



OVERVIEW

Malaysia's Budget 2027, themed **"The Fifth MADANI Budget: Reaching to the Skies, While Anchored on Our Values"** (Menggapai di Langit, Mengakar di Bumi) maintains the MADANI stance of continued, growth-supportive consolidation. The Government targets a lower deficit while preserving social support for households and providing broad-based support and incentives for business investments.

FISCAL POSITION, REVENUE & EXPENDITURE

The federal fiscal deficit is projected to narrow to **3.3% of Gross Domestic Product ("GDP") in 2027** from a revised 3.6% in 2026 and 3.7% in 2025; driven by targeted spending control and revenue measures outpacing net public borrowing growth.

Federal revenue is projected to rise **4.7% to RM380.8 billion** (16.4% of GDP) in 2027, up from a revised RM363.6 billion in 2026 (initially estimated at RM343.1 billion).

- Tax revenue is projected to rise 5.8% to RM297.1 billion, supported by sustained domestic activity, expanded SST collections, e-Invoicing, stronger enforcement and the Stamp Duty Self-Assessment System from January 2027 onwards.
- Non-petroleum revenue is expected to increase by 3.5% to RM319.6 billion, reinforcing the effort to broaden and diversify the revenue base. Petroleum-related revenue remains material at RM61.2 billion, including a projected RM32 billion Petronas dividend (estimated 2026 dividend: RM20 billion).

Despite the reduction in fiscal deficit, the budget remains expansionary. Total federal expenditure is budgeted to increase **3.6% to RM459.8 billion** (19.8% of GDP), compared to a revised RM443.8 billion in 2026 (initially RM419.2 billion).

- Total expenditure comprises RM376.8 billion for operating expenditure and RM83.0 billion for development expenditure.
- Operating expenditure that is higher by 3.8% to RM376.8 billion, prioritises essential services, targeted subsidies and social assistance. Subsidies and social assistance are budgeted to decline marginally by 2.3% to RM72.7 billion as implementation of targeting measures such as BUDI95, BUDI Diesel and the Electronic Cooking Oil Subsidy System (“eCOSS”) generated modest savings. Budget forecast for average Brent crude oil price for 2027 is USD85 per barrel is the same as the revised estimate for 2026 (initial 2026 estimate: USD60-63 per barrel).
- Allocation for development expenditure is 2.5% higher at RM83 billion, with resources directed toward programmes and projects under the 13MP, particularly in infrastructure, human capital development and climate-resilient projects with deemed high-multiplier impact.

MACROECONOMIC OUTLOOK

- Official GDP growth estimate for 2027 is projected at **4.2%-5.2%**, while the 2026 forecast has been revised upward to **4.8%-5.3%** (from the initial 4.0%-4.5% baseline in Budget 2026). Growth going into 2027 will continue to be driven by domestic demand with expectation of continued external sector support (exports projected at +3.0% in 2027) and structural policy support such as 13MP projects, the National Semiconductor Strategy and the National Energy Transition Roadmap.
- Measures in Budget 2027 to further bolster domestic demand include individual income initiatives such as the higher **minimum wage of RM2,000 per month** (currently at RM1,700 per month), expanded individual tax reliefs, private capital investments in tech and green transition, and the continued rollout of 13th Malaysia Plan (“13MP”) national infrastructure projects.
- Headline CPI inflation for 2027 is officially projected to remain well-contained in a range of **1.8%-2.8%** (revised 2026: 1.5%-2.5%), reflecting Malaysia’s net energy exporter position and targeted price stabilisation measures. Inflation is expected to be firmer in early 2027 before moderating as previous cost shocks dissipate and upstream costs normalize.
- As the second budget under the 13MP, Budget 2027 is aligned with the plan’s goals, including reducing the fiscal deficit to below 3.0% of GDP by 2030 and sustaining annual GDP growth between 4.5%-5.5%.

Indicator	2026 Forecast	2027 Budget
GDP Growth	4.8% to 5.3%	4.2% to 5.2%
Unemployment	3.0%	3.0%
Inflation	1.5% to 2.5%	1.8% to 2.8%
Fiscal Deficit	(RM78.5 billion) or 3.6% of GDP	(RM77.5 billion) or 3.3% of GDP
RM Debt-to-GDP	RM1,378.9 billion or 63.1% of GDP	not disclosed
Crude Oil Price	USD85 per barrel	USD85 per barrel

Source : Ministry of Finance, 09 October 2026

STRATEGY – EQUITY

The Budget is generally a people-friendly budget, targeting to benefit the ‘rakyat’. Positively, the Government has stayed the course on fiscal consolidation, with estimated fiscal deficit of 3.3% of GDP for 2027, versus street expectations of 3.3-3.5%. However, the increase in minimum wage to RM2,000 per month is at the high end of market expectations, which was between RM1800-2000 per month.

Beneficiaries from Budget 2027 are Banking (marginal), Consumer, Technology, Utilities and Shipping companies. The Construction sector will also benefit from the continued focus on infrastructure spending and the Variation of Prices clause, but will have to contend with higher minimum wage. The 18% hike in minimum wage is a clear dampener not just for labour-intensive sectors like Construction, selected Manufacturing and Plantations but also leads to rising production costs across the board. Nevertheless, the full impact would vary across companies depending on their mitigation plans.

Overall, the measures proposed under Budget 2027 are broadly in line with market expectations. Hence, we see little substantive impact on the market.

With the broader market likely to be range-bound and with rotational plays, focus will be on buying on weakness and in stretched parts of the market, taking profit. The portfolio strategy is maintained with a preference for banking, construction and increasing technology, renewable energy and Artificial Intelligence / Data Centre beneficiaries as well as stocks that provide good dividends.

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STRATEGY – FIXED INCOME

The Malaysian bond market remains attractive for income-focused investors, although near-term conditions call for patience and selective positioning. Assuming a fiscal deficit of around **3.3% of GDP in 2027**, continued fiscal consolidation should support confidence in the domestic bond market. We estimate **net government bond issuance at around RM77 billion – RM78 billion next year**, with issuance profile almost identical to this year. That said, we expect this supply to be manageable, with domestic institutional support.

Nevertheless, volatility is likely to persist in the near term as sharp movements in US Treasury yields continue to influence local bond prices and investor sentiment. Our assessment is that the market is beginning to bottom out, with the recent sell-off creating more attractive entry opportunities. However, improving valuations do not rule out further price declines, particularly while market liquidity remains uneven.

We see opportunities in the **primary market, where newly issued bonds can offer investors greater scope to seek better credit spreads**, or additional yield above government bonds. Our preference is to secure attractive income from financially strong issuers without taking excessive interest-rate risk. We believe the worst of the repricing may be behind us, but the recovery is unlikely to be smooth.

Our view: Stay defensive on overall duration but use market weakness to secure better-quality income opportunities.

Hence, for our Malaysia Fixed Income Portfolios we will be:

- **Defensive in Duration Positioning:** We will maintain a short portfolio duration, limiting sensitivity to changes in interest rates, while selectively adding bonds with **less than seven years to maturity**. This segment offers what we consider a more favourable balance of income, potential price recovery, and interest-rate risk. Longer-dated Malaysian Government Securities and Government Investment Issues remain a lower priority until US Treasury yields and domestic market liquidity show more durable stability.
- **Selective in Income Opportunities:** We favour high-quality corporate bonds offering attractive yields and adequate compensation for credit risk. Recent market weakness provides an opportunity to negotiate better spreads on new issues. Selection will remain disciplined, with emphasis on issuers' credit strength and bond liquidity, rather than yield alone.
- **Preserving Liquidity, Investing Opportunistically:** We will retain liquidity to capitalize on further market weakness rather than commit capital aggressively. Purchases will be staggered, allowing us to build selective sub-seven-year exposure at more compelling valuations while maintaining flexibility if volatility persists.

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SECTORAL IMPACT SUMMARY

Sector (Budget Impact)	Measures
Automotive (Neutral)	
The maintenance of the BUDI95 monthly quota of 300 litres is a welcome measure, particularly after fuel prices surged but this is unlikely to spur demand for cars. The incentives to promote the Automotive Hi-Tech Valley (“AHTV”) in Tanjong Malim as a regional hub is a longer term positive. In the near term, higher minimum wage will increase production costs across the automotive supply chain.	1) The government will continue BUDI95, after raising the monthly quota to 300 litres in September 2026. Fuel subsidies are expected to remain high at RM40 billion in 2027. 2) Tax deduction of up to RM5 million for wholly Malaysian-owned automotive vendors relocating their operations to AHTV between 1 January 2027 and 31 December 2030 3) Green technology and Electric Vehicles (“EV”) charging get an Investment Tax Allowance of up to 100% extended to 2030.

Impact on FI Issuers

The deliberate state-backed expansion of AHTV in Tanjong Malim, complemented by relocation tax deductions for domestic vendors, reinforces long-term supply chain localization and cluster efficiency. There will be benefits through ecosystem consolidation, lower logistics costs, stronger competitiveness, vendor clustering and relocation incentives. That said, these benefits may be offset by the increase in minimum wage.

Banking & Finance (Positive)

Measures are expected to support loan growth especially for housing and Small and Medium Enterprises (“SME”) loans, while government guarantees reduce credit risk.

Impact on FI Issuers

Measures are largely neutral for bank issuers. Credit cards account for less than 5% of total loans across covered banks, limiting exposure to unsecured retail changes.

- 1) Salary expenses will only qualify for tax deductions if wages are paid through bank accounts, which may support deposit growth and banking liquidity.
- 2) BSN and Agrobank will provide RM270 million in financing for gig workers to start businesses and purchase first homes.
- 3) Syarikat Jaminan Kredit Perumahan (“SJKP”) will offer RM20 billion in housing guarantees to support around 80,000 first-time homebuyers, particularly self-employed individuals.
- 4) Stamp duty for first-home buyers may spur housing loan demand
- 5) Basic credit cards are now offered at interest rates capped at 14% per annum (Alliance Bank, Maybank and CIMB); other banks are encouraged to follow
- 6) Unit Peneraju Agenda Bumiputera (“TERAJU”) will provide up to RM1 billion in financing, while Perbadanan Usahawan Nasional Bhd's funding pool will be expanded to RM500 million from RM350 million.
- 7) Microfinancing allocation will rise to RM6.6 billion in 2027, directed towards youths, gig workers, hawkers and underserved groups.
- 8) Bank Negara Malaysia (“BNM”) will provide an additional RM5 billion financing facility for SMEs affected by the Middle East conflict
- 9) Bank Pembangunan will allocate RM7 billion across seven strategic sectors and a further RM1 billion to support Micro, Small and Medium Enterprises (“MSME”) export expansion.
- 10) SJPP and Credit Guarantee Corporation (“CGC”) will provide up to RM32 billion in financing guarantees, including expanded coverage for mid-tier firms, a higher RM50 million guarantee cap and RM1 billion for Mergers & Acquisitions financing.
- 11) Overall loan and financing guarantee facilities will increase to RM57 billion in 2027 from RM50 billion previously
- 12) 40% tax exemption for Shariah-compliant fund management service providers for assessment years 2028 to 2030

Construction (Positive)

No major infra projects were announced in the Budget 2027. Measures were geared towards supporting states' connectivity, water infrastructure, Johor and Sabah/Sarawak, as widely expected. The increase in minimum wage is negative for the sector. However, the reintroduction of Variation of Prices ("VOP") clause for diesel and bitumen should help ease the construction costs.

Impact on FI Issuers

The Budget is broadly positive for contractors.

- 1) Allocation of RM100 million for retention ponds and river maintenance works to reduce flood risks in Klang Valley, Melaka, Kelantan, Terengganu and Sarawak.
- 2) RM2.5 billion allocated for the National Non-Revenue Water Programme, involving replacement of the ageing water pipelines nationwide.
- 3) Construction of the KLIA-Bandar Enstek Road, upgrading of the Pajam-Nilai-Salak Road and implementation of the Klang Valley Double Track Phase 2 Project.
- 4) Implementation of e-ART system in Johor Bahru in conjunction with the opening of the RTS link in 2027.
- 5) RM3.3 billion allocated for road projects in Sabah and Sarawak, including the Trans Borneo Highway.
- 6) Extension of the East Coast Rail Line from Kota Bharu to Rantau Panjang.
- 7) Reintroduction of the VOP clause for public projects to mitigate increases in diesel and bitumen costs.
- 8) Increase of minimum wage from RM1,700 to RM2,000.

Healthcare (Neutral)

Measures aim to improve the quality and affordability of healthcare especially for senior citizens. The launch of MediAsas and incentives—i.e. paying premiums via EPF members' Akaun Sejahtera and subsidies by the Government—is expected to lower affordability barriers and improve patient volumes.

Impact on FI Issuers

Operating cash flows for private hospital operators are expected to remain underpinned by robust structural demand driven by Malaysia's aging demographic profile.

- 1) Ministry of Health allocation increased to RM47.7 billion, up from RM46.5 billion previously.
- 2) RM1.2 billion is allocated for upgrading and repairing public healthcare facilities.
- 3) Service tax on elderly care services reduced to 6% from 8%, effective 1 January 2027.
- 4) Individual income tax relief expanded to cover a broader range of medical expenses and care-related costs for parents and grandparents
- 5) Total assistance for persons with disabilities rose to RM1.5 billion
- 6) The e-CKAPS portal will enable fully online licensing of private healthcare facilities from 2027, with a targeted reduction of up to 65% in processing times
- 7) MediAsas to be launched January 2027. EPF members below 55 years old can pay MediAsas premiums using funds from Akaun Sejahtera. For SMEs with fewer than 75 employees, the Government will subsidise the first-year premium by RM200 per employee, capped at 50 employees

While credit fundamentals remain strong, the key uncertainty lies in the implementation of DRG-type (diagnosis-based) tariff setting, which could structurally reshape revenue models by standardizing reimbursements and limiting medical-inflation pass-through. The sector's resilience will depend on operators' ability to optimize case-mix, drive efficiency and diversify into ancillary revenue stream to preserve margins under the new regime.

- 8) Starting in 2027, private hospital bills will utilise standardised and transparent charge categories, enabling patients to understand every fee and minimising price distortion.

Oil & Gas (Neutral)

PETRONAS' increased dividend payout could limit funding available for upstream investments, a potential headwind for upstream service providers. However, elevated crude oil prices could partly offset it.

Impact on FI issuers

Petronas remains strategically important and its capex spending will support service providers

- 1) PETRONAS' dividend is projected to increase by 18.5% Year-on-Year ("YoY") to RM32 billion in 2027, from the RM27 billion expected in 2026 (vs. the original Budget 2026 estimate of RM20 billion).
- 2) Fuel subsidies are expected to remain elevated at RM40 billion. BUDI95 quota remains at 300 litres per month, while the BUDI Diesel quota for eligible jeeps and pickups stands at 400 litres per month.
- 3) Subsidised diesel for eligible fishermen is maintained at RM1.65 per litre.
- 4) The government plans to introduce a Carbon Capture, Utilisation and Storage ("CCUS") regulatory framework.

Consumer (Positive)

Increased cash handouts, minimum wage hikes, lower tax rates and additional tax relief measures should continue to support demand for essential goods. Yet, the minimum wage hike is likely to pressure margins for retailers and food manufacturers with a higher proportion of minimum-wage workers, forcing them to either absorb the additional costs to remain competitive or pass them on to consumers through higher prices.

- 1) Total subsidies, aid and incentives exceed RM80 billion, including fuel subsidies (BUDI95) of about RM40 billion.
- 2) Rahmah Cash Contribution ("STR") and Rahmah Basic Contribution ("SARA") increased to RM16 billion from RM15 billion (+6.7% YoY).
- 3) STR recipients will receive SARA of up to RM150 per month or up to RM1,800 per year, benefiting up to 9 million STR recipients.
- 4) SARA MADANI of RM100 paid twice to adults outside STR recipients, benefiting up to 13 million people.

Impact on FI Issuers

Higher disposable income and cash assistance would support consumer spending, particularly on discretionary and lifestyle products. Retailers with a broad exposure to household goods and personal care products are likely to benefit from stronger sales.

- 5) Minimum wage increased to RM2,000 per month from RM1,700 per month effective June 2027, with SMEs under RM50 million sales exempted.
- 6) New minimum wage of RM2,500 per month for semi-skilled and graduates.
- 7) Income Tax rates cut by 1ppt for RM70,000 - RM100,000 band to 18%, RM100,000 -RM150,000 band to 24% (Up to RM1,600 extra disposable income for about 5 million taxpayers).
- 8) Individual tax relief raised to RM12,000 from RM9,000, the first revision since 2010

Gloves (Negative)

The hike in minimum wage is expected to impact profit for Calendar Year 2027 by mid-single digit percent. Given the competition from China, Malaysian players may not be able to fully pass on the higher costs through raising selling prices.

Minimum wage raised to RM2,000 per month from RM1,700 per month effective June 2027.

Plantation (Negative)

Higher labour costs will increase operating costs for plantation companies, which are labour-intensive. However, our understanding is that the impact should be limited, as most plantation workers already earn above the latest statutory minimum wage threshold as wages are based on harvesting and collection output.

- 1) To raise the productivity of local companies, Accelerated Capital Allowances on expenditure for locally produced plant and machinery, and ICT equipment and software will be extended until 31 December 2030.
- 2) Minimum wage increased to RM2,000 per month from RM1,700 per month effective June 2027.
- 3) New minimum wage of RM2,500 per month for semi-skilled and graduates
- 4) RM15 million from palm oil industry cess collections will be allocated for environmental conservation.
- 5) Companies undertaking green and sustainable technology projects and electric vehicle charging stations will be eligible for an Investment Tax Allowance of up to 100%.

Impact on FI Issuers

All Plantation Companies are exposed to higher labour costs from the minimum wage increase and stricter foreign-worker rules, without offsetting sector measures although the impact is expected to be manageable at around 2%-3% earnings. That said, it is worth noting that harvesters, which typically account for 30%-40% of estate workers are generally earning above the proposed minimum wage of RM2,000.

Property (Positive)

The expansion of stamp duty relief is expected to lower purchase costs and support the housing demand. The upcoming launch of Johor–Singapore Special Economic Zone (“JS-SEZ”) master plan and blueprint should provide clarity that will help boost investors’ confidence and support investment conversion. However, the increase in minimum wage is negative for the sector.

Impacted on FI Issuers

The Budget is broadly positive for developers. Overall, the Budget favours affordable and industrial-focused names, with upside for developers with sizable industrial and/or residential landbank in JS-SEZ. Meanwhile, affordable housing projects under direct government initiative will benefit companies in this segment.

- 1) Stamp duty relief for first homebuyers:
 - Homes priced up to RM500,000: Full stamp duty exemption on loan agreements and property transfers, through to end 2030.
 - Homes priced above RM500,000 and up to RM750,000: Full exemption on the first RM500,000, plus a 50% exemption on the remaining amount, through to end 2030.
- 2) Skim Jaminan Kredit Perumahan will provide up to RM20 billion in housing financing guarantees to support 80,000 first-time homebuyers.
- 3) Bandar MADANI Bukit Jalil will be developed as a residential community.
- 4) The JS-SEZ master plan and blueprint will be launched by the end of this year.
- 5) Increase of minimum wage from RM1,700 to RM2,000.

REITs (Neutral)

Tourism related incentives are expected to boost tourist arrivals which could benefit hospitality and retail REITs.

Impact on FI Issuers

Stronger tourism outlook will benefit REITS that have higher exposure to it

- 1) The Visit Malaysia campaign extended to 2027, backed by a RM935 million allocation.
- 2) Tax incentives for international incentive trips, conferences and trade exhibitions extended to Assessment Year 2030.
- 3) Rebates for event organizers at venues with a capacity of at least 10,000 spectators.
- 4) International flight and charter matching grants provided to pioneer new direct routes from China, India, Central Asia and Europe.

Telecommunications (Neutral)

Improvement in internet connectivity to boost topline growth.

Impact on FI Issuers

The planned sovereign AI cloud initiative could potentially benefit local data centre and digital infrastructure companies.

JENDELA programme (phase 2) will see Orang Asli villages gaining 4G coverage while 7,000 km of roads and 1,700 km of rail-tracks will see improvement in internet connectivity.

Technology (Positive)

The funding support will benefit companies with exposure to front-end semiconductor activities, Data Centres and Artificial Intelligence. This also signifies the government's commitment to moving up the semiconductor value chain. Measures on training may help to resolve shortage of skilled labour in the industry. However, the hike in minimum wage to RM2,000 per month will weigh on labour intensive EMS players

- 1) GLICs will mobilise RM25 billion under GEAR-uP, including to support higher-value semiconductor activities.
- 2) RM2.1 billion from the New Industrial Master Plan Fund, KWAP's Dana Pemacu and Khazanah's Dana MTC will be deployed to strengthen mid-tier companies in Electrical & Electronics, Digital Technology, Aerospace and Medical Devices.
- 3) Khazanah and KWAP will invest RM450 million to support startup development
- 4) Government will allocate RM6 billion for Research & Development and commercialisation, while Malaysia Digital Economy Corporation will provide RM30m to help 4,000 MSMEs adopt AI and automation.
- 5) Sime Darby Property, EPF and LTAT will establish a RM1.25 billion New Economy Venture Fund focused on data centres and logistics assets in Elmina.

Impact on FI Issuers

Labour intensive companies face higher cost from the minimum wage floor, though the impact should be partially mitigated by contractual cost pass-through mechanism embedded in most customer contracts.

- 6) RM8 billion is allocated for TVET across ministries, while HRD Corp will deploy RM3 billion to provide 3 million skills-training opportunities

The increase in minimum wage to RM2,000.

Transportation (Airports: Positive; Seaports: Positive)

Extension of Visit Malaysia Year could potentially benefit the tourism sector including aviation. We do not expect the minimum wage hike to materially affect port operators, as the industry generally adopts a minimum wage of RM2,000 for newly confirmed employees, effectively mitigating the impact of the wage adjustment.

Impact on FI Issuers

Airport Operators are expected to benefit from stronger passenger throughput, more airline movements, higher aeronautical revenue and nonaeronautical income from retail and commercial activities.

The acceleration of the JS-SEZ is expected to increase industrial investments and manufacturing activities, supporting throughput growth, benefiting ports based in Johor.

- 1) Visit Malaysia Year is extended until 2027, with a total allocation of RM935 million.
- 2) Minimum wage increased to RM2,000 per month from RM1,700 per month effective June 2027.
- 3) RM1.1 billion allocation to transport infrastructure which includes the upgrading of roads in port areas, as well as airports in Kota Kinabalu, Miri, Tawau, Sandakan, Penang and the STOLports in Long Banga and Ba'Kelalan, Sarawak.
- 4) Companies purchasing green technology assets for their own consumption will be eligible for an Investment Tax Allowance of up to 100%.
- 5) 100% income tax exemption on shipping income for Malaysian shipping companies is extended from 2026 (original expiry) until 2036
- 6) The Government introduced a fixed stamp duty for ship-financing loans:
 - RM2,000 for loans up to RM100 million
 - RM5,000 for loans exceeding RM100 million compared to 0.5% of loan amount previously

Utilities (Power Infrastructure and Renewable Energy: Positive)

Continued government support for grid investment and green energy will sustain the sector.

Impact on FI Issuers

TNB's RM15bn grid program signals sizeable, regulated asset base growth. Companies in the sector could benefit from potential involvement in new base-load plants required to stabilize supply as solar's share in the system increases. They are also well-positioned to participate in renewable energy opportunities.

- 1) Tenaga will invest RM15 billion to strengthen the National Grid and ensure the continuity of the nation's electricity supply.
- 2) UEM Lestara is investing RM1 billion, including an energy storage project at KLIA and a 1GW hybrid energy project in Johor.
- 3) KWAP's RM1 billion Climate Fund is being utilized for green projects such as renewable energy and decarbonisation.
- 4) To encourage more companies to adopt green and sustainable technologies, tax incentives will be enhanced and extended until 31 December 2030, whereby:
 - Companies undertaking green and sustainable technology projects and electric vehicle charging station projects are eligible for an Investment Tax Allowance of up to 100%; and
 - Companies purchasing green technology assets for their own use are eligible for an Investment Tax Allowance of up to 100%.

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