

Economic Focus

Budget 2025: Sharing prosperity with all

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- **Budget 2025 allocated RM421bn to achieve Madani Economy goals**
- **Delivery on reform promises well on track for long-term sustainability and inclusive growth**
- **Government's 2025 GDP growth projected at 4.5%-5.5% with lower budget deficit of 3.8%**

Strong commitment for fiscal resilience

Budget 2025 entails a record high expenditure of RM421bn which is 3.3% higher than the revised Budget 2024 estimate of RM407.5bn as Malaysia strives to achieve its socioeconomic goals under the Madani Economy Framework. 2025 development expenditure is expected to remain unchanged y-o-y while operating expenditure is projected to increase by 4.2% which is slower than the projected revenue growth of 5.5% in 2025. It is noteworthy that the relatively stronger revenue growth comes on the back of a robust economic outlook and tax revenue broadening measures though PETRONAS dividend will be maintained at RM32bn in 2025. Meanwhile, 2025 budget deficit will fall to the lowest since 2019 at 3.8% (vs 4.3% in 2024). As at Dec 2023, government debt accounted for ~64% of our gross domestic product (GDP), and it is likely to hover around the same level by end-2024 and 2025.

Ensuring fiscal reforms without compromising Rakyat's well-being

Budget 2025 continues to deliver on the government's reform initiatives to broaden tax revenue and implement targeted subsidy rationalisation. Notably, targeted subsidy for petrol is expected to be implemented in mid-2025 which could save RM8bn from the top 15% income earners and foreign consumers. In addition, various income tax reliefs on healthcare, education and insurance have been increased/extended to mitigate the impact of rising living cost. Meanwhile, allocation for direct cash assistance under Sumbangan Tunai Rahmah and Sumbangan Asas Rumah programs will be boosted by 30% to RM13bn (vs RM10bn in 2024), benefitting 9m recipients. More importantly, monthly minimum wage will be raised by 13% to RM1.7k from RM1.5k which will come in handy for low-income earners. For revenue base expansion, some of the new taxes include a 2% tax on dividend income and expansion of the sales and services tax. In short, the government has clearly showcased its commitment toward fiscal sustainability which will bode well for Malaysia's long-term development.

Targeted business incentives to encourage high value-add industries

Budget 2025 reaffirms the long-term strategies under the National Energy Transition Roadmap (NETR) and the New Industry Masterplan (NIMP) 2030 with tax incentives provided such as accelerated capital allowance for E-invoicing adoption, investment tax allowance for smart logistics and increased export incentive for IC design services. Also, National Energy Transition Facilitation Fund allocation is raised to RM300m from RM100m in 2024 while Green Technology Financing Scheme continues until 2026 with RM1bn funding. In addition, tax relief on housing loan interest payments for first home ownership, which makes a comeback after 14 years, will benefit property developers. Budget 2025 makes no mention of the highly-anticipated mega projects such as MRT 3 and KL-SG HSR but prioritises essential infrastructure in Sabah/Sarawak with a RM12.6bn allocation (vs RM12.4bn in 2024), illustrating its strong commitment for prudent fiscal policy.

Favourable economic landscape

The government has revised its 2024 GDP growth forecast to 4.8%-5.3% (from 4.0%-5.0%). Meanwhile, its 2025 GDP growth stands at 4.5%-5.5%. Fundamentals remain strong as Malaysia's economy continues to take comfort from its resilient domestic demand, underpinned by sustained household spending. Private investment is expected to benefit from improved external environment and positive response to the NETR and NIMP 2030 while the government continues with its expansionary fiscal policy to drive economic growth.

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Key economic indicators

	2023		2024		2025	
	RMm	% chg	RMm	% chg	RMm	% chg
Gross Domestic Product (2015 prices)	1,567,974	3.6	1,645,080	4.8-5.3	1,724,041	4.5-5.5
Agriculture	100,812	0.7	102,780	2.0	104,769	1.9
Mining and quarrying	97,513	0.5	99,706	2.2	98,671	(1.0)
Manufacturing	366,694	0.7	381,881	4.1	399,089	4.5
Construction	56,659	6.1	64,672	14.1	70,770	9.4
Services	927,904	5.1	976,966	5.3	1,030,826	5.5
Import duties	18,392	9.6	19,076	3.7	19,916	4.4
Gross Domestic Product (current prices)	1,822,904	1.6	1,946,636	6.7-7.2	2,082,431	6.7-7.7
Federal Government Finance						
Revenue	314,959	7.0	322,050	2.3	339,706	5.5
Operating expenditure	311,267	6.3	321,500	3.3	335,000	4.2
Current balance	3,692		550		4,706	
Gross Development expenditure	96,091	34.3	86,000	(7.2)	86,000	-
Less: Loan recovery	1,007		1,154		1,321	
Net Development expenditure	95,084	35.5	84,846	(7.4)	84,679	(0.2)
COVID-19 fund	-		-		-	
Overall balance	(91,392)		(84,296)		(79,973)	
% of GDP	(5.0)		(4.3)		(3.8)	
	2023	% of GDP	Jun 2024	% of GDP		
Federal Government Debt	1,172,509	64.3	1,227,488	63.1		
Domestic debt	1,142,658	62.7	1,198,158	61.6		
Treasury bills	20,000	1.1	20,500	1.1		
Msian government investment issues	527,300	28.9	564,300	29.0		
Msian government securities	589,858	32.4	613,358	31.5		
Government housing sukuk	5,500	0.3	-	-		
Offshore borrowings	29,851	1.6	29,330	1.5		
Market loans	26,224	1.4	26,157	1.3		
Project loans	3,627	0.2	3,173	0.2		

Source: Ministry of Finance

Budget 2025 key highlights

Financial Assistance for SMEs	RM bil
3m training opportunities undertaken by HRD Corp	3.0
Allocation for Felda, Felcra and Risda	2.6
Visit Malaysia Year 2026 promotion activities	0.55
Stamp duty exemption on loan/financing agreements through initial exchange offering platform	N/A
Stamp duty exemption on loan/financing agreements for micro payment scheme of up to RM100k	N/A
Financial Assistance for businesses	
New investment incentive framework in 3Q 2025	N/A
Tax cuts for joint investments by MNEs and local suppliers	N/A
Tax cuts for three years for spending of up to RM2m by MNC	N/A
Increased export incentive for IC design services	N/A
Investment tax allowance of 60% for five years will be provided to logistics companies that undertake "complex smart logistics activities"	N/A
E-invoicing adoption to enjoy accelerated capital allowances within 2 years	N/A
Infrastructure	
Maintenance for federal roads	2.8
Malaysia Road Record Information System funds for state roads	5.5
Upgrade and maintain schools nationwide	2.0
Maintenance of healthcare infrastructure	1.35
4 work packages under Phase 2 Sabah-Sarawak Link Road	7.4
User-pay format via PPP for Gopeng- Kuala Kangsar route for WISE Highway and Banting-Gelang Patah route for WCE Highway	N/A
Expansion of Tawau and Miri airports	0.253
Sarawak Cancer Centre	1.0
Sarawak state allocation	5.9
Sabah state allocation	6.7
Ministerial allocation	
Ministry of Health	45.3
Ministry of Higher Education	18.0
Ministry of Education	64.1
Ministry of Defence	21.2
Ministry of Home Affairs	19.5

Budget 2025 key highlights (cont'd)

Energy Transition	RM bil
Investment by UEM Lestra and Tenaga Nasional for grid upgrade and industrial area decarbonisation	16
National Energy Transition Facilitation Fund raised by 3-fold	0.3
Green Technology Financing Scheme programme continues until 2026	1.0
Ecological Fiscal Transfer Fund increased	0.3
Green Technology Financing Scheme extended till 2026	1.0
Individuals	
Minimum wage raised from RM1.5k to RM1.7k from Feb 2025	N/A
Cash transfer under Sumbangan Tunai Rahmah and Sumbangan Asas Rumah	13
RM8k tax relief for individuals on net SSPN savings has been extended for another three years	N/A
RM500 each for public servants of Grade 56 and below	N/A
Tax relief of up to RM7k for residential properties below RM500k, and up to RM5k for properties priced RM500k-750k	N/A
Higher tax relief on education, medical insurance, nursery	N/A
A social safety net scheme to cover those self-employed	0.1
Compulsory EPF contributions for foreign workers in phases	N/A
Optimisation of tax revenue/expenses	
Excise duty on sugary drinks raised by 80% or 40sen/liter to 90sen/liter	N/A
Carbon tax on iron & steel and energy industries by 2026	N/A
Multi-level levy mechanism on foreign worker recruitment	N/A
2% tax on dividend income exceeding RM100k	N/A
Sales & Service Tax expansion for non-essential items and new business services from May 2025	N/A
Targeted subsidy for public hospital patients to exclude top 15% income bracket	N/A
Rationalisation of RON95 petrol subsidy in mid-2025 to exclude top 15% income users	12
Revision in windfall profit levy threshold for palm oil plantation sector	N/A

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