INSTITUTE OF STRATEGIC &
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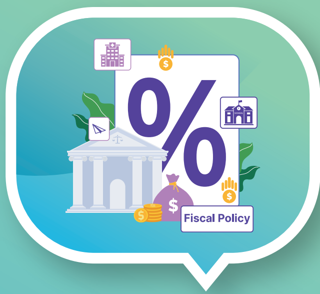
(ISIS) MALAYSIA

BUDGET 2026 insights

FISCAL POLICY

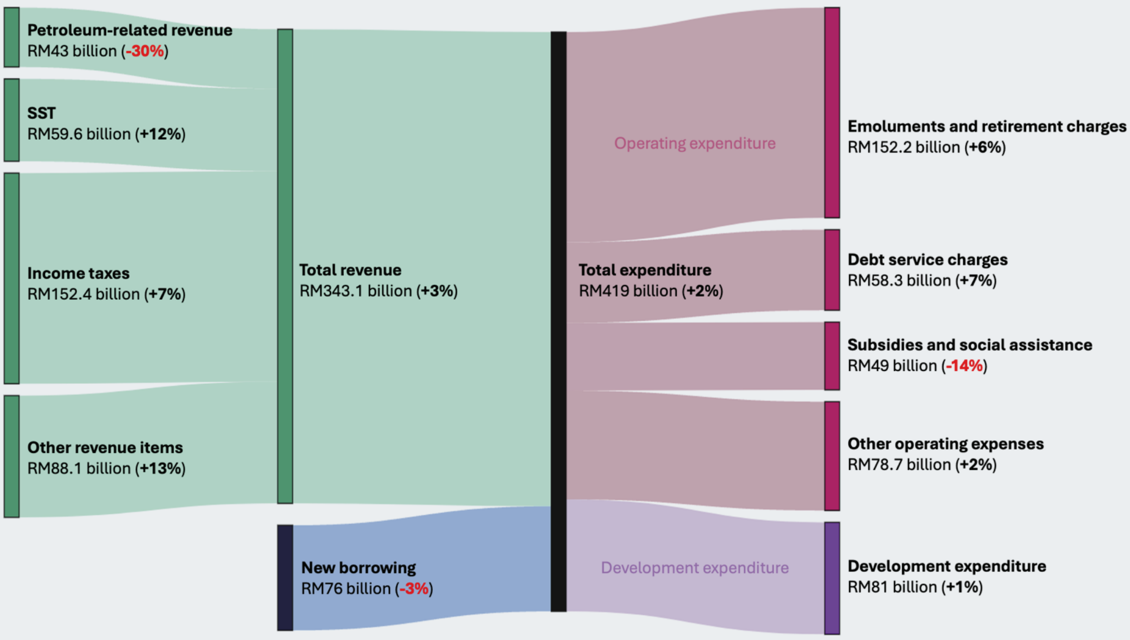
Fiscal consolidation maintained, though need for clear revenue pathway remains



by Hanson Chong, Calvin Cheng and Fahad Ijlal

Fig. 1. Fiscal deficit forecast to narrow to 3.5% of GDP due to higher growth in total revenue relative to expenditure, driven by tax measures and reduced subsidy spending

Breakdown of revenue, expenditure and borrowing in Budget 2026 (year-on-year change)



Source: Authors' calculations based on Ministry of Finance data

Note: Year-on-year changes are calculated based on revised estimates of 2025 figures. Other revenue items include excise duties, import/export duty, licenses and permits and investment income. Other operating expenses include grants and transfers to state governments, supplies and services, asset acquisition, refunds and write-offs, grants to statutory bodies and others

Budget 2026 sustains fiscal consolidation with higher revenue and reduced borrowing

- **Budget 2026 maintains government's fiscal consolidation path with higher revenue and reduced borrowing.** Despite lower petroleum-related revenue, overall revenue has increased while total expenditure continues to rise compared to revised estimate for 2025.
- **Development expenditure (DE) is lower than proposed in Budget 2025 but remains above actual 2025 spending.** Government has allocated RM81b for 2026, down from previous proposal of RM86b but slightly higher than revised RM80b spent this year.
- **New carbon tax and excise duty hikes on tobacco and liquor contribute to increase in government revenue.** Revenue from excise duty hikes are earmarked for Ministry of Health.

Revenue remains positive, but clearer strategic roadmap remains absent

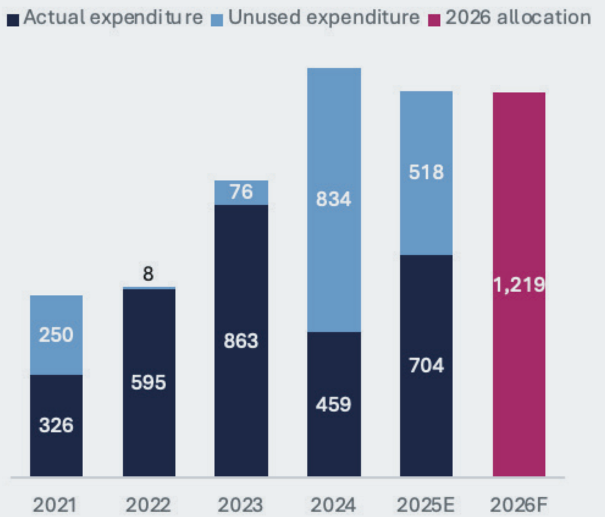
- **Public investment remains below long-term policy targets.** Budget 2026's RM81b in DE falls short of 13th Malaysia Plan's (13MP) annual benchmark of RM86b (RM430b over 5 years), implying that future budgets must scale up public investment to stay on track.
- **While lower subsidy spending and new tax measures have created room, revenue gains remain modest.** Introduction of carbon tax is a welcome move, though absence of comprehensive roadmap to broaden tax base could limit Malaysia's ability to strengthen structural revenues.
- **Fuel subsidy reform pathways remain unclear.** Although announced RON95 rationalisation is projected to save around RM2.5b, uncertainties persist over magnitude of actual savings, along with direction of future RON95 rationalisation.

Industrial policy continuity is preserved, but fiscal follow-through is critical

by Jaideep Singh and Qarrem Kassim

Fig. 2. MITI disbursed less than 60% of its allocated DE of RM1.2b for 2024 and 2025

Allocation of DE for Ministry of Investment, Trade and Industry (RM millions), 2021-26



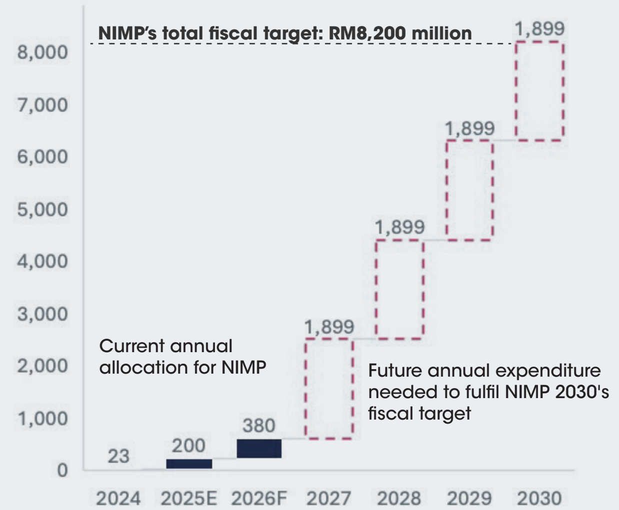
Source: Authors' calculations based on Ministry of Finance data
Note: Actual expenditure for 2021-2024 is extracted from "Estimated Federal Expenditure" documents for 2023-2026. Figure for 2025 is an estimate (E) while figure for 2026 is a forecast (F), excluding borrowing

Strong focus on industrial development, but timely, thorough implementation is key

- **MITI's annual announced DE allocation is largely unchanged, but updated estimates show DE underutilisation since 2024** (Fig. 2). This is due to unforeseen downward revisions in spending on initiatives for automation, services exports and competitiveness among others.
- **Full rollout of New Investment Incentive Framework by early 2026 is a welcome shift to performance-based incentives for quality investments.** However, clear sectoral pathway is needed to ensure alignment with New Industrial Master Plan (NIMP) 2030 and New Investment Policy, as its implementation has been delayed twice to date.
- **Budget 2026 shifts from grants to investment-based measures for small businesses, expanding export and SJPP guarantees.** Total MSME support grew by RM6b, with emphasis on building business complexity via export integration and risk-sharing. However, measures addressing non-financial MSME barriers, including ecosystem development, mentorship and regulatory support, are lacking.

Fig. 3. Government has allocated just 7% of RM8.2b needed to operationalise NIMP by 2030

Cumulative government expenditure on NIMP 2030 (RM millions), 2024-2030



Source: Authors' calculations based on Ministry of Finance data
Note: Figures for 2027-2030 show amount needed to fulfil total fiscal target of RM8.2b

Budget 2026 provides clear industrial policy continuity, but limited public funding could weaken impact

- **Strong emphasis on 13MP's "high growth, high value" sectors, supported by 20% increase in private capital mobilisation.** GLICs like Khazanah and KWAP will invest RM30b across multiple funds to strengthen high-tech manufacturing capacity. Done well, this could crowd in momentum for "Made by Malaysia" growth and boost economic complexity, which has stagnated since 2001.
- **However, direct fiscal allocation for NIMP remains modest relative to official targets.** Since 2024, total allocation for NIMP stands at just RM600m, or 7% of RM8.2b earmarked for operationalisation by 2030, raising questions about state preparedness to complement the private sector in industrial development (Fig. 3).
- **Heavy focus on National Semiconductor Strategy (NSS), but allocation for supporting infrastructure is unclear.** Beyond RM6.5b in private R&D financing, Budget 2026 lacks details on institutional and infrastructural support for NSS, which should be at least RM1.4b annually.

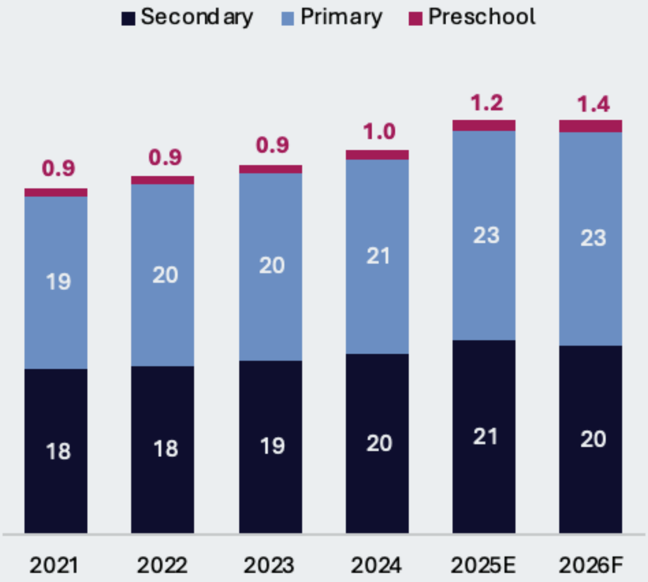
EDUCATION, SOCIAL PROTECTION AND JOBS

Stronger human capital focus, but deeper reform needed

by Fahad Ijlal, Hanson Chong and Calvin Cheng

Fig. 4. Public spending on preschool expanded

Budget allocation for preschool, primary and secondary education (RM billions), 2021-2026



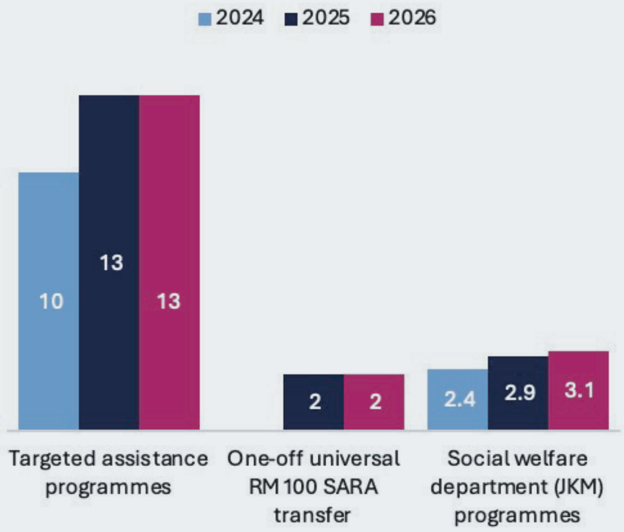
Source: Authors' calculations based on Ministry of Finance data
Note: Figures for 2025 are revised estimates while figures for 2026 are proposed in Budget 2026.

Education spending remains strong, but early learning needs deeper investmen

- **Education remains government's top budget priority.** Ministry of Education receives a total allocation of RM66.2b under Budget 2026, an increase of RM2b from last year and the largest allocation among all ministries.
- **Preschool funding sees 20% increase, but structural gaps persist.** While allocations for preschool education have risen sharply, they still lag behind those for primary and secondary levels. This supports 13MP's goal of universal preschool enrolment, yet more targeted resources are needed to expand access in underserved regions, strengthen teacher training and deepen parental engagement to ensure quality keeps pace with quantity.

Fig. 5. Budget 2026 broadly maintains social assistance programmes from Budget 2025

Budget allocation for social assistance programmes (RM billions), 2024-2026



Source: Authors' calculations based on Ministry of Finance data
Note: Targeted assistance programmes include Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rumah (SARA). One-off universal RM100 SARA transfer was announced in July 2025.

Social protection expanded for gig workers, but comprehensive social protection measures still needed

- **Budget 2026 operationalises long-awaited protections for gig workers.** Gig Workers Bill introduces RM600 in annual EPF matching contributions, while SOCSO coverage becomes mandatory with government subsidising 70% of contributions in the first year and 50% in the second.
- **Roadmap towards comprehensive life-cycle social protection remains absent.** Social assistance programmes continue in largely incremental form, without addressing legacy issues of coverage, adequacy or fragmentation across schemes.

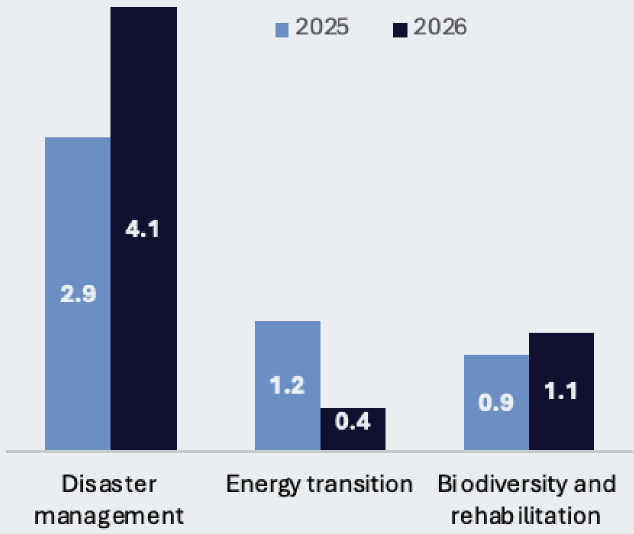
CLIMATE ADAPTATION, ENVIRONMENTAL REHABILITATION AND ENERGY TRANSITION

Energy transition funding declines further as resilience remains fiscal priority

by Zayana Zaikariah and Ganesha Pillai

Fig. 6. Disaster management, rehabilitation funding surges as energy transition spending contracts

Budget allocation for selected NRES and PETRA priority areas (RM billion), 2025-2026



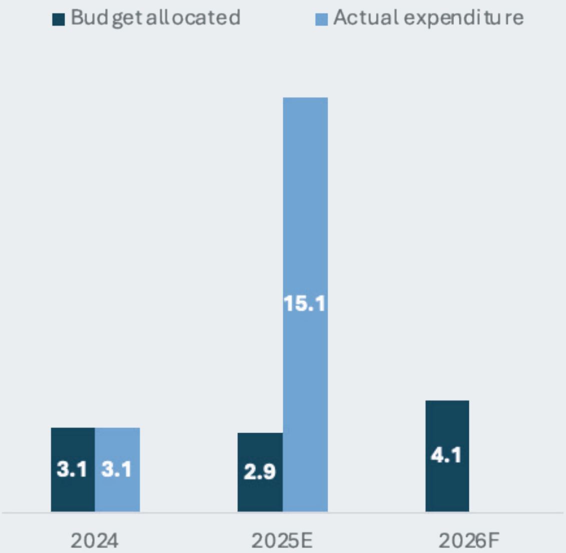
Source: Authors' calculations based on Ministry of Finance data

Lower public funding on energy transition, but stronger drive for resilience and restoration

- **Annual allocation for energy transition has been cut by more than half.** Greater reliance is placed on investments from GLCs and private sector, allowing public fiscal resources to be redirected towards non-bankable priorities.
- **Disaster management funding up by 41%, reflecting resource reprioritisation within PETRA.** The ministry's redistributed budget is mainly directed toward flood-mitigation. Alongside NADMA's enhanced preparedness measures, these initiatives prioritise risk reduction and long-term resilience.
- **Biodiversity and rehabilitation spending increases by 5% with greater emphasis on conservation and river management.** Urban Storm Water Management (MASMA) programme accounts for 13% of total allocation, focusing on river restoration and infrastructure upgrade as a flagship for Budget 2026, a provision missing from previous years to develop climate resilient waterways.

Fig. 7. PETRA spends more on sustainable energy despite low forecasted amount in 2025

Announced and estimated budget allocation for sustainable energy (RM millions), 2024-2026



Source: Authors' calculations based on Ministry of Finance data
Note: Figures refer to allocated and actualised spending for line item 020200 "Tenaga Lestari" under PETRA's operating expenditure.

Climate commitments acknowledged, but fiscal priorities for policy instruments remain fragmented

- **Spending for sustainable energy in 2025 under PETRA's Tenaga Lestari exceeded its budget, while 2026 is lower despite broader mandates** (Fig. 7). This gap raises delivery concerns, though private financing may offset limited fiscal space for National Energy Transition Roadmap (NETR). Additional allocations are in place for nuclear energy development and energy efficiency initiatives.
- **Adaptation planning receives limited fiscal backing.** National Adaptation Plan (MyNAP) line item under NRES is confined to preparation and submission of one plan to UNFCCC, with no funding provision for implementation.
- **Allocation for Ecological Fiscal Transfer (EFT) remains at RM250m since 2025 but now allows use for state development.** The expanded scope gives states flexibility to integrate conservation with economic priorities, though it risks diverting resources from core environmental objectives.

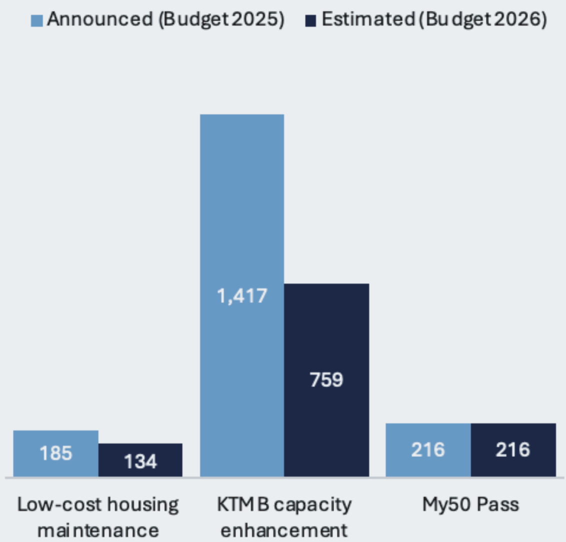
TRANSPORTATION AND HOUSING

Commitment to liveability and mobility not fully reflected in allocations

by Ahmad Farhan

Fig. 8. My50 pass funding constant while allocation for other initiatives contract

Comparison between forecasted and estimated budget allocation for key initiatives (RM millions)



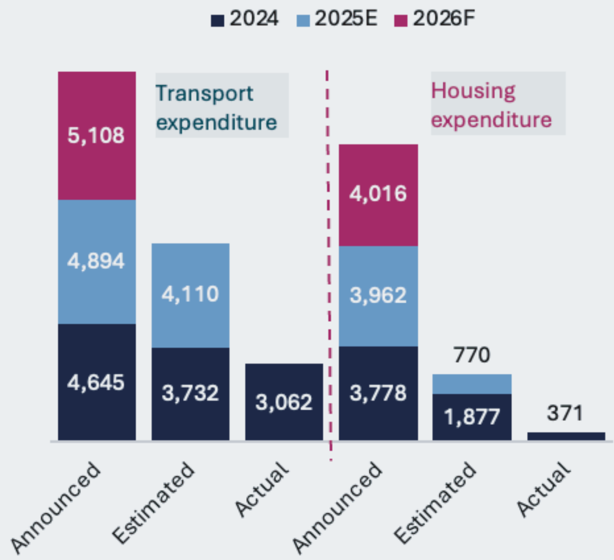
Source: Authors' calculations based on Ministry of Finance data
Note: Programmes selected for comparison are key initiatives under the Ministry of Housing and Local Government and the Ministry of Transport

Constant support for urban-centric services while initiatives benefitting low-income Malaysians are limited

- **Maintenance of allocation for My50 pass is crucial for increased public transit utilisation.** Over 200,000 Malaysians utilise the monthly pass, 60% of whom are classified as B40, with number of users doubling from 2019.
- **Sharp decline in KTMB enhancement spending points towards reprioritisation in allocation for other transportation services.** This raises concerns of viability of KTM intercity and commuter rail services, which play a role in wider regional connectivity goals.
- **Fiscal backing for public housing maintenance is insufficient.** Allocation for housing maintenance must match affordable housing development expenditure to combat disrepair.

Fig. 9. Underspending across housing and transport sectors

Development expenditure allocation for transport and housing (RM millions), 2024-2026



Source: Authors' calculations based on Ministry of Finance data

Strides made in ensuring access to services, but budget increase across all items is needed

- **Strong focus on National Transport Policy's aim of sustainable modalities and increased public transit uptake, supported by a slew of investments aimed at public transit network expansion and reach.** A focus on expanding feeder service fleets, rolling stock expansion of Kelana Jaya Line LRT and launch of Mutiara Line LRT in Penang underscore government's commitment to this goal.
- **Beyond investment in affordable housing, structured and consistent allocation of public housing maintenance is required.** Budget allocation amounts for building maintenance differ year-on-year, though there is a consistent trend of underspending, raising concerns of accelerated building deterioration and safety risks.

BUDGET 2026 insights

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