



Socio-Economic
Research Centre
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J.P. Morgan Chase Bank Fireside Chat on Malaysia National Budget 2027

Balancing Between Fiscal Prudence and Spending Priorities

Lee Heng Guie
Executive Director

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Key Takeaways —

1

A moderately expansionary Budget. Growth and resilience Budget. Dual priority - rakyat-centric relief and business sustainability.

2

Sustained fiscal consolidation. It demonstrates a firm commitment to reducing its budget deficit and stabilizing public debt, to enhance market confidence and sustain sovereign credit ratings.

3

Growth resilience to continue into 2027, but the risks remain. Domestic demand lack of organic strength. Exports face moderated growth and headwinds, driven by the US trade policies, geopolitical tensions, weather shocks, and potential AI market corrections.

2027 Budget Perspectives

* Balancing between Fiscal Prudence and Spending Priorities

Fiscal discipline strengthens fiscal space

Efficient Budget execution sustains economic stability

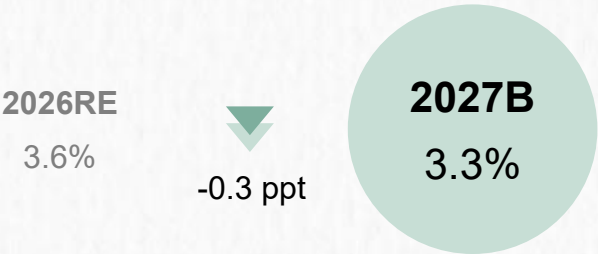
Fiscal credibility fosters market confidence and enhances sovereign credit ratings

- 1** **Sustain macro resilience.** The Budget navigates steady domestic economic expansion as global uncertainty from ongoing geopolitical tensions and rising inflation pressures weighs heavily.
- 2** **A high-stakes Budget balancing act** of delivering immediate economic and financial relief while heavily investing in the long-term structural strength.
- 3** **Advancing medium- and long-term strategies** to strengthen structural competitiveness, accelerate digital adoption and AI transformation, and foster sustainable economic growth.

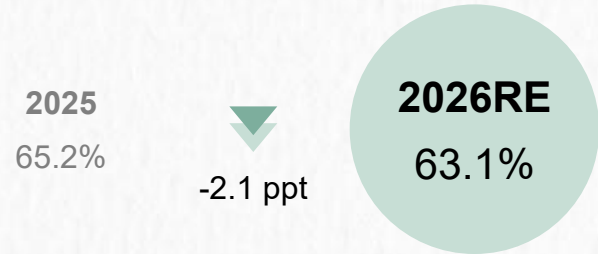
A moderately expansionary Budget amid continued fiscal consolidation

- * +3.6% in total expenditure
- * Cut taxes to stimulate economic growth and raise aggregate demand
- * Targeted incentives and allocations to drive future growth in high value sectors

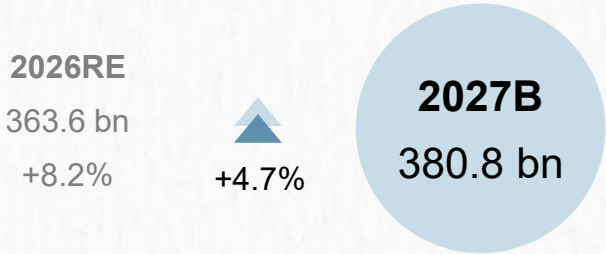
Fiscal Deficit (% of GDP)



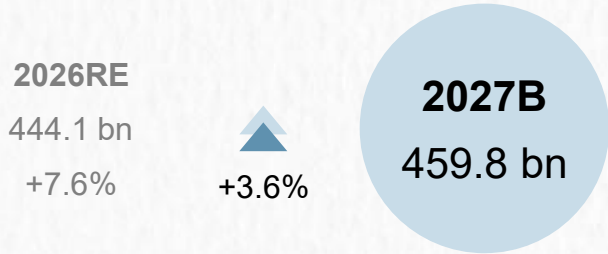
Debt-to-GDP (%)



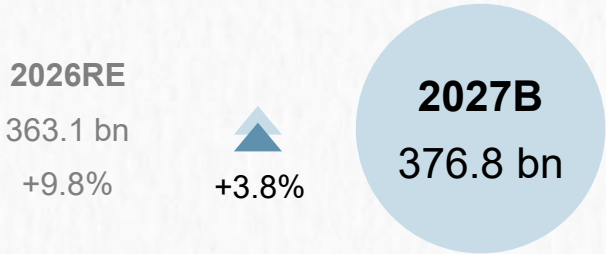
Total Revenue (RM)



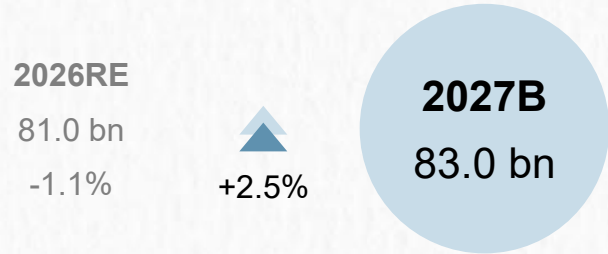
Total Expenditure (RM)



Operating Expenditure (RM)



Gross Development Expenditure (RM)



Note: RE = Revised Estimate; B = Budget Estimate
Source: Ministry of Finance (MOF)

The economy

* Running on a twin-engine growth

Note: RE = Revised Estimate; F = Forecast
Source: MOF

1

Err on the side of caution. A high base effect due to exceptionally strong economic performance in 2026 makes achieving high year-on-year growth rates for 2027 mathematically harder.

2

The growth paradox. The absence of broader economic gains – robust exports of E&E primarily drive the growth, growth is not broad-based across domestic sectors.

3

Consumer spending lacks organic strength - the underlying growth is narrow, with a distinct absence of broad-based consumption acceleration. Private investment growth has tapered as major project expansions have passed their initial phase.

Malaysia's economic outlook 2027

Real GDP

2026RE: 4.8 - 5.3% (SERC: 5.2%)
2027F: 4.2 - 5.2% (SERC: 4.5 - 5.0%)

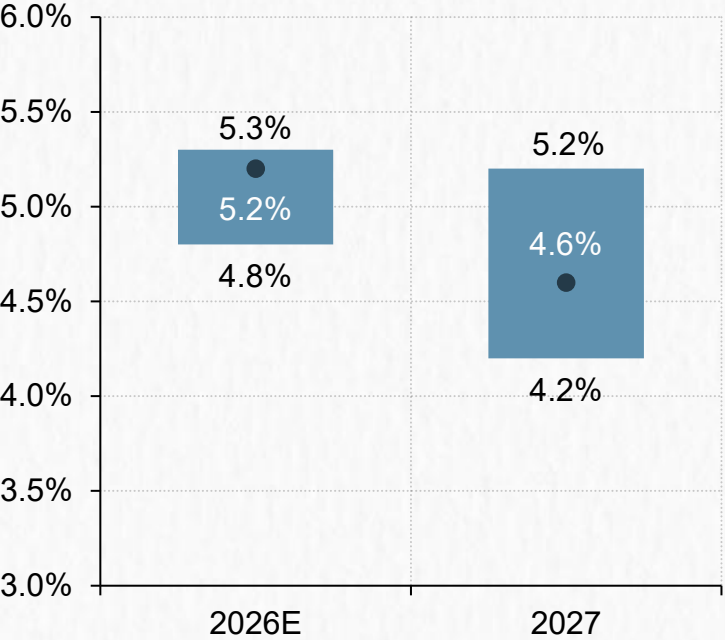
Headline Inflation

2026RE: 1.5 - 2.5% (SERC: 1.9%)
2027F: 1.8 - 2.8% (SERC: 2.0 - 2.5%)

Unemployment Rate

2026RE: 3.0%
2027F: 3.0%

Real GDP growth forecast
%



Key Growth Engines



Resilient Consumer Spending

Subsidies and cash aid, tax cuts and relief, as well as wage adjustments.



Continued Private Investment

AI infrastructure, data centres, advanced semiconductors and renewable energy.



Services & Tourism Expansion

Visit Malaysia 2026–2027, major international events and digitalisation.



E&E and High-Value Manufacturing

Global AI demand, semiconductor design and advanced packaging.

Downside Risks



Geopolitical Tensions

Geopolitical conflicts and maritime disruptions could drive up the costs of energy, shipping, and raw manufacturing inputs.



Trade Protectionism

Shifting trade policy and fragmentation could weaken external demand.



Financial Market Volatility

Rising global interest rate, and potential AI-related repricing could undermine investor confidence.



Input Inflation & Severe Weather

Persistent cost pressures and adverse weather could disrupt agricultural production and food supplies.

What businesses and investors should pay most attention to?

* Structural shifts that directly impact profit margins, compliance costs, and capital allocation.

1 Labour costs and workforce compliance



- Higher minimum wage (RM2,000).
- Higher operational overhead costs for labour-intensive sectors (e.g. plantation and retail sectors).

2 Tax cuts and reliefs



- 1% cut in preferential rate for SMEs: ease cash flow and provide immediate capital.
- Higher capital allowance threshold (RM3,000) and ACA to 2030: direct cash flow and liquidity boost, reducing the cost of technology. Stamp duty exemption/remission such as contractor financing, P2P financing and MTC supplier financing

3 SMEs financing and liquidity



- RM57bn in financing facilities and loan guarantees, including RM6.6bn microcredit; RM1bn by BPMB for exploring export markets.

4 Targeted incentives, allocations & strategic sectors



- Extended ACA, Green Investment Tax Allowance (GITA), Global Services Hub incentive, extension of tax incentive for equity crowdfunding (ECF) and angel investors.
- Strategic investment: RM2.1bn across NIMP, KWAP's Dana Pemacu and Khazanah's MTC Fund; RM25bn GEAR-UP investments (incl. RM1.25bn for New Economy Venture Fund and RM1.2bn for semiconductor); RM270m for ECF/P2P; RM100m Penang Strategic Investment Fund; RM935m for Visit Malaysia Year 2027; RM15bn TNB national-grid investment and substantial public-infrastructure allocations, supporting sectoral demand.

5 Sectoral focus



- Construction and housing, manufacturing, services, tourism semiconductors, digital technology and AI, advanced manufacturing, renewable energy and logistics.

THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang,
50450 Kuala Lumpur, Malaysia.

Tel : 603 - 4260 3116 / 3119

Email : serc@accimserc.com

Website : <https://www.accimserc.com>

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Appendices

Note: RE = Revised Estimate; F = Forecast
Source: MOF

Federal revenue face challenge to cover high committed obligations

- * Remains structurally constrained by a low tax revenue-to-GDP ratio (12.1% in 2020-2027 Budget compared to 13.8% in 2010-2019), leaving limited fiscal headroom.

Federal Revenue

2026RE: +8.2% to RM363.6 bn

2027B: +4.7% to RM380.8 bn

Tax Revenue to GDP (%)

2026RE: 12.8%

2027B: 12.8%

Revenue to OPEX (%)

2026RE: 100.2%

2027B: 101.1%

1

Tax responsiveness lags. Tax buoyancy has historically tracked below 1, indicating a narrow tax base, low compliance and tax evasion.

2

Heavy reliance on direct and indirect taxes. About 60.9% of revenue in 2027 (vs. 59.8% in 2026) originates from corporate and individual taxes, and SST, heavily concentrated in a small pool of taxpayers (>620k companies and 7.6 million individuals as of 31 Aug 2026). Reintroduction of GST after the GE16?

3

Still high reliance on oil resources. Petroleum income tax and dividends from PETRONAS continue to act as a fiscal crutch, making revenue highly sensitive to global oil price swings amid high fuel subsidies.

Note: RE = Revised Estimate; B = Budget Estimate
Source: MOF

Oil-related revenue subject to price volatility

✱ Faces shrinking national fiscal space as oil and gas wealth shifts toward Sarawak and Sabah.

Petroleum-related revenue

RM billion

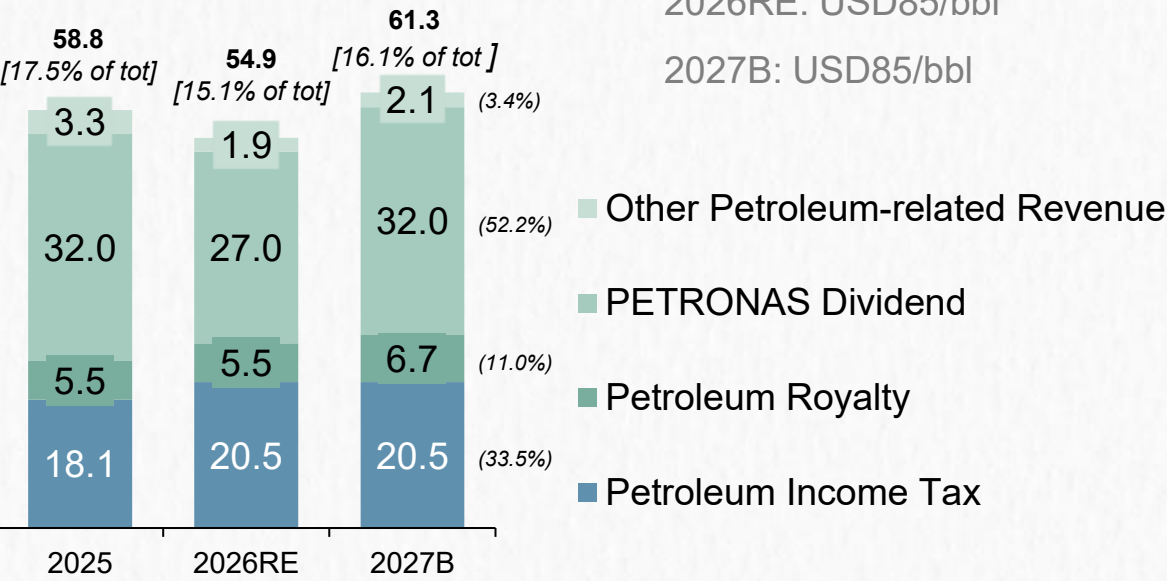


Figure in parentheses () indicates the % share of total petroleum-related income.

Note: RE = Revised Estimate; B = Budget Estimate
Source: MOF

Fiscal reality

- Expensive energy prices create a net fiscal strain.
- Subsidies outpace additional oil revenue.
- High debt limits budget flexibility.
- Commodity windfalls fail to cover surging obligations.

Oil revenue shifts and core demands

- Sarawak targets RM10 billion annually via Petros gas aggregation.
- Sabah demands a 40% net-revenue return.
- State sales taxes replace lower federal royalties.

Operating expenditure (OPEX) needs further rationalisation

✱ The core paradox: Committed OPEX vs. revenue elasticity

Emoluments

2026RE: RM108.4 bn (+6.9%; 29.9% of total)

2027B: RM111.6 bn (+2.9%; 29.6% of total)

Subsidies and Social Assistance

2026RE: RM74.5 bn (+34.7%; 20.5% of total)

2027B: RM72.7 bn (-2.3%; 19.3% of total) ↓

Retirement Charges

2026RE: RM42.8 bn (+11.0%; 11.8% of total)

2027B: RM44.6 bn (+4.2%; 11.8% of total)

Debt Service Charges

2026RE: RM57.3 bn (+6.7%; 15.8% of total)

2027B: RM61.0 bn (+6.5%; 16.2% of total)

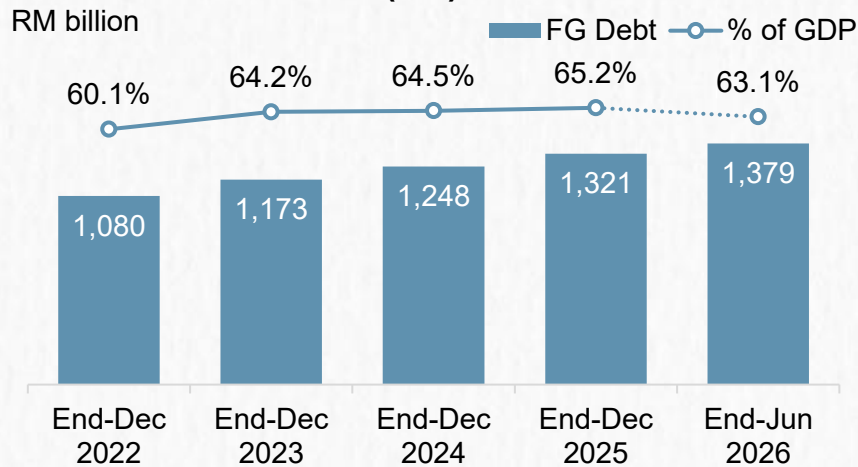
- **Broadening and deepening the limited revenue base** – consider reintroducing GST.
- **Higher energy prices** create a net fiscal strain.
- **Streamlining inflexible OPEX** – subsidies rationalisation, off-budget development offloading, targeted expenditure optimisation and rationalisation.
- Reduce fiscal deficit > reduce net borrowing > slower debt accumulation > lower debt service charges.
- Commodity windfalls fail to cover surging obligations.

Note: RE = Revised Estimate; B = Budget Estimate
Source: MOF

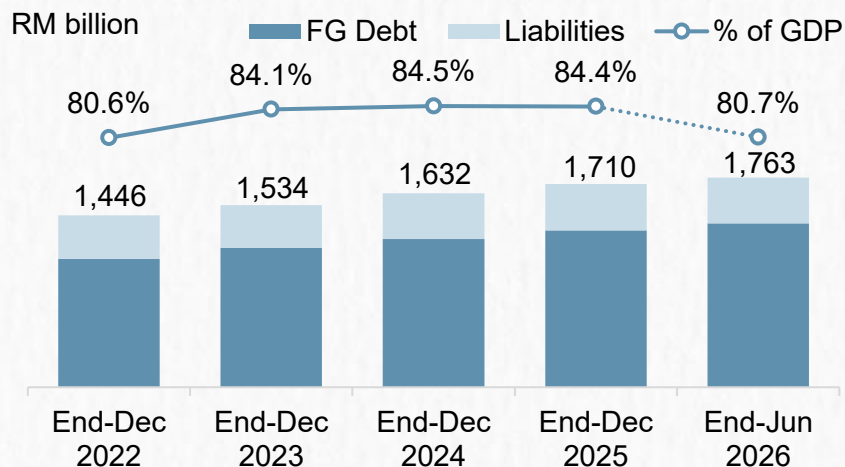
Statutory fiscal consolidation anchors

✱ All reform tracks are bound by statutory legal limits enforced under the PFFRA (Act 850) and Government Procurement Act 2026 (Act 882) to regain long-term fiscal health.

Federal Government (FG)’s debt



FG’s debt and liabilities



Source: MOF

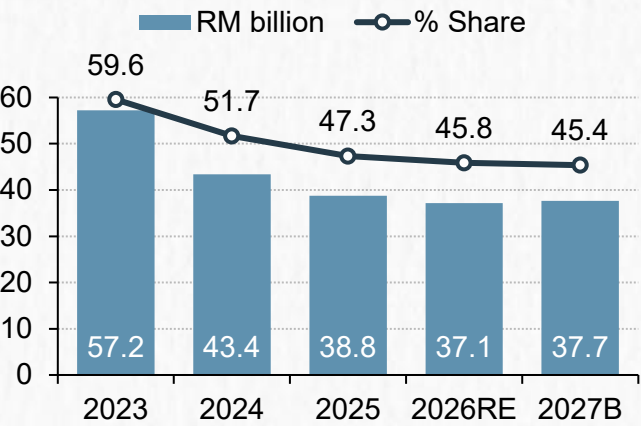
Debt legislative guidelines

Act	Statutory Limit	End-Jun 2026
Loan (Local) Act 1959 [Act 637] & Government Funding Act 1983 [Act 275]	Outstanding MGS, MGII and MITB not exceeding 65% of GDP	62.1% of GDP (RM1,357.7 billion)
External Loans Act 1963 [Act 403]	Offshore borrowings not exceeding RM35 billion	RM16.7 billion
Treasury Bills (Local) Act 1946 [Act 188]	MTB not exceeding RM10 billion	RM4.5 billion
Public Finance and Fiscal Responsibility Act 2023 [Act 850]	Overall debt should not exceed 60% of GDP in the medium term	63.1% of GDP

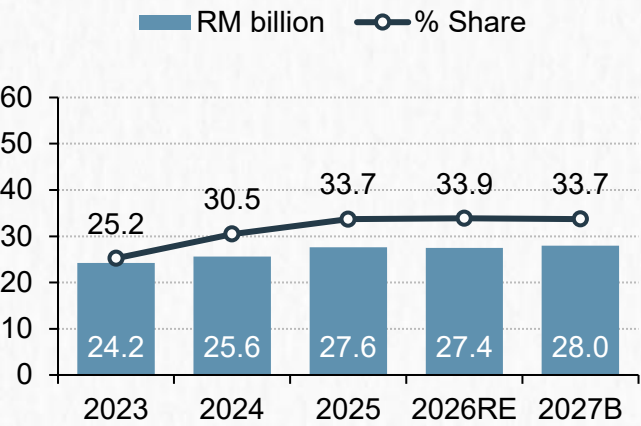
Development expenditure (DE) focuses on economic and social sectors

✱ 2026-2027B = DE of RM164.0 billion or 38.1% of 13MP allocation of RM430 billion in 2026-2030

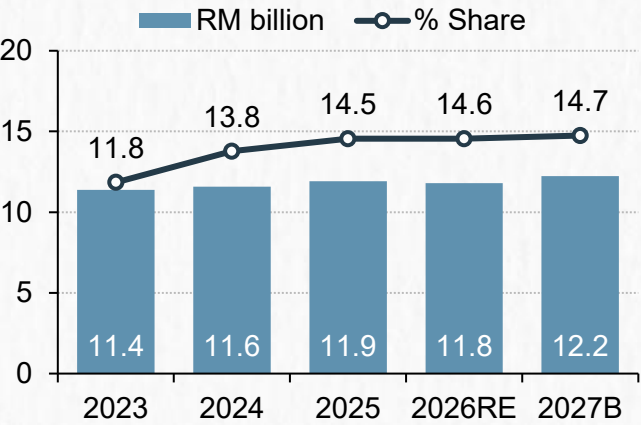
Economic



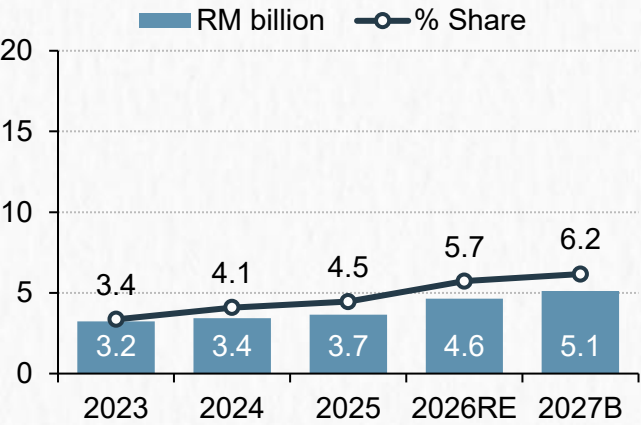
Social



Security



General administration



Note: RE = Revised Estimate; B = Budget Estimate
Source: MOF

Core focus: Aligned with the Ekonomi MADANI framework and the 13th Malaysia Plan (13MP), prioritising high-impact infrastructure, industrial zones, and public facilities.

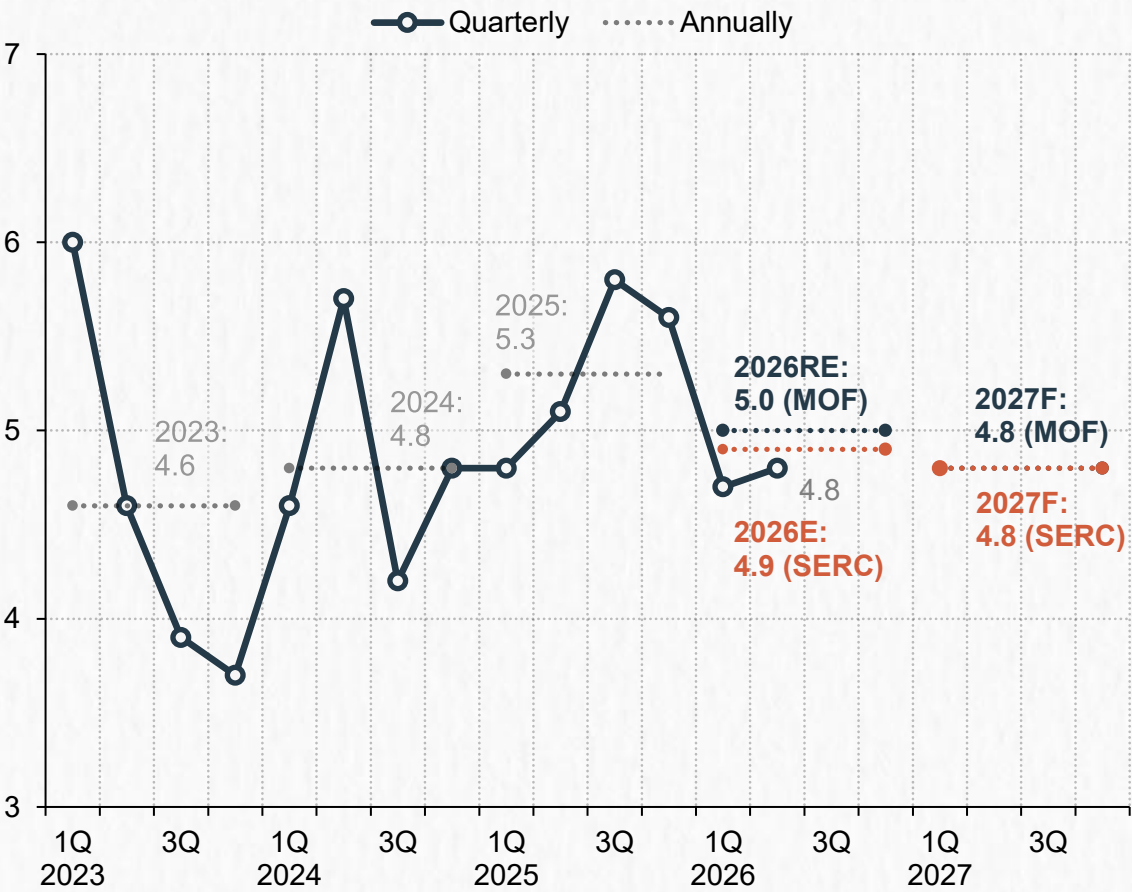
Expanded public spending: Direct FG DE is RM83.0 billion for 2027, together with Public-Private Partnerships (PPP), GLCs/GLICs, and statutory bodies, bringing total public development spending to RM191.4 billion.

- Impact on economy:**
- Public expenditure will add 0.8 percentage points to overall GDP growth estimate of 4.2 - 5.2% for 2027.
 - Support growth in domestic demand, construction, manufacturing and services.

The lack of broad-based consumer spending

Private consumption growth

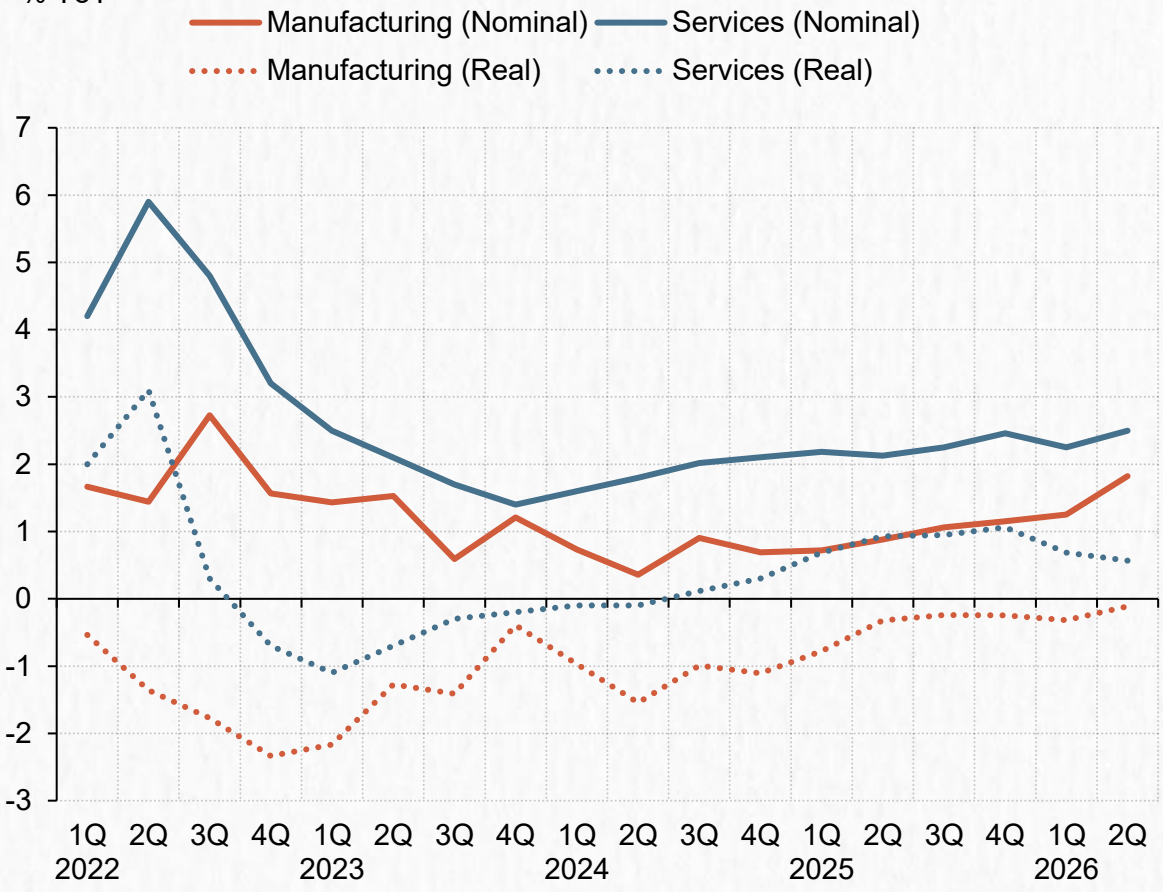
Year-on-year %



Note: E = Estimate; RE = Revised Estimate; F = Forecast
Source: DOSM

Real wage growth in the manufacturing and services sectors

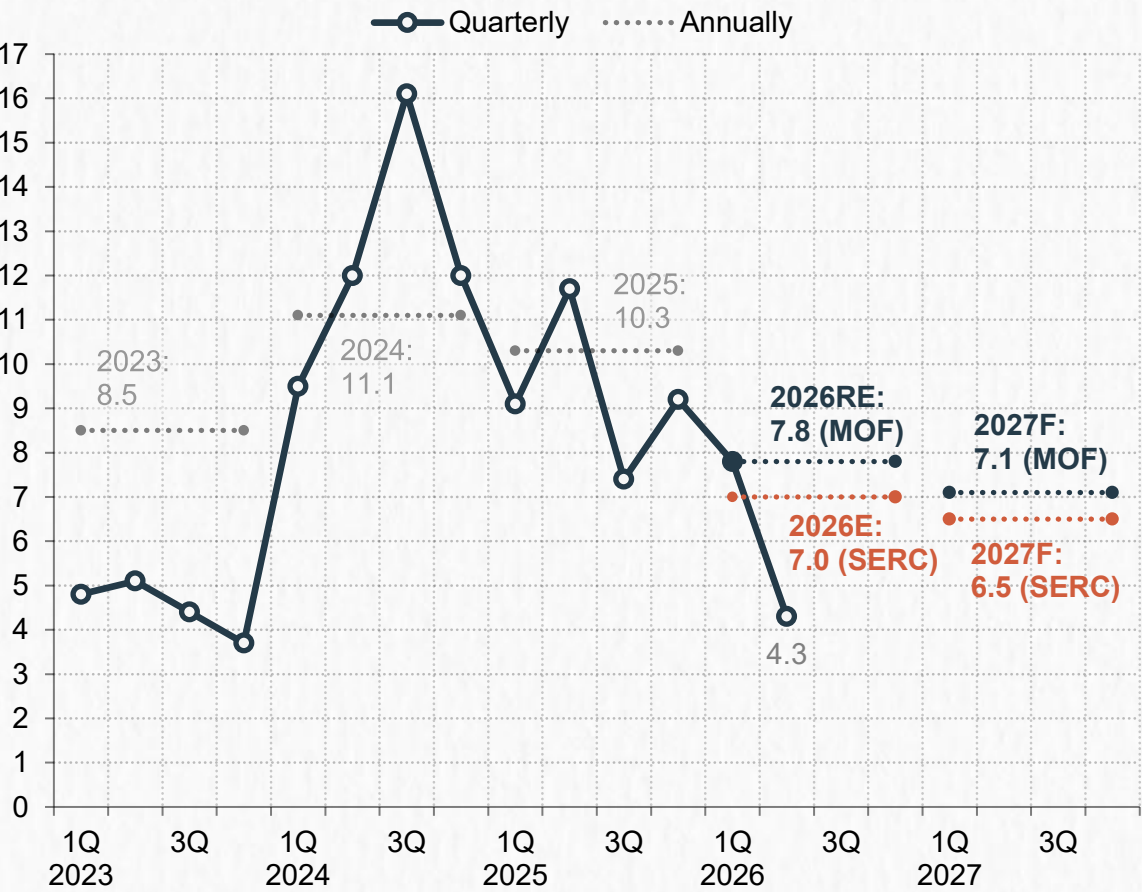
% YoY



Private investment growth has eased from its recent peak, transitioning from a rapid surge to a steadier execution phase

Private investment growth

Year-on-year %

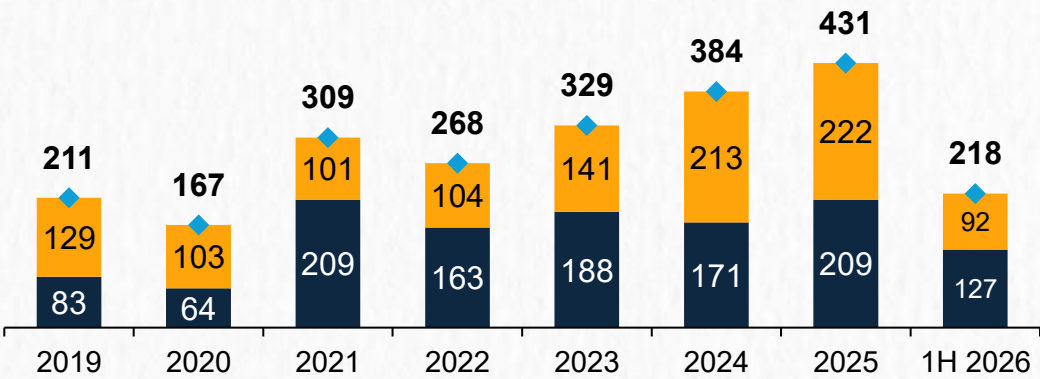


Note: E = Estimate; RE = Revised Estimate; F = Forecast
Source: DOSM; MIDA

MIDA: Foreign vs. Domestic Approved Investment

RM billion

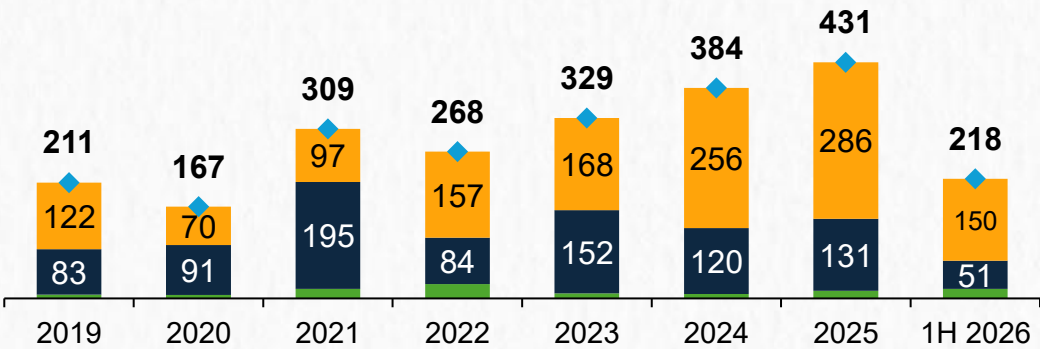
Foreign Domestic Total



Approved Investment by Sector

RM billion

Primary Manufacturing Services Total



Exports outlook

* Moderate due to a high base effect and external risks

Gross exports growth

2026RE: 31.0%
(SERC: 30.7%)

2027F: 3.0%
(SERC: 5.0%)

Gross imports growth

2026RE: 23.1%
(SERC: 25.1%)

2027F: 3.5%
(SERC: 4.5%)

Current account surplus

2026RE: RM41.3 bn (2.0%
of GNI)

2027F: RM41.8 bn (1.9%
of GNI)

1

While the outlook for the technology sector remains positive amid the AI boom, with orders extending into 2027, a high base effect and increased external risks, particularly US tariff policies and trade scrutiny, could temper exports.

2

A significant portion of headline tech growth is being driven by inflationary price effects, premiumization, and component shortages, rather than a massive surge in the raw volume of goods being shipped.

3

Continued current account surplus, albeit narrower as a share of Gross National Income (GNI) (1.9% in 2027 vs. 2.0% in 2026), primarily due to faster GNI growth, a smaller goods surplus and higher primary income outflows.

Note: RE = Revised Estimate; F = Forecast
Source: MOF