



# 2026 Malaysia Budget Tax Seminar

## Malaysia's Economic Outlook & Insights Into Budget 2026

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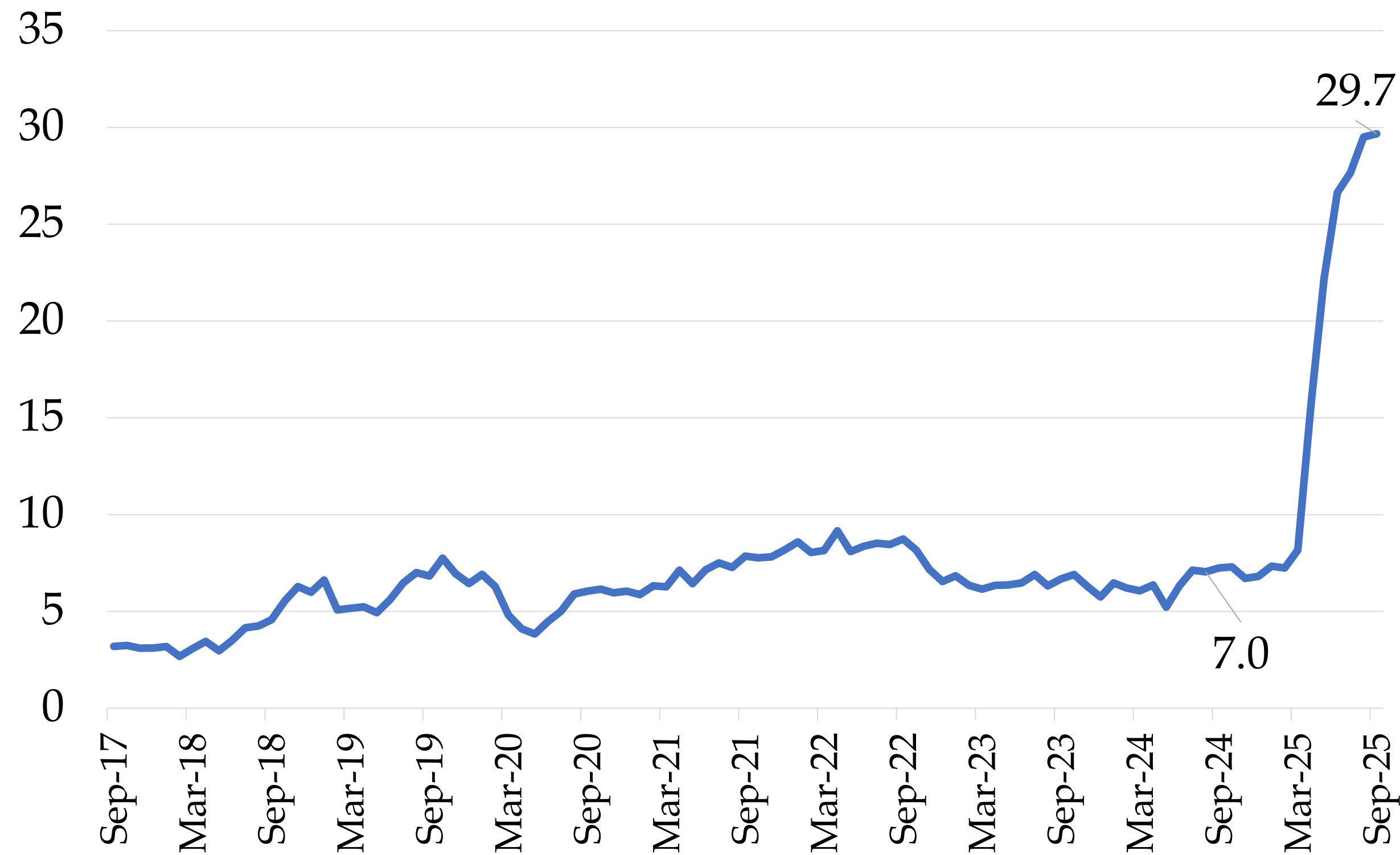


# Assessing the Global Economic Condition

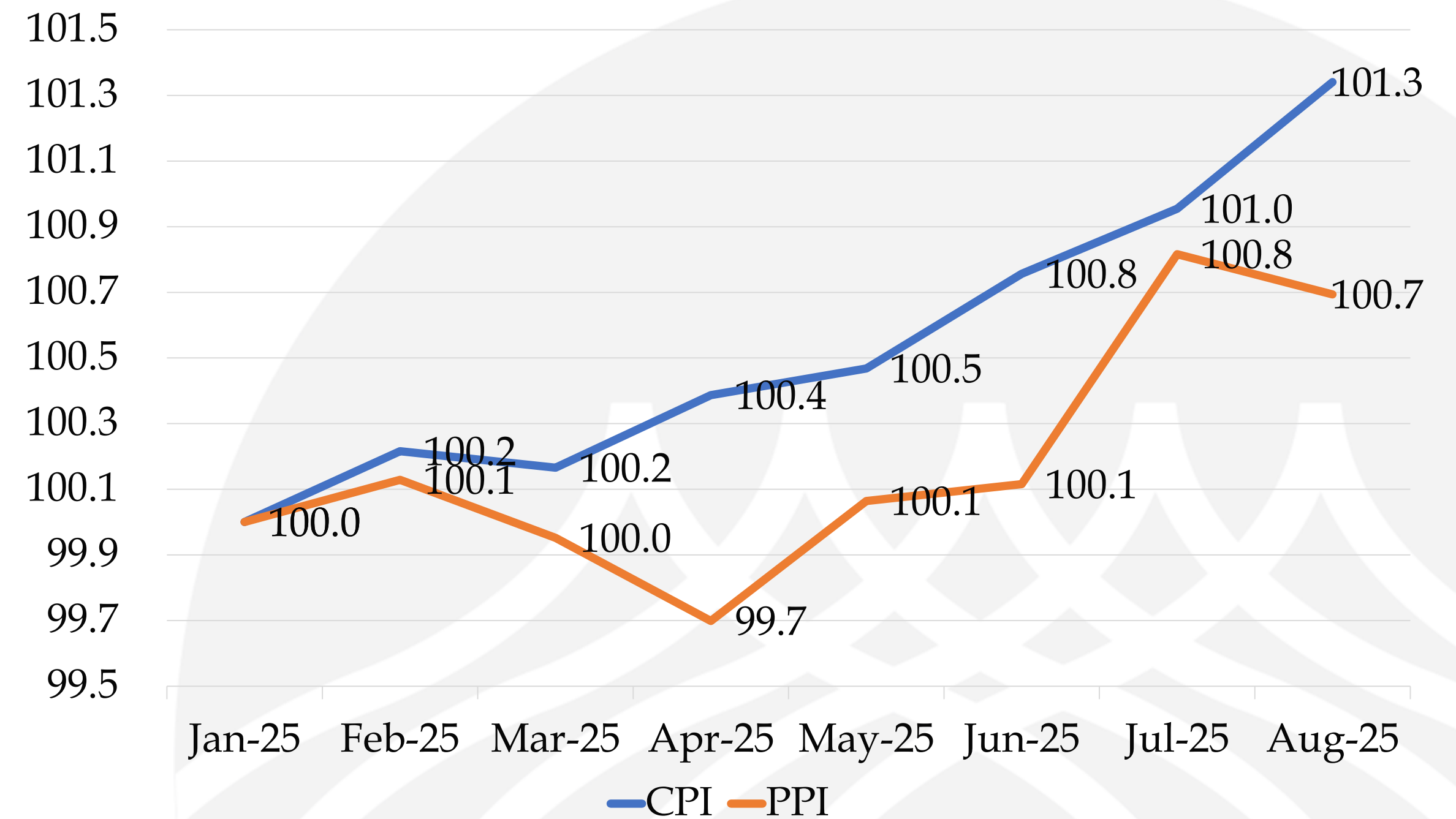


# The US government has recorded sizeable increase in custom duties collection

US Customs Duties Collection in USD bn

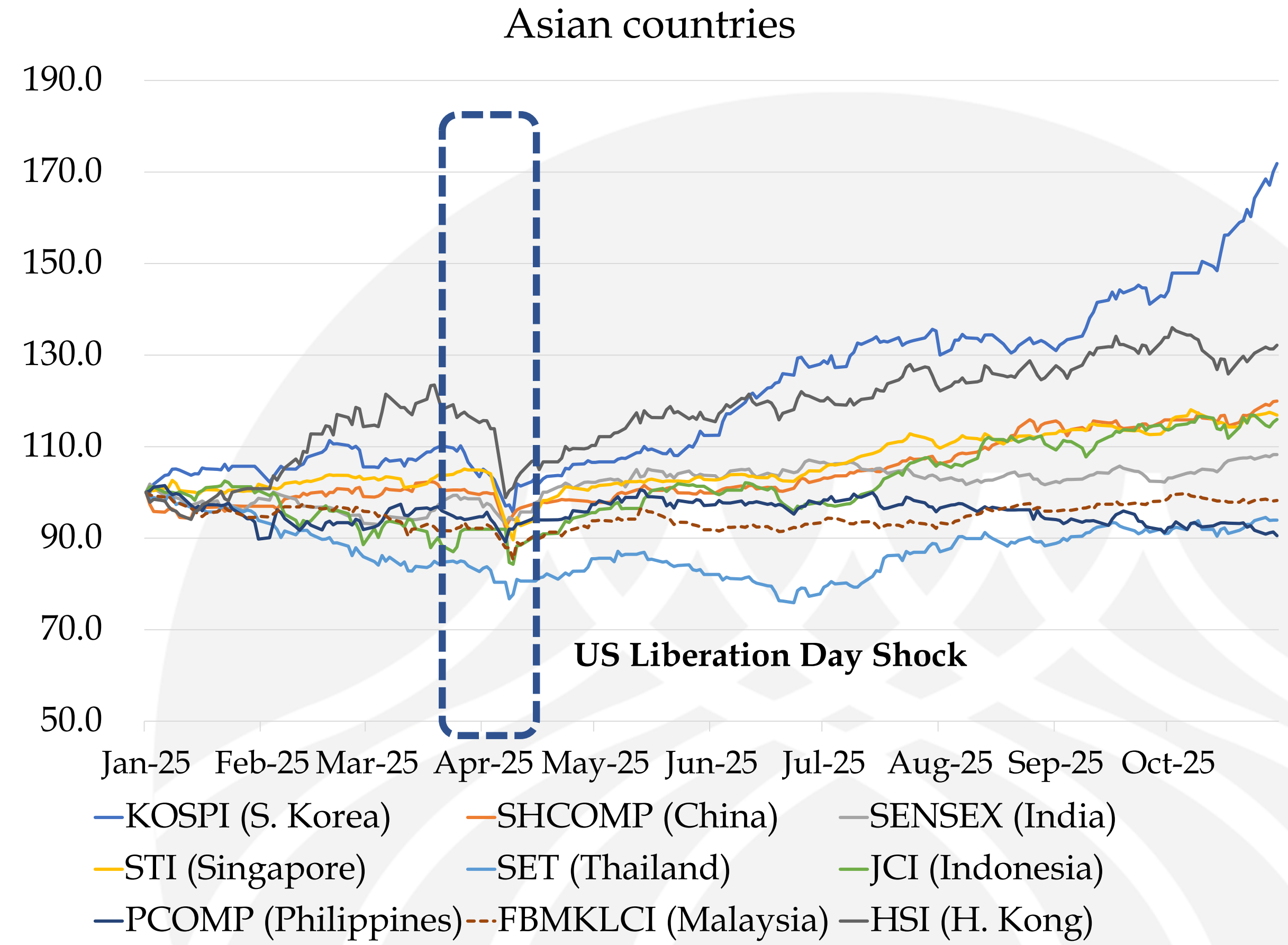
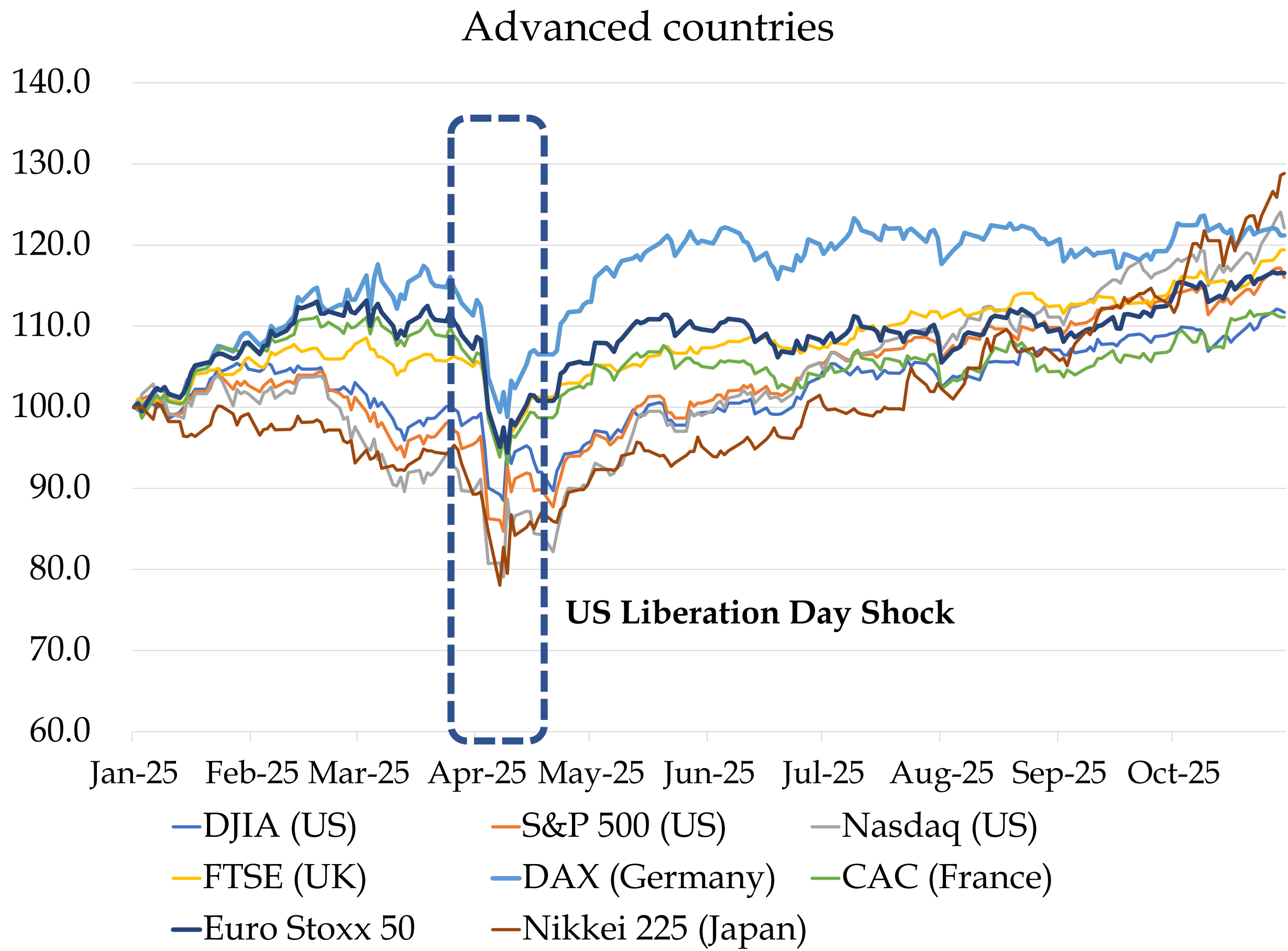


Consumer Price Index (CPI) vs. Producer Price Index (PPI) (Jan 2025 = 100)



- Custom duties collection jumped 200% to USD174 billion in the first nine months of 2025, thanks to higher import tariff.
- However, it has accentuated the cost of living among the US citizens
- The latest inflation rate stands at 2.9% year-on-year in August, well above the Fed’s 2% target.
- Additionally, weak confidence among businesses and consumers could potentially caused the economy to slowdown.

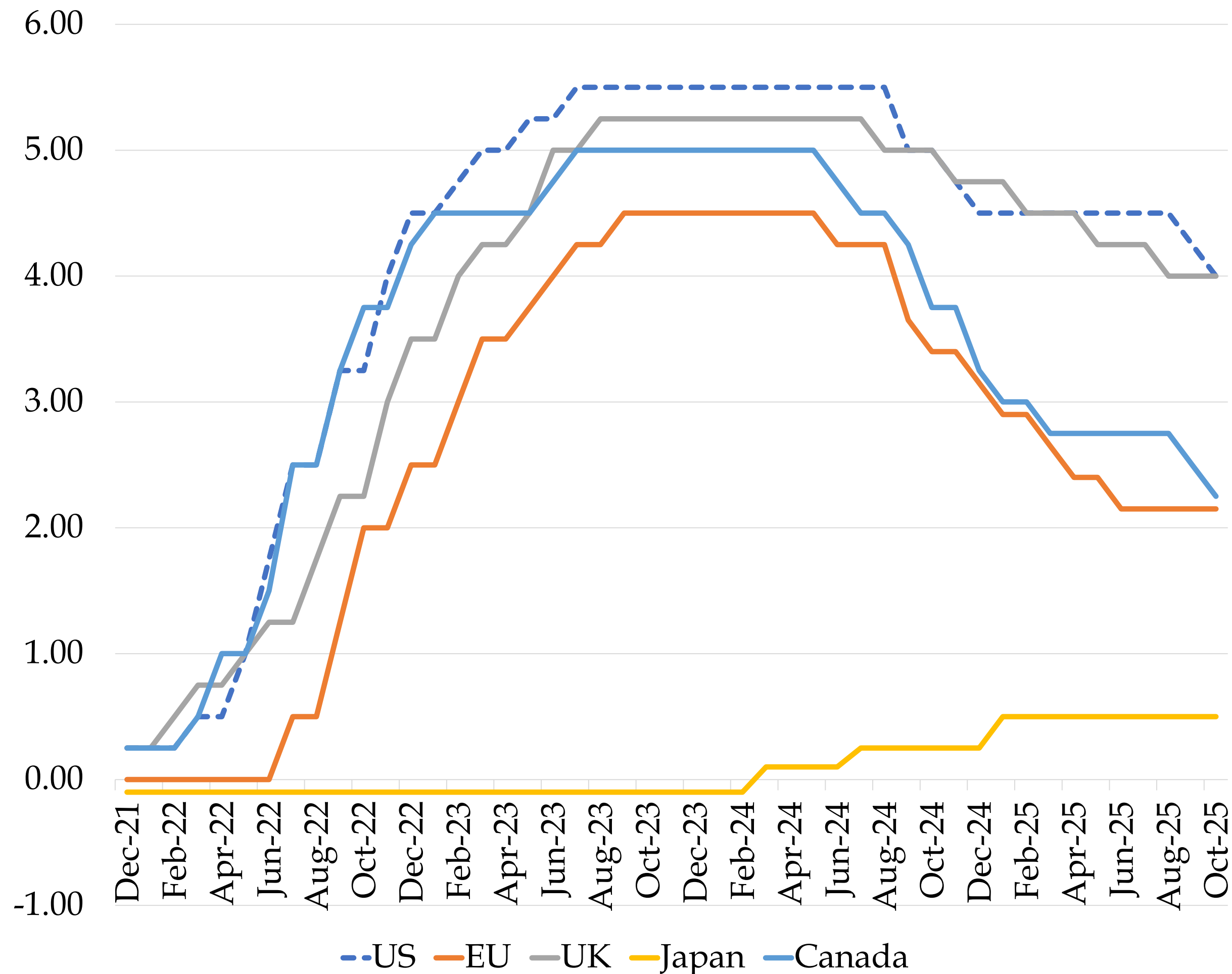
# Global equities market were badly hit after the US Liberation Day on 2 April 2025



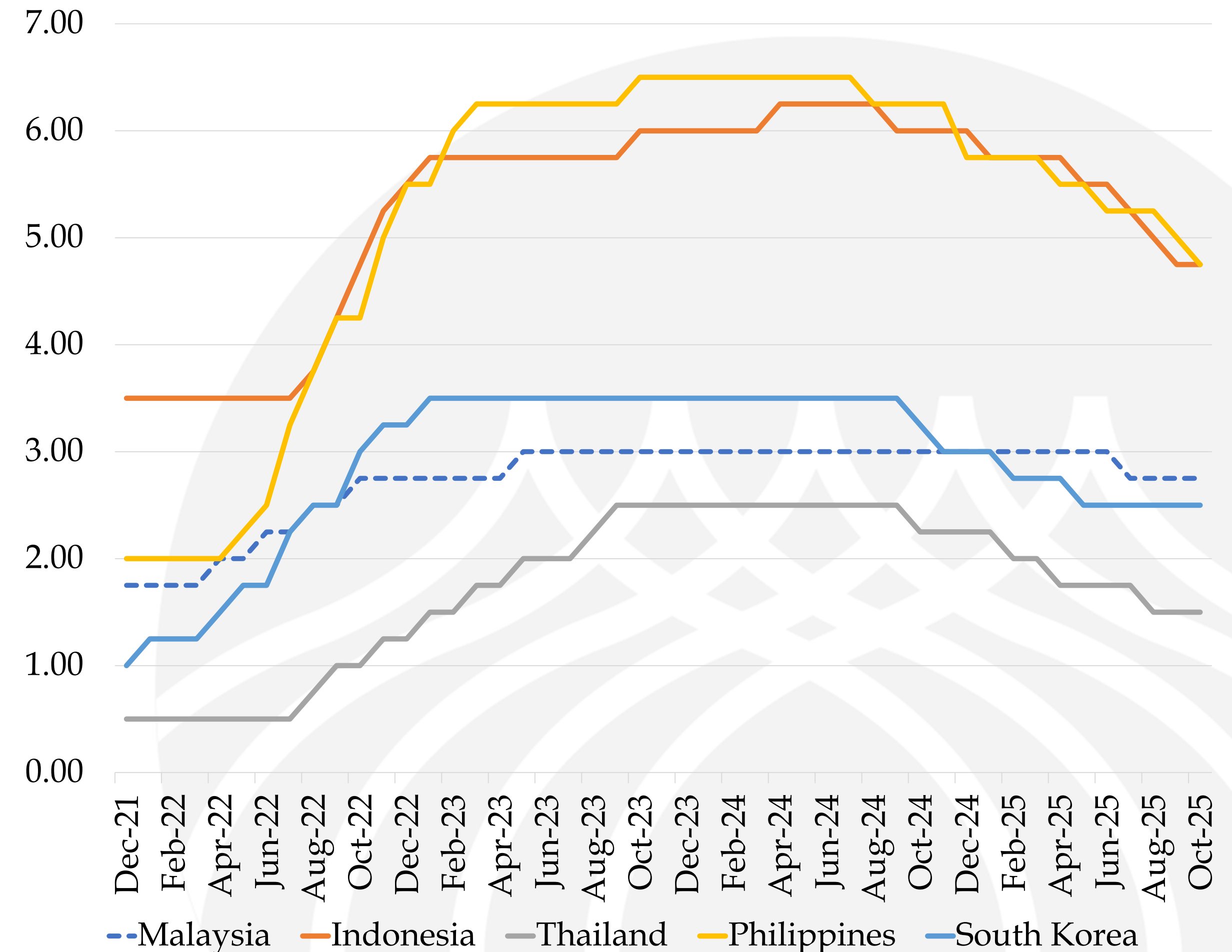
- Global equities fell in early April as investors were worried about the companies earnings prospect following the sharp increase in the US Tariff.

# Global central banks were also reducing their policy rate in order to support their domestic economy

Advanced countries



Asian countries

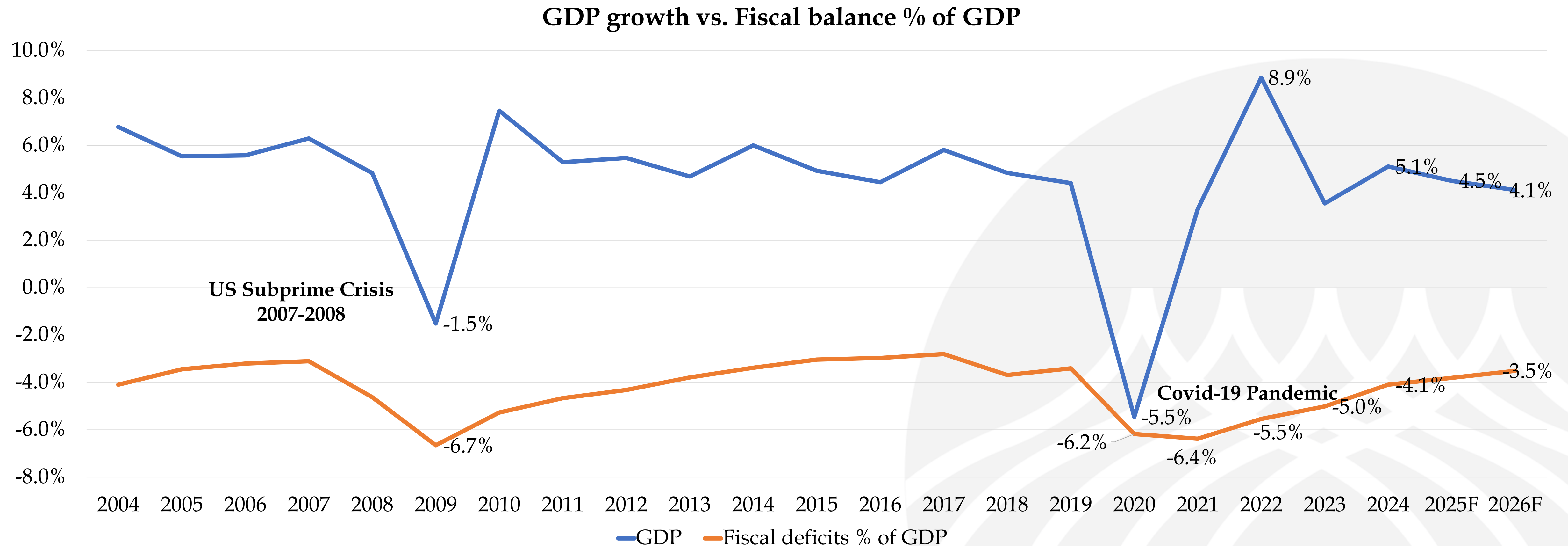




# Malaysian Government Fiscal Position



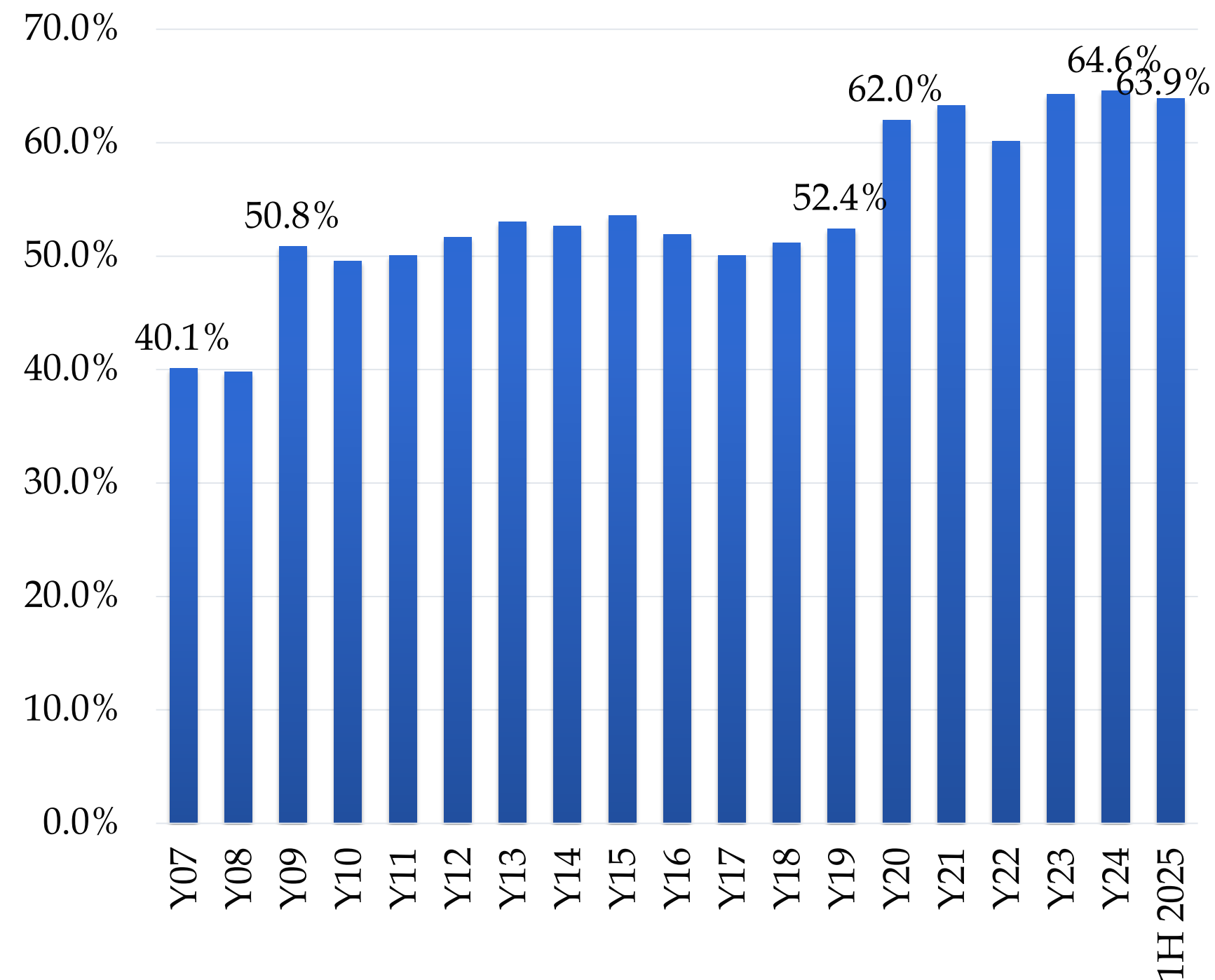
# Fiscal deficits would typically change course when there is negative economic shocks



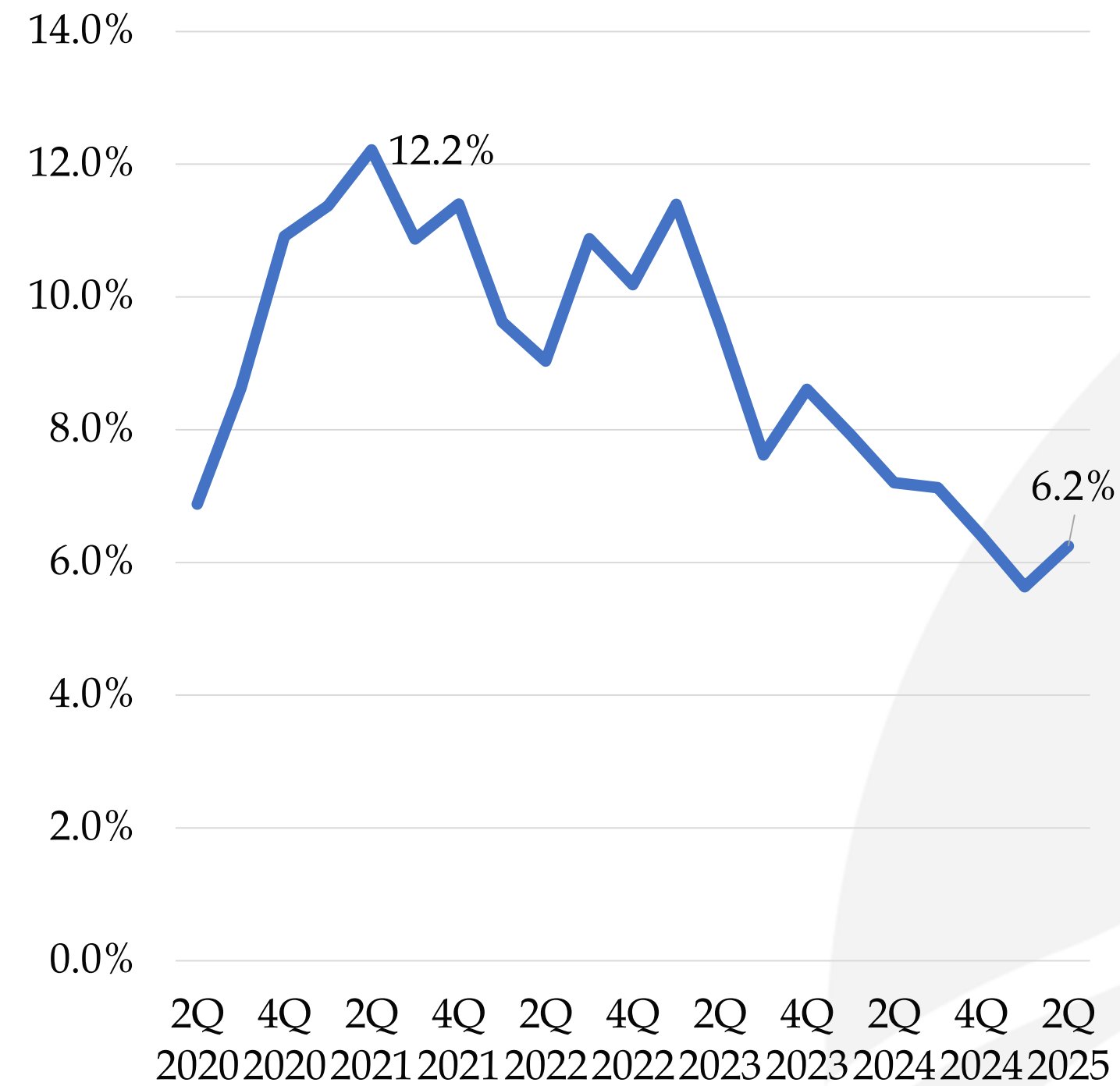
- While the pace of fiscal consolidation has been commendable thus far, further decline fiscal deficits would really depend on the potential shocks.
- At the current juncture, the external has been quite wobbly due to the unpredictable US policies (economic & foreign policies)

# Government debt-to-GDP ratio is still at elevated but growth of absolute amount has moderated quite significantly

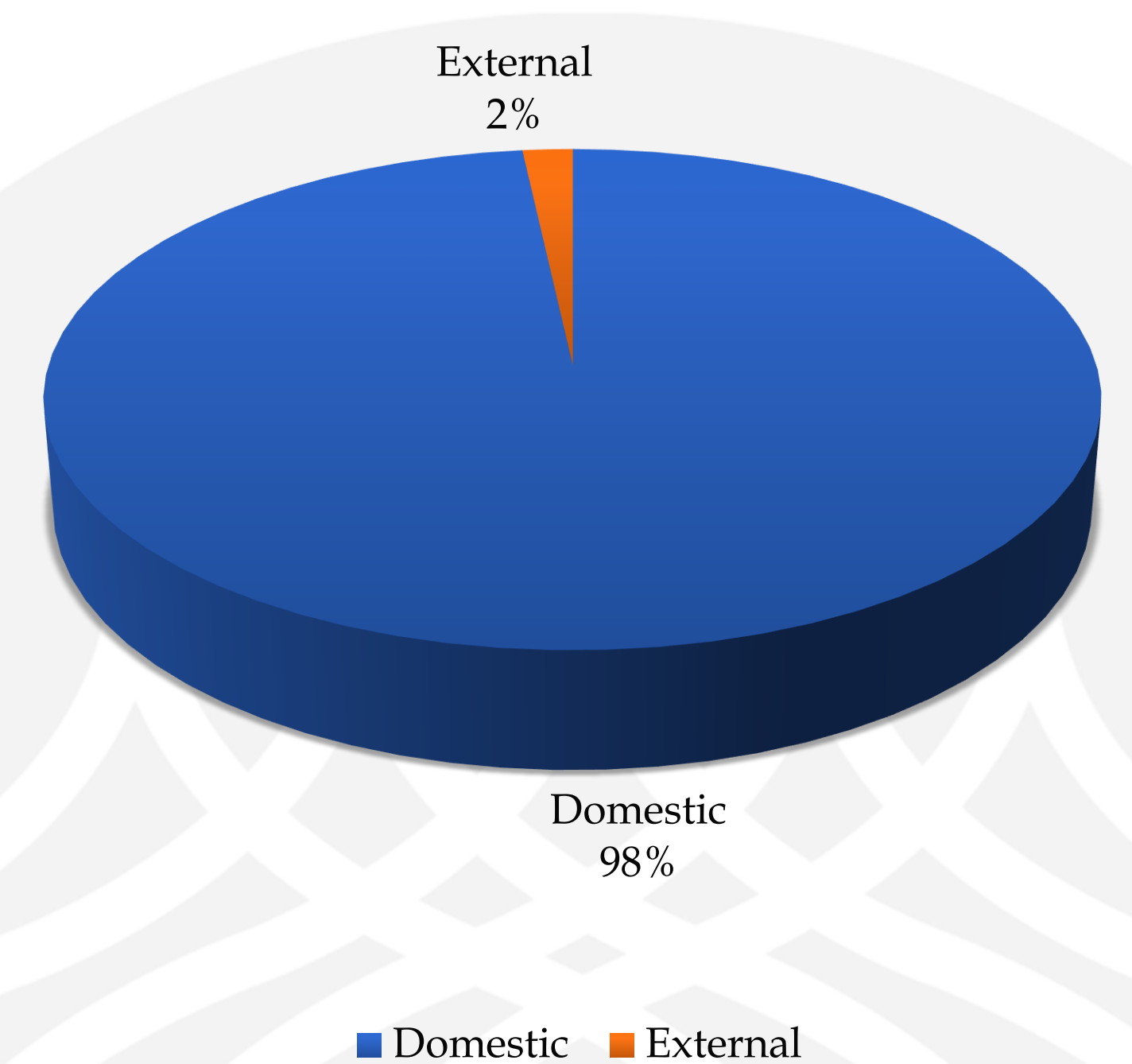
Federal government debt % of GDP



Malaysian government debt growth



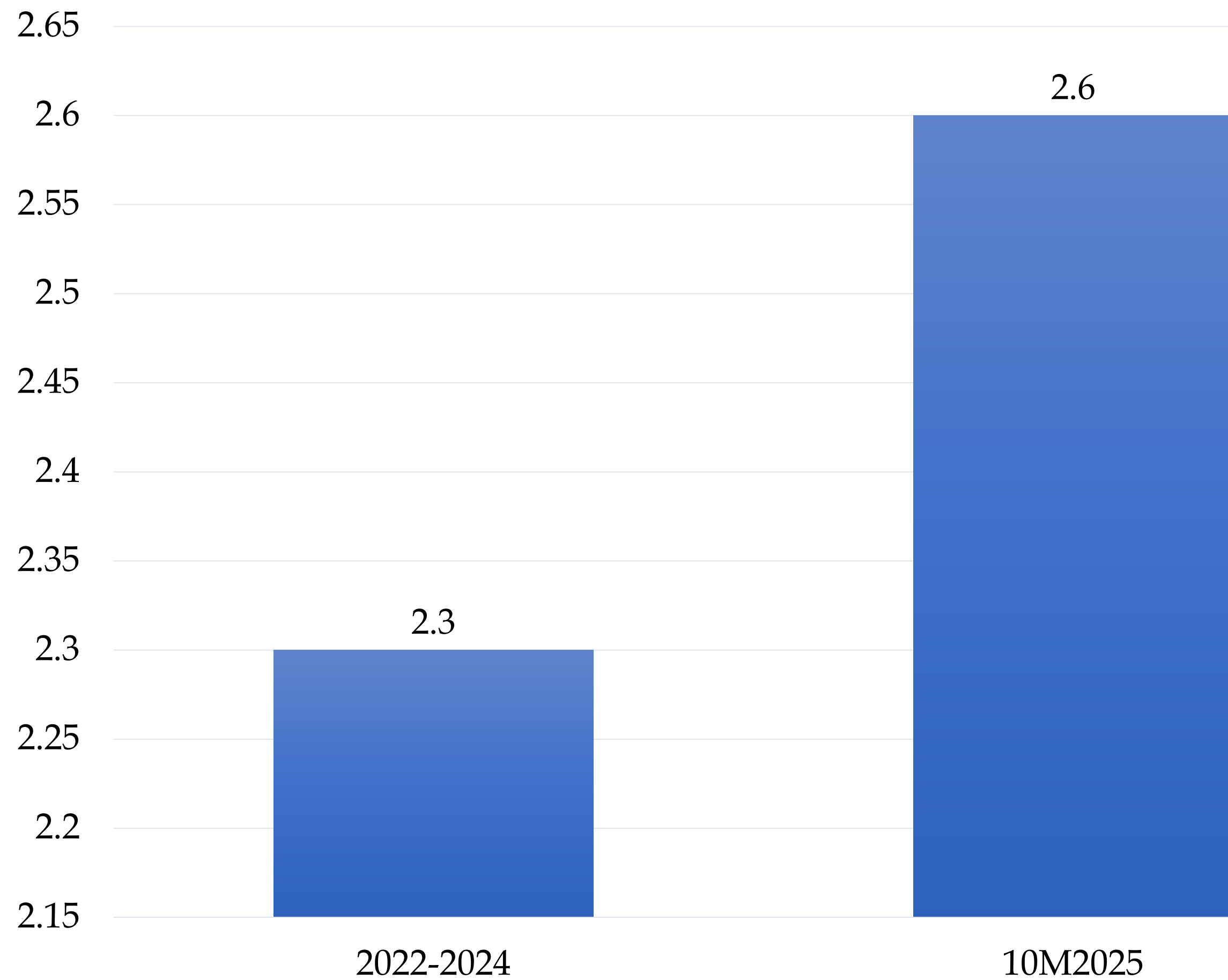
Composition of government debt in 1H2025



- The moderation in debt growth suggests that the new debts creation has slowed
- The declining in fiscal deficits are the main driver for lower debt-to-GDP ratio

# Demand for government bonds have been positive. Signs that investors are comfortable with the government's credit

### Bid-to-Cover Ratio

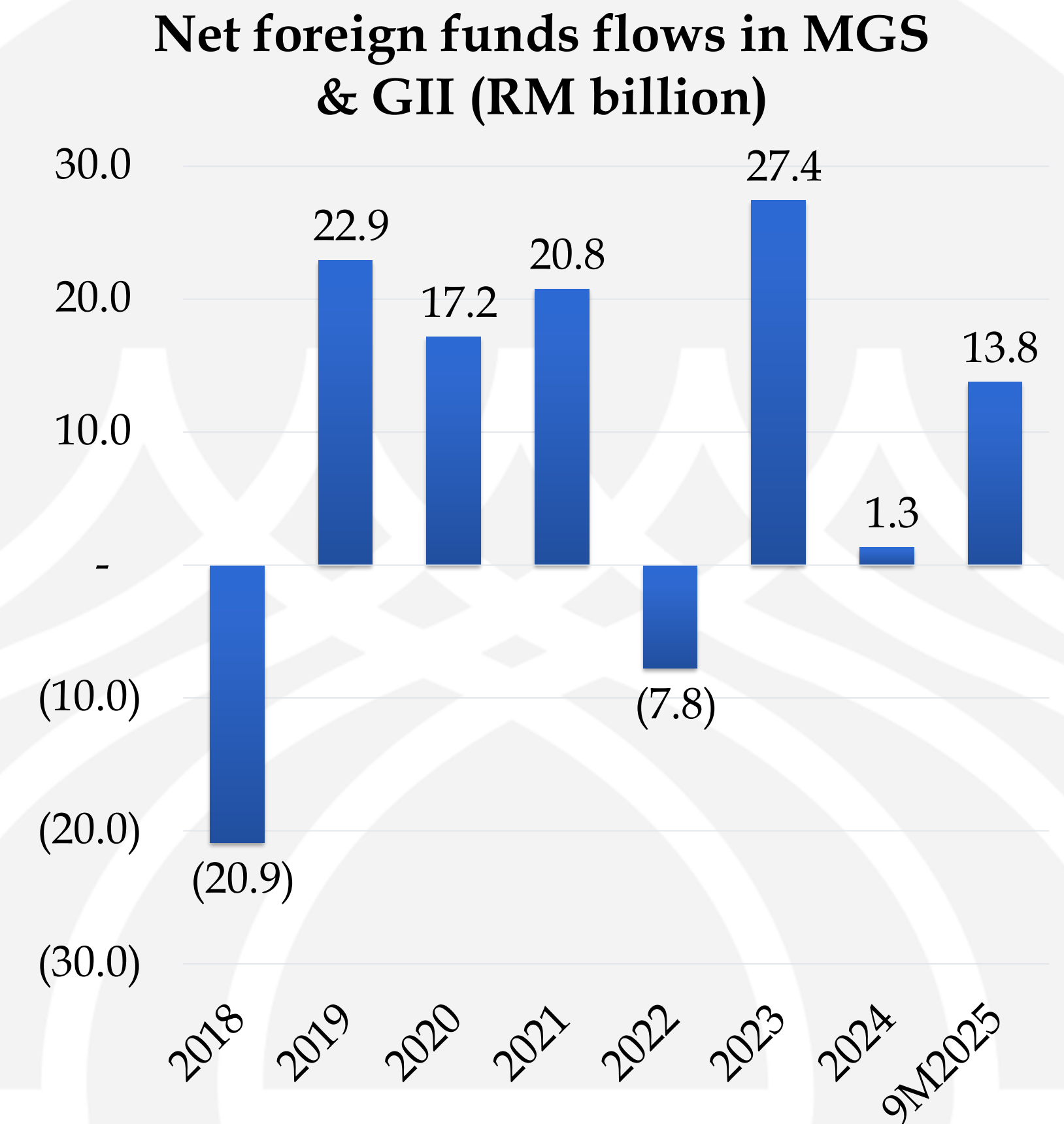
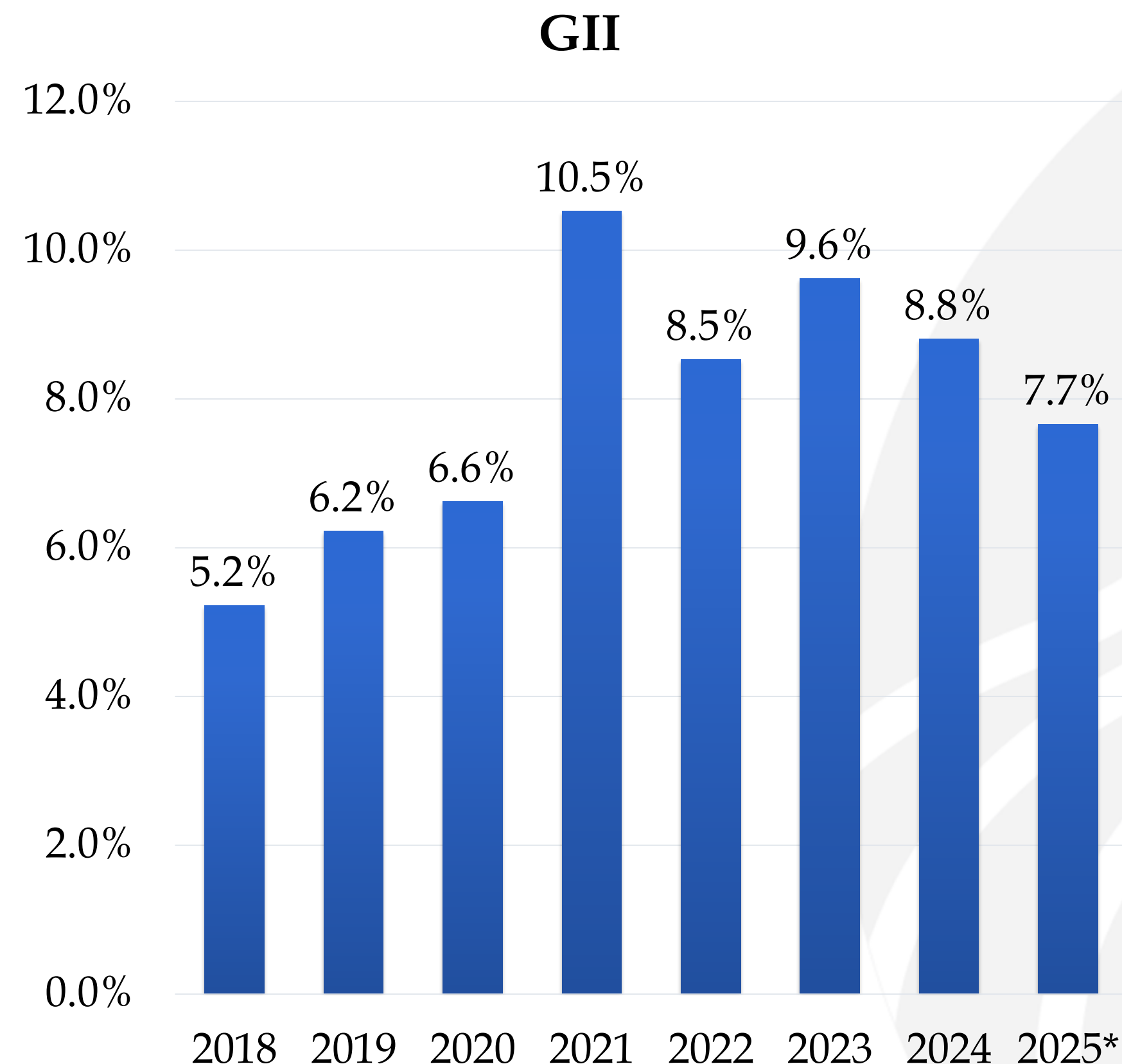
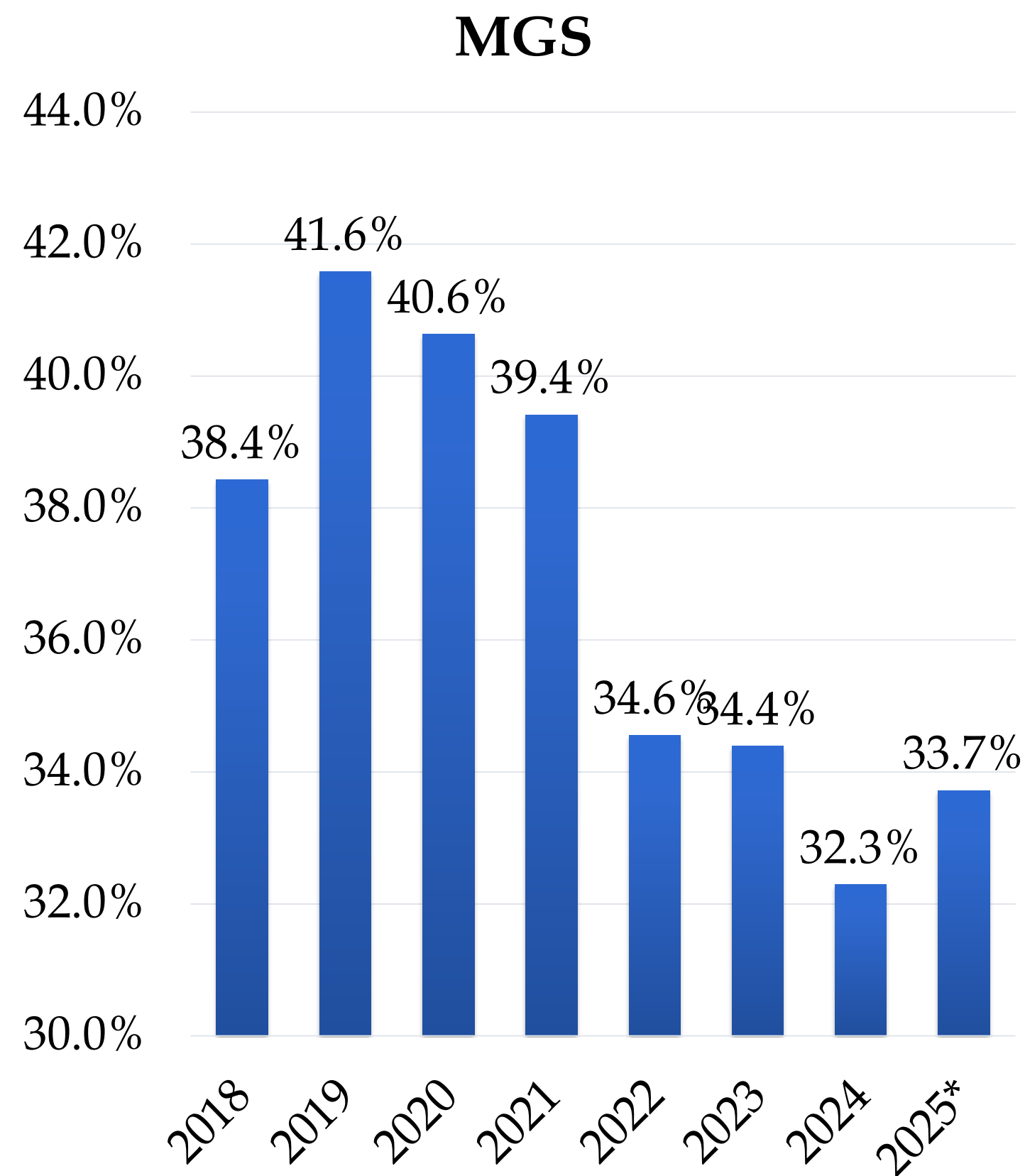


### 10-year MGS yield



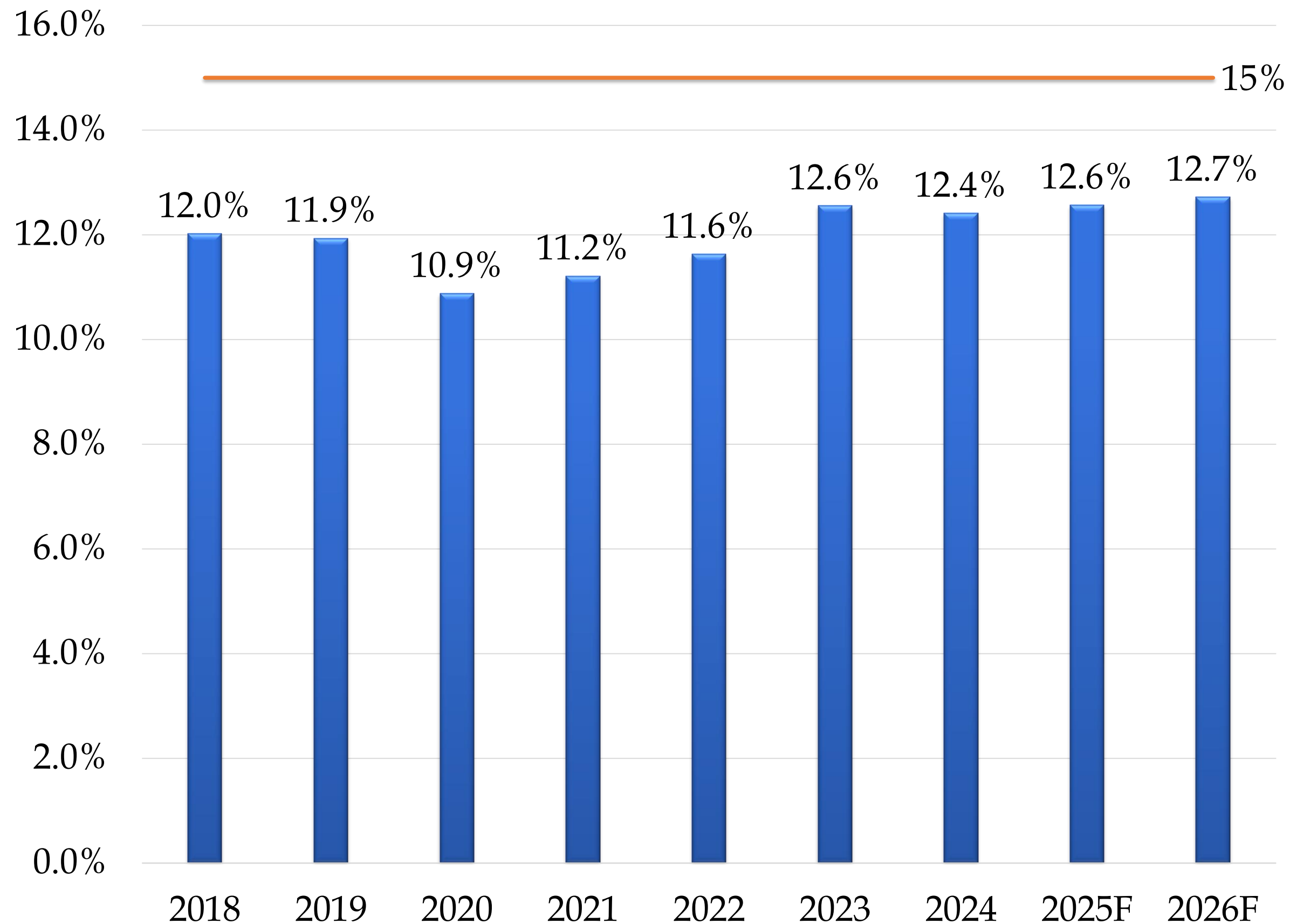
# Appetite among foreign investors are positive too

Foreign funds have been recording net purchases of RM13.8 billion in the 9M2025 against RM1.3 billion for the full year of 2024. Positive reviews from the Credit Rating Agencies (CRAs) appears to be the vote of confidence in respect to government efforts to restore the fiscal discipline.

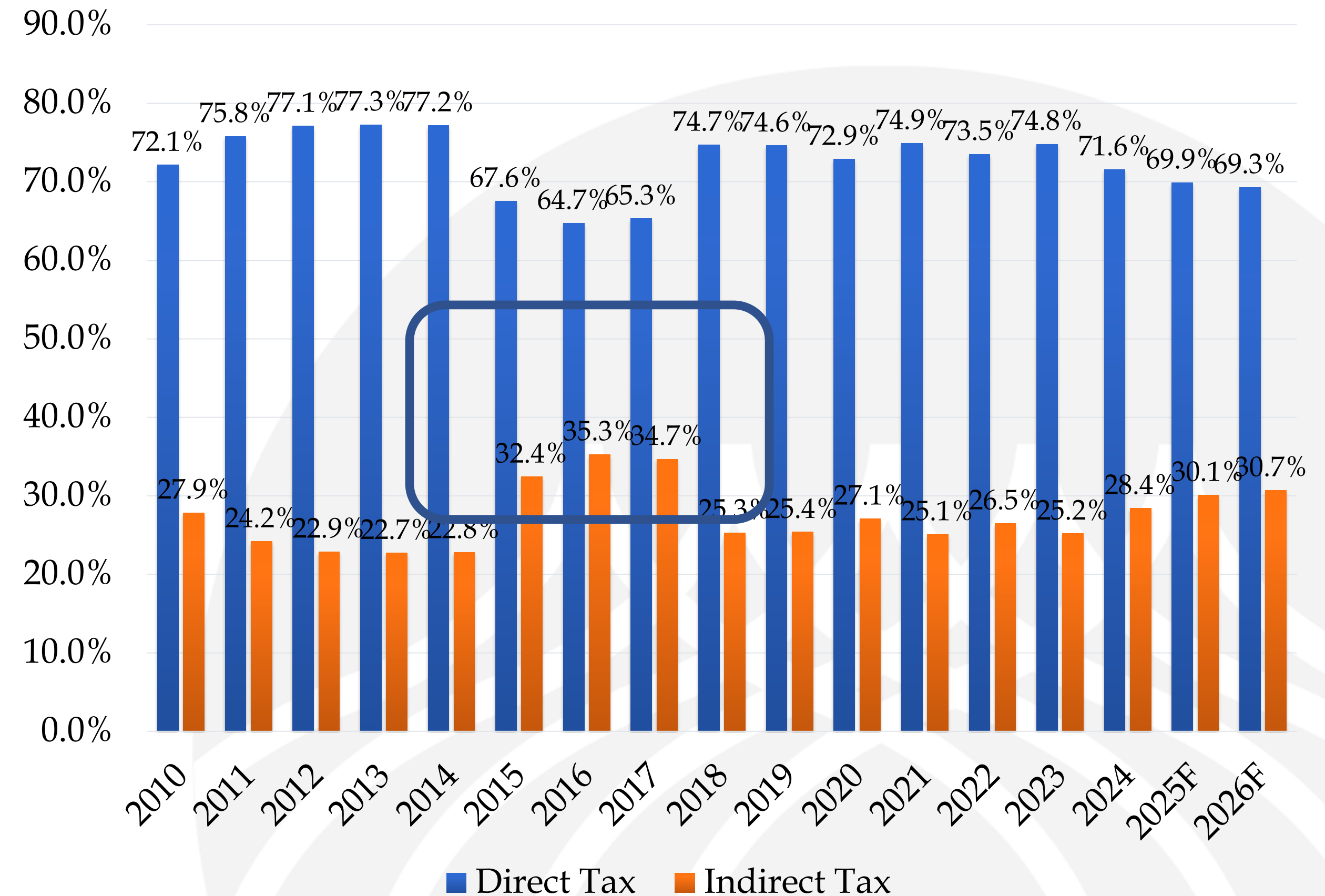


# Tax revenue is getting more steadier

Tax-to-GDP ratio



Direct vs. Indirect Tax (% of total tax income)



- Several new taxes measures have been implemented and the expansion of SST scope has resulted in indirect tax is gaining more share to overall tax revenue.

# Our estimates show that GST collection still outpacing SST

Year	GST Collection	Nominal Private Consumption	Estimated GST @ 6%	Difference
2015	27,012			
2016	41,206	684,681	41,080.84	125
2017	44,290	760,146	45,608.79	(1,319)
2018	20,236			

Marginal difference. Hence, we can use to approximate GST collection

Year	SST Collection	Nominal Private Consumption	GST collection @ 6%	Difference between SST vs. GST	GST collection @ 5%	Difference between SST vs. GST
2018	5,444	831,388	49,883.27	(44,439.39)	41,569.39	(36,125.52)
2019	27,669	904,189	54,251.33	(26,582.65)	45,209.44	(17,540.76)
2020	26,773	865,450	51,927.01	(25,154.18)	43,272.50	(16,499.68)
2021	25,616	898,359	53,901.57	(28,285.51)	44,917.97	(19,301.92)
2022	31,368	1,034,028	62,041.68	(30,673.54)	51,701.40	(20,333.26)
2023	35,463	1,102,875	66,172.50	(30,709.80)	55,143.75	(19,681.05)
2024	44,757	1,174,092	70,445.51	(25,688.19)	58,704.59	(13,947.27)
2025F	53,424	1,244,055	74,643.30	(21,219.30)	62,202.75	(8,778.75)
2026F	59,627	1,324,971	79,498.26	(19,871.26)	66,248.55	(6,621.55)

**GST should be resurrected**

**GST collection outperform SST**

# Budget 2026 that we like

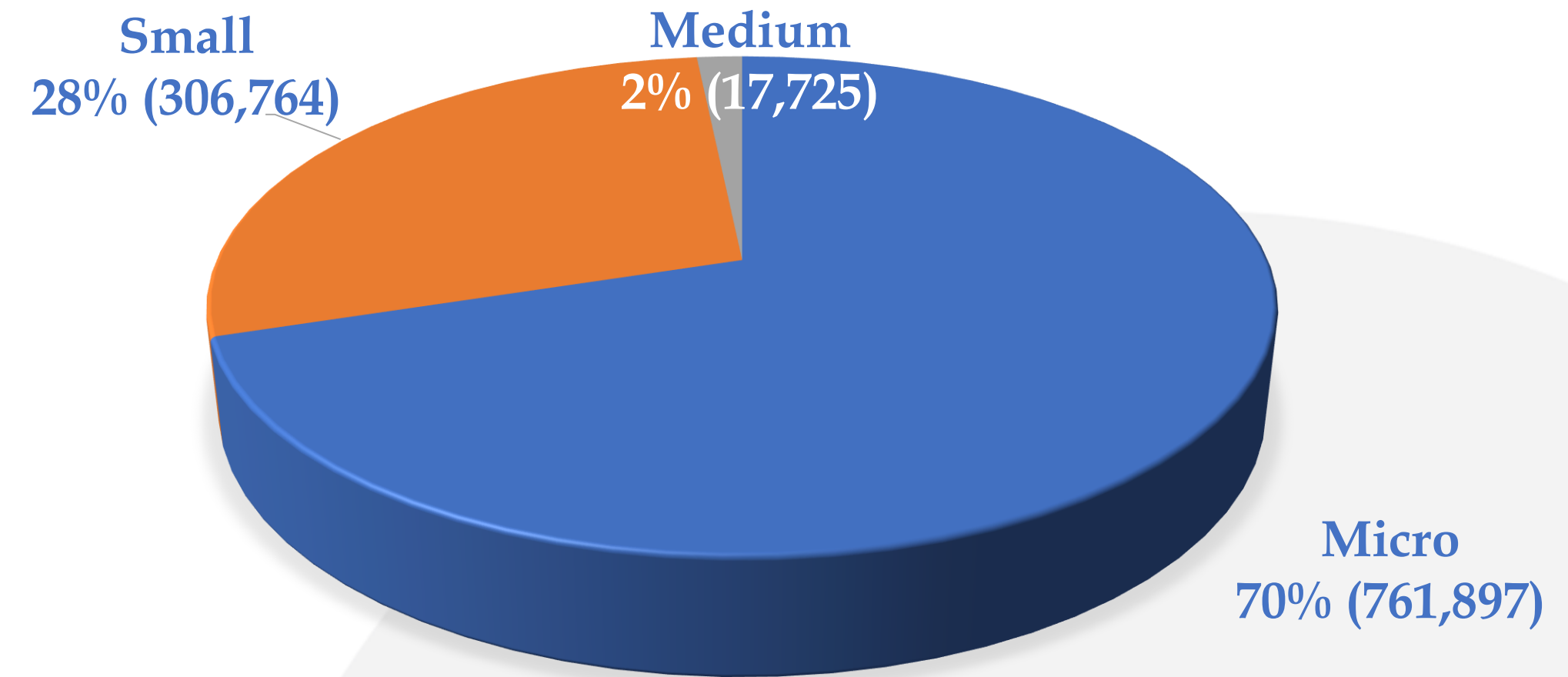
## SMEs & Entrepreneurship

- SJPP guarantees scheme will be raised to **RM50b in 2026** (from RM40b), expanding access to credit for local entrepreneurs.

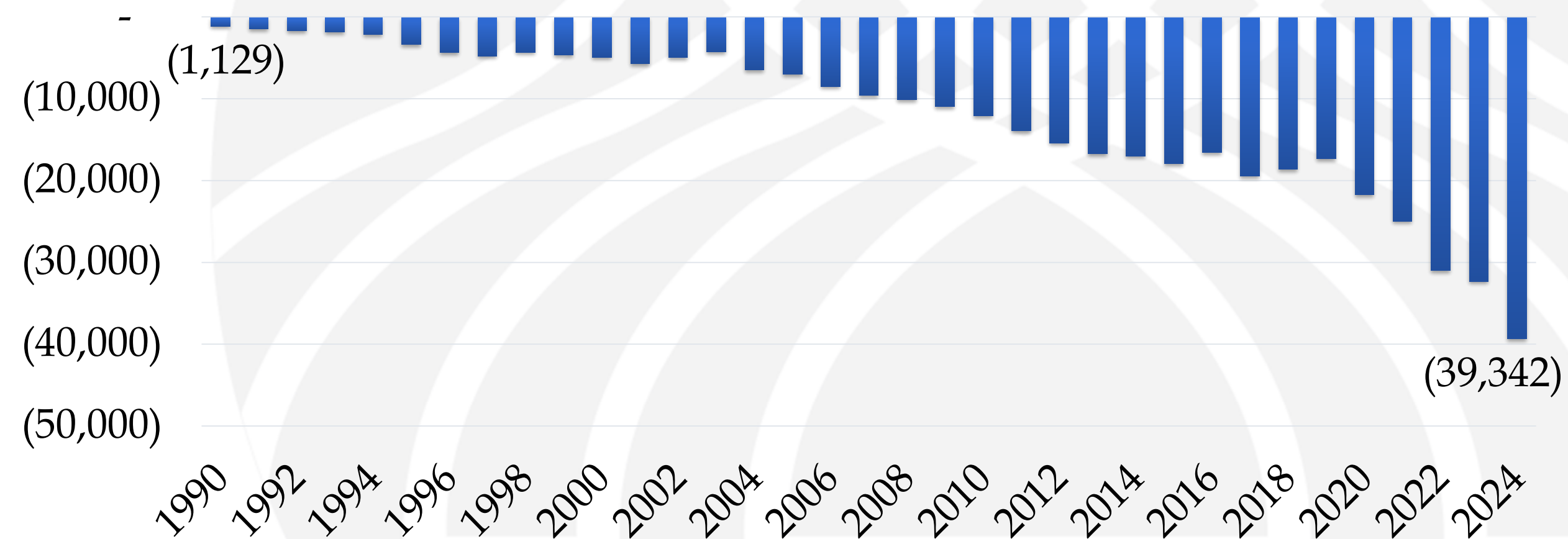
## Tax incentives for food security projects

- Companies engaging in new projects will be granted 100% income tax exemption on statutory income for 10 years of assessment
- Existing companies undertaking expansion projects will be given 100% income tax exemption on statutory income for 5 years.
- The tax exemption will be given on income generated from sales in domestic market

MSME COMPOSITION IN 2024



Trade balance in agrifood industries (RM million)



# Budget 2026 that we like (cont.)

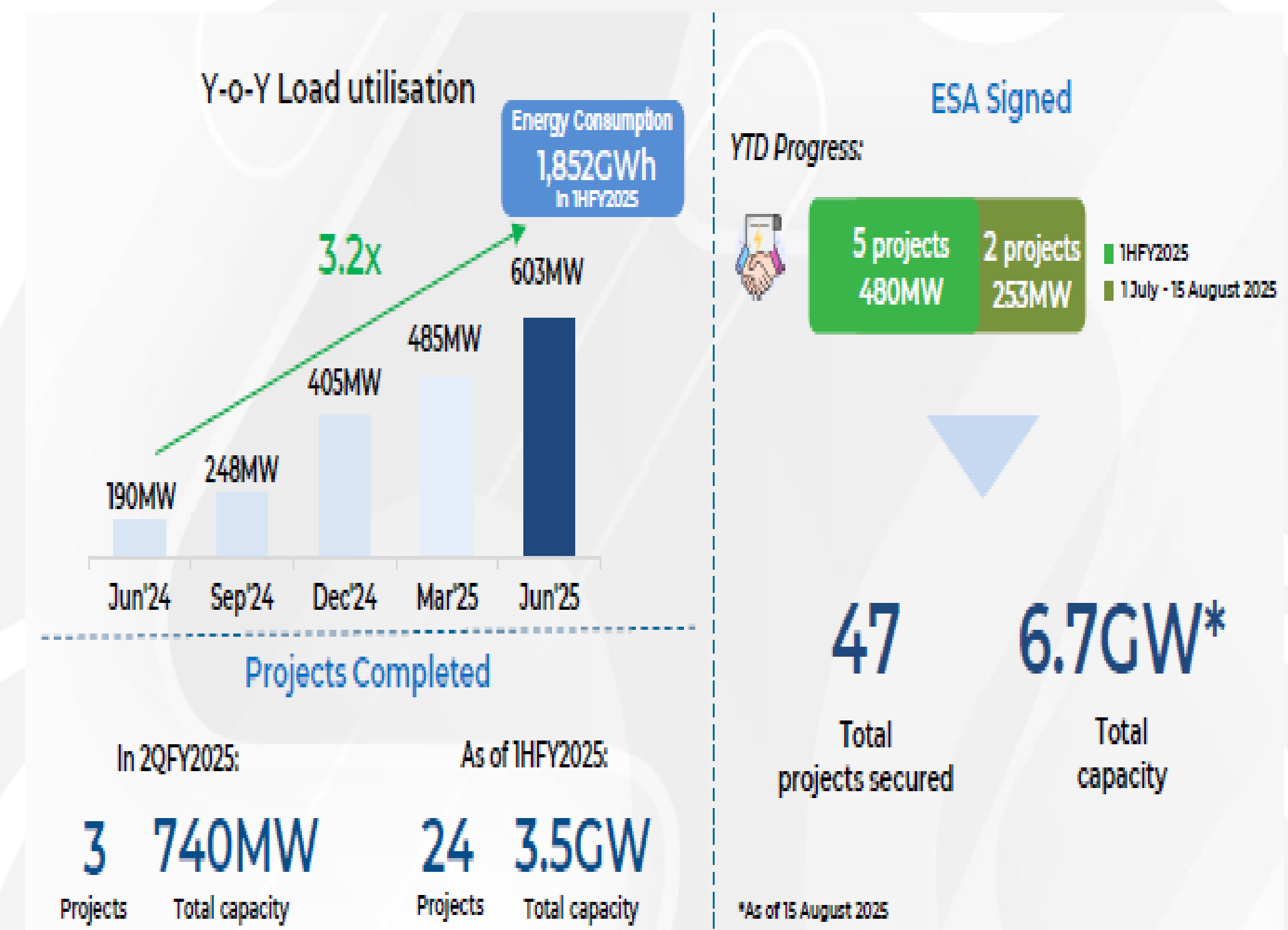
## Energy Transition & Sustainability

- **Large-Scale Solar 6 (LSS6):** Nearly 2GW capacity to be developed, attracting about RM6b private investment.
- **Corporate Renewable Energy Scheme (CRESS):** Expected to mobilise RM3.5b investment, with participating companies generating 500MW of renewable energy.
- **Green Technology Financing Scheme (GTFS 5.0):** Extended until Dec 2026, offering up to 80% government guarantee for green tech projects, especially waste-to-energy.
- **Carbon Tax:** To be introduced in 2026, starting with the steel and energy sectors.

## AI, Digital, Innovation & Export Market Support

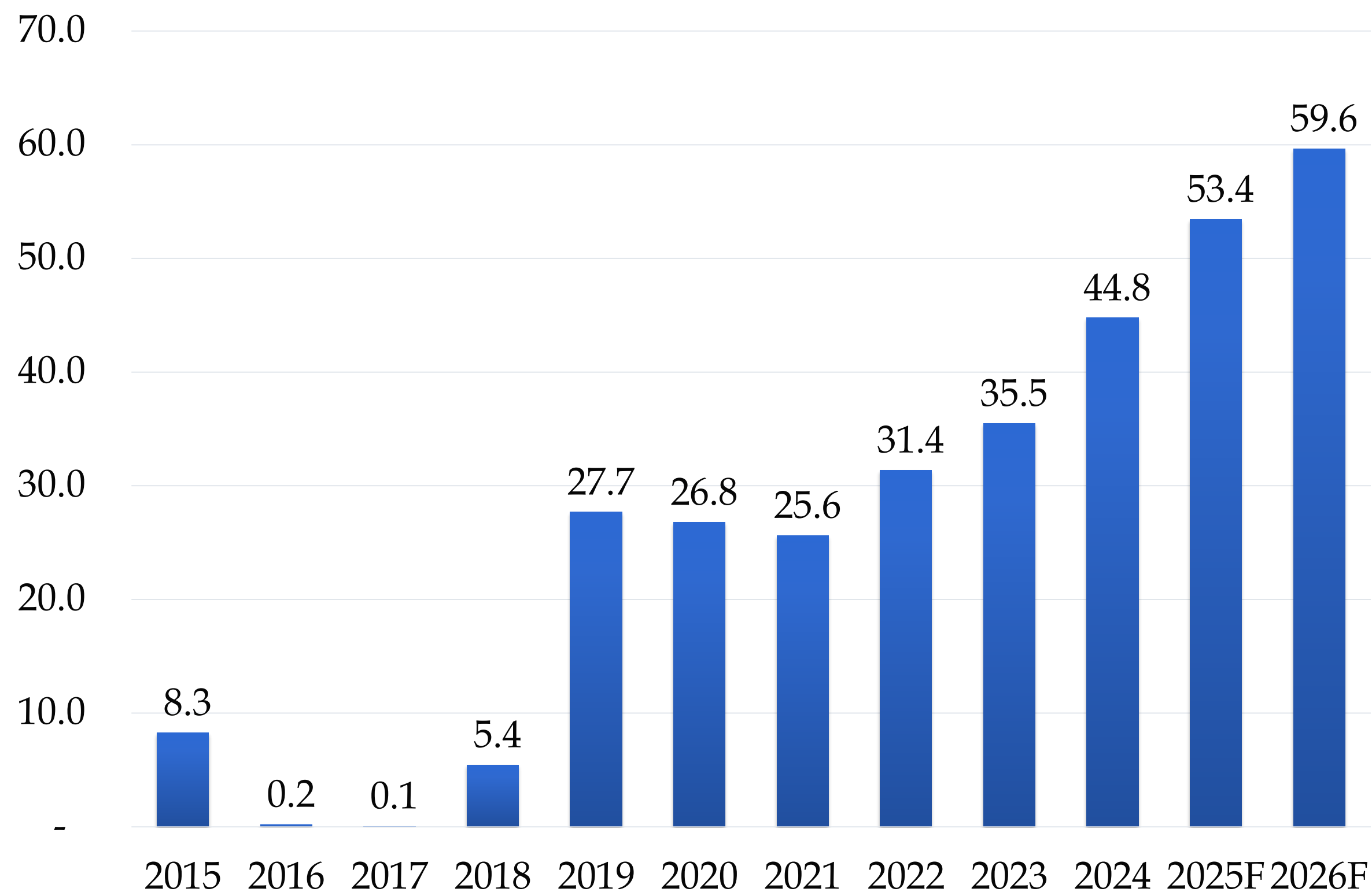
- The government will grant an **additional 50% tax deduction** for SMEs on training costs related to **AI and cybersecurity**, provided the programmes are accredited by the **MyMahir National AI Council for Industry (NAICI)**, led jointly by TalentCorp and MyDigital.
- **SJPP** will guarantee up to **70% of financing** for mid-tier companies expanding into export markets, with a total guarantee value of **RM5b**.

## TNB Data Center projects

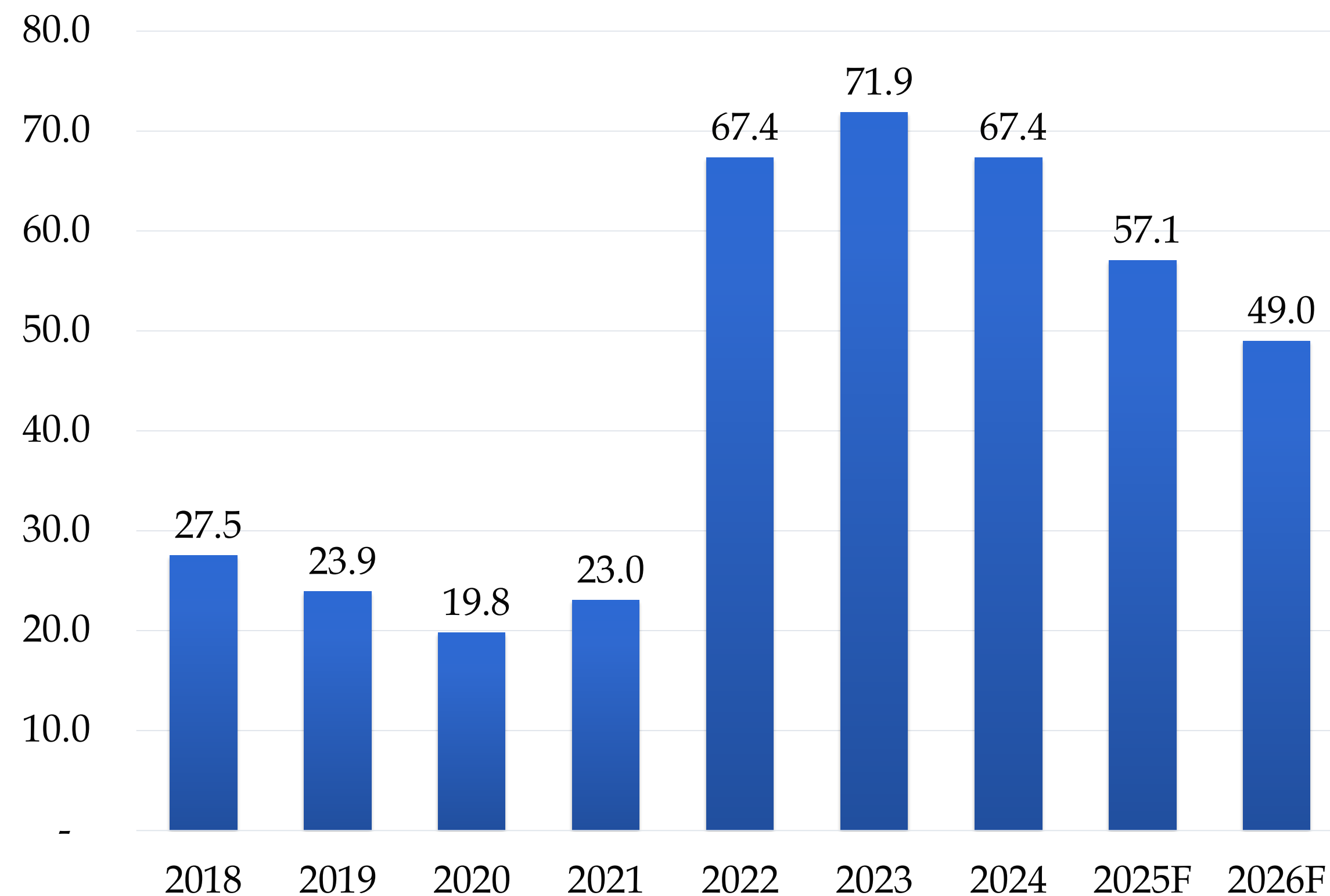


# The main driver for fiscal consolidation – SST and subsidies rationalisation

SST collection in RM billion



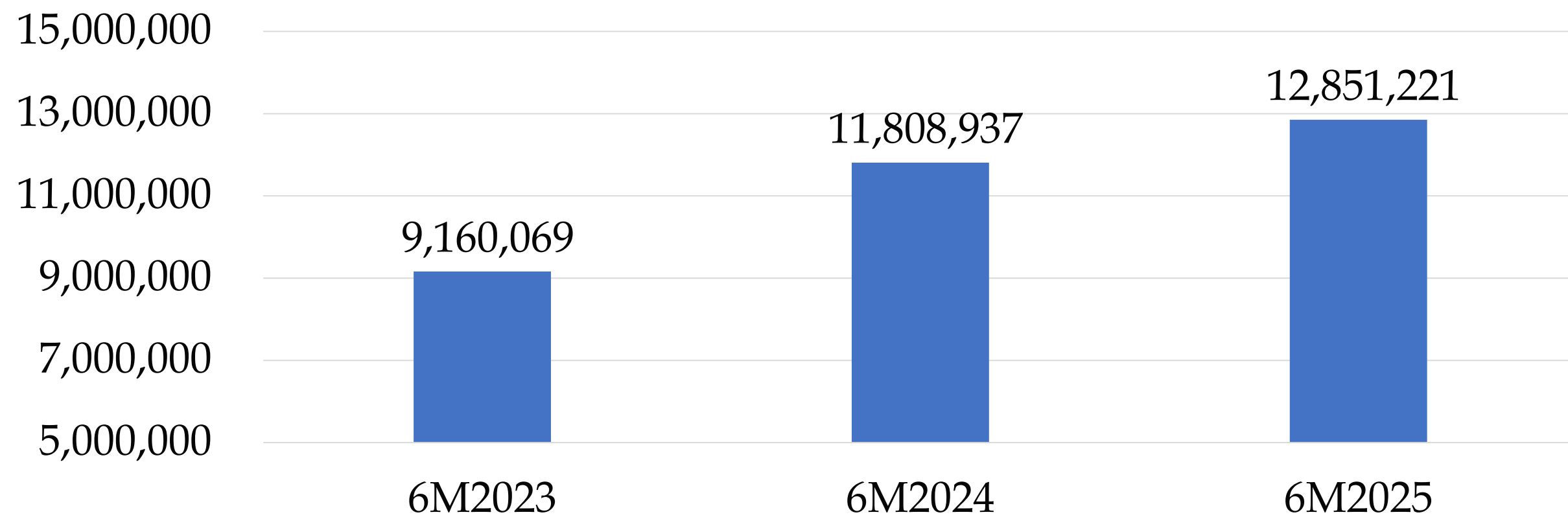
Subsidies and social assistance in RM billion



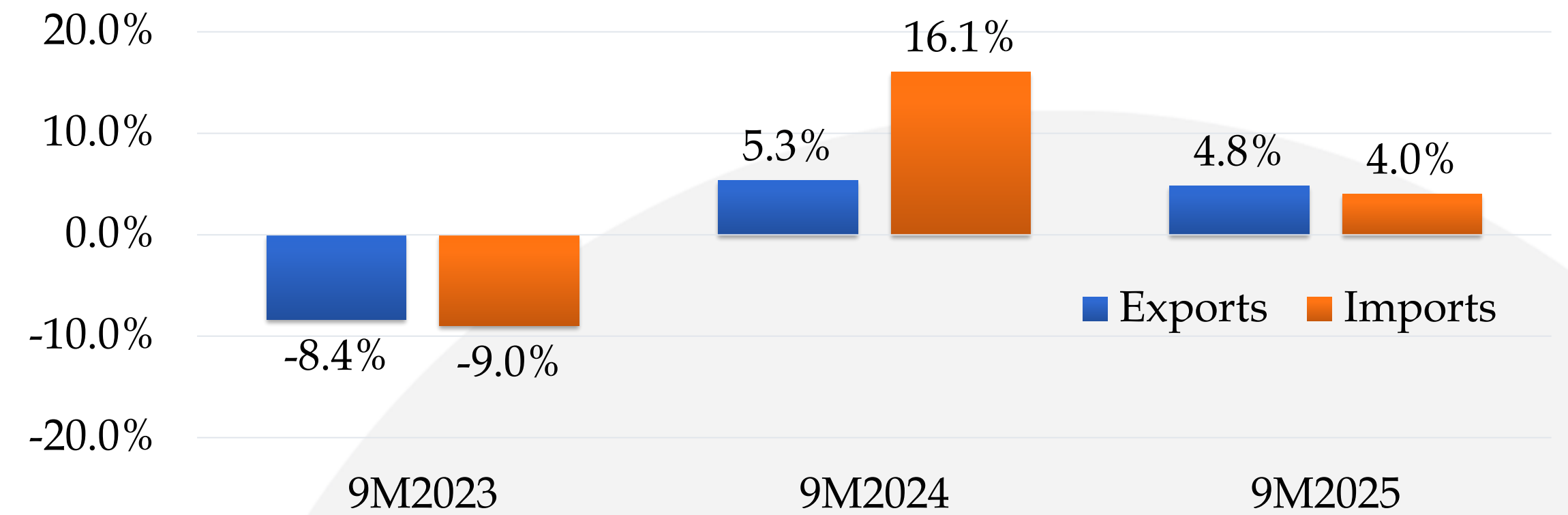
- The use of MyKad for Budi95 is the game changer
- Perhaps there will be more subsidies can be retarget by leveraging on MyKad technology
- Subsidies such as LPG, cooking oil and electricity can be rationalized further

# Where do we stand now?

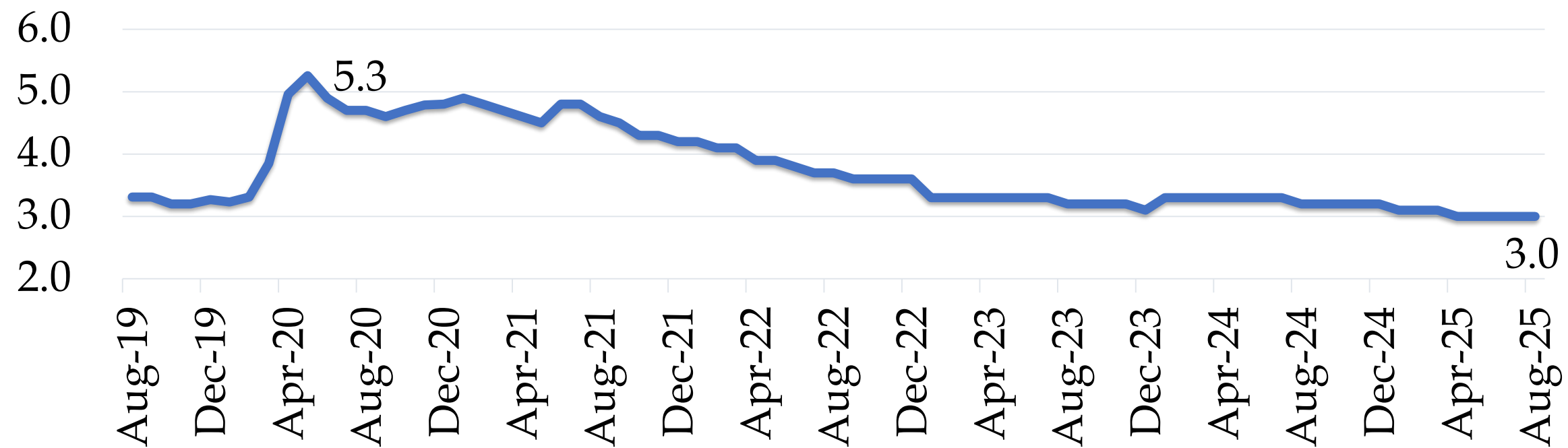
Tourist Arrivals (# of person)



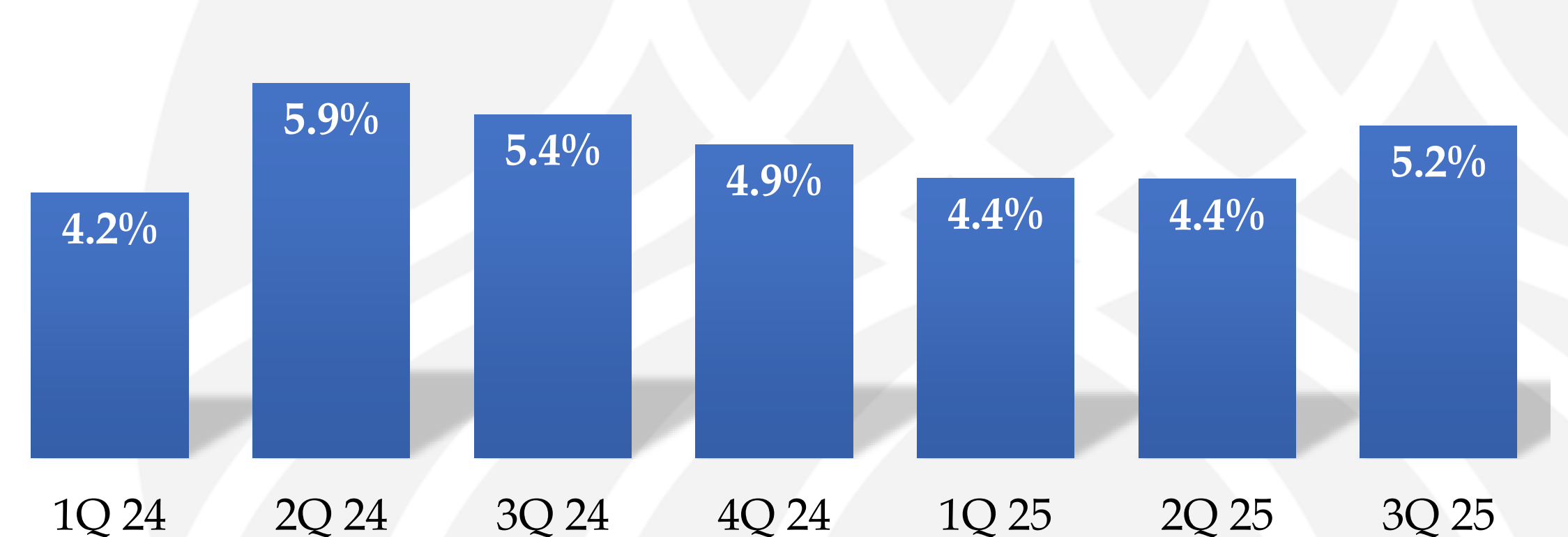
International trade performance y-o-y growth



Unemployment rate



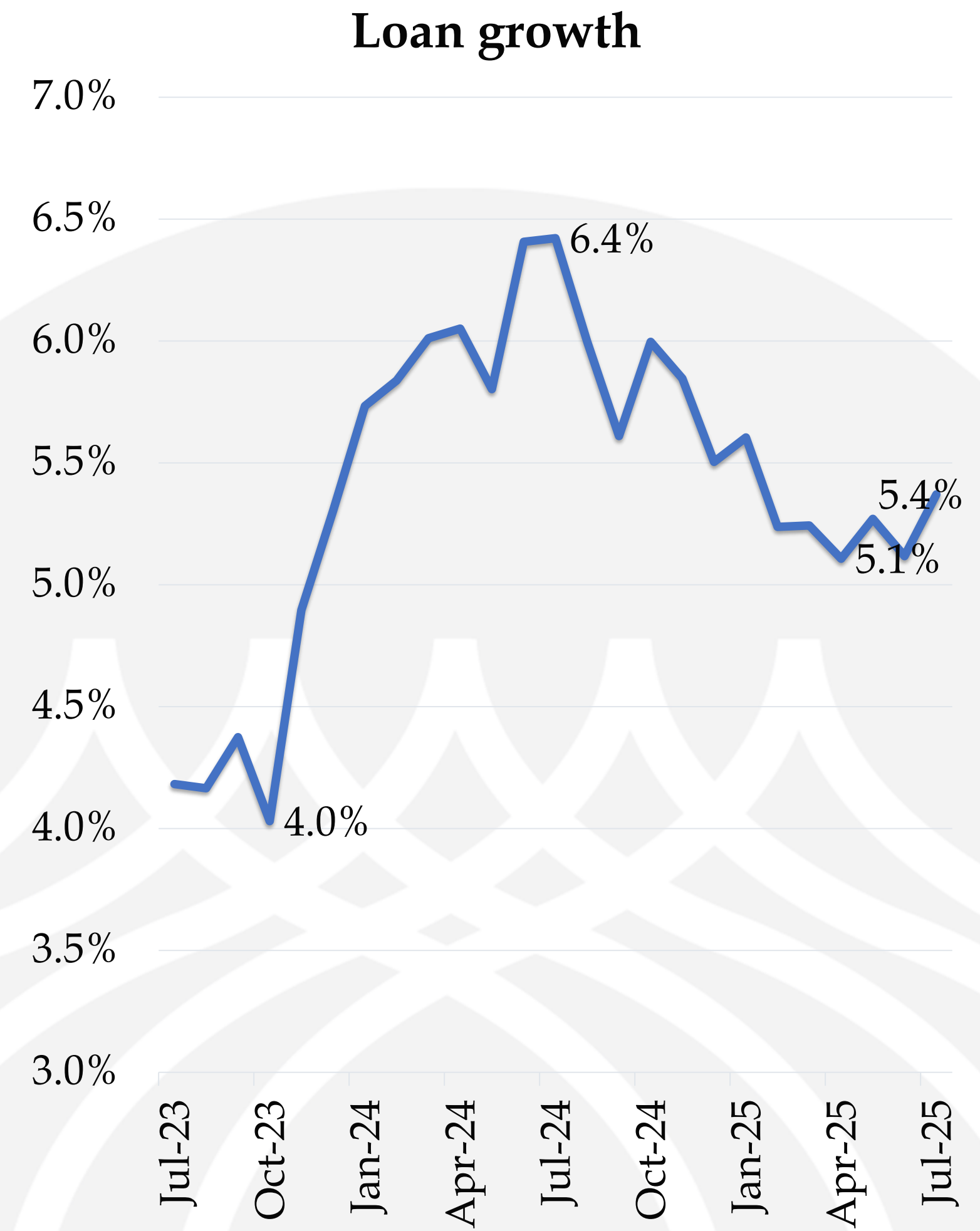
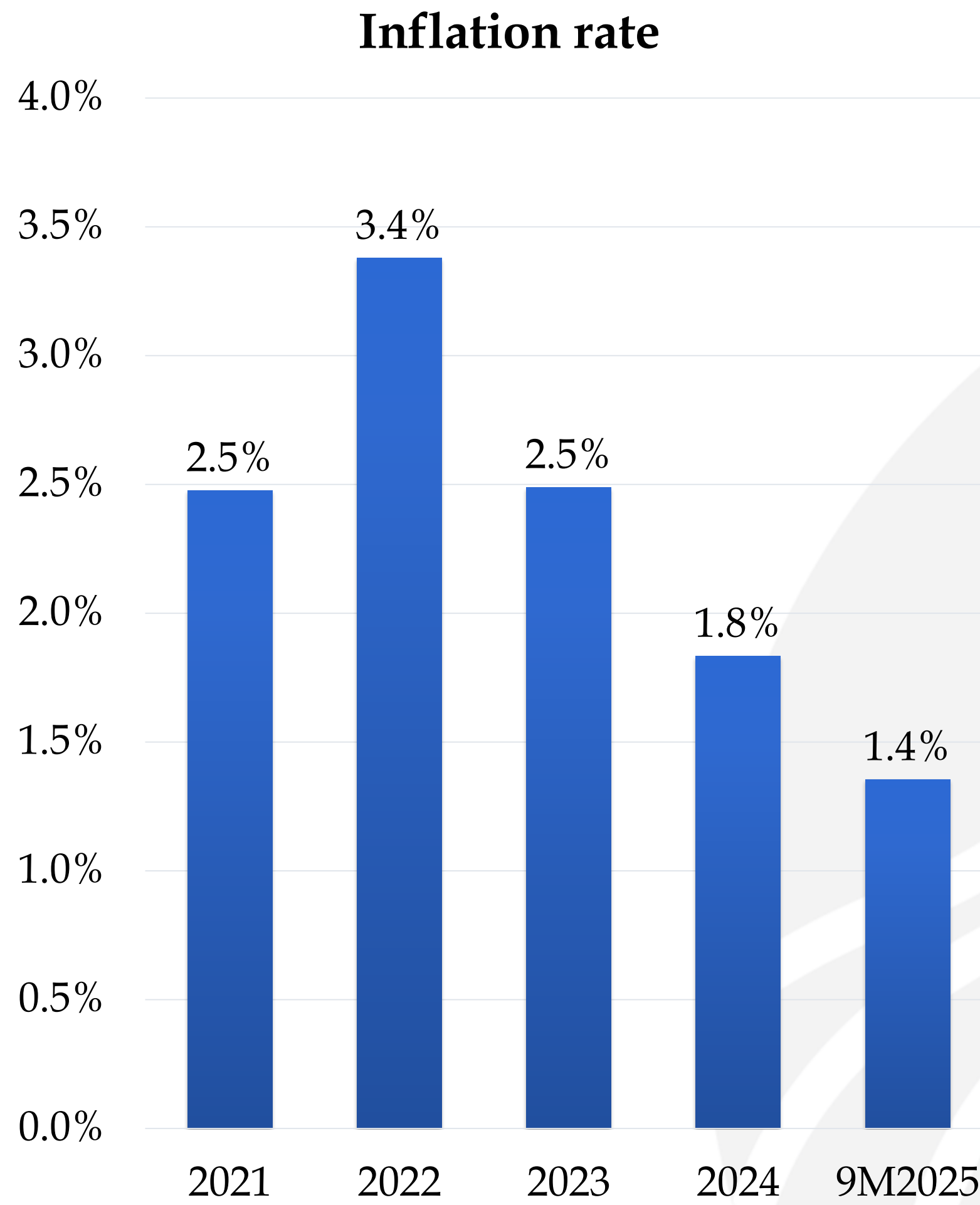
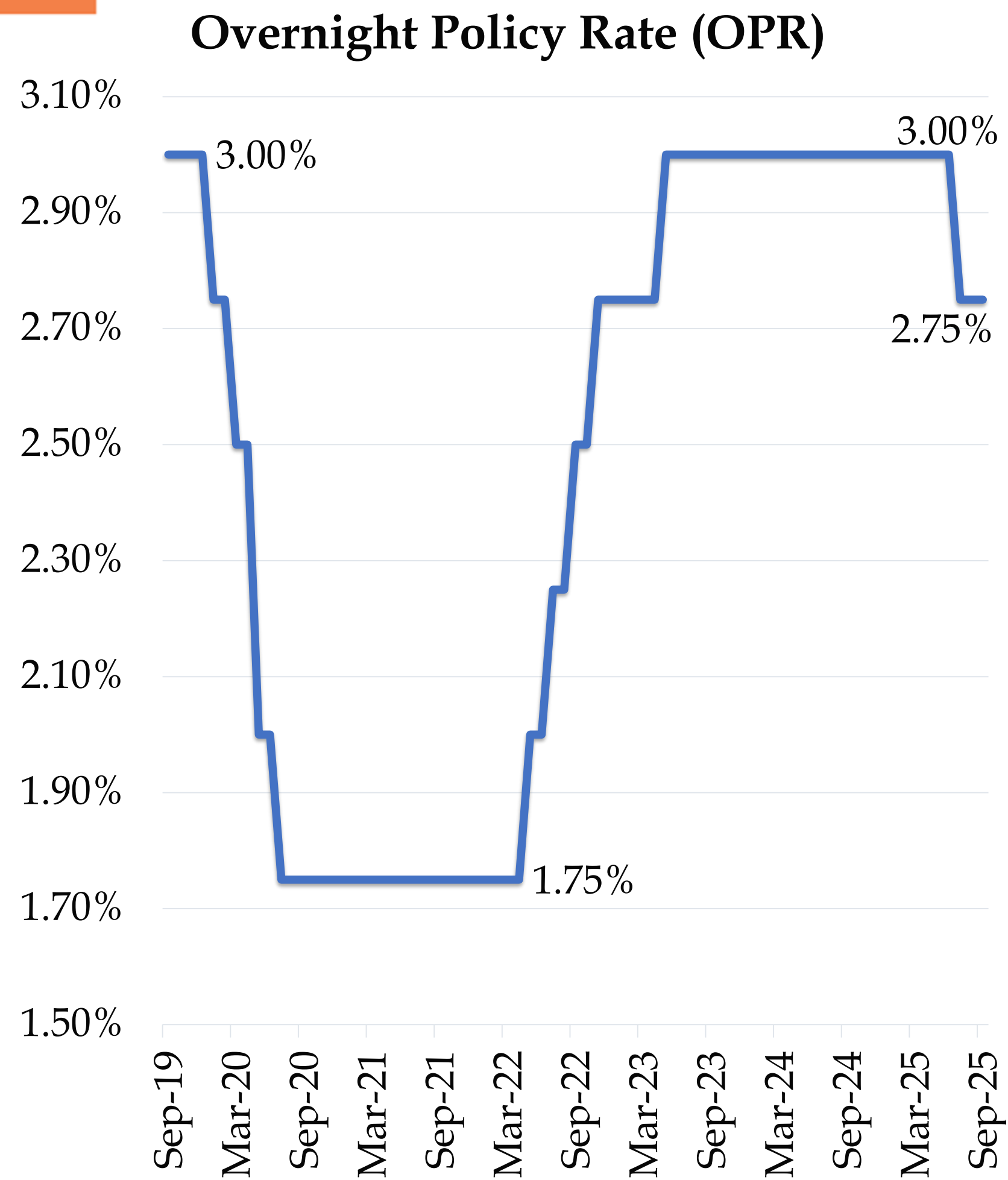
Quarterly GDP growth



- The economy has remained resilient.
- BNM has reduced the Statutory Reserve Requirement (SRR) by 100 basis points in May and cut the Overnight Policy Rate (OPR) by 25 basis points in July.

▪ The government has increase the allocation of SARA

# BNM has enacted a preemptive reduction in OPR



The BNM has shifted its focus towards to preserving the economic growth as GDP has moderated to 4.4% in the 1H2025 after growing 5.1% in 2024



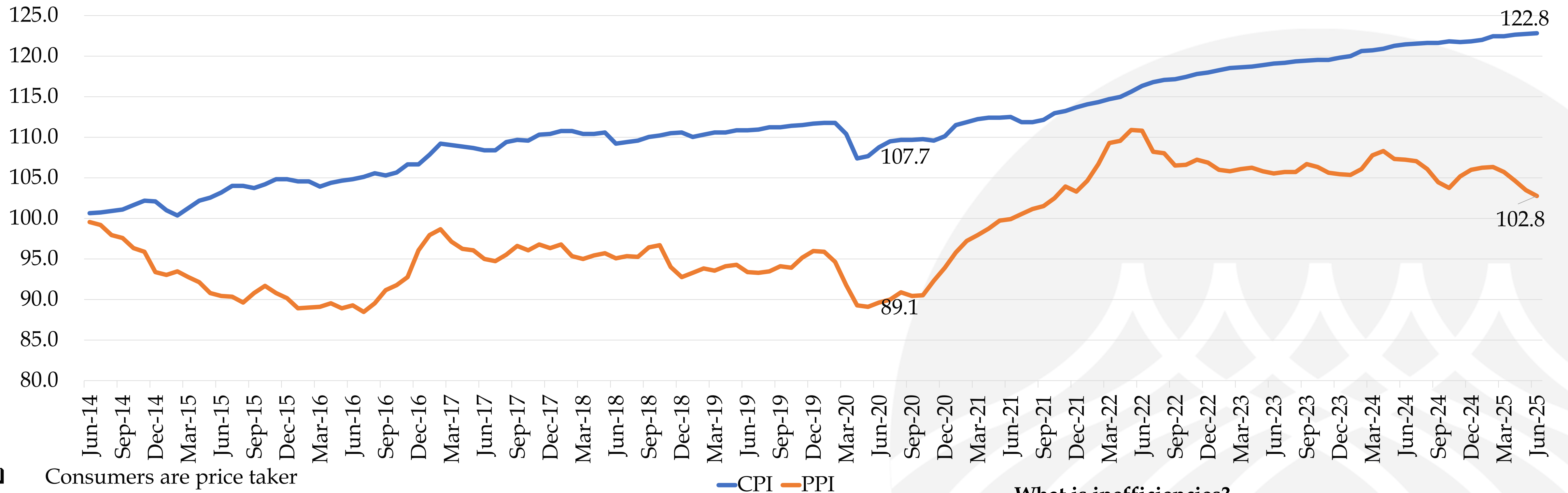
# The Big Picture?

**Inefficiencies are still prevalent in the economy**



# Inefficiencies in goods market

Consumer Price Index (CPI) vs Producer Price Index (PPI) - level (Jan 2014 =100)



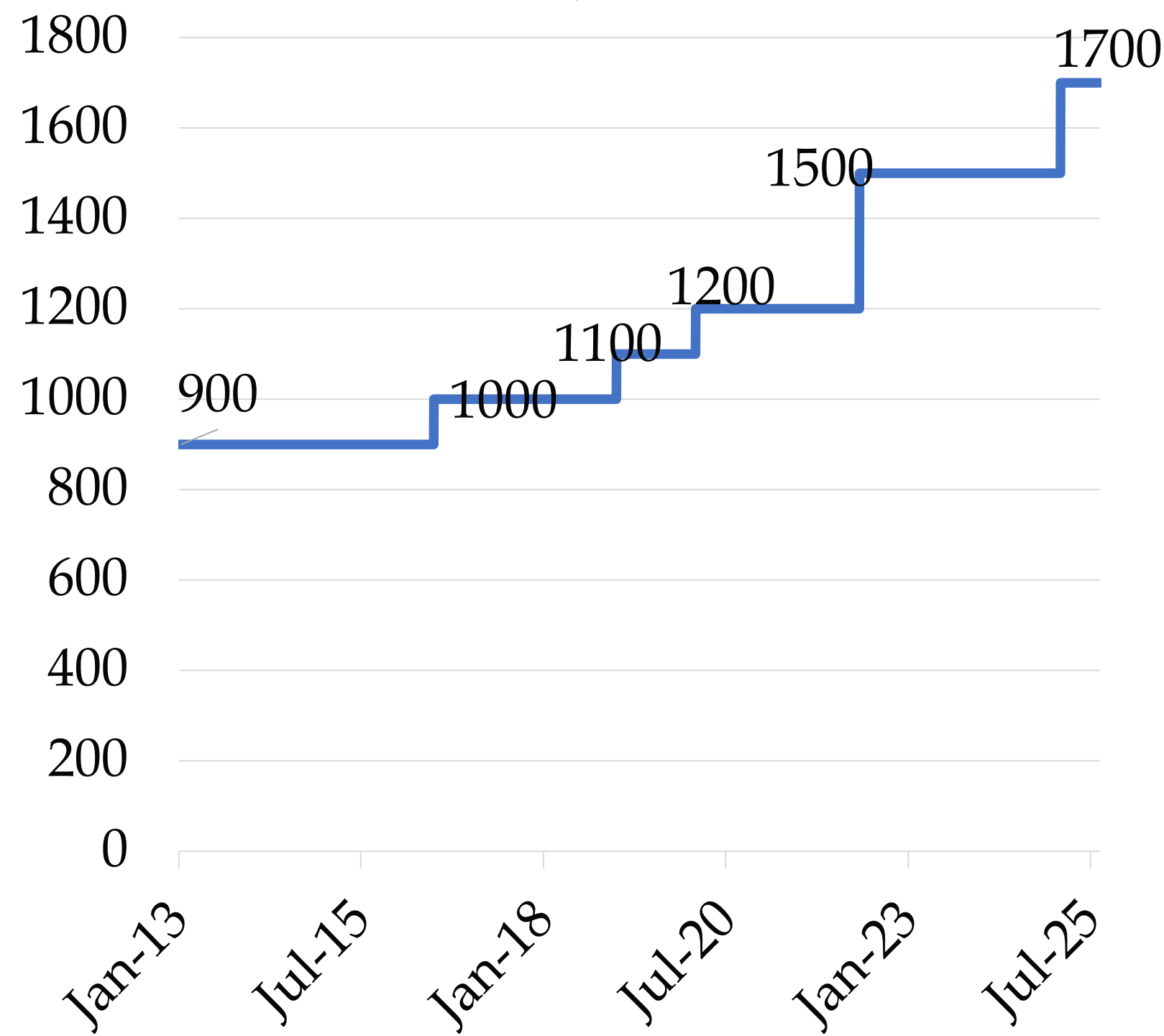
- Consumers are price taker
- Asymmetric information favors the seller
- Market structure such as monopoly, oligopoly and there existance of GLCs and GLICs could also impede efficiencies of the economy
- Corruption and abuse of power could also result in inefficiencies in the economy
- This goes to show subsidies and price control measures are not effective in addressing the cost of living issues.

## What is inefficiencies?

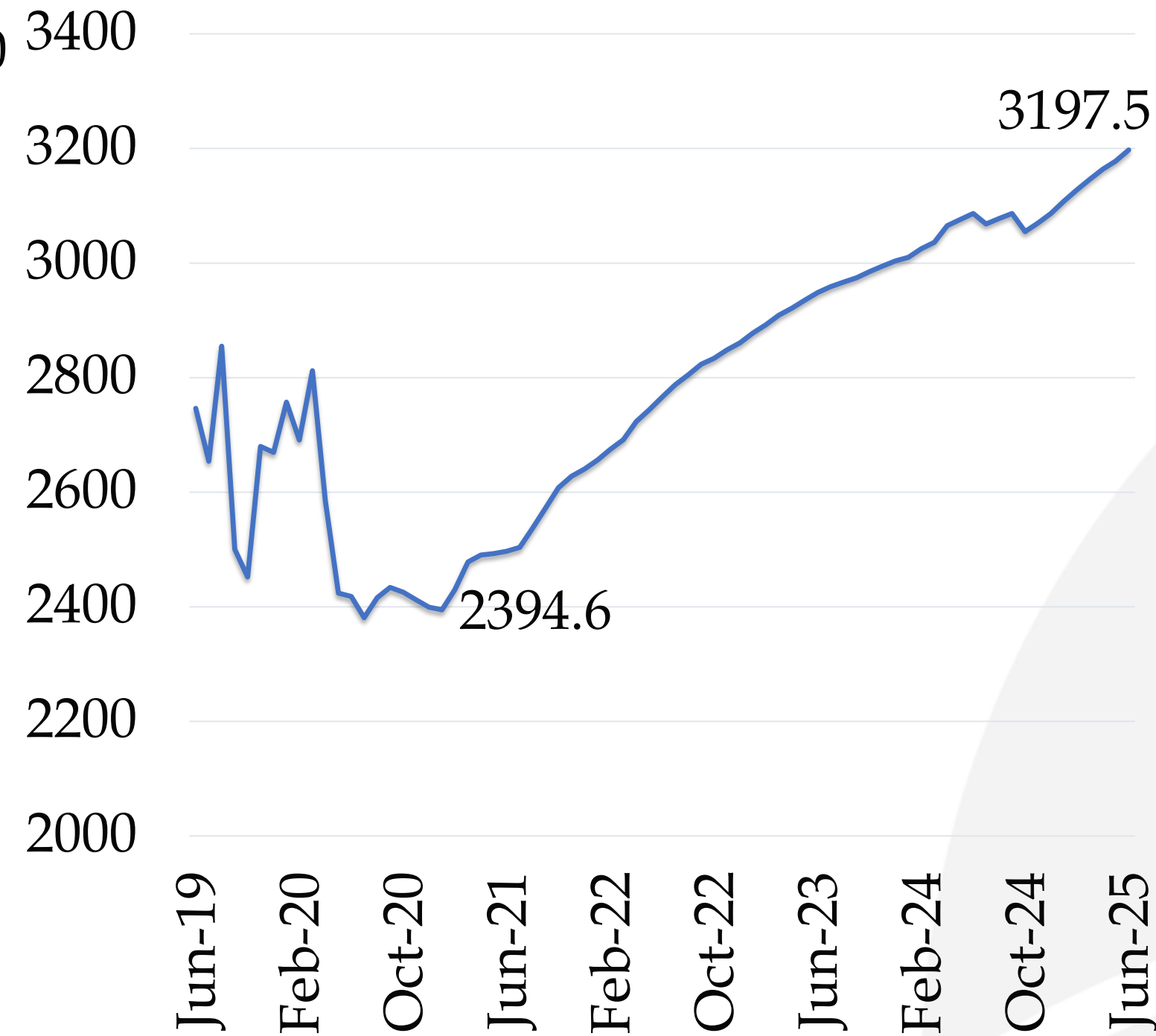
*In economics, **inefficiency** refers to a situation where resources are not used in the best possible way, leading to waste, lost output, or welfare loss. In other words, the economy could produce **more goods or better outcomes with the same inputs**, but it doesn't.*

# Inefficiencies in labour market

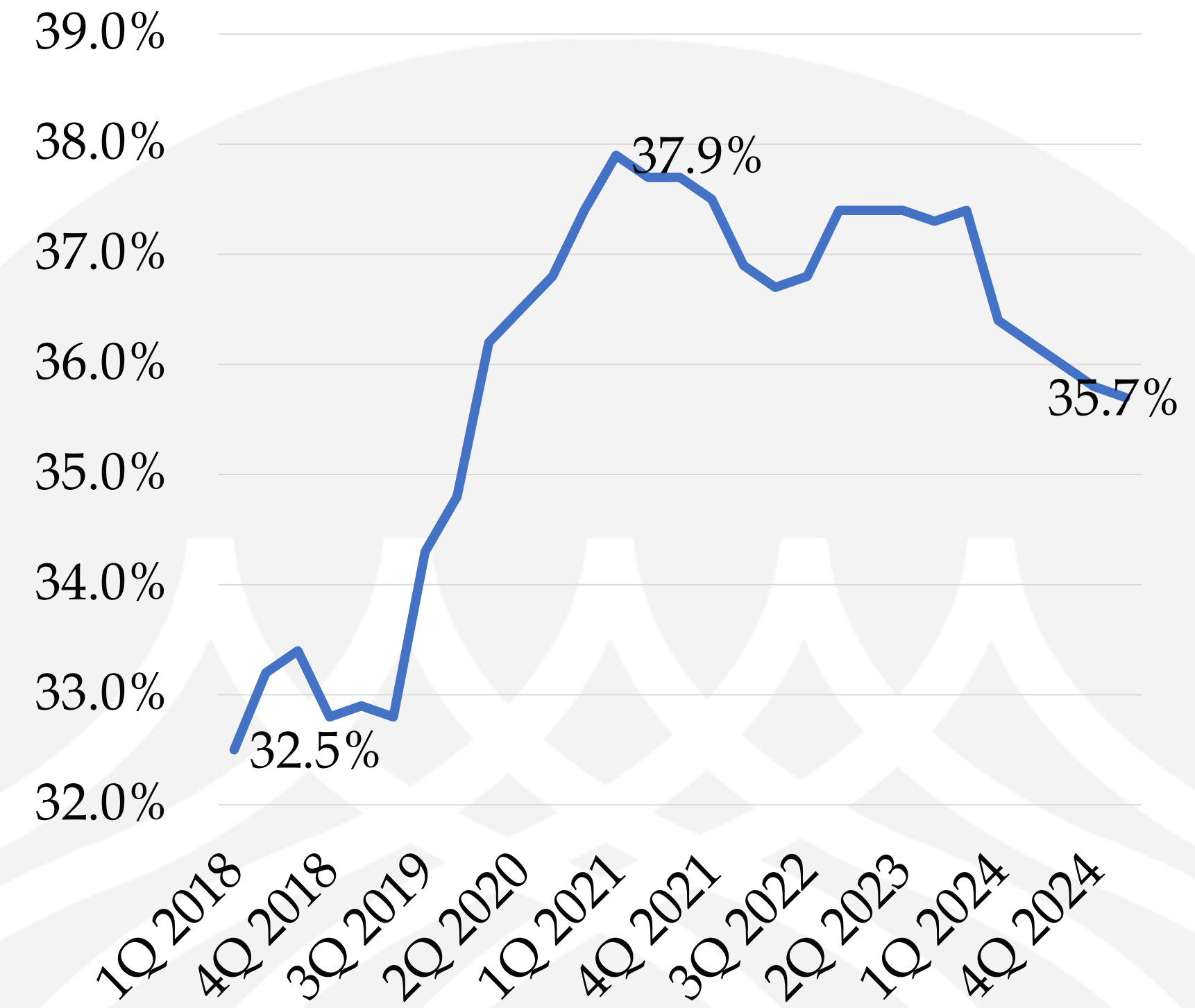
Minimum Wage (RM per month)



Own Account Workers (OAW) in '000



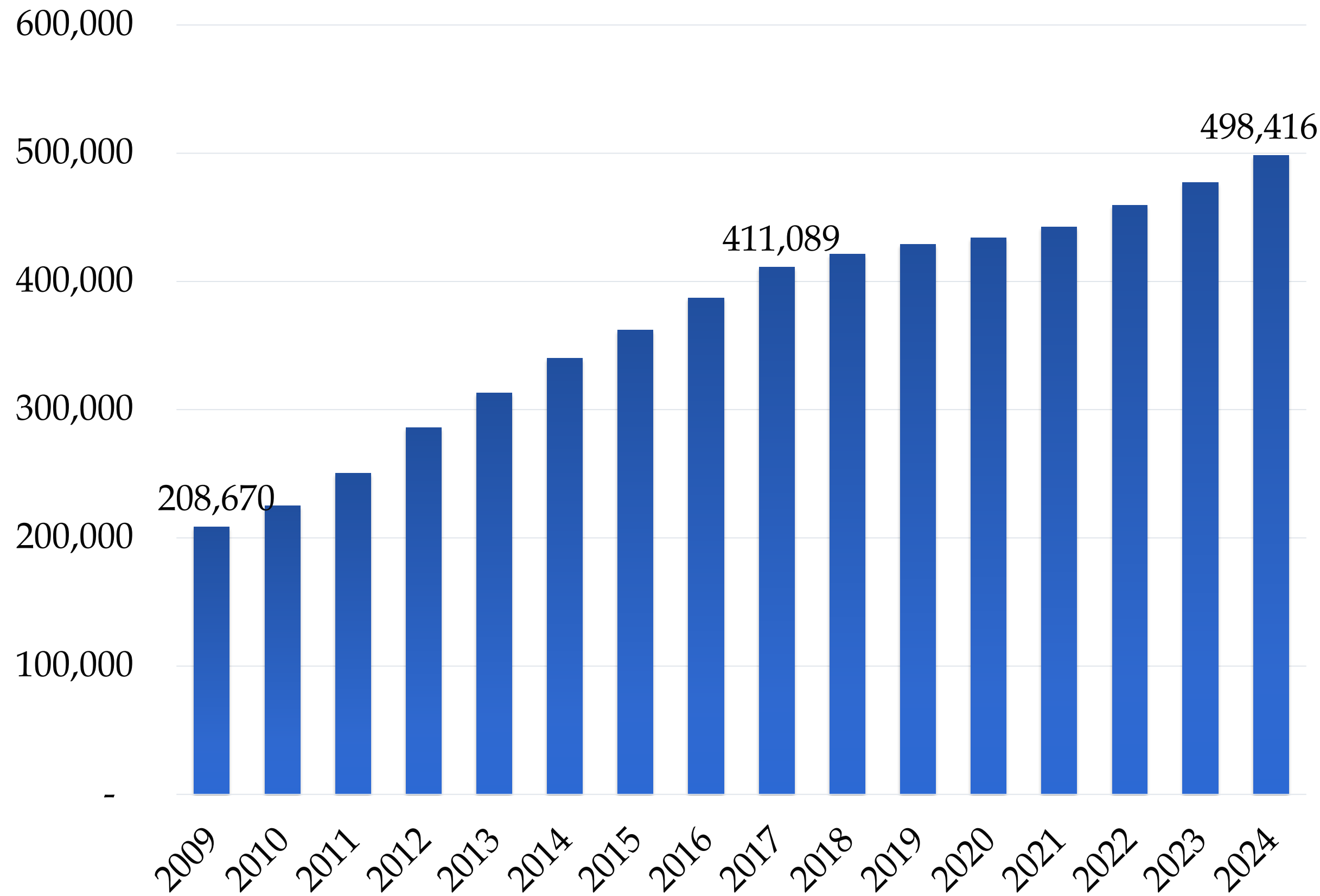
Rate of skill-related underemployment



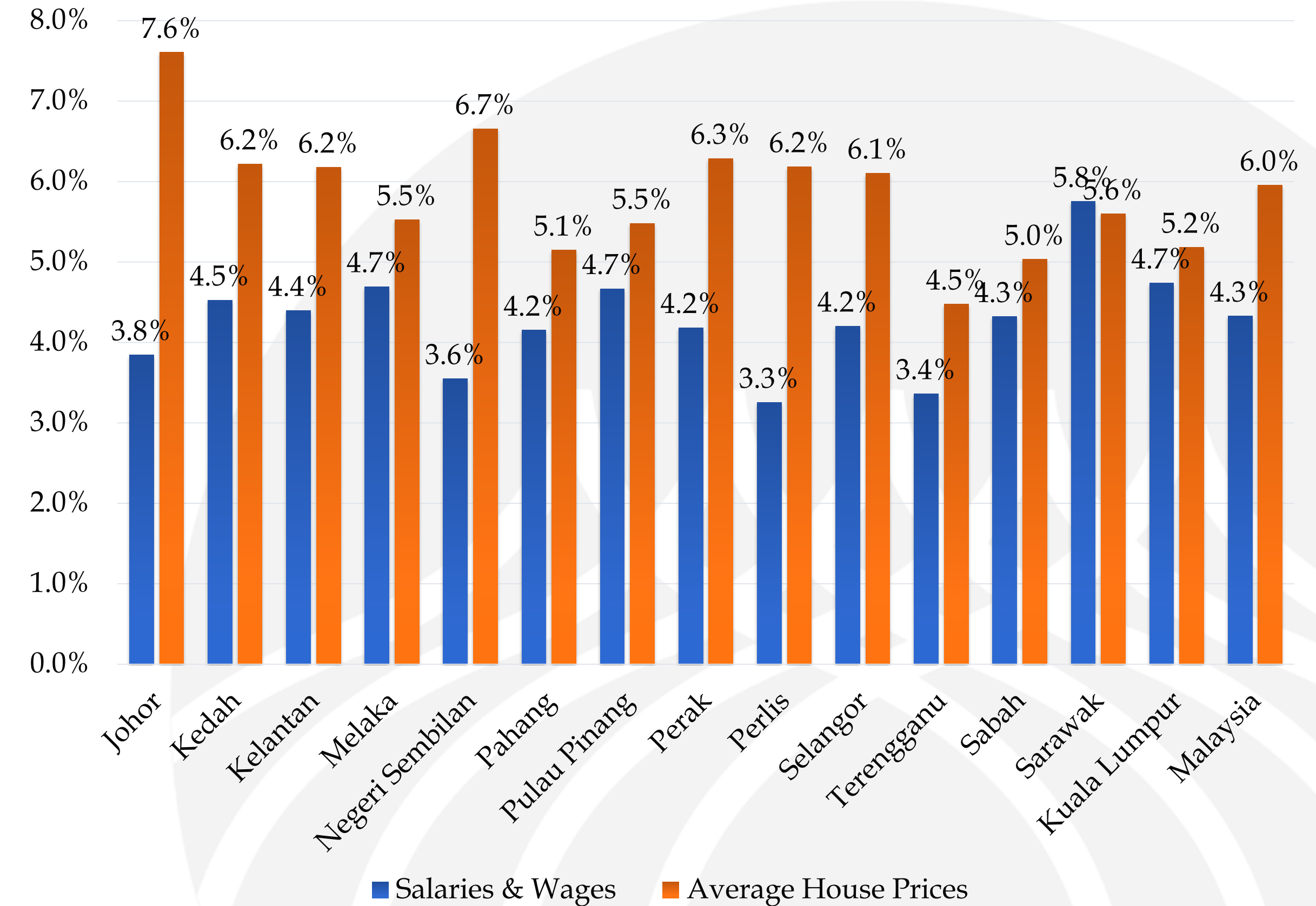
- ❑ Salaries and wages are inefficient as workers are not being paid accordingly with underemployment remain prevalent especially among young graduates.
- ❑ The ecosystem seems not favouring the workers with percentage of unionized workers continue to decline (1982: 11.3%, 1992: 9.3%, 2002: 8.2%, 2012: 6.7%, 2022: 6.1%, 2023: 6.2%).
- ❑ Skill mismatched and focusing on sectors that does yield high-skilled employment.
- ❑ Not to mention gaps in the education sector where students interest in STEM subjects are falling.

# Inefficiencies in housing market

Average House Prices in Malaysia (RM)



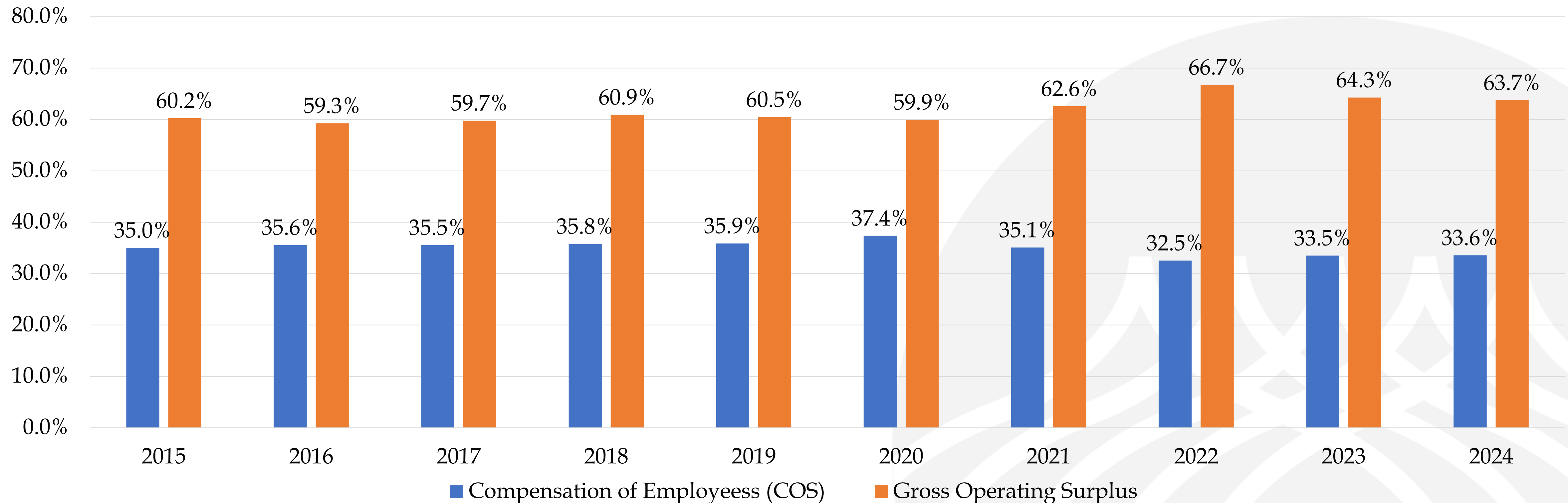
13-year CAGR for Salaries & Wages and Average House Prices (2010 - 2023)



- ❑ Salaries and wages growth are lagging behind the house price appreciation.
- ❑ This has resulted in severe unaffordability among Malaysians

# If inefficiencies become persistent, the economic reward will go to capital owners

GDP by Income Approach (% of total)



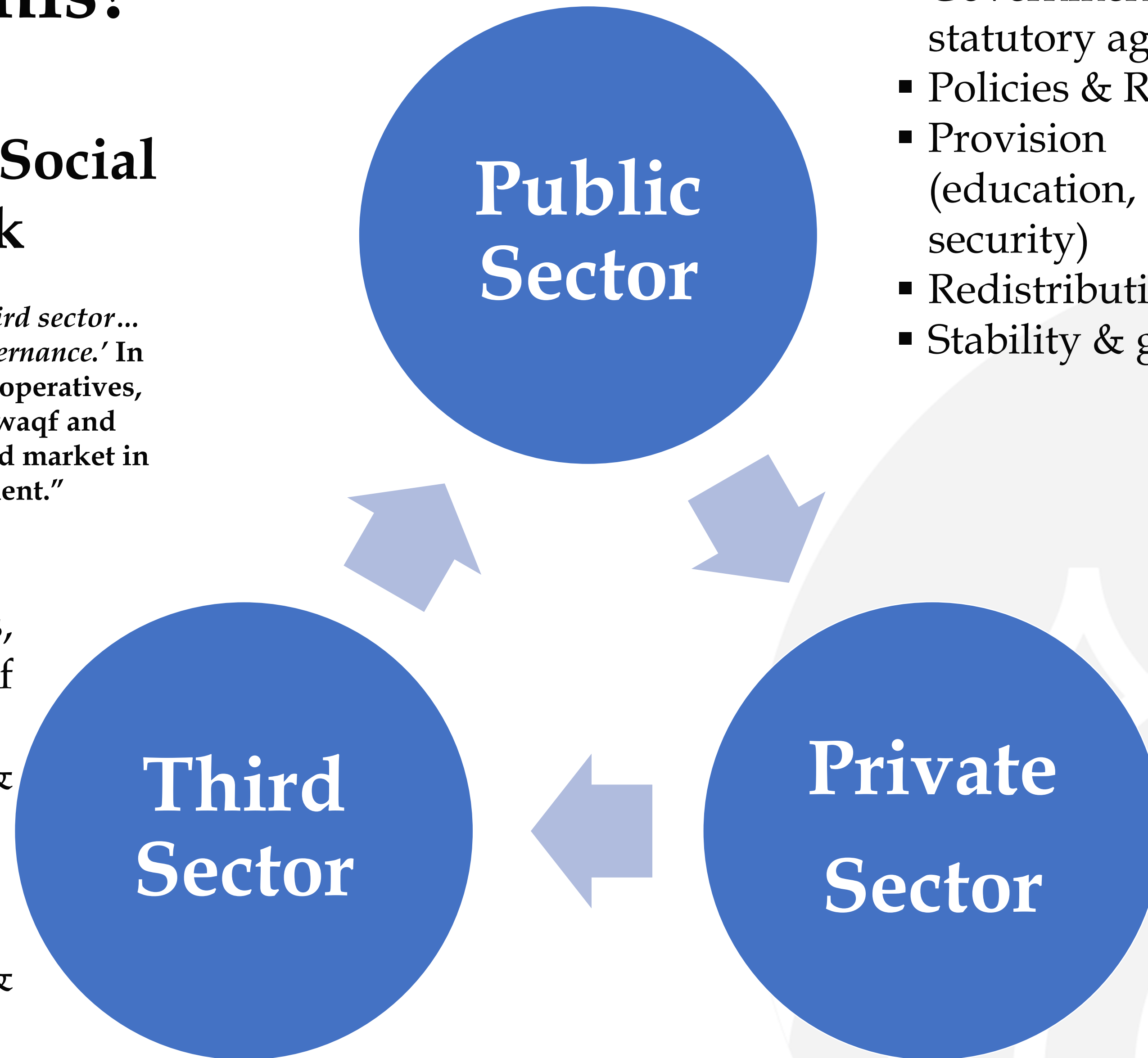
Inefficiencies breadth negative outcomes. Most of the economic benefits will be accrued to the capital owners.

# How to fix this?

## Institutional & Social Framework

*"As Lester Salamon notes, 'the third sector... plays a crucial role in modern governance.' In Malaysia, this includes NGOs, cooperatives, and Islamic social finance like waqf and zakat, which complement state and market in driving inclusive development."*

- NGOs, Cooperatives, Social Enterprises, Waqaf & Zakat.
- Social inclusion & Advocacy
- Community services
- Social capital building
- Complementing state & markets.



- Government, GLICs, GLCs & statutory agencies
- Policies & Regulations
- Provision of public goods (education, healthcare, infra & security)
- Redistribution of welfare
- Stability & governance

- Businesses & MSME
- Production & Innovation
- Capital formation
- Employment creation
- Competition & efficiency
- Profit oriented

**ULTIMATELY ITS ABOUT PROMOTING THE EFFICIENCIES IN THE ECONOMY**

# Conclusion – economic and institutional reforms is a marathon

- Federal government finances trajectory continue to improve and it has received acknowledgement from the investing community.
- However, the fiscal consolidation and structural reforms will be incomplete if the narratives does not indicate the end goal.
- Ultimately, the government should gradually withdraw from the market. Their role is to facilitate and to create better opportunity for the private sector.
- This will also include how the state and local government as well as the GLCs and GLICSs presence in the economy.
- Ideally, we want to promote the economy that is **efficient, transparent and fair.**

# Thank You