

Adnan Zaylani Mohamad Zahid: Opening remarks - Financing Sectoral Engagements (FSE) inaugural session

Opening remarks by Mr Adnan Zaylani Mohamad Zahid, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Financing Sectoral Engagements (FSE) inaugural session, Kuala Lumpur, 6 March 2026.

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As our economy advances and matures, sustaining our strong performance requires more strategic direction, and this is more so at a time when the global economic landscape is becoming more complex and fragmented. What's clear to us is that we need to be more deliberate in approaching how capital is deployed across the economy.

It's clear that the economic shifts we're dealing with today are structural, not just cyclical. As growth transitions and the economy matures, productivity becomes a key driver of how far we can push this envelope.

While global growth has been resilient, trade tensions and geopolitical risks are persistent. Supply chains are being reorganised in ways that significantly affect a small open economy like ours. Fragmentation and volatility are no longer temporary; they're part of the operating environment.

On the domestic side, some of our indicators require attention. Rising import intensity, especially for capital and intermediate goods, has compressed our current account surplus, averaging around 15% of GDP between 2005 and 2010, to below 3% of GDP between 2020 and 2024. This has also increased our relative dependence on external financing and contributed to higher external indebtedness. This narrowing buffer gives us less room to manoeuvre when shocks hit.

So, moving forward, we need to strengthen our productive capacity and that means ensuring capital flows to the right places. Our growth story will increasingly depend on how well we channel capital into high-value, productivity-enhancing sectors that can move the economy up the value chain.

Within this environment, banks' allocation decisions will play a significant role in shaping Malaysia's next growth phase.

Banks remain the central pillar of Malaysia's financial system and a primary allocator of domestic financial capital, accounting for about half of total financial system assets. Currently, within the banking system, more than 60% of outstanding loans are directed to households, while non-SMEs corporates account for around 20%.

As our economy evolves to become more capital- and technology-intensive, there is room for us to further strengthen alignment between capital allocation by the banking sector and our structural transformation priorities. This implies scaling large, complex and investment intensive sectors that would require deeper, more tailored and more risk-calibrated financing solutions.

Looking further at credit patterns, it suggests more opportunities to strengthen support for catalytic sectors.

Despite strong policy ambitions laid out in our national master plans, financing to catalytic priority sectors has remained relatively modest, with lending approvals continuing to be concentrated in services. While financing for manufacturing has improved over time, it remains limited relative to the scale of investment required to build globally competitive industries.

We also observe an increasing number of resident corporates borrowing offshore, with RM60 billion approved from 2023 to 2025. Nearly half of these applications came from firms in strategic, high growth sectors. This suggests there is more room to channel capital into sectors with higher growth and productive potential. If Malaysia is to successfully scale high value, capital intensive sectors, such as E&E, digital infrastructure, pharmaceuticals, and chemicals, then our financing structure will need to deepen and evolve alongside these aspirations.

In our engagements with firms, many have highlighted frictions in securing financing for investments. Some recurring themes include:

- a. Challenges in structuring large facilities and long tenures that match project cashflow profiles,
- b. Gaps in product alignment, including for foreign currency needs, more competitive pricing, or bespoke structures,
- c. Greater complexity in sectors that are more exposed to global developments, new economy industries or sectors less familiar to lenders, requiring deeper sector understanding and benchmarking. For example, in segments like data centres, the scale of investments and the technical nature of operations often call for more specialised insights.
- d. Lastly, risk appetite considerations in an environment under heightened uncertainty, particularly for sectors perceived as cyclical, volatile, or technically complex. This factor was raised by a quarter of all offshore borrowing applications the Bank had received from resident corporates in the last two years.

These frictions do not reflect a lack of willingness on the part of banks. Rather, they point to information gaps, structuring complexity and capability as well as sector familiarity – these are gaps that we can collectively address.

These realities fundamentally shift how we should approach capital allocation, with more intentional targeting of productivity-driven, export-oriented and capital-intensive sectors.

As structural headwinds intensify, ensuring capital is aligned towards productive sectors becomes both a macroeconomic priority as well as a commercially strategic objective for all of us around this table. To make this happen, we need a more structured way of identifying frictions, aligning incentives and tracking outcomes.

That is precisely why we are meeting today: to kickstart a more coordinated approach, to surface the constraints that matter, and to work through them collaboratively to find solutions.

Our national roadmaps and strategies (such as RMK13, New Industrial Master Plan (NIMP), National Semiconductor Strategy (NSS) and National Energy Transition Roadmap (NETR)) are some of the key policies that provide us a strategic window to align financing and capital flows with national aspirations. When policy direction is aligned, the opportunities become clearer to identify, and the risks are easier to manage.

The Financing Sectoral Engagement, or the FSE, brings more structure, discipline and partnership for improving capital allocation to productive sectors in Malaysia. The FSE is designed to move us from adhoc dialogue towards a structured, data driven and outcome-oriented platform. At its core, the FSE is about building solutions that are commercially viable, while catalysing productivity and economic growth, creating a feedback loop where everyone wins. To achieve this, we need to collaborate and put together our collective capabilities. We can strengthen risk assessment in emerging sectors, enhance product structures to fit the needs of emerging industries, and address the structural enablers that make viable projects truly bankable. And importantly, commitments made through this platform will be anchored in measurable outcomes, clear ownership and steady follow-through.

To ensure delivery of outcomes, we've put in place a clear governance structure:

At the top, the FSE Forum, chaired jointly by BNM and ABM, sets the overall direction. The Forum will approve reform priorities and KPIs, provide strategic input, and oversee implementation. This is the level where we align ambition with accountability.

Supporting the Forum is the Working Group, comprising of experts from banks and industries. It undertakes diagnostics and solutioning. This group will deepen sector-level analysis, strengthen data and analytical capabilities, and design product structures and risk-sharing mechanisms. Its role is to translate strategy into actionable, scalable solutions.

Finally, we have the Secretariat, which keeps the platform moving. The Secretariat will coordinate the sectoral engagements, including bringing in experts and facilitating discussions, tracking progress of key action plans, and documenting insights for the Forum. This role will rotate across associations over time, with BNM anchoring the first cycle. Taken together, this governance structure creates a disciplined mechanism that allows us to identify key frictions, build scalable solutions, and ensure commitments are delivered.

For the FSE to deliver real impact, strong leadership commitment from the banking sector will be essential. There are three areas where your stewardship matters most:

First, deepening sector understanding.

Many of the frictions we hear from corporates are not about creditworthiness, but about information gaps - unfamiliar business models, emerging technologies, and evolving sector dynamics. Strengthening sector literacy will be key to identifying priority sectors, mapping key frictions, and shaping the diagnostics for the Working Group.

Second, reassessing internal capacity.

As the economy becomes more capital-intensive, institutions may wish to strengthen product offerings, particularly for large and complex facilities. This will help us accelerate practical next steps, such as establishing the first KPI baseline, assigning clear owners for each action point, and rolling out workable quick wins.

Third, partnering on long-term reforms.

Over time, the FSE will support practical market solutions such as more innovative financing structures and higher utilisation of risk-sharing mechanisms. This partnership will translate into tangible outcomes that are critical to ensure lending is facilitative of corporate needs as the economic landscape becomes more complex.

Allow me to close with this: The challenges ahead are real, but so too are the opportunities to reposition our economy for higher value, more competitive growth. Achieving this will depend on a financial system that is capable, adaptive and aligned with national priorities. The FSE gives us the structure to do so. It is co-owned, forward-looking, and anchored in evidence. With your leadership and partnership, I am confident that we can strengthen our intermediation system and support Malaysia's transition into a more dynamic and complex economic future.

Thank you.