

Malaysia

Budget 2027: Balancing policies, politics and priorities

Lavanya Venkateswaran
Senior ASEAN Economist

- Budget 2027 prioritises cost-of-living relief through higher cash transfers, tax cuts and wage support, while remaining on a gradual fiscal consolidation path.
- The government targets a narrower fiscal deficit of 3.3% of GDP in 2027 (from 3.6% in 2026). We see risks of fiscal slippage of 0.2-0.3% of GDP from lower-than-budgeted revenue collections, elevated subsidy spending and potential election-related expenditures.
- The government's agenda to support medium-term growth remains intact underscored by tax incentives for SMEs, green investments and digitalisation, alongside support for semiconductors, advanced manufacturing and energy infrastructure.

Balancing politics, policies and priorities

PM Anwar tabled Budget 2027 on 9 October, and it will be debated for eight days starting next week. Relevant ministries are scheduled to complete discussions from 26-29 Oct, followed by the committee stage debate from 2-6 Nov before the Bill is passed in the Dewan Rakyat.

Budget 2027 prioritises cost-of-living relief and growth support while maintaining a headline commitment to fiscal consolidation. The budget lays the groundwork for a potential general election over the coming year, with tax relief for households and SMEs, higher cash assistance and sizeable fuel subsidy allocations. Minimum wages will also be raised from MYR1,700 to MYR2,000 from June 2027. Importantly, the authorities have not lost sight of longer-term growth objectives, with incentives aimed at encouraging investment in semiconductors, advanced manufacturing, digitalisation and the green transition, alongside higher development allocations for Sabah and Sarawak.

The headline fiscal deficit announcements were largely in line with our expectations. We had forecast fiscal slippage of 0.1% of GDP this year relative to the original budget target of 3.5% of GDP, and the outturn is consistent with this expectation. We had also expected the authorities to announce a slightly narrower fiscal deficit of 3.4% of GDP for 2027. The projected narrowing of the fiscal deficit to 3.3% of GDP in 2027, from 3.6% of GDP in 2026, is broadly as anticipated.

MYRbn	2025		2026		2027	
	Actual	%YoY	Revised estimate	%YoY	Budget estimate	%YoY
Central Govt Revenue	336.1	3.5	363.6	8.2	380.8	4.7
Tax Revenues	259.8	8.2	280.8	8.1	297.1	5.8
Direct Taxes	180.6	5.2	191.0	5.8	199.9	4.6
Indirect Tax	79.3	15.7	89.7	13.2	97.2	8.3
Non-Tax Revenues	76.2	8.8	82.9	8.7	83.8	1.1
Central Govt Expenditures	411.4	1.9	444.1	8.0	459.8	3.5
Central Govt Current Expenditure	330.8	2.9	363.1	9.8	376.8	3.8
Emoluments	101.5	5.7	108.4	6.9	111.6	2.9
Pension and Gratuities	38.6	7.4	42.8	11.0	44.6	4.2
Debt Service Charges	53.7	6.4	57.3	6.7	61.0	6.5
Supplies and Services	42.2	12.0	41.6	-1.3	45.1	8.2
Subsidies & Social Assistance	55.3	-18.0	74.5	34.7	72.7	-2.3
Asset Acquisition	1.3	7.8	0.9	-28.9	1.3	44.0
Net Development Expenditure	80.6	-2.1	79.1	-1.8	81.5	3.0
Gross Development Expenditure	81.9	-2.5	81.0	-1.1	83.0	2.5
Fiscal balance	-75.3		-78.5		-77.5	
% GDP	-3.7		-3.6		-3.3	

Source: CEIC; MoF; OCBC Group Research.

Revenue collections reliant on administrative improvements and Petronas dividends

The authorities estimate that revenue collections will grow 4.7% YoY in 2027, with tax revenue growth of 5.8%. The increase in tax revenues will be supported by resilient nominal GDP growth of 7.0% (real GDP of 4.7% and headline CPI of 2.3%), continued tax administrative improvements, fuller benefits from the adoption of e-invoicing and a broader sales and services tax base. Most importantly, the contribution from Petronas dividends has been raised to MYR27bn in the revised 2026 budget from MYR20bn in the original 2026 budget while the dividends for 2027 are pegged at MYR32bn. We had argued correctly in our Budget 2027 preview that pushing the dividends to previous highs of 2019 and 2022 may prove aggressive (see *Malaysia: Mind the fiscal gap*, 25 September 2026).

At the same time, Budget 2027 contains a range of tax relief measures. Personal income tax relief was increased from MYR9,000 to MYR12,000, while tax rates for individuals earning between MYR70,000 and MYR150,000 were reduced by 1 percentage point. Higher-income earners, however, will face a 30% tax rate on income above MYR1mn. SMEs will also benefit from lower tax rates, with the first MYR150,000 of taxable income taxed at 14% and the next MYR450,000 at 16%. Additional measures include housing-related stamp duty exemptions for first-time homebuyers and expanded tax relief covering eldercare, postnatal care, tuition and AI-related subscriptions. While nominal GDP growth should continue to support revenue collections, these tax concessions are likely to temper revenue growth in 2027.

More fundamentally, without significant changes to the SST mechanism, and newer tax measures to generate additional revenue collections, the revenue measures appear to reorient the revenue base towards commodities rather than broaden it away from commodities.

Revenue Measures	
Personal Income tax	Personal income tax relief increased from MYR9,000 to MYR12,000. Tax rates lowered by 1ppt for income brackets between MYR70,000 and MYR150,000. Higher tax rate on top earners: income above MYR1mn taxed at 30% (from 28%).
SME taxes	SME tax cuts: rate reduced by 1ppt to 14% on first MYR150k of taxable income and 16% on the next MYR450k.
Other tax relief	Expanded tax reliefs covering eldercare, postnatal care, tuition, AI subscriptions and lifestyle spending.
Green taxes	Green and sustainability incentives extended until 2030, including investment tax allowances for green technology and EV charging projects.
Stamp duties	Housing-related stamp duty exemptions for first-time homebuyers and rescue of abandoned housing projects. Lower stamp duties/transaction costs for SMEs, P2P financing, savings accounts and financing facilities.
Tax incentives for investments	Tax deductions and accelerated allowances extended for ICT, machinery, manufacturing and selected investments.

Source: Ministry of Finance, Malaysia; Budget 2027; OCBC Group Research.

Expenditure demands remain high

Meanwhile, the expenditure demands remain elevated as the Budget assumes that crude oil prices will remain sticky at USD85/barrel in 2026 and 2027. The subsidy and social assistance bill, as a direct consequence, is expected to remain high at

Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

MYR72.7bn in 2027 compared to MYR74.5bn in the revised 2026 budget. We expect there will be some slippage on this component considering that social assistance has been raised to MYR16bn in 2027 from MYR15bn in 2026, and that as a likely year of a general election, additional expenditure under this line item cannot be ruled out. Indeed, the budget allocates a higher supplies and services budget for 2027 as “allocations are provided for the continuation of the Visit Malaysia 2026 – 2027 as well as preparations for the 34th SEA Games and the 16th General Elections.”

The cost of emoluments, pensions and gratuities as well as debt service charges continue to rise. The rate of increase for pensions and debt service charges is broadly aligned with recent historical increases while in the pace of increase in emolument spending at 2.9% is lower than the 2022-26 average of 4.3%. While one of remuneration adjustments have been completed, some slippage on this line item cannot be ruled out.

Finally, the authorities assumed that development expenditures will rise 2.5% YoY to MYR83bn in 2027. However, should operating expenditures increases more sharply than previously expected, we see room to modestly cut back on development expenditures.

Expenditure Measures	
Subsidies and cash assistance	Subsidies, assistance and incentives exceed MYR80bn, including MYR40bn of fuel subsidies and MYR16bn for STR-SARA.
Healthcare expenditures	Healthcare allocation increased to MYR47.7bn from MYR46.5bn, including EMR rollout, hospital maintenance and medical equipment procurement.
Education expenditures	Education allocation increased to nearly MYR69bn, including MYR2bn for school maintenance and MYR1.3bn for dilapidated schools.
Infrastructure	Infrastructure spending remains elevated: MYR3.3bn for Sabah and Sarawak roads, MYR2.3bn for rural roads, MYR2.5bn for water infrastructure and MYR5bn for digital connectivity.
	Transport investment includes MYR3.4bn rail rehabilitation by Prasarana, 42 new train sets and MYR2.5bn for federal road maintenance.
Housing	Housing programmes receive nearly MYR1bn, alongside MYR20bn in housing financing guarantees.
Agriculture	Agriculture support remains substantial at MYR2.62bn for padi farmers, plus additional funding for fisheries, FELDA and food security projects.
Regional allocations	Regional allocations rise further: Sabah receives MYR18.7bn and Sarawak MYR16.2bn.

Source: Ministry of Finance, Malaysia; Budget 2027; OCBC Group Research.

Not losing sight of medium-term objectives

Importantly, Budget 2027 demonstrates that the government has not lost sight of its medium-term transformation agenda despite the emphasis on cost-of-living support. Beyond household relief, the budget lowers SME tax rates, extends accelerated capital allowances for machinery, ICT equipment and software until 2030, and maintains investment tax allowances of up to 100% for green technology projects and EV charging infrastructure. The government also announced a MYR100mn strategic

investment fund to support semiconductor and advanced manufacturing firms in Penang, incentives for automotive vendors relocating to the Automotive Hi-Tech Valley, and MYR15bn of grid investments by TNB to support rising power demand and the energy transition. Together, these measures underscore the government's commitment to moving Malaysia up the value chain, raising productivity, attracting higher-quality investment and strengthening long-term competitiveness.

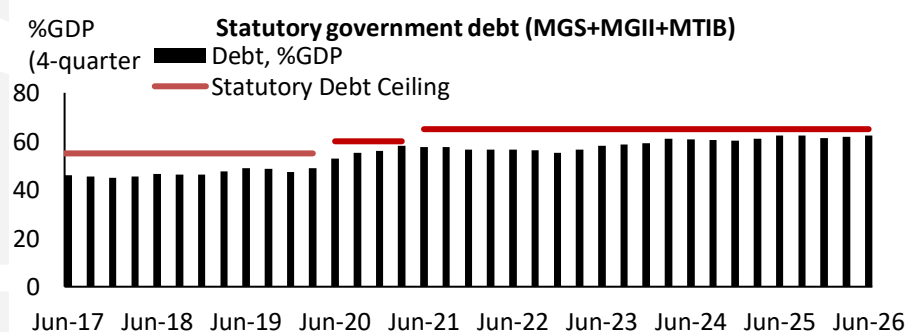
Fiscal pressures likely to persist into 2027

While the fiscal deficit is projected to narrow to 3.3% of GDP in 2027, somewhat consistent with the Medium-Term Fiscal Framework, achieving this target will depend heavily on commodity-related revenues, particularly Petronas dividends, continued improvements in tax administration and resilient economic growth. Our forecasts assume that tax revenue growth will slightly lag nominal GDP growth as the boost from higher commodity prices fades from 2Q27 onwards and revenue foregone from Budget 2027 tax measures begins to take effect.

More importantly, expenditure restraint depends on a degree of subsidy and social assistance rationalisation in a year when the budget itself has earmarked funding for a potential general election. We expect the subsidy bill will remain unchanged from 2026 especially since the fuel price assumption and cash assistance packages remain similar. We also forecast a marginally higher rate of emolument growth, consistent with recent historical precedence. These suggest that operating expenditures will be larger than budgeted. As such, our baseline view remains that fiscal slippage could amount to 0.2-0.3% of GDP in 2027, leaving the fiscal deficit closer to 3.5%-3.6% of GDP.

An eye on debt dynamics

Any potential fiscal slippage will bring the debt dynamics into focus. As at end-June 2026, the Federal Government debt stood at 63.1% of GDP, with the authorities focused on lowering the debt to GDP ratio to the medium-term threshold of 60%. Notwithstanding, as the Economic Report 2027 noted, "A strong domestic institutional investor base reinforces a resilient financial market as demonstrated by a sizeable resident holding" of 78.5% of total outstanding debt (as of 2Q26) while non-resident debt was "generally stable" at 21.5% of total outstanding debt.



Source: CEIC; OCBC Group Research.

Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

Disclaimers

This report is solely for information purposes and general circulation only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This report should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein or to participate in any particular trading or investment strategy. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this report is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this report may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This report may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, it should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. In the event that you choose not to seek advice from a financial adviser, you should consider whether the investment product mentioned herein is suitable for you. Oversea-Chinese Banking Corporation Limited ("OCBC Bank"), Bank of Singapore Limited ("BOS"), OCBC Investment Research Private Limited ("OIR"), OCBC Securities Private Limited ("OSPL") and their respective related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future, interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial or securities related services to such issuers as well as other parties generally. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. There may be conflicts of interest between OCBC Bank, BOS, OIR, OSPL or other members of the OCBC Group and any of the persons or entities mentioned in this report of which OCBC Bank and its analyst(s) are not aware due to OCBC Bank's Chinese Wall arrangement. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

The information provided herein may contain projections or other forward looking statements regarding future events or future performance of countries, assets, markets or companies. Actual events or results may differ materially. Past performance figures are not necessarily indicative of future or likely performance.

Privileged / confidential information may be contained in this report. If you are not the addressee indicated in the message enclosing the report (or responsible for delivery of the message to such person), you may not copy or deliver the message and/or report to anyone. Opinions, conclusions and other information in this document that do not relate to the official business of OCBC Bank, BOS, OIR, OSPL and their respective connected and associated corporations shall be understood as neither given nor endorsed.

Co.Reg.no.: 193200032W

Additional disclosures and disclaimers applicable only to clients of Bank of Singapore Limited

This material is being made available to you through an arrangement between Bank of Singapore Limited (Co Reg. No.: 197700866R) ("BOS") and Oversea-Chinese Banking Corporation Limited ("OCBC Bank") (Co Reg. No.: 193200032W). BOS and OCBC Bank shall not be responsible or liable for any loss (whether direct, indirect or consequential) that may arise from, or in connection with, any use of or reliance on any information contained in or derived from this material, or any omission from this material, other than where such loss is caused solely by BOS' or OCBC Bank's wilful default or gross negligence.

The DIFC Branch of BOS has not conducted or produced any research contained in this material and is acting solely as a conduit in forwarding it to you.

For BOS clients in the United Kingdom:

This research has been prepared by OCBC Bank and made available to BOS. It is intended solely for informational purposes and does not constitute investment advice, a personal recommendation, or an offer or solicitation to buy or sell any financial instruments. Any payments or non-monetary benefits received or paid will be fully disclosed in accordance with applicable regulations, promptly and transparently, and will not influence the advice or services offered to you. If you would like more information about any inducements received, please contact your Relationship Manager.

Cross Border Disclaimer and Disclosures

Please refer to https://www.bankofsingapore.com/Disclaimers_and_Disclosures.html for cross-border marketing disclaimers and disclosures.