Malaysia Budget 2026 Update

Overview

Budget 2026, themed "Belanjawan MADANI Keempat: Belanjawan Rakyat" (The Fourth MADANI Budget: The Rakyat's Budget), is another calibrated budget under the MADANI framework. It strikes a balance between:

a) **Social support and fiscal spending** on projects aimed at boosting economic resilience and growth amid global risks; and
b) Continued commitment to **fiscal discipline and consolidation**.

This budget is also the first under the 13th Malaysia Plan ("13MP") and is aligned with its goals, including reducing the budget deficit to below 3% of Gross Domestic Product ("GDP") with annual GDP growth targeted at 4.5–5.5% during the plan period (actual average GDP growth was 5.2% for 2021–2024).

The **fiscal deficit target** for Budget 2026 is set at **3.5% of GDP**, marking a notable consolidation from 3.8% in 2025. This narrowing is driven by a reduction in budgeted expenditure as a percentage of GDP, which outpaces the expected decline in revenue collection.

The official **GDP growth estimate for 2026** is in the range of **4.0–4.5%**, slightly more conservative than the unchanged 2025 estimate of 4.0–4.8%. Growth will be anchored by domestic demand, supported by ongoing cash handouts, wage initiatives including Phase 2 of the civil servant wage increase, expected private capital investments in semiconductors, renewable energy and data centres, continued contributions from tourism, and the rollout of 13MP projects such as the LRT Mutiara Line and the ASEAN Power Grid.

Despite the narrower fiscal deficit, the budget remains **expansionary**, with **total expenditure** projected at **RM419.2 billion** in 2026, up from a revised RM412.1 billion in 2025 (original allocation for 2025 was RM421.0 billion). The downward revision for 2025 was attributed to the "optimisation of emoluments, lower debt service charges and reduced disbursement for development expenditure ("DE"), according to the Ministry of Finance ("MoF").

Operating Expenditure ("OE") accounts for **RM338.2 billion** or **80.7%** of total spending in 2026 (2025 revised: RM332.2 billion). Key components include:

- Emoluments: RM109.4 billion (+5.6%)
- Retirement charges: RM42.8 billion (+6.8%)
- Debt service charges: RM58.3 billion (+7.4%)
- Other expenditures: RM11.3 billion (+26.1%)

These increases are offset by reductions in:

- Supplies and services: RM40.3 billion (–5.2%)
- Subsidies and social assistance: RM49.0 billion (–14.1%)

DE is set at **RM81.0 billion** for 2026, a 1.3% increase from the revised RM80.0 billion in 2025. The **economic sector** remains the largest recipient, accounting for **45.4%** of DE, with major allocations to transport, environment, and trade and industry subsectors.

The **social sector** receives the second-largest share at **35.3%**, with the **education and training subsector** allocated **RM14.5 billion** to enhance learning facilities, strengthen ICT infrastructure to bridge the rural-urban divide, and modernise teaching environments. The **health subsector** receives **RM7 billion** to improve healthcare delivery, upgrade equipment, and enhance service quality. The remaining DE is allocated to **security (14.5%)** and **general administration (4.8%)**.

On the revenue side, **Federal Government revenue** is projected to grow by **2.7%** to **RM343.1 billion** in 2026 (2025: +2.9% to RM334.1 billion), supported by revenue measures introduced since 2024, including the Sales & Services Tax ("SST") rate and scope expansion, e-invoicing and tax compliance initiatives.

Tax revenue is estimated at **RM270.4 billion**, comprising **78.8%** of total revenue while **non-tax revenue** is projected at **RM72.7 billion**. Within non-tax revenue, reliance on petroleum-related income is expected to decline to 12.5% of total revenue (RM43 billion) in 2026 (2025: 17.0% or RM56.8 billion). The Petronas dividend is estimated at RM20 billion for 2026, down from RM32 billion in 2025, based on an official crude oil price forecast averaging USD70/bbl for 2026–2028.

The **headline CPI** inflation forecast for 2026 is **1.3–2.0%**, reflecting expectations of easing global prices. The wide range accounts for potential global economic and geopolitical volatility.

STRATEGY – EQUITY

Measures announced in Budget 2026 were largely within expectations. Key sectors that will benefit are **Consumer, Construction and Tourism-related** (including **Healthcare**, which not only benefits from increased budget allocation but also from medical tourism). To a lesser extent, Financial Services and Technology also benefit. Benefits to the banks are marginal, while the Budget incentives for Technology will accrue over the longer-term. The impact on the property sector is marginally positive but the absence of a "build-then-sell" ruling is a relief, which may lift sentiment on the sector.

We expect to see greater trading interest in listed companies linked to **Sabah and Sarawak**, given the increase in development allocations to these two states from RM12.6bn in Budget 2025 to RM12.9bn in Budget 2026. (beneficiaries detailed in the commentary on Construction, below). Other sub-industries that may see a pick-up in interest include water infrastructure and pipe manufacturers given the focus on water supply projects and capital expenditure by Pengurusan Aset Air of up to RM13bn over 5 years.

Sin taxes will be increased effective 1 November 2025. While this was not unexpected it will cause concern there might be reduced demand and with the cost of such increases being passed on to consumers through higher prices, there is an increased risk of illicit imports of such products. Should this occur, the legitimate players could face reduced demand which will negatively impact sales.

A carbon tax will be introduced in 2026 with the initial focus on the iron, steel and energy sectors. Details will only be available later. The prospects of additional costs and uncertainty on the rate will be a dampener on these sectors.

We note that Budget 2026 marks Malaysia's strongest integration of Environment, Social and Governance ("ESG") principles into fiscal and industrial policies with clear environmental measures (investment pipelines in renewable energy, green finance, sustainable agriculture), social initiatives and governance reforms (anti-corruption and digital transparency). An effective execution of these policies together with the implementation of the carbon tax could raise institutional trust and enhance the "ESG premium" of the Malaysian market to foreign investors.

The budget underpins the government's commitment to a prudent and sustainable growth path thus ensuring earnings resilience ahead. We **remain positive on the market.**

STRATEGY – FIXED INCOME

The Malaysian bond market remains a carry-friendly market supported by stable domestic demand and attractive relative yields. Investors should stay invested in local bonds, despite a strong rally this year. With the fiscal deficit target expected to reduce to 3.5% next year from 3.8% this year, we can expect **less government bond supply** next year.

Bank Negara Malaysia ("BNM") is likely to maintain accommodative monetary policy in the near term, while open to loosen policy if external headwinds increase. Inflation pressures remain benign, while domestic liquidity from institutional investors continues to provide structural support. Foreign inflows should remain stable as long as relative yields and the currency outlook remain attractive.

AmInvest's Fixed Income Investment Strategy:

- Duration: We advocate a slight overweight portfolio duration approach with exposure to bonds with selective positions in the 7–10 year range. This allows portfolios to capture carry and roll-down benefits, while keeping flexibility to adjust if yields rise unexpectedly.

- Income Generation with Protective Positioning: To shield against downside risk, allocations to high-quality corporate bonds with reasonable credit spreads provide stability and reduce volatility. These assets act as a buffer should longer-end yields back up. We are very selective on credit names at this juncture.

- Opportunistic Trading: The long end of the yield curve remains an opportunistic play for income generation. Valuations have cheapened after recent bond supply concerns. This can enhance returns for investors with a higher risk appetite but positions should be managed tactically given the potential volatility.

SECTORAL IMPACT SUMMARY

Sectors with Positive Impact from the Budget

Sector	Measures
Banking **Budget Impact:** Positive Incentives for homebuyers and LPPSA borrowers could drive housing loan demand, while incentives for SRI Sukuk and Bonds could further enhance fee income. The extension of income tax exemption on foreign-sourced dividends would be a relief to banks with fund management/unit trust businesses. We remain positive on banks especially since the Bursa Finance Index is still trading at undemanding valuation of 9.8x forward PE.	• Full exemption of stamp duty on the sale and purchase agreements and loan agreements for first time homebuyers of properties priced up to RM500k. This exemption will be for two years until 31 Dec 2027. • The limit for financing under Lembaga Pembiayaan Perumahan Sektor Awam ("LPPSA") will be raised up to RM1m. In addition, second financing can be undertaken without requiring borrowers to settle their outstanding loan balances but the overall financing will be capped by maximum loan eligibility. This will be implemented as early as 4Q26. Banks under LPPSA are Bank Islam, Bank Simpanan Nasional (not listed) and DRB-owned Bank Muamalat. • For the SRI Sukuk and Bond Grant Scheme, the grant allocation received from the SC for external review expenditure will be increased from 90% to 100%, subject to a cap of RM300k. The income tax exemption on the grant will be extended until 31 Dec 2028. Eligible instruments are expanded to include sukuk and bonds that conform to the ASEAN Taxonomy for Sustainable Finance. • A four-year extension (from 1 January 2027 to 31 December 2030) of income tax exemption on dividends from investments and gains from the disposal of capital assets abroad received by resident companies, Limited Liability Partnerships, cooperative societies and trust bodies as well as Foreign Sourced Income for unit trusts.
Insurance **Budget Impact:** Positive. While measures announced could spur further take-up of life insurance or takaful products, we are unclear on the competitive	• Tax relief of up to RM3000 for life insurance premiums or takaful contributions for self, husband and wife is expanded to include children subject to meeting specified conditions. • The exemption of stamp duty for small-value policies for insurance and takaful contracts will be extended for three years until 2028.

impact of the upcoming "basic insurance product for all", as the details have yet to be announced.	• The government and industry to jointly provide RM60mn to introduce an affordable basic insurance product for all and to introduce the Diagnosis Related Group system.
Capital Markets **Budget Impact:** Positive. The incentives proposed would lower transaction costs on ETFs and structured warrants and may spur increased trading activities in these instruments, while the expansion of income tax deductions to a greater pool of companies would encourage more IPOs into the market.	• Stamp duty exemption on contract notes for exchange-traded funds ("ETF") transactions will be extended for three years until 31 Dec 2028. • Stamp duty exemption on contract notes for buy-side structured warrant transactions will be extended for three years until 31 Dec 2028. • Income tax deduction of up to RM1.5 million for expenses incurred on listing on Bursa Malaysia's Main Market, Access, Certainty, Efficiency ("ACE") Market, and Leading Entrepreneur Accelerator Platform ("LEAP") Market by technology-based companies and MSMEs will be expanded to include MSMEs in the energy and utilities sectors. Further, this deduction will be extended to YA 2030.
Aviation **Budget Impact:** Positive Various measures to promote tourism activities ahead of VMY2026 will increase demand for air travel. This will be supported by the airport improvements in terms of operational efficiency and potential capacity for airlines.	• More than RM700m funding allocated to stimulate the tourism industry, including RM500m to support the Visit Malaysia 2026 ("VMY2026") campaign, which targets 47m visitors and RM329b in tourism revenue. • RM1,000 tax relief for entrance fees to local attractions and cultural events to boost domestic tourism. • Airport upgrades in Penang, Kota Kinabalu, Tawau and Miri to be completed by 2028. • Inter-terminal transfer project between KLIA T1 and T2 to improve passenger connectivity. • The Selangor government and MAHB are jointly developing the 600-acre Selangor Aero Park in Sepang as a regional logistics and cargo centre.
Property **Budget Impact:** Marginally Positive	• RM672m allocation for Program Residensi Rakyat and Rumah Mesra Rakyat.

The extension of stamp duty should sustain demand in affordable residential segment. The absence of a firm policy on "build then sell" is a relief as it could have posed cash flow concerns for highly geared developers. We are positive on property developers in the affordable housing space.	• Allocation for Skim Jaminan Kredit Perumahan guarantee increased to RM20b to assist first-time homebuyers. • Extension of full stamp duty exemption on the instrument of transfer and loan agreement for first homes priced up to RM500k to end-2027. • Stamp duty rate on instruments of transfer for residential properties purchased by non-citizens and foreign companies (except for permanent residents) increased from 4% to 8%. • Encourage financial institution to support the implementation of rent-to-own schemes and build-then-sell housing schemes. • A special tax deduction of up to 10% of expenditures incurred for the renovation and conversion of commercial buildings into residential premises, capped at RM10m.
Real Estate Investment Trusts ("REITs") **Budget Impact:** Positive The measures introduced should drive stronger domestic and foreign footfall and hospitality demand. We are positive on REITs with exposure to prime retail malls and hotels.	• Over RM700m allocation for the tourism sector which includes RM500m to support the Visit Malaysia Year 2026 campaign. • A special individual income tax relief of up to RM1k for expenses on entrance fees to local tourist attractions.
Consumer **Budget Impact:** Positive The cash handouts and expected increase in tourist arrivals will benefit consumer staples and tourism related beneficiaries companies.	• The Government has increased total cash handouts via the SARA (Sumbangan Asas Rahmah) and STR (Sumbangan Tunai Rahmah) programmes by 15% to RM15bn. Further, all 9m STR recipients will receive additional SARA assistance of up to RM100 per month. Meanwhile, 1m STR recipients under the e-Kasih category will receive up to an additional RM200 monthly. Single individuals will also receive RM600 a year, equivalent to RM50 a month, under SARA.

	• A one-time SARA RM100 payment will be given again to 22m Malaysians aged 18 and above in mid-February next year. • In conjunction with Visit Malaysia 2026, Malaysia aims to attract 47m visitors and generate tourism income of RM329bn next year. The government is allocating over RM700m for the tourism sector, providing up to RM1,000 individual income tax relief for Malaysians for entrance fees to local tourism centres and cultural programme and providing various tax incentives for enterprises in the tourism and cultural sector.
Technology **Budget Impact:** Positive The initiatives around AI, blockchain adoption and digitalisation will likely spike the demand for ICT-related products and cloud services. This should benefit IT hardware, solutions, cyber security, system integrators, data management, and related training providers/players.	• Roughly RM8bn allocation to achieve “AI Nation” status by 2030 including (i) RM5.9bn for cross-ministerial Research, Development, Commercialization and Innovation activities, (ii) RM2bn for a Sovereign Artificial Intelligence (“AI”) Cloud project spearheaded by the Malaysia Communications and Multimedia Commission (“MCMC”), (iii) RM53m in digital acceleration grants to promote the adoption of advanced technologies like AI, blockchain and quantum computing and (iv) RM20m allocation for the National AI Office to train critical talent and strengthen digital infrastructure to create an efficient domestic AI ecosystem. • Khazanah Nasional and Kumpulan Wang Persaraan will jointly invest MYR550m into the semiconductor ecosystem to foster partnerships between local firms and multinational corporations. • Bank Pembangunan Malaysia to provide RM500m in loans for local E&E companies seeking funding for high-value-added activities. • RM200m Strategic Co-Investment Fund will provide matching funds to SMEs and intermediate companies that strengthen the supply chain of key sectors through equity crowdfunding and peer-to-peer financing platforms. • RM180m New Industrial Master Plan or NIMP Industrial Development Fund will finance industry-development programmes in high-impact sectors such as pharmaceuticals, semiconductors, AI, digital and sustainability.

	• Roughly RM5bn allocation for technical and vocational education training (“TVET”) including (i) RM3b for Human Resource Development Corp to create 3m training opportunities in the high-tech and digital economy sectors, (ii) RM1.3b for Ministry of Education to train 79,000 TVET students and (iii) RM650m for Perbadanan Tabung Pembangunan Kemahiran to train 25,000 individuals in high-growth sectors such as AI, EVs and semiconductors.
Healthcare **Budget Impact:** Positive. Providing better access to insurance schemes should contribute to stronger patient volumes in private hospitals, however the impact should be minimal given that the schemes are more likely to cater toward lower value services.	• Allocation of RM46.5bn has been granted to the Ministry of Health, of which RM1.2bn will be utilised for the maintenance and renovation of all government hospitals and clinics. • The government will also increase cooperation to outsource patients to military, university, and private hospitals with an allocation of RM140m. • Over RM700m will be provided to boost the tourism sector, including RM20m to the Malaysian Health Tourism Council to intensify health tourism programs. • A total of RM60m of joint funding from the Government and the industry have been allocated to introduce affordable basic medical and health insurance/takaful products for all and to support the implementation of Diagnosis Related Group payment system. • The Government will initiate public-private partnership projects for essential medicines which will be partly financed by an RM180m allocation under the NIMP Industrial Development Fund.
Telecommunications **Budget Impact:** Positive. Expansion of broadband internet coverage especially in rural areas should benefit infrastructure providers. The submarine cable is likely to be funded by the Universal Service Provision Fund and therefore should have minimal impact on the capex outlay of listed telcos. We remain positive on the telco players.	• Malaysia Communications and Multimedia Commission (“MCMC”) will implement a RM2bn project called MADANI Submarine Cable system, linking Johor to Sarawak and Sabah. • RM770m allocation to implement the remaining Phase 2 Points of Presence near industrial areas and selected schools in rural regions. • RM780m allocation to expand broadband coverage to 2,700 new locations under JENDELA Phase 2.

	• RM650m allocation to upgrade Internet connectivity in public hospitals and various government clinics.
Construction **Budget Impact:** Positive. Development Expenditure stays sizeable at RM81 billion with RM17.5 billion earmarked for transport (+6.7% YoY), and targeted spend on flood mitigation, water, rural roads and East Malaysia. Though measures are positive, the impact will largely be on small/midcap construction players. For big-caps, the absence of MRT3/JB ART is a sentiment drag but near-term work packages are well defined, sustaining earnings visibility into 2026–27. The emphasis on improving water infrastructure will benefit companies with experience in constructing water infrastructure and pipe replacement works. The focus on Sabah/Sarawak could benefit companies with exposure in these two states.	• Transport: RM17.5 billion for rail/highways/ports; focus on rural connectivity and congestion relief. • Federal roads: RM2.5 billion maintenance (incl. potholes, lights, furniture) with RM700 million reserved for G1–G4 contractors; MARRIS RM5.6 billion to states. • Flood mitigation & Environment: RM2.2 billion for 43 high-priority flood mitigation projects (12 new ones in 2026); environment development expenditure ~RM3.8 billion. • Water: ~RM1.4 billion for water supply projects; non-revenue water programme continues; Pengurusan Aset Air plans up to RM13 billion spending over 5 years. • East Malaysia: Pan Borneo Sabah (~RM1.67 billion to keep on track), Trans-Borneo Highway tenders as early as 1Q26. • Airports: RM2.3 billion for expansions in Penang, Kota Kinabalu, Tawau, Miri (target completion by 2028). • Public facilities: RM2.2 billion for civil servant quarters; Education: RM66.2 billion operating expenditure on new schools; Healthcare Development Expenditure of RM7 billion (projects: Northern Region Cancer Centre; blocks at Pontian/Banting/Sg Buloh).
Utilities **Budget Impact:** Positive. Budget 2026 positions Utilities and Renewable Energy as a structural growth pillar under Malaysia's National Energy Transition Roadmap. Unlike previous budgets that leaned heavily on traditional power generation, this iteration signals a decisive pivot toward grid modernization, renewable integration and decarbonization incentives.	• LSS6 Solar: ~2GW capacity; ~RM6 billion private investment expected. • CRESS Program: RM3.5 billion allocation to accelerate commercial/industrial rooftop solar (~500MW). • Energy Transition Fund: RM150 million for National Energy Transition Roadmap ("NETR") priority projects. • Green Incentives: 100% Green Investment Tax Allowance for MyHIJAU-certified tech.

	• Public Transport Decarbonization: Prasarana to electrify bus fleets and adopt low-carbon mobility. • ASEAN Power Grid: TENAGA and PETRONAS are collaborating with ASEAN partners to accelerate the Vietnam–Malaysia–Singapore project, which will transmit renewable energy from southern Vietnam to Malaysia and Singapore. • The Solar Accelerated Transition Action Programme which is set to be launched on 1 Dec 2025 is to replace NEM 3.0, allowing consumers to generate energy for self-use and sell the surplus to utility players. This is expected to contribute up to 500MW in additional solar capacity. • Feed-in tariff expansion with an additional 300MW quota will be allocated for biogas, biomass, and small hydropower, with operations expected as early as 2028.

Sectors with Neutral Impact from the Budget

Plantation **Budget Impact:** Neutral Not much impact to palm oil companies as government is focusing more on smallholders. Sabah and Sarawak companies may be beneficiaries amid the development of refinery hubs for green diesel. The review on progressive increase in minimum wage toward RM1,800/month may be a slight negative to planters. Despite this, we are positive on the sector as CPO prices remain firm amid expectations of supply shortage in the edible oil market and increasing demand from Indonesia's B50 biodiesel mandate.	• RM2.4b budgeted for FELDA, FELCRA and RISDA. • RM20m to support start-up companies in producing mechanisation and automation products. • RM120m for covering smallholders' partial cost of replanting of palm oil, supplying cocoa smallholders with 1.1m quality cocoa seedlings, etc. • RM50m to develop and maintain plantation roads. • RM63m to counter Anti-Palm Oil Campaigns.
Port & Logistics **Budget Impact:** Neutral	• Accelerated Capital Allowances for the purchase of speed limiters on heavy vehicles.

The allocation for port modernisation and shipyard upgrades may not directly benefit the listed port operators.	
Automotive Budget Impact: Neutral Vehicle unit sales are expected to contract this year and intensifying competition in the non-national segment continues to persist, particularly from China brands. Budget incentives are positive for national brands and those that locally assemble EVs.	• Planning to include the Lemon Law in the Consumer Protection Act which will protect buyers from purchasing defective vehicles. This increases warranty and compliance costs for automakers. However, it is broadly positive for market confidence, as it could encourage consumers to consider new brands. • No extension of import and excise duty exemptions for completely built-up EVs from 2026 while completely knocked-down EVs will continue to enjoy full tax exemptions until 31 Dec 2027. • 100% excise and sales tax exemptions will be maintained for taxi and private-hire drivers purchasing new Proton or Perodua car models. • Grants of up to RM4,000 to encourage owners of vehicles over 20 years old to replace them with new national models.

Sectors with Negative Impact from the Budget

Oil and Gas **Budget Impact:** Negative. We are cautious given the imminent overhang of the carbon tax. In addition, the budget pegs Brent at USD60–65/bbl (2026), and PETRONAS dividend to the government normalizes to RM20 billion (from RM32 billion). Upstream activity visibility is clouded by PETROS related uncertainties and capex may ease in 2026.	• Subsidies: Targeted diesel/RON95 aid framework continues (BUDI95 database) to stabilise eligible demand. • Energy transition funding: KWAP "Dana Pemacu" RM1.2 billion to co-invest in energy transition. • ASEAN Power Grid development highlights regional electricity trade ambitions (indirect gas/RE implications. • Introduction of carbon tax on steel, iron and energy sectors, with details to be announced later.
Tobacco and Breweries **Budget Impact:** Negative There may be knee-jerk selling on breweries and tobacco stocks. However, although prices of	Effective 1 November 2025: • Excise duties on alcoholic beverages will increase by 10%, from RM175 per liter of alcohol to RM192.5 per liter;

alcoholic beverages and cigarettes would be raised, impact on sales volume may be limited due to their relatively inelastic demand.	• Excise duty on cigars, cheroots and cigarillos will be increased in phases, with an initial hike of RM40 per kg; and • Excise duty on heated tobacco products will be increased in phases, with an initial hike of RM20 per kg of tobacco content.

Disclaimer