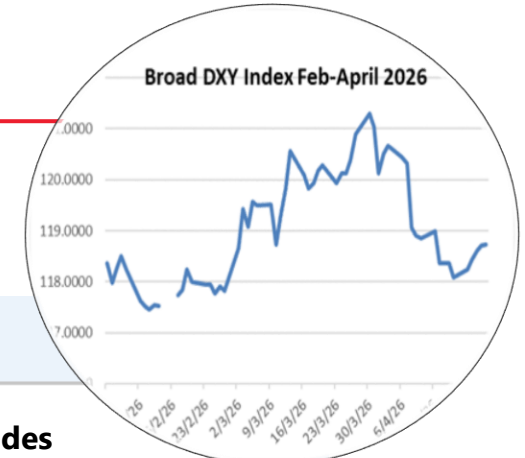
The subdued trend inflation recorded in March (1.7%) is likely to be short-lived. MIER's engagements with industry players and trade associations indicate broad expectations that inflationary pressures will materialise in the near term.

Signs of cost pressures have already begun to emerge. Petroleum-based input prices within the Producer Price Index (PPI) surged by 26.5% in March, signaling significant upstream cost pressures.

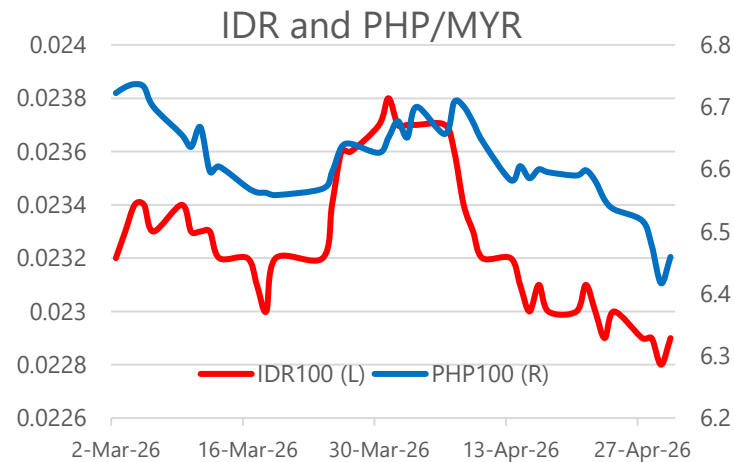
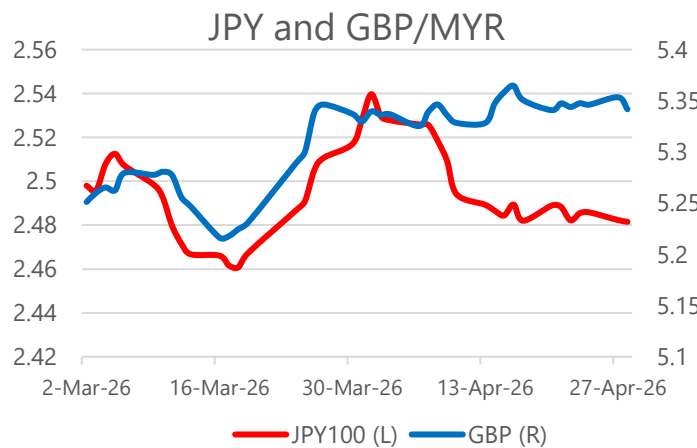
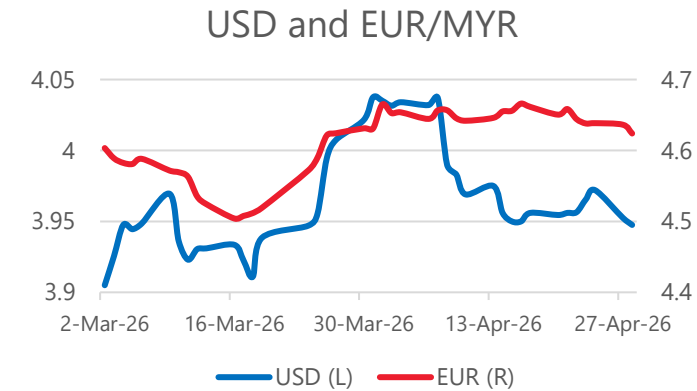
At the same time, the transport component of the Consumer Price Index (CPI), which carries an 11% weight in the basket, rose by 1.6%, reversing the declines recorded in three of the previous six months. Meanwhile, food and beverages component, which accounts for roughly 30% of CPI basket, has been on a declining trend over the past year. However, this trend is likely to reverse going forward as higher energy and transportation costs feed through into consumer prices.

USD safe-haven flows are weaker than in past crises

The dollar has always rallied during geopolitical, oil or financial crisis. This time, safe-haven sentiment has been short-lived.



MYR: Back to fundamentals after short-lived safe haven USD strength



Steady policy rate to support ringgit

Safe-haven flows into dollar has not been as pronounced as in past conflicts and bouts of market volatility. After brief USD strengthening, the ringgit continued its fundamental-led rebound.

Questions surrounding the U.S. economy and policy outlook have helped to moderate demand for the dollar. However, it is important to bear in mind that Malaysia's strong export performance, which contributed to record trade figures last year, was achieved despite a strengthening ringgit. As such, fundamental-driven demand for the ringgit appears to be a genuine driver its appreciation.

We expect the ringgit to continue to be supported as BNM stay pat for the time being. Fed Chair-elect Warsh will have his hand full balancing increasing inflation and the Administration's desire for lower rates. However, he is still decidedly more dovish than Chairman Powell and this posture will also support the ringgit.

Report from MIER dialogue with industry, GLCs and lenders

Malaysian Institute of Economic Research held a consultation with business and trade groups in mid-April to assess the impact of the conflict involving Iran. The dialogue also included government agencies tasked with supporting SMEs, as well as representatives from organisations linked to the lending and financial sector.

The key takeaway from the meeting was that businesses, including SMEs, are beginning to feel the effects of higher energy costs. However, at the time of the consultation, no members of the business and trade associations had not sought formal assistance.

Importantly, the financial sector also appeared prepared with support and assistance programmes, and there were no reports portfolio deterioration at the time.

According to the latest monthly report by Bank Negara Malaysia, MSME outstanding loans stood at RM443 billion, with a relatively low impairment rate of 3.6%. Credit conditions remain broadly stable, although any future deterioration in impairments would likely be met with targeted policy responses rather than the blunt instrument of broad-based monetary tightening.

BNM to hold rates steady in H1 2026

BNM Monetary Policy Committee (MPC) will meet in the first week of May and we expect the central bank to hold interest rates steady.

Monetary policy in general takes time to take effect through various transmission channel in the economy. When considering the effect of a monetary policy decision, central bankers are not only looking at few months ahead, but may also consider effects few years down the road. The policy transmission mechanism through various channels, for instance, savings and investments, foreign exchange, asset prices and wealth may also change periodically, giving central bankers much to consider before making rates decision.

More importantly, monetary policy is generally ineffective, particularly during the early stages of a supply shock. As a result, central banks are typically inclined to “look through” the initial impact of supply-driven inflationary pressures.