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Malaysia's Economic Direction and Key Perspectives on Budget 2027

Resilience in 2026, heightened uncertainty ahead, and a budget that balances discipline with the livelihood of the rakyat



Dr. Mohd Afzanizam Abdul Rashid

Chief Economist, Bank Muamalat Malaysia Berhad

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EXECUTIVE SUMMARY

Four messages for today

1 2026 was a resilient year

GDP up 5.5% in 9M2026, unemployment at 2.9% and inflation at 1.8% despite the war in Iran. Petronas secured supply; MyKad-based subsidies plugged leakages.

2 Uncertainty stays elevated

US protectionism is here to stay, Chinese competition is intensifying, input costs remain high and technology is reshaping how customers choose.

3 Budget 2027 is realistic, not reckless

An election-aware budget that still narrows the deficit to 3.3% of GDP while supporting households and businesses through tax, subsidies, transfers, financing and guarantees.

4 Gradualism is a feature, not a bug

With 73% of formal employees earning below RM5,000 and 9 million people on cash transfers, reform must preserve social cohesion while lifting productivity and scale.

Malaysia delivered growth, jobs and price stability in 2026

REAL GDP GROWTH

5.5%

9M2026, year on year. Government has raised its full-year range to 4.8–5.3%.

UNEMPLOYMENT RATE

2.9%

Labour market at full employment; wage pressures building from the bottom.

HEADLINE INFLATION

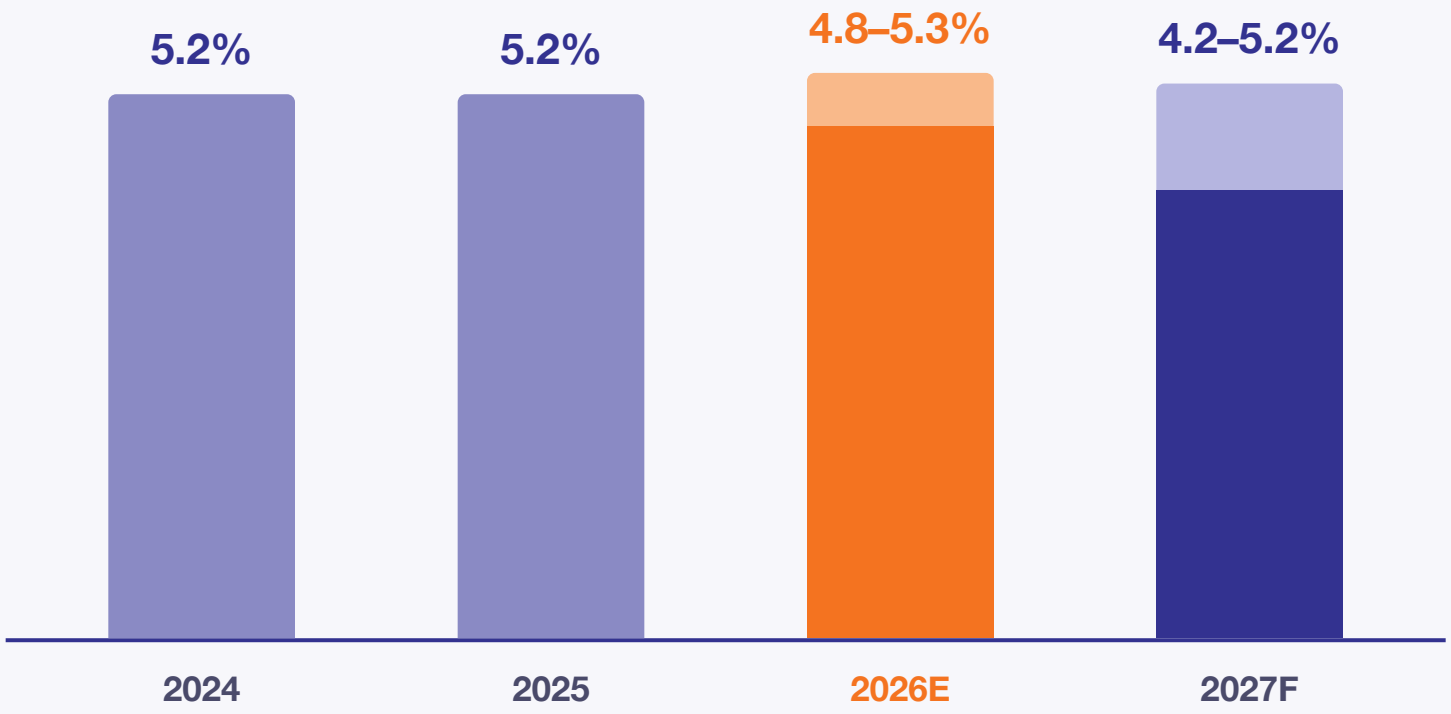
1.8%

9M2026 average, up from 1.4% in 2025 but stable despite the oil shock.

Context: this was achieved with a war in Iran disrupting West Asian energy flows for most of the year — an outcome few would have forecast in January.

Sources: DOSM; Ministry of Finance, Economic Outlook 2027

Growth has stayed near 5% and the official outlook was revised up, not down



2026 revised upward

MOF lifted its range from 4.0–5.0% to 4.8–5.3% on sturdy domestic demand and an export rebound. 9M2026 actual: 5.5%.

2027 moderates but holds

Official range 4.2–5.2% (midpoint 4.6%). Private investment seen growing 7.1%, public investment 6.8%.

Two-speed economy persists

Investment-led growth alongside a more cautious household sector.

Real GDP growth, % y-o-y. Shaded segments show the official forecast range. Sources: DOSM; MOF Economic Outlook 2027

Why the oil shock did not derail us: supply security and targeted subsidies

No fuel shortages

Petronas played an effective role in procuring fuel supplies from other regions as West Asian flows were disrupted. Pumps stayed open, logistics kept moving and the manufacturing base was never starved of energy.

Lesson: energy security is a national-champion function, not just a commercial one.

Leakages plugged via MyKad

Distributing fuel subsidies through MyKad allowed the government to stop subsidising foreigners, smugglers and the top of the income distribution. The savings were channelled back to the rakyat through cash assistance.

Lesson: targeting turns a fiscal burden into fiscal space.

Even so, the fuel subsidy bill is still budgeted at **RM40 billion** for 2027 — the reform created room, it did not remove the exposure to oil prices.

Sources: MOF Fiscal Outlook 2027; Bank Muamalat Economic Research

2 · GOING FORWARD

Five structural headwinds keep uncertainty elevated into 2027

US protectionism

Tariff-based trade policy is here to stay regardless of legal and political cycles. Export diversification is now a necessity.

Competition from China

Excess capacity redirected to ASEAN squeezes margins of local producers and traders.

Elevated input costs

Fuel, labour and raw material prices are expected to stay high. The cost base has reset upward.

Rapid technology change

AI and automation force firms to adopt the best tools just to stay competitive — a cost before it is a gain.

Empowered customers

Social media and BNPL leave customers spoiled for choice; loyalty is thinner and price discovery is instant.

The common thread: these are **structural** shifts, not cyclical ones. Businesses should plan for them as the base case, not the downside scenario.

Source: Bank Muamalat Economic Research

2 · GOING FORWARD

The cost base is resetting higher — and policy is part of the reason

Cost line	What is changing	Implication for businesses
Fuel and energy	Global prices elevated by the West Asia conflict; fuel subsidy capped at RM40bn in 2027	Budget on today's prices, not pre-war prices; hedge logistics exposure
Labour	Minimum wage rises to RM2,000 from June 2027 (+17.6% from RM1,700); RM2,500 framework announced for semi-skilled workers and graduates	Wage compression up the ladder; MSMEs below RM50m sales exempted, but talent will follow pay
Raw materials	Prices expected to remain elevated on supply-chain fragmentation	Inventory discipline and supplier diversification matter more than scale
Technology and compliance	AI adoption becoming table stakes; telematics mandatory for commercial vehicles	Capex before productivity; use Budget 2027 allowances and grants to fund it
Customer acquisition	Social media and BNPL lower switching costs and compress pricing power	Compete on service and trust, not price alone

Sources: Budget 2027 speech; MOF Fiscal Outlook 2027; Bank Muamalat Economic Research

The fifth MADANI Budget: RM459.8 billion, and a deficit that keeps narrowing

RM459.8bn

Total federal expenditure

+3.6% vs revised 2026; 19.8% of GDP. OE RM376.8bn, DE RM83bn

RM380.8bn

Federal revenue

+4.7% on stronger tax collection and petroleum-related income

3.3%

Fiscal deficit, % of GDP

RM77.5bn, from 3.6% in 2026; lowest ratio since 2017

63.7%

Federal debt, % of GDP

Easing from 64.0% in 2026 and 65.2% in 2025; medium-term aim below 60%

RM72.7bn

Subsidies and social assistance

Down 2.3% from RM74.5bn; fuel subsidies held at RM40bn

4.2–5.2%

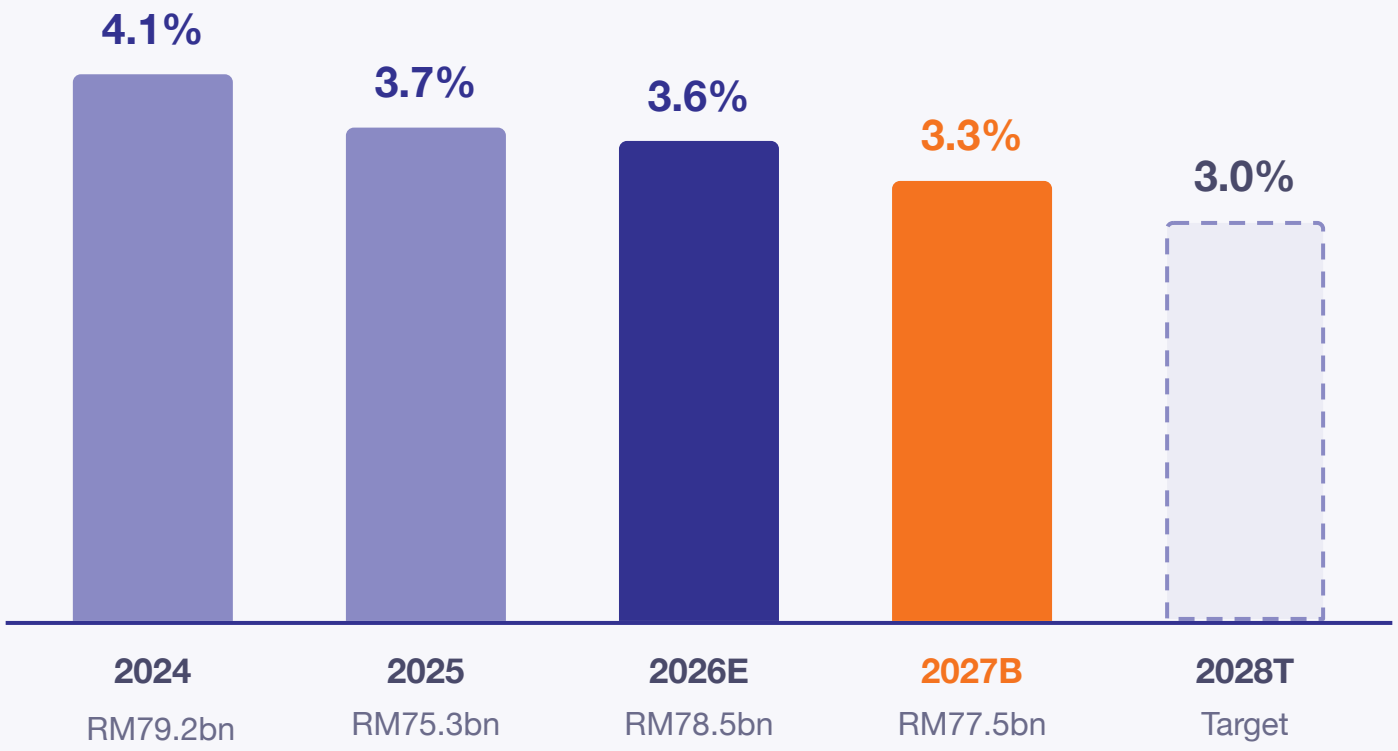
2027 GDP growth assumption

Inflation projected at 1.8–2.8%; private consumption remains the anchor

Sources: Budget 2027 speech (9 October 2026); MOF Fiscal Outlook and Federal Government Revenue Estimates 2027

3 · FISCAL DISCIPLINE

Consolidation continues on the ratio — but the ringgit deficit barely moves



Growth does the work

Of the 0.3ppt improvement, roughly 0.2ppt comes from nominal GDP growth and only about 0.05ppt from a smaller cash deficit (–RM992m).

Below market expectations

Consensus had pencilled in 3.5%; BMI and HLIB see 3.4% as achievable. The 2026 slippage (3.5% to 3.6%) was oil-driven.

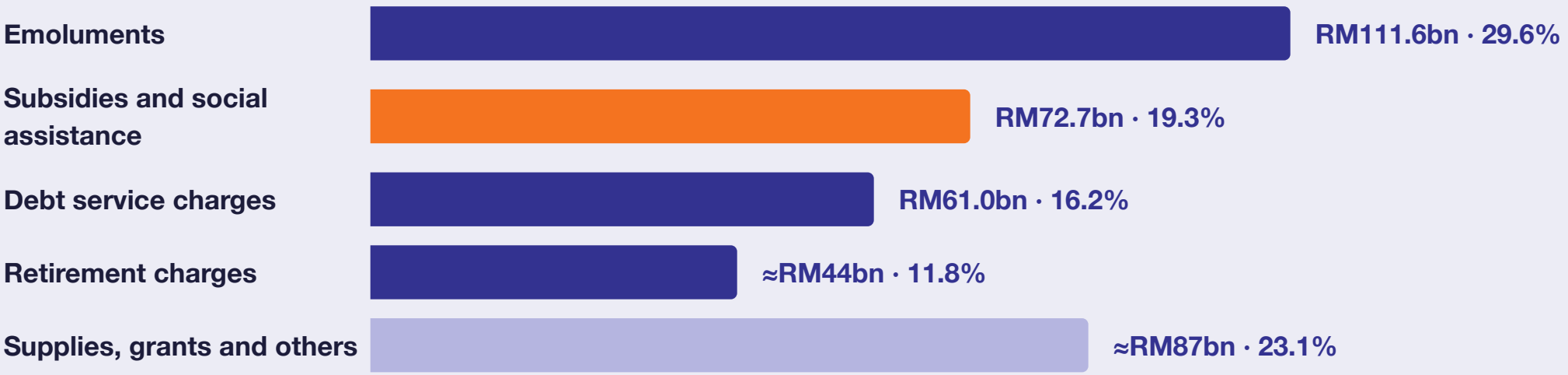
Anchored by the FRA 2023

Medium-term framework: average 3.1% deficit over 2027–29, DE at least 3% of GDP, debt below 60% over time.

Federal fiscal deficit, % of GDP. Sources: MOF Fiscal Outlook 2027 & CEIC

3 · FISCAL DISCIPLINE

Fiscal room is narrow: three statutory items absorb 58% of operating expenditure



REALITY CHECK

For every RM1 of development spending, about RM2.60 goes to salaries, pensions and debt service.

DEBT SERVICE RISING

Up 6.5% to RM61bn; 98% is domestic, so the burden is a crowding-out issue, not a currency risk.

WHY IT MATTERS

Reallocation, not expansion, is the only credible lever — which is exactly what Budget 2027 does.

Operating expenditure 2027, RM376.8bn. Retirement charges and residual derived from MOF shares. Sources: MOF Fiscal Outlook 2027; The Star

Households: more disposable income through tax, wages and transfers

Lever	Measure	Who benefits
Tax	Individual relief limit raised from RM9,000 to RM12,000; 1ppt cut in two middle-income tax bands; relief widened to postnatal care, caregiving, skills training and AI subscriptions	Up to RM1,600 extra for about 5 million taxpayers
Wages	Minimum wage to RM2,000 from June 2027; RM2,500 wage framework for semi-skilled workers and graduates announced	Bottom of the formal labour market
Cash transfers	STR and SARA allocation of RM16bn (from RM15bn); SARA of up to RM1,800 a year for STR recipients	About 9 million recipients
Public sector	RM1,500 special assistance for 1.3 million civil servants; RM750 for over 1 million pensioners and veterans	Civil service and retirees
Social protection	Automatic EPF registration at 18; EPF and PERKESO matching for gig workers; PTPTN repayment deferral for those earning RM2,500 or less	Youth, gig economy, graduates

Total cash aid, subsidies and incentives: more than RM80 billion — the cost of living remains the central political and economic priority.

Sources: Budget 2027 speech

3 · SUPPORT FOR BUSINESSES

Businesses: lower taxes, RM57 billion in financing and guarantees, and help to scale

TAX

14%

MSME income tax cut by 1ppt to 14% on the first RM150,000 of chargeable income (16% on the next band); low-value asset limit raised to RM3,000; accelerated capital allowances for local machinery and ICT extended

FINANCING AND GUARANTEES

RM57bn

SJPP and CGC guarantees up to RM32bn (SJPP limit raised to RM50m); BNM fund for SMEs hit by the West Asia conflict doubled to RM10bn; BPMB RM7bn for seven strategic sectors; RM1bn for M&A guarantees

MICRO AND DIGITAL

RM6.6bn

Microfinancing and grants; RM30m MDEC fund for 4,000 MSMEs to adopt AI; RM270m for P2P and ECF platforms; RM60m MATRADE export support; minimum-wage exemption for MSMEs below RM50m sales

The design intent is **scale and resilience**: guarantees to keep credit flowing, M&A support to consolidate, and digital grants to lift productivity — the answers to the headwinds on slide 6.

Source: Budget 2027 speech

3 · AN ELECTION BUDGET?

Election-aware, not election-driven: the arithmetic says discipline was not compromised

Test	Evidence	Reading
Is spending growth excessive?	Total expenditure +3.6%; OE +3.8% after +9.8% in 2026	Restrained
Does the deficit widen?	Narrows to 3.3%, below the 3.5% consensus; 2028 target 3.0%	Consolidating
Are giveaways funded?	Tax cuts cost about RM3bn (0.1% of GDP), not yet in revenue estimates	Small, but a gap
Is it dependent on optimistic assumptions?	Nominal GDP growth does most of the ratio work; fuel subsidy capped at RM40bn	Oil is the swing factor
Does it invest for the future?	DE RM83bn (+2.5%), 45% to the economic sector; TNB RM15bn grid investment	Yes, modestly

OUR ASSESSMENT

A budget written with GE16 in view — but the Public Finance and Fiscal Responsibility Act sets the guardrails, and they held.

The populist version of this budget would have widened the deficit. This one narrowed it.

Source: MOF Fiscal Outlook 2027

Why reform is gradual: the social fabric is delicate

73%

of formal employees earn below RM5,000 a month

A thin buffer against price shocks; any abrupt subsidy removal or tax change hits the median household directly.

9 million

Malaysians receive government cash transfers

Roughly a quarter of the population depends on STR and SARA to balance the household budget.

Resource allocation must therefore **preserve social cohesion** while the economy aspires to become more productive and to scale up. Sequencing is the policy.

Sources: DOSM; Budget 2027 speech; Bank Muamalat Economic Research

The balancing act: cohesion today, productivity and scale tomorrow

Preserving social cohesion

- Targeted subsidies via MyKad rather than blanket removal
- Cash transfers scaled with fiscal savings (RM16bn STR and SARA)
- Wage floor lifted in steps: RM1,700 to RM2,000, with MSME carve-outs
- Middle-income tax relief to offset cost-of-living pressure
- Rural infrastructure (RM3.3bn) and dilapidated schools (RM1.3bn)

and

Lifting productivity and scale

- Private investment projected to grow 7.1% in 2027 on the capex cycle
- Semiconductor and strategic-sector financing (BPMB RM7bn; Kulim Hi-Tech)
- M&A guarantees to consolidate fragmented SME sectors
- AI adoption grants and 100,000 free AI subscriptions for youth
- Connectivity: ECRL, Johor e-ART, Tebedu–Entikong trade route

Malaysia can sustain growth of around **4.5–5.0%** over the next five years if the capex cycle and constructive foreign-investor sentiment are preserved — and that requires the first column to hold while the second builds.

Sources: Budget 2027 speech; MOF Economic Outlook 2027; Bank Muamalat Economic Research

4 · THE BIGGER PICTURE

What to watch in 2027: six variables that decide whether the arithmetic holds

Variable	Official 2027 assumption	Why it matters
Real GDP growth	4.2–5.2% (midpoint 4.6%)	Nominal growth delivers most of the deficit-ratio improvement
Brent crude	US$78 per barrel (medium-term framework)	Drives both petroleum revenue and the RM40bn fuel subsidy ceiling
Headline inflation	1.8–2.8%	Minimum wage and cost pass-through test the upper bound
Overnight Policy Rate	2.75% (current)	BNM balances growth support against ringgit and carry-trade pressures
US tariff regime	Assumed stable	Export rebound underpins the 2026 upgrade; a new round would hit it
Federal revenue	RM380.8bn (+4.7%)	Excludes the ~RM3bn cost of tax cuts; relies on tax buoyancy

Base case: growth near the midpoint, oil close to assumption and the deficit lands at 3.3–3.4%. **Risk case:** oil above US$90 with weaker exports pushes subsidies past the ceiling and the deficit back toward 3.5%.

Sources: MOF Fiscal Outlook 2027 and Medium-Term Fiscal Framework 2027–29; Bank Negara Malaysia; Bank Muamalat Economic Research

IN A NUTSHELL

Solid fundamentals, gradual reform, and a budget that keeps both intact

1. **Malaysia's fundamentals are solid.** Growth above 5%, full employment and stable inflation through a major oil shock — supported by energy security and targeted subsidies.

2. **The headwinds are structural.** Protectionism, Chinese competition, a higher cost base and technology disruption are the base case for business planning in 2027.

3. **Budget 2027 is realistic.** Fiscal discipline is intact — deficit to 3.3%, debt easing — while households and businesses are supported through tax, transfers, financing and guarantees.

4. **Gradualism is deliberate.** With 73% of formal employees below RM5,000 and 9 million on transfers, reform is sequenced to preserve cohesion while building productivity and scale.

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Thank you.
Questions?

Dr. Mohd Afzanizam Abdul Rashid · Chief Economist, Bank Muamalat Malaysia Berhad

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