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Foreword

A year of contrasts

The year 2025 reminded us that the world can change quickly and not always in ways that we expect. Globally, geopolitical tensions intensified and growing geoeconomic fragmentation reshaped trade relationships and unsettled financial markets. With supply chains tested and businesses lacking clarity, some investment decisions were put on hold. This uncertainty made the economy harder to read, as evidenced by multiple revisions to global growth forecasts. Yet, uncertainties and volatilities are not foreign to central banks. In fact, history reminds us that this is not an exception but a permanent feature of the economy. What matters is how we respond to it – with vigilance, pragmatism, perseverance and the ability to adapt – without losing sight of purpose.

Against this backdrop, ASEAN offered the world a different story. When division became more common, the region chose cooperation and dialogue. This collective resolve mattered, as it anchored confidence, supported economic activity and provided a more stable regional environment.

The Malaysian economy remained resilient, recording a growth of 5.2% (2024: 5.1%), despite a challenging external environment. Stable domestic economic, monetary and financial conditions helped cushion the impact of external shocks. This also paved the way for important reforms to take place and deliver the expected outcomes. As a result, the Malaysian economy stands in good stead to navigate future headwinds. This resilience was a result of deliberate design and the collective efforts of the public and private sectors, as well as the consistent work of institutions entrusted by the nation over the years.

Throughout this episode, Bank Negara Malaysia (BNM) remained focused on promoting monetary and financial stability in support of sustainable economic growth. At its core, this mandate is about people, preserving livelihoods, safeguarding confidence, and ensuring that the financial system continues to effectively serve the needs of the real economy.

Resilience amid headwinds

Malaysia's economic expansion continued to be anchored by resilient domestic demand. The year saw household spending benefitting from favourable employment and income prospects, as well as targeted policy measures to alleviate cost pressures. Investment activity remained firm, with continued capital expenditure across manufacturing and services sectors as well as infrastructure projects. This was also supported by the implementation of multi-year public projects and steady realisation of approved private investments. Importantly, these higher quality investments go beyond near-term growth – they also lift our productive capacity and create opportunities for future generations.

While external demand was more challenging, exports by key sectors, including electrical and electronics (E&E) and selected services, continued to hold. This resilience is closely linked to Malaysia's continued efforts to diversify its economic base, strengthen competitiveness and move up the global value chain. Decades of diversification reduces our reliance on any single sector or market, making the economy more resilient to shocks.

Monetary policy remained responsive and forward-looking. Against rising global uncertainties, the Monetary Policy Committee pre-emptively reduced the Overnight Policy Rate from 3% to 2.75% to secure Malaysia's growth path, and buffer against emerging downside risks emanating from global uncertainties. The decision reflected an intention to act early, guided by a forward assessment of evolving risks, and supported by a contained inflationary environment that provided the space for prompt action. Since then, the transmission of monetary policy has remained orderly and in line with expectations. This adjustment is expected to provide additional support to the economy into 2026.

Complementary measures further ensured sufficient liquidity in the domestic financial system amid heightened global financial volatility. The reduction in the Statutory Reserve Requirement provided banks with greater flexibility to manage their liquidity, helping ensure that credit continued to flow to eligible households and businesses. Our policy actions serve to ensure stable borrowing conditions, continued access to financing and confidence that Malaysia's financial system will continue to function smoothly, even in challenging times.

Reforms for the people

The conducive macro-environment provided space for the Government to advance critical structural reforms, despite external headwinds. Measures such as water and energy tariff adjustments as well as the rationalisation of the RON95 subsidy were implemented to partly address long-standing distortions, improve resource allocation and strengthen the foundations for long-term growth.

These reforms are necessary, but they are not without pain. Recognising this, they were carefully designed and sequenced, with mitigating measures to manage transition costs, limit spillovers and safeguard vulnerable groups. These are important ingredients to give reform measures the best chance of success. Ultimately, reforms must strengthen resilience, without leaving any segment of society behind.

At the same time, initiatives taken to drive industrial transformation and greater economic complexity continued to be advanced. Enhancing Malaysia's value proposition to the world remained a critical development priority, as productivity-driven growth is essential to generate quality employment, raise wages and sustain income growth over time. After all, structural reforms are about securing a better future. Not just better numbers, but meaningful long-term outcomes for our households and businesses.

A steady hand

Despite bouts of volatility in the foreign exchange market, BNM remained steadfast in preserving stability. The ringgit strengthened steadily throughout the year, recording the largest appreciation among regional currencies on the back of sustained portfolio and foreign direct investment inflows. This reflected confidence in Malaysia's economic fundamentals, our consistency and credibility in policy making as well as commitment to reforms. Efforts to encourage more balanced two-way foreign exchange flows in the onshore market also saw positive outcomes, with deeper participation from domestic and non-resident investors. The orderly financial markets provided stability, confidence and an environment in which households and businesses can plan with greater certainty.

At the same time, BNM continued to bolster Malaysia's external buffers, maintaining adequate international reserves to preserve policy space should global conditions turn. To this end, we saw the various initiatives lead to around USD10 billion of net inflows during the year, supporting an increase in gross international reserves to USD128 billion as at 13 March 2026 (2024: USD116 billion).

Serving the real economy

The financial sector maintained its effectiveness in mobilising funds between savers and borrowers. Financial institutions remained well capitalised and operationally resilient, supported by ample liquidity buffers and sound asset quality. This ensured continued access to financing for households and businesses, supporting consumption, investment and livelihoods.

Malaysia's payment and settlement systems remained reliable and secure, supporting increasing transaction volumes. Ongoing efforts to modernise financial market infrastructures, including the rollout of near real-time funds settlement (RENTAS+), will further strengthen the foundations for developments in digital finance.

BNM also ensured that its regulatory and supervisory approaches remained pragmatic, proportionate and risk-based. Supervisory efforts focused on ensuring that financial institutions remained resilient to emerging risks, including those arising from digitalisation, cyber threats and climate change. Regulatory standards continued to be aligned with international best practices, while calibrated to Malaysia's domestic context and priorities.

Our role requires striking a delicate balance. While we want to preserve financial stability, fostering inclusion and responsible innovation are also key. Finance should create value, unlocking opportunities while managing risks to the real economy.

Preserving trust and integrity

Public confidence in the integrity of the financial system remains central to our mission. Efforts to combat financial fraud were intensified through enhanced supervisory expectations, industry-wide measures and public awareness campaigns. Earlier efforts by banks to reinforce malware defences since end-2024 are delivering results, with some banks reporting zero malware cases in 2025.

Complementing this is the progress we made in strengthening anti-money laundering and counter-terrorism financing measures which was strongly recognised by the Financial Action Task Force (FATF). Results of the Mutual Evaluation exercise by FATF saw rating upgrades across several key areas that led to Malaysia being placed under the highest category of 'Regular Monitoring', an upgrade from 'Enhanced Monitoring' previously. On behalf of the National Coordination Committee (NCC), I would like to thank all stakeholders, including NCC members and financial institutions, for their unwavering commitment and efforts to deliver this hard-won achievement that will go a long way to shore up confidence in our economy and financial system.

Building for the future

2025 also marked the penultimate year of the Financial Sector Blueprint (FSBP) 2022–2026. Looking back, we have made inroads across several development priorities. On digitalisation, digital banks gradually expanded their offerings and reach to unserved and underserved communities, while initiatives such as electronic police reporting for minor accidents – now piloted on PLUS highways – reduced friction in the claims process and improved efficiency across the ecosystem.

These advances were also accompanied by key reforms to strengthen consumer protection and financial resilience. This includes the enactment of the Consumer Credit Act, revisions to the Hire-Purchase Act, formulation of the National Financial Literacy Strategy 2026–30 and finalisation of the medical health insurance and takaful (MHIT) base product design. These reforms were made possible with the strong support and cooperation of government ministries and agencies as well as the financial industry.

At the same time, we continued to accelerate responsible innovation. Platforms and initiatives such as the Digital Asset Innovation Hub, Climate Finance Innovation Lab and i-CITA programme were set up to support financial solutions that respond directly to the needs of our economy and society. Further progress has also been made to build climate resilience of financial institutions and their customers, with most financial institutions offering green products and solutions. Meanwhile, the expansion of the iTEKAD programme, going beyond entrepreneurship support and into risk protection and employability-related support, will lend further help to thousands of micro-entrepreneurs, many from vulnerable communities.

Our whole-of-ecosystem approach also defines the strides made in Islamic finance. Value-based finance has become more entrenched, with Islamic financial institutions leading the way. New impact-driven pilots were rolled out, and the phased adoption of the transformative MYOR-i – the world's first transaction-based Islamic benchmark rate – marks an important milestone in deepening Islamic financial markets. Looking ahead, we will harness our strength to provide global leadership and position Islamic finance as a catalyst for progressive and inclusive growth, from expanding social finance and boosting the halal ecosystem to enhancing integration across ASEAN. The formation of the MIFC Business Network is also expected to improve industry's coordination and facilitation to secure more inward and outward business opportunities for the nation.

Stronger together

As the country's central bank, our policies and actions affect millions of Malaysians, and such efforts can never be ours alone. To this end, we engaged widely and proactively with those that we serve and regulate. Good policy must be anchored not only in data, but also in on-the-ground realities. Engagements with businesses across Malaysia helped us better understand emerging risks and shifts in behaviour – often before they show up in the numbers. It brings real time insights from plantations in Tawau or households in Besut right to Kuala Lumpur.

As a regulator, continuous dialogue with the broader industry and market participants sharpens our assessment of what matters most for Malaysia's financial development, and how to calibrate reforms in a way that is effective and proportionate.

Our stakeholders in the Parliament and across the Government keep us focused on outcomes, and ultimately on delivering for the *rakyat*. With each conversation, we strengthen the trust extended to our institution. Importantly, our collaborative approach to policy – fiscal, financial and monetary – builds coherence and amplifies potency. This has been long recognised as a strength by the global investment community, including key rating agencies.

Progress through cooperation

In an increasingly fragmented world, ASEAN can be a source of strength. Malaysia's ASEAN Chairmanship was an opportunity to affirm and solidify the region's core values and principles – a shared commitment and collective responsibility in enhancing regional peace, security and prosperity. Amid heightened global trade tensions, ASEAN's unified commitment to a measured and constructive response reflected this. For Malaysia, being part of a region that values cooperation and stability has been an important anchor in navigating an increasingly complex global landscape. To this end, BNM led efforts to advance deeper regional financial and economic integration under the Finance Track.

Regional payment connectivity was expanded, with 29 payment linkages now operational across ASEAN Member States. Now, a tourist making purchases or a small business selling products across borders can make and receive payments more quickly, securely and at lower cost. This reduces friction, expands opportunities and can support the livelihoods across ASEAN communities.

We also mobilised investments into regional green projects, including the ASEAN Power Grid. Such initiatives are not only about climate goals; they are also about energy security, long term competitiveness, and creating the foundations for future growth and jobs. Malaysia also lent its experience through the Greening Value Chain initiative which is now being rolled out in two other ASEAN economies.

At the same time, ASEAN's capacity to respond collectively to external shocks was strengthened, including through enhancements to the Chiang Mai Initiative Multilateralisation and critical strategies under the ASEAN Geoeconomics Task Force. These measures reinforce ASEAN's capacity to respond collectively to external shocks, creating an additional layer of resilience against global uncertainties.

Looking ahead

Uncertainties surrounding global trade and capital flow dynamics will continue to shape the 2026 outlook. Developments in the Middle East have added another layer of uncertainty with potentially far-reaching spillovers, given implications on commodity prices and financial market conditions. The extent of impact on growth and inflation is highly contingent on the duration, intensity and severity of the conflict. At the same time, while rapid advances in artificial intelligence present opportunities to raise productivity and efficiency, there are risks of inventory and market corrections as well as heightened financial market volatility given potential overvaluations.

In this environment, Malaysia's domestic resilience and diversified export structure provides us with a solid foundation to navigate current external headwinds. The Malaysian economy is projected to grow between 4% and 5%, supported by household spending, expansion in investments, sustained global demand – particularly for E&E exports, and steady tourism amid Visit Malaysia Year 2026. Our standing as a net energy exporter will also lend us some resilience against the increase in global commodity prices. Meanwhile, inflation is expected to remain moderate between 1.5% and 2.5%. While upside risks stemming from developments in global commodity and energy prices remain, targeted policies are in place to help cushion the impact on households and businesses.

The ongoing geoeconomic shifts represent structural changes and continues to evolve with long lasting implications. At this juncture, we must recognise that the global landscape is becoming less predictable, as geopolitical considerations increasingly shape economic outcomes. Developments in the Middle East underscore that conflict can create ripples across the globe, while benefitting none. This underscores the urgency for Malaysia and ASEAN to deepen domestic and regional reforms. We must work closely together, including through the ASEAN Geoeconomics Task Force, to navigate this evolving environment. We also need to mindfully position ourselves to face the challenges and capitalise on opportunities to come.

For Malaysia, it is important that we remain focused and committed to strengthening our economic fundamentals and policy buffers. By improving fiscal sustainability and attracting quality investments, we have created space to further advance much needed urgent reforms for social protection and the labour market. These reforms may involve some short-term adjustments, but they are necessary to ensure that growth is more inclusive and benefits the *rakyat* – including generations to come. Malaysia's path to becoming a developed, high-income nation must be paved with shared prosperity. We must build an economy that creates better paying jobs, supports our households and businesses, and remains resilient for decades to come.

For BNM, we will remain vigilant in ensuring that we are well-equipped to navigate the challenges ahead, without losing sight of longer-term priorities to enhance our economic prospects and preserve our resilience. The Monetary Policy Committee will continue to closely monitor developments and assess the balance of risks to the growth and inflation outlook. We also stand ready – as we have through successive periods of heightened uncertainty – to ensure orderly markets and manage risks of excessive volatility.

As the FSBP 2022–2026 enters its final phase, implementation will be accelerated along with work to develop the next course for Malaysia's financial sector. We will work to better facilitate innovation, including in emerging areas such as digital finance, stablecoins and climate adaption in a safe and responsible manner.

What remains true

While the environment continues to evolve, BNM's commitment is certain. As an organisation, we will continue to faithfully discharge our mandate to build a brighter future for all Malaysians. We will continue to strengthen our capabilities to better serve the nation. This includes continuing to extend our ongoing efforts to optimise work processes, investing in the responsible use of technology, reviewing manpower needs and embedding sustainability more deeply into the organisation.

What BNM has achieved was only made possible by the hard work, dedication and perseverance of our staff. I would like to express my heartfelt appreciation to our people for your professionalism, resilience and quiet commitment to public service. Your work, in the frontlines and behind the scenes, touches the lives of households, businesses, and communities across the country. I would also like to extend my gratitude to the Board of Directors for their guidance and steady stewardship. Beyond our organisation, my appreciation also goes to our partners across government ministries and agencies, financial sector, as well as peer central banks and regulators, whose shared purpose and collaboration have been instrumental in advancing our collective goals.

With all the support, I am confident that BNM will continue to ensure that the financial sector remains a strong enabler of meaningful economic progress. As we press ahead, remember that we are stronger together in delivering our best for the 34 million Malaysians that we serve.

Abdul Rasheed Ghaffour