

11 October 2025

Global Economics & Market Strategy

Malaysia Budget 2026 – Sustaining Momentum, Building Resilience

- ◆ Budget 2026 is set to support growth through three main channels: spurring public and private investment, promoting inclusive and sustainable development, and strengthening the business climate. We maintain our 2026 GDP forecast at 4.7%, above the government’s 4.0–4.5% range, supported by stronger domestic demand, easing external risks, and an expansionary fiscal stance.
- ◆ We revise our 2026 inflation forecast down to 1.8% (from 2.3%), near the upper end of the official 1.3%–2.0% range. The adjustment reflects policy continuity—no SST broadening or further RON95 subsidy tightening—helping to ease cost pressures, while robust domestic demand and stronger private consumption keep inflation at the higher end of the range.
- ◆ Our forecast for 2026 fiscal deficit target of 3.5% of GDP materialised – we view the target to be realistic and achievable, supported by continued revenue-base expansion and ongoing subsidy rationalisation initiatives.

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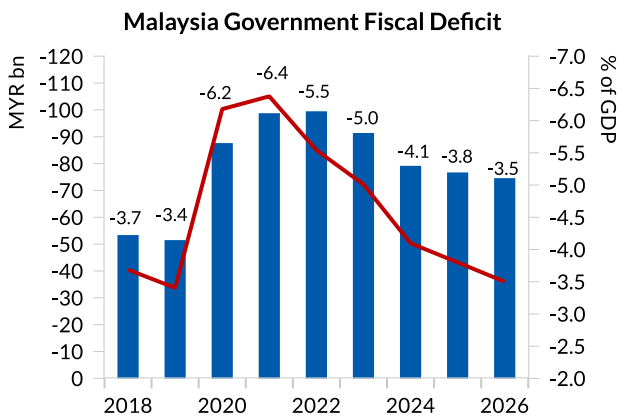
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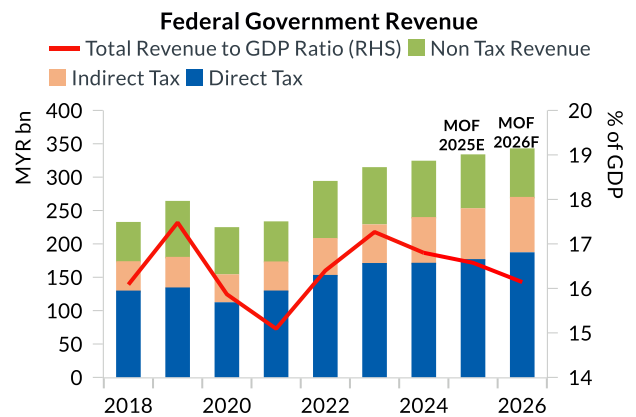
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Figure 1: The fiscal deficit is to be reduced further to 3.5% of GDP in 2026



Source: MOF, RHB Economics & Market Strategy.

Figure 2: Tax revenue remains the largest contributor to the central government’s revenue



Source: MOF, RHB Economics & Market Strategy.

Growth-Supportive Amid Global Uncertainty

Budget 2026 is set to support growth through three main channels: spurring public and private investment, promoting inclusive and sustainable development, and strengthening the business climate to attract quality FDI. The budget adopts a mildly expansionary stance, with a total allocation of MYR419.2 billion from the central government (19.7% of GDP), underscoring the government's commitment to sustaining economic momentum while enhancing fiscal sustainability. With the theme of 'Fourth MADANI Budget: People's Budget,' Budget 2026 emphasises inclusive and sustainable growth amid external challenges, while laying a solid foundation for Malaysia's medium- to long-term development goals. Overall, we view Budget 2026 as growth-supportive, anchored on five key prongs: fiscal sustainability, economic stimulus and infrastructure development, social welfare and inclusivity, strengthening the business and investment climate, and advancing ESG priorities.

We maintain our 2026 GDP growth forecast at 4.7%, reflecting an upside bias relative to the government's forecasted range of 4.0–4.5%. Our optimism is anchored by (1) stronger domestic demand, (2) a relatively sanguine external outlook as tariff risks ease, and (3) the Budget's expansionary fiscal stance. The domestic economy will remain the primary driver of growth, supported by proactive government policies, steady investment activity, and resilient private consumption. On the external front, we hold a more constructive view given the limited near-term risks from potential U.S. semiconductor tariffs, Malaysia's diversified product base and export destinations, broadly comparable U.S. tariff rates across ASEAN, and greater clarity in reciprocal tariff policies. Meanwhile, a 4% increase in total public spending to MYR470 billion (from MYR452 billion in 2025) underscores the government's commitment to sustaining growth momentum, reinforced by GLIC investments amounting to MYR30 billion.

Investment growth in 2026 is expected to be driven by development expenditure (DE) of approximately MYR 81 billion, with the largest allocations directed toward transportation, public utilities, and trade and industry. Key initiatives—including infrastructure modernisation and upgrades, public transport expansion, and the green transition—are expected further to support public investment in the short and medium term, crowding in additional private sector participation. Based on the announced initiatives, Budget 2026 is seen as supportive for key sectors such as construction, logistics, high-technology manufacturing, renewable energy, and rare earth development. In parallel, measures are expected to enhance Malaysia's competitiveness, attract high-quality FDI, and strengthen support for micro, small, and medium enterprises (MSMEs).

The construction and logistic sectors would be spurred by core projects such as Pan Borneo and Trans Borneo Highways, the Sarawak–Sabah Link Road (SSLR), airport upgrades in Penang, Sabah, and Sarawak, as well as national rail enhancements through the final phase of the ETS extension to Johor Bahru Sentral and completion of the LRT3 (Bandar Utama–Johan Setia) and ECRL (Kota Bharu–Gombak) projects. Complementing physical connectivity, flood mitigation works will continue in high-risk areas. At the same time, digital infrastructure investments will expand broadband access, smart city initiatives, and 5G coverage to 80% of populated and industrial zones. In addition, MYR3.3 billion has been allocated to strengthen rural infrastructure, including roads, clean water and electricity supply, and street lighting, to support border economic activities and improve rural connectivity. Meanwhile, the renewable energy segment would be supported by the ongoing green transition efforts, with GLICs and GLCs set to invest MYR 16.5 billion in renewable energy projects in 2026, supported by the Green Technology Financing Scheme (GTFS 5.0)—extended to December 2026—which provides MYR1 billion in financing with government guarantees for waste-sector projects and for initiatives in the energy, water, transport, and manufacturing industries.

Business-friendly policies were further enhanced to foster innovation, with targeted incentives for high-impact sectors such as pharmaceuticals, semiconductors, AI, digital and sustainability. Strategic sectors, such as Rare Earth Elements (REE), may benefit from allocations for mapping and resource assessments, as well as the development of downstream capabilities. The semiconductor industry would benefit from additional investment and industry development programmes. MSMEs, which comprise 97% of businesses and contribute 39% to the GDP, remain a central policy focus. Budget 2026 offers a substantial boost to SMEs through a comprehensive package of tax incentives, export assistance, and targeted financing, designed to drive digital transformation and global expansion. Tourism is also poised for a boost under the Visit Malaysia 2026 campaign, with allocations for infrastructure upgrades, SME participation, and promotional activities.

Private consumption in 2026 is expected to remain robust, supported by sustained income growth, favourable labour market conditions, and proactive government measures. The spillover effects from Phase 2 of civil service salary adjustments, special payments to civil servants, continued Sumbangan Tunai Rahmah (STR) allocations, and the BUDI MADANI RON95 (BUDI95) subsidy programme will further stimulate household spending, especially among lower- and middle-income groups. Notably, allocations for STR and Sumbangan Asas Rahmah (SARA) will rise to MYR15 billion under Budget 2026 from MYR13 billion in 2025, while a one-time MYR100 SARA payment to 22 million Malaysians aged 18 and above in mid-February is expected to add 0.1%–0.2% to GDP growth. In contrast to our earlier expectations in the [Budget](#)

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[Preview](#), no revisions were announced to the Sales and Services Tax (SST) rates or coverage, and no further developments were made on the RON95 subsidy retargeting plan. The maintenance of the current SST framework, including exemptions for essential goods and services, will help preserve household disposable income. Similarly, the absence of changes to the RON95 fuel subsidy, which disproportionately benefits higher-income groups with higher transportation spending, will sustain overall spending power and support private consumption momentum into 2026.

Budget 2026 is strategically positioned to support Malaysian businesses amid lingering external headwinds, introducing targeted measures to strengthen export resilience and competitiveness with a particular focus on market diversification. Key initiatives include a MYR500 million soft loan fund under EXIM Bank to assist companies affected by trade tensions, as well as MYR60 million under the MATRADE Market Development Grant (MDG) to help MSMEs expand into both established and emerging markets, such as Africa, Latin America, and the Middle East. In addition, the government continues to advance export diversification through greater utilisation of free trade agreements—namely the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP)—to enhance market access and reduce dependence on traditional trading partners. Beyond short-term relief, Budget 2026 reinforces Malaysia’s long-term competitiveness through continued investment in industrial upgrading, R&D incentives, and manufacturing diversification, particularly under the New Industrial Master Plan (NIMP 2030) and the National Semiconductor Strategy (NSS). Collectively, these measures will help buffer the economy against external shocks, strengthen supply chain resilience, and sustain business and investment momentum in 2026.

We revise our 2026 inflation forecast to 1.8% (from 2.3% previously), aligning with the upper range of the official projection of 1.3%–2.0%. The downward revision reflects the absence of policy changes previously anticipated in our earlier forecast—specifically, no broadening or rate revision of the SST and no further tightening of the RON95 fuel subsidy, which was expected to target higher-income groups. These policy continuities are likely to temper cost pressures and help maintain price stability. Nevertheless, our projection remains at the higher end of the official range, consistent with our more optimistic view of domestic demand conditions and the anticipated firm growth in private consumption supported by expansionary fiscal measures. Monetary policy is expected to remain supportive, with policy direction in 2026 anticipated to remain data-dependent, influenced by the trajectory of domestic demand and the evolution of external risks, particularly those arising from the global trade environment.

Overall, Budget 2026 remains growth-supportive, anchored by an expansionary fiscal stance and well-targeted measures to stimulate investment, consumption, and business competitiveness. By scaling up infrastructure, reinforcing household support, and improving the business climate, it provides a multi-pronged boost to domestic demand and investment. At the same time, it aligns closely with the MADANI Economy Framework and 13MP priorities—enhancing inclusivity, resilience, and competitiveness to sustain long-term growth in an uncertain global environment. With domestic demand expected to stay resilient and inflation remaining contained, we maintain our 2026 GDP growth forecast at 4.7%, reflecting a constructive view that Malaysia’s economic momentum could potentially outpace the government’s official target range of 4.0%–4.5%.

Fiscal Sustainability Remains on Track

Our forecast for 2026 fiscal deficit target of 3.5% of GDP materialised – we view the target to be realistic and achievable, supported by continued revenue-base expansion and ongoing subsidy rationalisation initiatives. The key highlights of Budget 2026's announcement are broadly consistent with our expectations, which anticipated the absence of major new tax measures or subsidy rationalisation initiatives, with the focus remaining on fine-tuning and refining existing policies to ensure smoother implementation and maximise fiscal impact. Specifically, the newly introduced measures are expected to reinforce policy continuity and strengthen implementation in areas with the greatest potential impact. Many of these were accurately anticipated in our budget preview, including:

(1) adjustments to taxes on unhealthy consumables: The tax on tobacco and alcoholic products will be raised, effective 1 November 2025. Specifically, cigarette excise duties will increase by two sen per stick, while cigarillos will face an additional MYR 40 per kilogram. Heated tobacco products will be levied an extra MYR 20 per kilogram of tobacco content. Meanwhile, the excise duty on alcoholic beverages will rise by 10%.

(2) the phased implementation of the carbon tax: The government will introduce a Carbon Tax next year, beginning with the iron, steel, and energy sectors. The implementation mechanism will be aligned with the forthcoming National Carbon Market Policy and the Climate Change Bill to ensure effective and coherent execution. While further details on the mechanism have yet to be announced, this marks a significant step forward in Malaysia's broader climate strategy, which includes the goals of reducing carbon intensity by 45% by 2030 and achieving net-zero emissions by 2050.

(3) expansion of the e-Invoicing system: The full effects of the e-Invoicing system are expected to become more evident next year, as the rollout progresses toward full implementation by the end of 2026. Earlier phases have already been implemented for taxpayers with annual turnovers between MYR 25 million and MYR100 million, effective from 1 January 2025, and for those with turnovers between MYR 5 million and MYR 25 million, effective from 1 July 2025. In 2026, the system will be expanded to cover businesses with annual revenues between MYR1 million and MYR 5 million starting 1 January, before extending to the smallest entities with turnovers below MYR1 million from 1 July 2026. This initiative is expected to reduce tax leakages, enhance compliance, and strengthen overall revenue collection. According to Ministry of Finance (MoF) data, as of end-August 2025, the number of registered corporate taxpayers had increased by more than 15% compared to 2024, underscoring early progress in formalisation and compliance.

While there are no new developments on RON95 subsidy retargeting or further revisions to the Sales and Service Tax (SST), as anticipated in our budget preview, we do not rule out the possibility of further refinements in the near future as part of the government's ongoing fiscal consolidation agenda. The Federal Government continues to demonstrate a firm commitment to fiscal prudence while maintaining support for economic development, social protection, and public service efficiency. The current narrower fiscal deficit reflects the cumulative effects of earlier consolidation measures, which have laid a solid foundation for stronger fiscal discipline. This is underscored by the government's dual strategy of developing a comprehensive revenue framework and optimising expenditure towards key priority sectors.

On the revenue side, fiscal measures remain anchored on the principles of efficiency, transparency, and equity. To strengthen fiscal resilience and narrow the deficit, the government has previously rolled out a series of revenue-enhancement initiatives, including the phased implementation of the e-Invoicing system, taxation of dividend income, gradual increases in excise duties on sugar-sweetened beverages, and the introduction of the Global Minimum Tax on multinational corporations. Among these, the expansion of the SST has been the most fruitful, with SST revenue expected to record double-digit growth from 2024 to 2026, leading to a larger share of indirect taxes in total revenue as part of broader diversification efforts. Collectively, these measures have helped broaden the tax base, enhance compliance, reduce systemic leakages, and strengthen administrative capacity.

On the expenditure front, fiscal priorities are aligned with the Ekonomi MADANI framework, focusing on efforts to raise the floor by improving the quality of life for the people and lift the ceiling by driving economic growth. To enhance fiscal sustainability, the government has implemented several key reforms, including the phased rollout of the Public Service Remuneration System (SSPA), the Government Service Efficiency Commitment Act 2025, and the transition toward a defined-contribution pension scheme for new public servants. These initiatives have begun to yield positive outcomes, with emolument and retirement charges projected to grow at a more moderate pace, reflecting progress in managing one of the largest components of operating expenditure. Meanwhile, the subsidy rationalisation of electricity, diesel, and RON95 has effectively reduced leakages, particularly from cross-border smuggling and generated significant fiscal savings, enabling the government to redirect resources toward targeted assistance programmes such as Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) to help vulnerable households cope with rising living costs. On the development side, Development Expenditure (DE) remains strategically prioritised toward high-impact projects, particularly in public transport, digital infrastructure, and flood mitigation, ensuring that spending continues to support both long-term growth and resilience.

Budget 2026: Driving Progress toward Medium-Term Goals

Budget 2026 would serve as one of the cornerstones in achieving the medium-term objectives outlined under the 13th Malaysia Plan (MP13). It operationalises MP13's emphasis on high-value investment, inclusivity, sustainability, and governance reform, translating these into actionable initiatives such as infrastructure modernisation, industrial upgrading, and energy transition. The Budget also reinforces the NIMP 2030 by promoting high-technology manufacturing, semiconductor and REE development, and digital transformation through targeted incentives and financing support. At the same time, the continued rollout of the NETR and MYR150 million National Energy Transition Fund underscores the government's commitment to accelerating decarbonisation while attracting green investments. Collectively, Budget 2026 not only supports near-term growth through expansionary fiscal measures but also lays the groundwork for long-term economic resilience and competitiveness, ensuring that Malaysia remains on track toward achieving its 2030 targets of a high-income, inclusive, and sustainable economy.

Over the medium term, sustained and inclusive economic growth will support fiscal consolidation by expanding the revenue base. By continuing to expand its revenue base and rationalise expenditures progressively from 2025 through 2030, Malaysia is on track to achieve the sub-3% fiscal deficit target while maintaining growth momentum and ensuring equitable development. Beyond 2026, we anticipate that the fiscal deficit target of 3.2% could be announced in 2027, followed by a potential target of 2.9% of GDP in 2028, to meet the midterm deficit target of 3.2% of GDP for the period of 2026-2028.

On the revenue front, policy focus remains on broadening the tax base and enhancing collection efficiency to strengthen fiscal resilience. Medium-term revenue performance is expected to be supported by the gradual expansion of the revenue base, the introduction of new revenue sources, and enhanced tax compliance through digitalisation initiatives. The implementation of the Global Minimum Tax (GMT) framework will also provide a more sustainable and equitable contribution from multinational enterprises. Meanwhile, ongoing digital transformation of tax administration systems and stricter enforcement measures are expected to improve compliance, minimise leakages, and ensure a more robust and transparent revenue ecosystem. Ongoing digitalisation of tax administration and more stringent enforcement measures will further improve compliance and reduce leakages. Over the next three years, the Ministry of Finance (MoF) projects total revenue of MYR 1,072.2 billion, equivalent to 15.7% of GDP. Of this, non-petroleum revenue is expected to contribute MYR943.1 billion (13.8% of GDP), accounting for 88% of total revenue. In comparison, petroleum-related revenue is projected to moderate to MYR129.1 billion (1.9% of GDP) in line with ongoing diversification efforts.

On the expenditure front, subsidy rationalisation remains a central pillar of the fiscal strategy. The gradual shift from blanket to targeted subsidies, particularly for fuel, aims to improve spending efficiency and redirect resources toward high-priority sectors such as education, healthcare, and infrastructure. Meanwhile, development expenditure will continue to focus on projects with strong economic multipliers, particularly those supporting the green transition and digital transformation. The indicative ceiling for Operating Expenditure (OE) is set at MYR 1,045.9 billion (15.4% of GDP), while Development Expenditure (DE) is projected at MYR 247 billion (3.6% of GDP).

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Conclusion

Budget 2026 is poised to be a pivotal instrument in steering Malaysia towards sustained and inclusive growth amid a complex global environment. Anchored within the framework of the 13th Malaysia Plan (13MP) and the MADANI Economy, it aims to strike a balance between near-term fiscal prudence and longer-term strategic investments. With a projected fiscal deficit target of 3.5% of GDP in 2026, and we expect the fiscal deficit to further narrow to 3.2% in 2027, the government is signalling its commitment to fiscal consolidation while preserving the flexibility required to support growth. The allocation of MYR 81 billion for development expenditure underscores a strong focus on infrastructure and regional connectivity, aimed at fostering more balanced and equitable development nationwide.

With domestic demand expected to stay resilient and inflation remaining contained, we maintain our 2026 GDP growth forecast at 4.7%, reflecting a constructive view that Malaysia's economic momentum could potentially outpace the government's official target range of 4.0%–4.5%. While external challenges—such as sector-specific tariffs and global trade uncertainties—are likely to persist, Malaysia's diversified economic structure and sound macroeconomic policies are expected to mitigate risks, sustaining resilience and competitiveness. Inflation is projected to remain contained, underpinned by measured policy adjustments and a prudent monetary stance, thereby maintaining stability for households and businesses alike.

Budget 2026 adopts a multidimensional approach that emphasises fiscal sustainability, economic dynamism, social inclusivity, a conducive business environment, and ESG priorities. It seeks to address immediate cost-of-living pressures, strengthen MSMEs, attract quality investment through targeted incentives, and accelerate the shift toward a green economy. This holistic strategy is designed not only to navigate near-term uncertainties but also to lay a solid foundation for Malaysia's medium- to long-term development aspirations, propelling the nation towards its vision of inclusive and sustainable prosperity by 2030.

Figure 3: Highlighted Measures

Subsidy Reforms
<ul style="list-style-type: none"> • Diesel subsidy maintained at RM1.65 per litre for fishermen. • RM2.62bil allocated for subsidy and incentive for padi farming, with an estimated RM4,300 assistance per hectare per season. • To assist low-income groups, hospital and critical illness coverage and subsidies under the MySalam initiative will continue in 2026.
Social Assistance Programme
<ul style="list-style-type: none"> • From 2026 onwards, the government will provide free PTPTN Education to 5,800 children from poor families who are studying at IPTA, with an allocation of RM120 million per year. • A 50% toll discount for two days in conjunction with Deepavali. • EPF contributors can use their savings in the Akaun Sejahtera to subscribe to basic medical and health insurance or takaful plans. • A special payment of RM500 will be given to all civil servants below grade 56, including those on contract. • RM250 will be paid to retirees. Payments will be made in March next year • To boost social protection and encourage EPF contributions, gig, e-hailing workers and delivery riders will receive matching contributions up to RM600 per year or RM6,000 lifetime under the i-Saraan Plus scheme. • Bantuan Insentif Berasaskan Prestasi to be expanded to civil servants in the top management and professional group. • MyRailLife Pass, which offers free KTMB Komuter rides for students and persons with disabilities (PWDs), will be extended to all children under six years old. • RM143mil will be allocated for People's Housing Projects (PPR) to maintain low- and medium-cost strata housing, including the replacement of ageing lifts, to ensure more liveable conditions. • The MySiswa Job On Campus programme will offer part-time job opportunities within campuses with an allocation of RM20mil, helping underprivileged students earn income • Another RM100 in SARA assistance to 22 million Malaysians aged 18 and above. It will be disbursed in mid-February next year to help with preparations for Ramadan and the Chinese New Year celebrations. • In conjunction with the Deepavali celebrations, the Phase 4 Rahmah Cash Aid (STR) payment for 2025, originally scheduled for November and worth RM2bil, will be brought forward and disbursed beginning 18 Oct 2025. • In 2026, all nine million Sumbangan Tunai Rahmah (STR) recipients will also receive the Sumbangan Asas Rahmah (Sara) of up to RM100 per month, or RM1,200 annually.

Source: MOF, RHB Economics & Market Strategy.

Figure 3: Highlighted Measures (Continued)

Tax and Revenue Enhancement

- The Carbon Tax will be introduced progressively in 2026, beginning with emission-intensive sectors such as iron, steel, and energy production.
- The e-Invoice initiative will be implemented comprehensively starting in 2026, for all business
- JKDM will launch digital excise tax stamps embedded with advanced security features to curb counterfeiting and smuggling of excise goods.
- Vehicle tax exemptions in Langkawi and Labuan limited to a vehicle value not exceeding RM300,000 effective 1 January 2026.
- Double tax deduction for companies sponsoring training for the disabled will be extended to companies that sponsor care workers who follow programmes at training institutions recognised by Ministry of Women, Family and Community Development (KPWKM).
- Excise duty and sales tax exemptions for the purchase of new national cars from Proton and Perodua by taxi and private hire car owners.
- The government plans to extend the RM2,500 individual income tax relief to include the purchase of food waste shredders, promoting sustainable living.
- Individual income tax relief of up to RM3,000 for life insurance and takaful premium payments has been expanded to cover children.
- Full stamp duty exemption on small-value insurance policies or takaful certificates purchased by individuals and MSMEs will be extended for three years until 2028. Full stamp duty exemption on insurance policies and takaful certificates under the Perlindungan Tenang product will also be extended for three years until 2028.
- Special individual income tax relief of up to RM1,000 can be claimed on expenses for entrance fees to local tourist centres and cultural programmes.
- Full stamp duty exemption on transfer and loan agreements for the purchase of a first home for another two years, until 21 Dec, 2027. The initiative involves first-time homebuyers purchasing their first home priced up to RM500,000.
- Government to provide RM3,000 tax relief for day-care which will be expanded to children in a wider age range.
- Income tax relief extended for the purchase of **energy-efficient equipment** and **food waste management devices**.
- Excise duty rates on cigarette products will be increased in phases starting 1 November 2025 by: RM0.02 per stick for cigarettes, RM40 per kg for cigars, cheroots and cigarillos, RM20 per kg of tobacco content for heated tobacco products
- Excise duty rate for liquor products increased by 10% starting 1 November, 2025.
- 100% income tax exemption for new food production projects; automation tax incentives extended to selected animal husbandry
- Special tax rates and dividend tax exemptions to the existing venture capital tax incentives for a period of 10 years
- Additional 50% tax deduction to PMKS for AI-related training costs (i.e. for micro, small, and medium enterprises)
- Individual income tax relief on inspection and detection expenses, early intervention programs as well as ongoing rehabilitation treatment for disabled children aged 18 and under
- Private entities will receive double tax deductions on expenses for scholarships to eligible students including Bachelor's degrees and professional qualifications
- Special tax deduction of 10% on qualifying expenditure, capped at RM10mil, for renovating or converting commercial buildings into residential units
- To boost automation and productivity in agriculture, tax incentives for automation in planting, livestock, aquaculture, and deep-sea fishing will be extended to selected livestock farming using closed-house systems.
- Tax relief for vaccination expenses to be expanded to include all vaccines registered and approved by the Health Ministry.

Source: MOF, RHB Economics & Market Strategy.

Figure 3: Highlighted Measures (Continued)

Development Plans

- Allocation for Felda, Felcra and Risdar raised to RM2.6 billion, from RM2.4 billion in 2024.
- Allocation for activities (~RM5.9bn) related to RDCI, i.e. for research, development, commercialisation, and innovation
- Establishment of Sovereign AI Cloud and Malaysia Digital Acceleration Grant (RM53 Million)
- Through Malaysian Technology Development Corporation (MTDC), Malaysia will launch SemiconStart in collaboration with global incubators.
- Sabah and Sarawak highway projects costing nearly RM48bn will include: Pan Borneo Sabah, Sarawak-Sabah Link Road Project, Trans Borneo Project, and upgrading of the red line alignment in Durin and Salim, Sibul, Sarawak.
- Malaysia Airport Holdings Berhad (MAHB) will undertake the following projects:
 - Development of airports in Penang, Kota Kinabalu, Tawau and Miri (RM2.3bn),
 - Inter-terminal transfer project between KLIA Terminals 1 and 2,
 - Selangor Aero Park in Sepang will be developed as a regional logistics and cargo hub in collaboration with the Selangor Government.
- National rail connectivity is in process of being strengthened. The progress is as follows:
 - ETS to Johor Bahru Sentral (final phase)
 - LRT3 (Bandar Utama - Johan Setia)
 - ECRL (Kota Bharu - Gombak)
 - LRT Kelana Jaya (replacement of 26 trains)
- RM700mn will be allocated to develop the tourism sector to attract 47mn visitors.
- The National Ageing Blueprint 2025–2045 will be formulated as a comprehensive guide.
- RM18.6bn allocation given to the Ministry of Higher Education, including over RM400mn to maintain infrastructure and replace obsolete equipment.
- Another RM5.6 billion allocation through Marris allocated to states for the maintenance of state roads nationwide with a further RM2.5 billion allocated to maintain federal roads
- The Education Ministry will receive RM66.2 billion under Budget 2026, compared to RM64.2 billion this year, with RM2 billion allocated to upgrade more than 520 dilapidated schools, particularly in Sabah and Sarawak, in addition to repairing and maintaining all types of schools. A total of 38 new schools will be built to meet the needs of local communities. In addition, the Ladang Jeram Tamil school in Pahang and the Aik Hua Chinese school in Perak will also be reconstructed.
- The government will build new hospitals, clinics and additional blocks including: Northern Region Cancer Centre in Kedah, New additional blocks at Pontian Hospital, Johor, Banting Hospital and Sungai Buloh Hospital, Selangor, Development of Advanced Surgical Block at USM Specialist Hospital, Kubang Kerian, Kelantan, Sabah and Heart Centre at Queen Elizabeth II Hospital, 13 new Health Clinics, including in Machang, Kelantan; Teluk Kemang, Negeri Sembilan; Mukah, Sarawak; and Nabawan, Sabah; and including expediting the implementation of Cancer Centres in Kuching and Sultanah Aminah 2 Hospital in Johor.
- Health Minister receives to RM46.5 billion allocation for Budget 2026, an increase from RM45.3 billion, this year.
- Sabah and Sarawak receive the highest Federal allocation with Sabah's development allocation increasing to RM6.9 billion from RM4.4 billion (2022) while Sarawak's continues to increase to RM6 billion ringgit from RM2.9 billion (2022).
- For 2026, the TVET allocation will increase to RM7.9 billion, from RM7.5 billion this year with emphasise on TVET education and training opportunities.
- Khazanah Nasional Bhd will be allocated RM200mil for the K-Youth Programme, which will provide on-the-job training for 11,000 youths without degrees in strategic sectors
- National Service Training Programme will begin with a pilot phase at higher education institutions before full implementation in 2027.
- RM60mil to build stalls and upgrade public markets under local authorities
- The Johor-Singapore special Economic Zone has brought in a total of RM37.1bil in investment in the first half of 2025 with another RM29bil in new commitments from investors.
- RM10mil in incentives provided for organising concerts by local and international artistes to attract foreign tourists in conjunction with Visit Malaysia Year 2026.

Source: MOF, RHB Economics & Market Strategy.

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Figure 4: GDP to stay supported on robust domestic demand...

	Actual		MOF Forecast		RHB Forecast	
	2023	2024	2025	2026	2025	2026
(%YoY)						
Consumption						
Private	4.6	5.1	5.0	5.1	5.1	5.2
Public	3.4	4.7	4.0	3.2	4.3	3.5
Investment	5.4	12.0	10.6	7.7	9.0	6.3
Export	-7.9	8.3	1.9	3.8	2.6	3.9
Import	-6.8	8.3	3.1	5.8	4.0	4.1
GDP	3.5	5.1	4.0 - 4.8	4.0 - 4.5	4.2	4.7

Source: MOF, RHB Economics & Market Strategy.

Figure 5: ... underpinned by services and construction sectors

	Actual		MOF Forecast		RHB Forecast	
	2023	2024	2025	2026	2025	2026
(%YoY)						
Agriculture	0.2	3.1	1.2	2.2	2.1	2.6
Mining	0.5	0.9	1.1	-1.0	-3.2	-0.4
Manufacturing	0.7	4.2	3.8	3.0	3.8	4.3
Construction	6.0	17.5	10.1	6.1	11.7	10.1
Services	5.1	5.3	5.1	5.2	5.1	5.1
GDP	3.5	5.1	4.0 - 4.8	4.0 - 4.5	4.2	4.7

Source: MOF, RHB Economics & Market Strategy.

Figure 6: We maintain our GDP growth forecast at 4.7%

	Actual		MOF Forecast		RHB Forecast	
	2023	2024	2025	2026	2025	2026
(%YoY)						
GDP	3.5	5.1	4.0 - 4.8	4.0 - 4.5	4.2	4.7
CPI	2.5	1.8	1.0 - 2.0	1.3 - 2.0	1.6	1.8
Current Account Balance % of GDP	1.5	1.7	1.7	1.1	1.8	2.1
Oil Price (USD/Barrel)	77	75	70	60-65	70-75	70-75
Fiscal Balance % of GDP	-5.0	-4.1	-3.8	-3.5	-3.8	-3.5

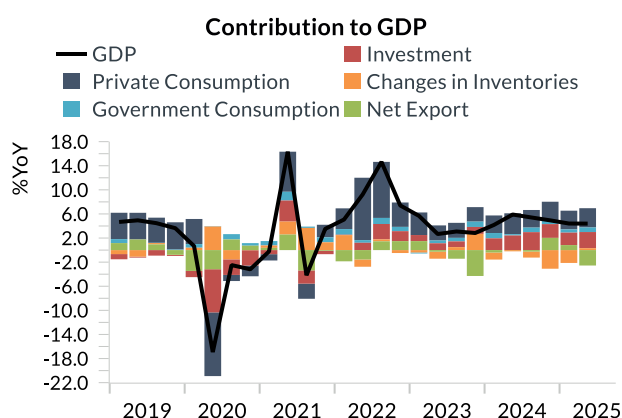
Source: MOF, RHB Economics & Market Strategy.

Figure 7: Lower oil revenue is projected amid lower petroleum tax collection and PETRONAS dividend

Budget Assumption (MYR bn)	Actual		MOF	
	2023	2024	2025	2026
Petroleum Tax	26.10	20.53	16.91	15.70
Petroleum Royalty	6.85	6.70	5.5	5.1
Petronas Dividend	40.00	32.00	32.00	20.0
Total Oil Revenue	72.95	59.23	56.6	43.0
Total Subsidy	71.88	67.36	57.06	49.00

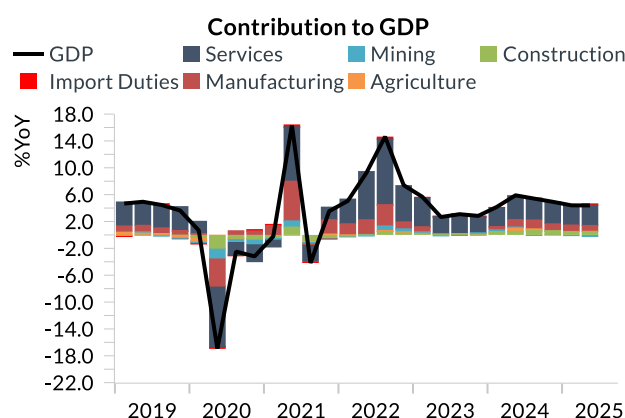
Source: MOF, RHB Economics & Market Strategy.

Figure 8: Malaysia's GDP growth would be underpinned by robust domestic demand...



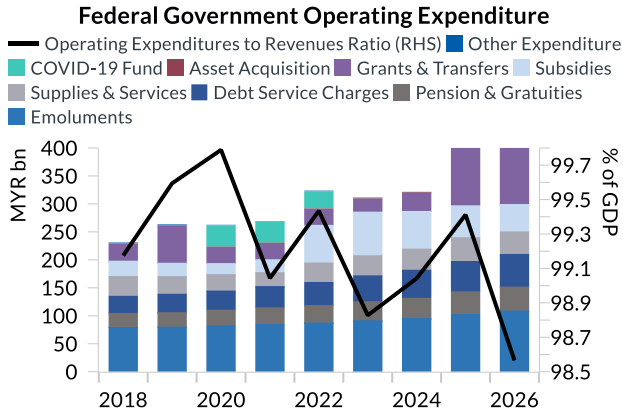
Source: Macrobond, RHB Economics & Market Strategy.

Figure 9: ...with upsides in services sector expected



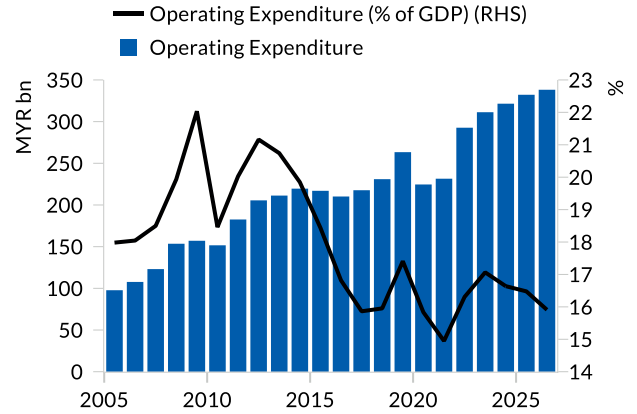
Source: Macrobond, RHB Economics & Market Strategy.

Figure 10: Emoluments remain the largest component of OE



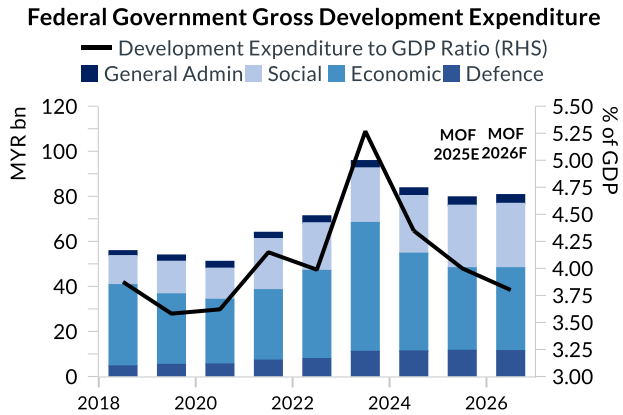
Source: MOF, RHB Economics & Market Strategy.

Figure 11: The OE as a percentage of GDP has declined



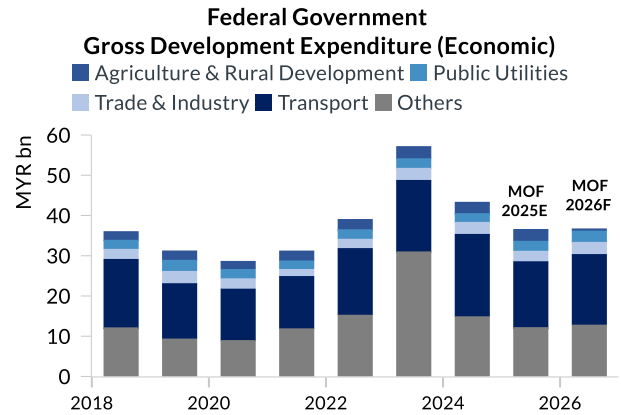
Source: MOF, RHB Economics & Market Strategy.

Figure 12: The economic sector has the highest DE allocation...



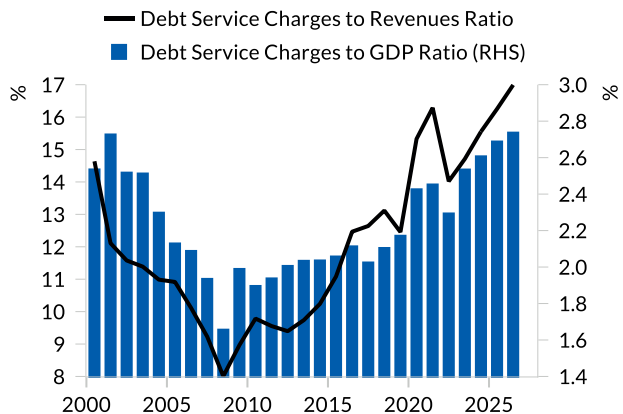
Source: MOF, RHB Economics & Market Strategy.

Figure 13: ...with allocations focused on transportation, public utilities and agricultural & rural development



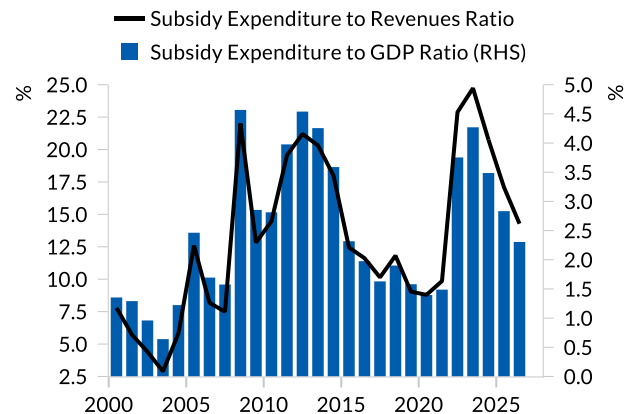
Source: MOF, RHB Economics & Market Strategy.

Figure 14: The percentage of debt service charges relative to both revenue and GDP rose...



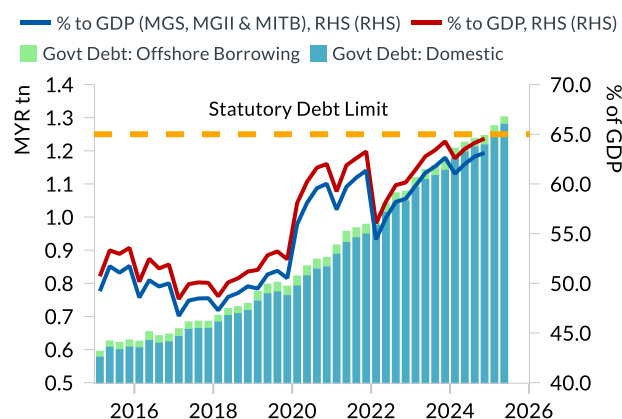
Source: MOF, RHB Economics & Market Strategy.

Figure 15: ...while subsidy expenditure relative to both revenue and GDP declined amid ongoing subsidy rationalisation



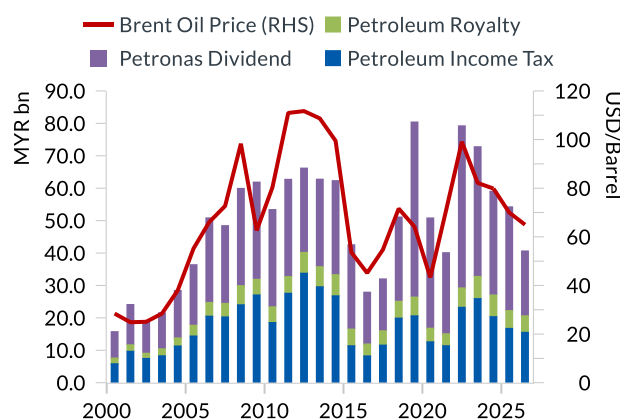
Source: MOF, RHB Economics & Market Strategy.

Figure 16: The debt-to-GDP ratio is projected to remain below the statutory debt limit



Source: MOF, RHB Economics & Market Strategy.

Figure 17: Softer oil revenue anticipated in 2026



Source: MOF, RHB Economics & Market Strategy.

Figure 18: Medium-Term Fiscal Framework (MTFF), for 2026 – 2028...

	RM BILLION	SHARE OF GDP %
Revenue	1,072.2	15.7
Non-petroleum	943.1	13.8
Petroleum-related	129.1	1.9
Operating expenditure	1,045.9	15.4
Current balance	26.3	0.4
Gross development expenditure	247.0	3.6
Less: Loan recovery	3.9	0.1
Net development expenditure	243.1	3.6
Overall balance	-216.8	-3.2
Primary balance	-31.7	-0.5

Source: MOF, RHB Economics & Market Strategy.

Figure 19: and its underlying assumptions

Underlying assumptions:	
Average real GDP growth (%)	4.9
Average nominal GDP growth (%)	6.3
Average crude oil price (USD per barrel)	70
Crude oil production (barrels per day)	450,000 - 500,000

Source: MOF, RHB Economics & Market Strategy.

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Figure 19: The detail breakdown of fiscal projections

	2023 Actual MYR bn	2024 Actual MYR bn	% YoY change	2025 Estimate MYR bn	% YoY change	2026 Forecast MYR bn	% YoY change
Total Revenue	315.0	324.6	3.1	334.1	2.9	343.1	2.7
Tax Revenue	229.2	240.2	4.8	253.4	5.5	270.4	6.7
Direct Tax	171.3	171.7	0.2	177.1	3.2	187.4	5.8
Corporate Tax	91.7	92.8	1.1	97.0	4.6	103.4	6.5
Petroleum Income Tax	26.1	20.5	-21.3	16.9	-17.6	15.7	-7.1
Individual Income Tax	37.8	41.1	8.8	44.9	9.1	49.1	9.4
Withholding and others	4.1	4.5	8.0	5.3	18.5	5.7	8.6
Other Direct Tax	11.6	12.8	10.6	13.1	1.8	13.5	3.3
Indirect Tax	57.8	68.5	18.4	76.3	11.3	83.0	8.9
Sales and Service Tax	35.5	44.8	26.2	53.4	19.4	59.6	11.6
Excise Duties	13.1	13.4	1.8	12.5	-6.5	12.8	2.3
Import Duty	3.0	3.1	1.2	3.1	0.2	3.1	0.1
Export Duty	2.0	2.1	2.6	1.9	-8.2	1.9	-0.4
Others	4.2	5.2	24.7	5.3	2.5	5.6	5.4
Non-Tax Revenue	85.8	84.4	-1.6	80.7	-4.4	72.7	-9.9
Licenses and Permits	16.7	17.0	1.8	15.9	-6.8	15.7	-1.0
Investment Income	55.8	45.8	-18.0	50.4	10.0	36.7	-27.2
Service Fees	2.8	3.0	6.5	3.1	2.9	3.2	1.8
Rental	0.3	0.3	13.5	0.3	7.4	0.3	0.0
Proceeds from Sales of Goods	0.1	0.3	241.4	0.0	-83.5	0.6	1028.6
Fines and Penalties	1.7	2.0	19.9	2.0	0.4	3.6	79.7
Exploration of Oil and Gas MTJA	1.6	1.5	-2.9	1.5	0.7	1.5	-0.7
Contributions and Compensation	0.0	0.1	860.0	0.1	-21.9	0.1	2.7
Non-Revenue Receipt	6.0	13.8	129.9	6.8	-51.0	10.5	54.3
Revenue from Federal Territories	0.7	0.5	-33.3	0.5	12.8	0.6	5.2
Total Expenditure	407.4	405.5	-0.5	412.2	1.6	419.2	1.7
Operating Expenditure	311.3	321.5	3.3	332.2	3.3	338.2	1.8
Emoluments	91.9	95.9	4.4	103.5	7.9	109.4	5.6
Retirement charges	34.1	35.9	5.3	40.1	11.6	42.8	6.8
Debt service charges	46.3	50.5	9.0	54.3	7.6	58.3	7.4
Grants and transfers to state Gov	8.7	8.9	3.0	9.3	3.5	9.8	6.1
Supplies and services	35.9	37.7	4.9	42.5	12.8	40.3	-5.2
Subsidies and social assistance	71.9	67.4	-6.3	57.1	-15.3	49.0	-14.1
Asset acquisition	1.0	1.2	16.2	1.2	-0.6	1.0	-15.2
Refunds and write-offs	0.5	0.5	-5.1	0.5	8.4	0.5	1.1
Grants to statutory bodies	15.8	14.0	-11.1	14.8	5.8	15.8	6.8
Others	5.2	9.5	82.0	8.9	-6.4	11.3	26.1
Gross Development Expenditure	96.1	84.0	-12.6	80.0	-4.8	81.0	1.3
Economics	57.2	43.4	-24.2	36.6	-15.6	36.8	0.4
Transport	17.8	20.5	15.2	16.4	-20.0	17.5	7.1
Trade and industry	3.0	3.0	-0.9	2.6	-12.4	3.0	15.9
Energy and public utilities	2.4	2.2	-8.0	2.5	13.1	2.8	12.9
Agriculture	3.0	2.8	-7.0	2.9	4.6	0.6	-81.3
Environment	1.9	2.6	41.1	3.0	14.5	3.8	27.1
Communication	0.3	0.7	96.2	0.9	36.3	1.0	5.6
Others	28.9	11.7	-59.6	8.3	-28.6	8.1	-2.9
Social	24.2	25.6	5.6	27.8	8.5	28.6	2.9
Education and training	12.2	12.6	3.3	14.7	16.8	14.5	-1.7
Health	4.8	5.9	22.3	6.8	16.3	7.0	2.1
Housing	2.1	1.6	-23.8	1.3	-17.8	1.5	10.5
Others	5.2	5.5	7.4	4.9	-10.9	5.7	15.7
Security	11.4	11.6	1.7	11.9	2.5	11.7	-1.0
General Administration	3.2	3.4	6.4	3.7	8.0	3.9	4.8
Total Revenue	315.0	324.6	3.1	334.1	2.9	343.1	2.7
Total Expenditure	407.4	405.5	-0.5	412.2	1.6	419.2	1.7
Less: Loan recovery	1.0	1.7	72.5	1.3	-23.9	1.5	13.6
COVID-19 Fund	0.0	-	-	-	-	-	-
OVERALL BALANCE	-91.4	-79.2		-76.7		-74.6	
as % of GDP	-5.0	-4.1		-3.8		-3.5	

Source: MOF, RHB Economics & Market Strategy.

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