

Economic Focus

Budget 2026: Building on a strong foundation

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- **Prudent Budget 2026 allocated RM419bn to achieve Madani Economy goals**
- **Fiscal reforms firmly on track for long-term sustainability and inclusive growth**
- **Government projects 4.0%-4.5% GDP growth with lower budget deficit of 3.5% for 2026**

Sustained fiscal consolidation

Budget 2026 entails a higher total expenditure of RM419bn, which is 1.7% higher than the revised Budget 2025 estimate of RM412bn, as Malaysia strives to achieve its socioeconomic goals under the Madani Economy Framework. 2026 development expenditure is expected to remain relatively unchanged y-o-y while operating expenditure is projected to increase by 1.8%, which is slower than the projected revenue growth of 2.7% in 2026. It is noteworthy that the relatively stronger revenue growth comes on the back of tax revenue broadening measures despite PETRONAS dividend falling significantly to a 9-year low of RM20bn in 2026 from RM32bn in 2025. Meanwhile, 2026 budget deficit will fall to the lowest since 2019 at 3.5% (vs 3.8% in 2025). As at Dec 2024, government debt accounted for ~65% of our gross domestic product (GDP), and it is likely to hover around the same level by end-2025 and 2026.

Balancing fiscal reforms with Rakyat's well-being

As Budget 2026 continues to deliver on the government's reform initiatives, the government continues to strengthen its financial assistance for low-income earners. Allocation for direct cash assistance under the Sumbangan Tunai Rahmah and Sumbangan Asas Rumah programs will be boosted by 15% to a record high of RM15bn (vs RM13bn in 2025), benefitting 9m recipients. Interestingly, a one-off RM100 cash assistance for 22m Malaysian adults has been included and will be disbursed in Feb 2026, possibly due to the savings from the government's successful subsidy rationalization efforts. Meanwhile, civil servants will benefit from Phase 2 of the Public Service Remuneration System, which includes a 7% salary increase effective Jan 2026. In addition, various income tax reliefs on healthcare, education and insurance have been increased/extended to mitigate the impact of rising living cost. These measures will ensure domestic consumption remains robust in 2026.

Emphasis on high value-added industries

The long-term strategies under the National Energy Transition Roadmap (NETR) and the New Industry Masterplan (NIMP) 2030 are featured in Budget 2026 as well. Major projects such as Madani Submarine Cable (RM2bn), sovereign AI cloud (RM2bn) and Large-Scale Solar 6 (RM6bn) reflect the government's focus to drive high-value investments in advanced technology and renewable energy. In addition, various investments and financing are directed to high-impact sectors, which are set to uplift Malaysia's technological capabilities. Meanwhile, Budget 2026 makes no mention of highly-anticipated mega projects such as MRT 3 and KL-SG HSR but prioritizes critical maintenance/repairs and essential infrastructure in Sabah/Sarawak with a RM12.9bn allocation (vs RM12.6bn in 2025), illustrating its strong commitment for prudent fiscal policy.

Resilient economic landscape

The government projects its 2026 GDP growth at 4.0%-4.5%, which is in line with our in-house forecast of 4.0%. 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.

Key economic indicators

	2024		2025		2026	
	RMm	% chg	RMm	% chg	RMm	% chg
Gross Domestic Product (2015 prices)	1,650,305	5.1	1,724,712	4.0-4.8	1,795,752	4.0-4.5
Agriculture	103,458	3.1	104,725	1.2	107,004	2.2
Mining and quarrying	98,432	0.9	99,503	1.1	98,462	(1.0)
Manufacturing	382,034	4.2	396,388	3.8	408,280	3.0
Construction	66,580	17.5	73,272	10.1	77,705	6.1
Services	980,110	5.3	1,030,007	5.1	1,083,056	5.2
Import duties	19,692	7.1	20,818	5.7	21,245	2.1
Gross Domestic Product (current prices)	1,932,291	5.9	2,015,738	3.8-4.6	2,125,757	5.4-5.8
Federal Government Finance						
Revenue	324,618	3.1	334,115	2.9	343,124	2.7
Operating expenditure	321,509	3.3	332,150	3.3	338,202	1.8
Current balance	3,109		1,965		4,922	
Gross Development expenditure	84,012	(12.6)	80,000	(4.8)	81,000	1.3
Less: Loan recovery	1,737		1,321		1,500	
Net Development expenditure	82,275	(13.5)	78,679	(4.4)	79,500	1.0
COVID-19 fund	-		-		-	
Overall balance	(79,166)		(76,714)		(74,578)	
% of GDP	(4.1)		(3.8)		(3.5)	
	2024	GDP	Jun 2025			
Federal Government Debt	1,247,614	64.6	1,304,176	64.7		
Domestic debt	1,219,638	63.1	1,281,418	63.6		
Treasury bills	5,000	0.3	2,000	0.1		
Msian Islamic Treasury bills	10,000	0.5	5,500	0.3		
Msian government investment issues	570,800	29.5	614,800	30.5		
Msian government securities	633,838	32.8	659,118	32.7		
Offshore borrowings	29,330	1.5	22,758	1.1		
Market loans	24,977	1.3	19,804	1.0		
Project loans	2,999	0.2	2,954	0.1		

Source: Ministry of Finance

Budget 2026 key highlights

Financial Assistance for SMEs	RM bil
Additional 50% tax deduction on AI training	
SJPP government guarantees for Halal-business loans	2.0
Visit Malaysia Year 2026 promotion activities	0.7
Digital and technology training by HRD Corp	3.0
Allocation for Felda, Felcra and Risda	2.4
Ikhtiar Madani for community business developments	1.0
Financial Assistance for businesses	
RM500k tax deductions for renovation and refurbishment of business premises by tourism players	
100% income tax exemption for 5-10 years for food production businesses	
Venture capital tax incentives strengthened for next 10 years via special tax and dividend exemptions	
Adoption of modern rice field technologies and infrastructure upgrade	0.1
SJPP government guarantees of up to 70% financing for export-oriented mid-tier companies	5.0
Soft loans from EXIM Bank for companies affected by global tariff tensions	0.5
Introduction of ASEAN Business Entity status by SC	
NIMP Industrial Development Fund for high-impact sectors	0.2
Khazanah-KWAP joint investment in E&E ecosystem	0.6
Investment by GLIC under GEAR-UP initiative	30.0
Salary threshold for stamp duty exemption on employment contracts raised to RM3k from RM0.3k	
Agrobank financing for agricultural automation and mechanisation	1.1
Loans by Bank Pembangunan under National Semiconductor Strategy	0.5
Infrastructure	
5-year investment in water treatment plants	13
Flood mitigation projects	2.2
Maintenance of federal roads	2.5
Allocation for basis rural infrastructure projects	3.3
Malaysia Road Record Information System funds for state roads	5.6
Jeniang Water Transfer Project	1.3
Maintenance and repair of government hospitals and clinics	1.2
Airport upgrade in Penang, Sabah and Sarawak	2.3
Sarawak state allocation	6.0
Sabah state allocation	6.9
Ministerial allocation	
Ministry of Health	46.5
Ministry of Education	66.2
Ministry of Defence	21.7
Ministry of Home Affairs	21.2

Budget 2026 key highlights (cont'd)

Energy Transition	RM bil
Southern Link Transmission Project	0.8
ASEAN Power Grid for Vietnam-Malaysia-Singapore Renewable Energy Project	
National Energy Transition Fund	0.2
Large-scale solar projects under LSS 6 with 2GW capacity	6.0
Investments from GLCs and GLICs for energy transition	16.5
Carbon tax for iron, steel and energy sectors in 2026	
Digitalisation	
Madani Submarine Cable linking Johor-Sabah-Sarawak	2.0
Building of sovereign AI cloud by MCMC	2.0
Phase 2 of Point of Presence near industrial areas and rural schools	0.8
Expansion of broadband coverage under JENDELA 2	0.8
Individuals	
Public Sector Home Financing Board (LPPSA) financing limit raised to RM1m	
100% stamp duty exemption for first home purchase priced <500k extended to 2027	
One-off RM100 Sumbangan Asas Rahmah (SARA) for 22m adults in Feb 2026	
Technical and Vocational Education and Training funding	7.9
Optimisation of tax revenue/expenses	
Higher excise duties for tobacco products and alcoholic beverages	
Stamp duty on property purchase by foreigners increased from 4% to 8%	
Capacity enhancement of enforcement agencies	0.7
Strengthening the role of Parliament for better check-and-balance	0.2

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