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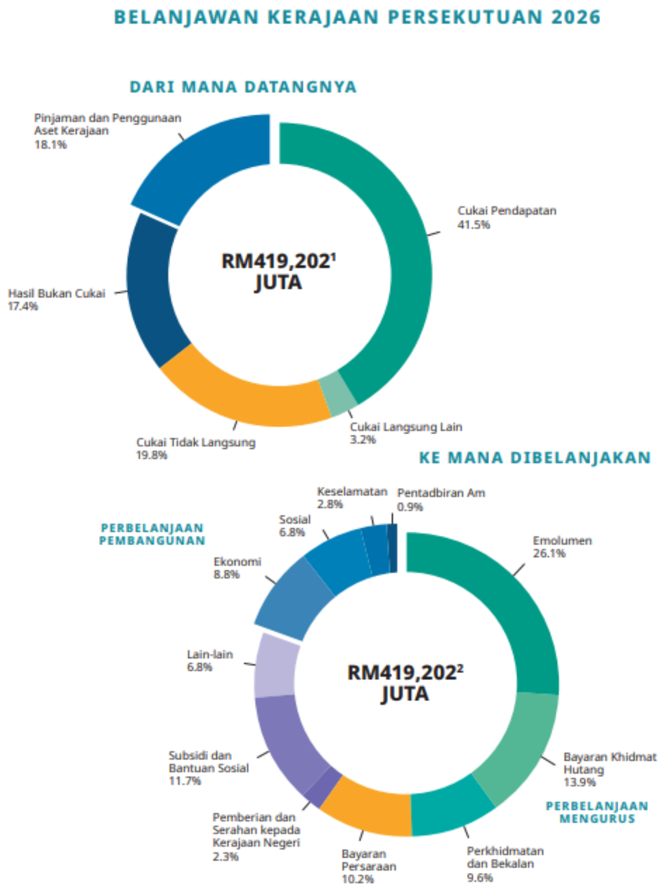
11 OCTOBER 2025

Budget 2026: *"Belanjawan Madani Keempat: Belanjawan Rakyat"* Balances Prudence and Forward Vision

Budget 2026 positions itself as a true *"Belanjawan Rakyat"*, comprehensive and inclusive in scope and touching all segments of the economy — from households and SMEs, government servants to vulnerable groups such as the OKU. It strikes a careful balance: **prudent in fiscal consolidation, yet expansionary** in its focus on growth-enabling and future-facing sectors. This is the 1st budget under RMK13.

For 2026, the government has allocated **RM419.2b (2025E: RM412.2b)**, comprising **RM338.2b (2025E: RM332.2b) in operating expenditure (OE)** and **RM81b (2025: RM80b) in development spending (DE)**. Revenue is projected at **RM343.1b (2025E: RM334.1b)**, leaving a shortfall to be financed through **RM74.6b or 3.5% of GDP (2025E: RM76.7b or 3.8%) in new borrowings**, which effectively sets the scale for government bond issuance next year.



Source: MOF

Measures that caught our eyes

Households & Social Assistance

- STR and SARA 2026 allocations **total RM15b** (2025: RM15b).
- All 9m STR recipients will also receive SARA — up to RM100/month (RM1,200/year); with 1m under e-Kasih eligible for up to RM200/month (RM2,400/year).
- The Govt. will provide a **one-off RM100 SARA payout to 22m Malaysians** aged 18 and above in mid-February, ahead of Ramadan and CNY.
- Early school assistance of RM150 for 5.2 million students.

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Catalysing Opportunities: Where Budget 2026 Opens Doors for the Bank

SMEs & Entrepreneurship

- **SJPP** guarantees scheme will be raised to **RM50b in 2026** (from RM40b), expanding access to credit for local entrepreneurs.

Energy Transition & Sustainability

- **Large-Scale Solar 6 (LSS6)**: Nearly 2GW capacity to be developed, attracting about **RM6b private investment.**
- **Corporate Renewable Energy Scheme (CRESS)**: Expected to **mobilise RM3.5b investment**, with participating companies generating 500MW of renewable energy.
- **Green Technology Financing Scheme (GTFS 5.0):** Extended until Dec 2026, offering up to 80% **government guarantee for green tech projects**, especially waste-to-energy.
- **Carbon Tax:** To be introduced in 2026, starting with the steel and energy sectors.

Islamic Finance & Halal Economy

- An **innovative tokenised cash waqf sukuk** will be introduced to fund critical needs such as special education, autism centres, and palliative care facilities, turning individual contributions into **sustainable social financing**.
- **SJPP guarantees for halal SME financing will be doubled to RM2b (from RM1b),** expanding access to credit for the halal sector.
- The **iTEKAD programme** (RM35m matching fund) will be expanded to provide grants for upskilling recipients, enabling more stable career opportunities.
- A new **Climate Sukuk** will be launched to finance green projects, with returns partly delivered through **carbon credit dividends**.

AI, Digital, Innovation & Export Market Support

- The government will grant an **additional 50% tax deduction** for SMEs on training costs related to **AI and cybersecurity**, provided the programmes are accredited by the **MyMahir National AI Council for Industry (NAICI)**, led jointly by TalentCorp and MyDigital.
- **SJPP** will guarantee up to **70% of financing** for mid-tier companies expanding into export markets, with a total guarantee value of **RM5b**.

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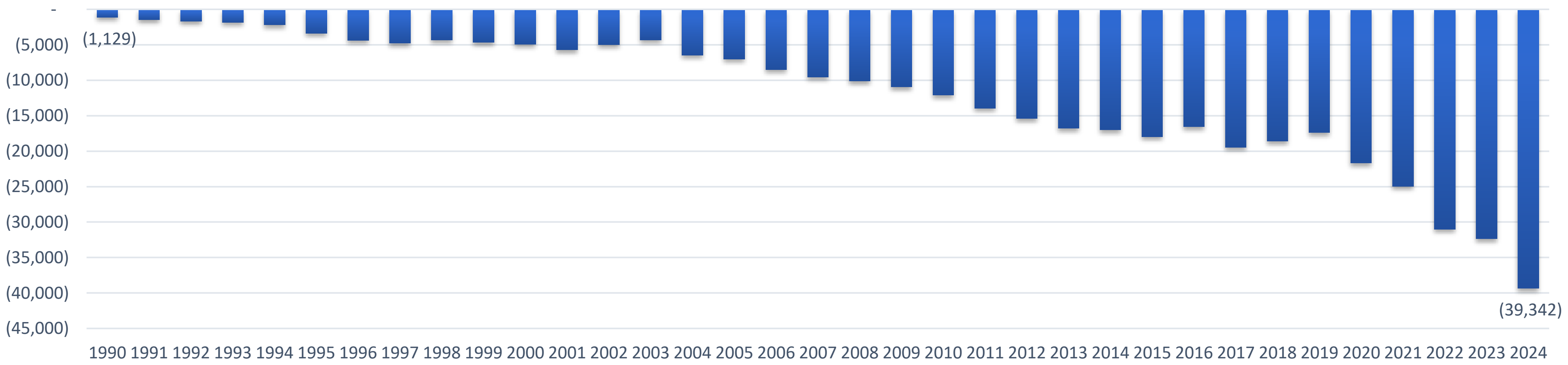
Tax incentives for food security projects

- Companies engaging in new projects will be granted 100% income tax exemption on statutory income for 10 years of assessment
- Existing companies undertaking expansion projects will be given 100% income tax exemption on statutory income for 5 years.
- The tax exemption will be given on income generated from sales in domestic market

Trade balance in agrifood industries (RM million)



Source: CEIC, BMMB Economics

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Deficit at −3.5% of GDP: Credible Progress on Consolidation Ahead of Public Finance & Fiscal Responsibility Act (FRA) Milestones

The Government **projects revenue of RM343.1b in 2026**, up 2.9% from 2025, while operating expenditure will rise modestly to RM338.2b (+1.8%). Development expenditure is broadly stable at RM81b, keeping total spending anchored. As a result, the overall deficit is projected at −RM74.6b, **equivalent to −3.5% of GDP**—slightly narrower than consensus expectations of −3.6%, underscoring Putrajaya's commitment to fiscal consolidation under the FRA.

On the revenue side, **SST collections are on the rise** and expected to reach RM59.6b in 2026 (2025E: RM53.4b), thanks to thanks to scope expansion and stronger compliance enforcement**.**

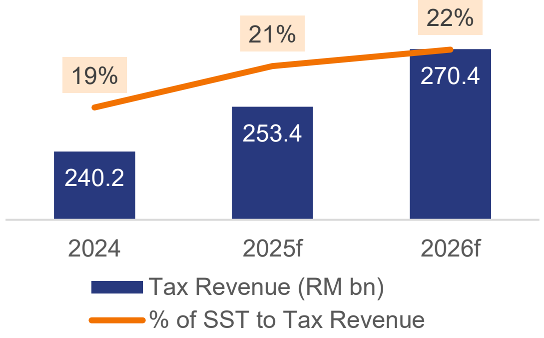
Meanwhile, **non-tax revenue is expected to edge lower to RM72.6b (2025E: RM80.7b).** Chief among them is dividend from Petronas which is set to decline significantly to RM20 billion (2025E: RM32b) due to lower oil price assumptions (USD70pb in 2026 vs. USD80 pb) and moderating output (450kbpd-500kbpd in 2026 vs 500kbpd in 2025). This softens the overall revenue trajectory but keeps the fiscal path credible.

Overall, the 2026 framework signals **measured discipline**: expenditure growth is contained, subsidies continue to normalise (falling to RM49b in 2026 from RM57.1b in 2025), and the deficit target is comfortably aligned with the medium-term glide path. **Rating agencies are likely to view this positively, as the narrower deficit enhances policy credibility ahead of the FRA milestones (Govt debt at 60% of GDP and below & fiscal deficits 3% of GDP and below).**

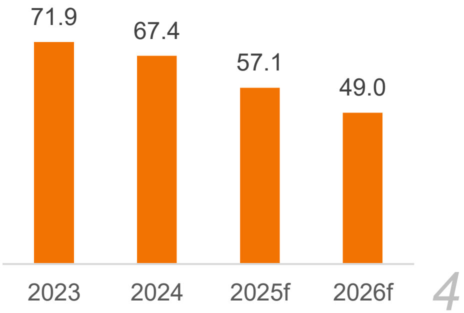
Revenue, Expenditure and Deficit Trajectory 2024–2026f,
(RM million, unless stated otherwise)

	2024	MOF 2025f	MOF 2026f
Revenue	324,618	334,115	343,124
% change	*3.1%*	*2.9%*	*3.7%*
Operating expenditure	321,509	332,150	338,202
% change	*3.3%*	*3.3%*	*1.8%*
Current balance	3,109	1,965	4,922
Gross development expenditure	84,012	80,000	81,000
% change	*-11.6%*	*-4.8%*	*1.3%*
Less: loan recoveries	*1,737*	*1,321*	*1,500*
Net development expenditure	82,275	78,679	79,500
Overall balance	(79,166)	(76,714)	(74,578)
Overall balance % of GDP	**-4.1%**	**-3.8%**	**-3.5%**

Tax Revenue Gains along with higher SST collection



Subsidy expenditure on a decline
(RM bn)



Source: MOF, BMMB Economics

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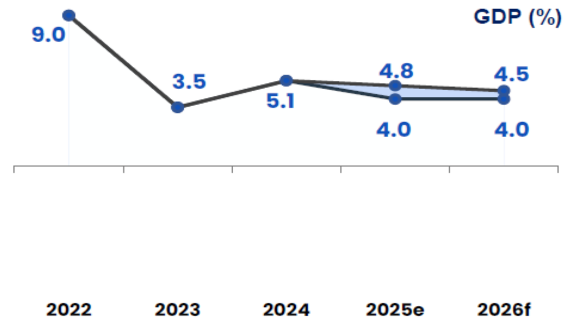
Macro Targets: 4.0%–4.5% Growth, 1.3–2% Inflation — Cautious and Reasonable

The government projects GDP growth at **4.0–4.5% in 2026 (2025E: 4.0% - 4.8%)**, broadly in line with Malaysia's medium-term potential. Momentum will be supported by **resilient domestic demand**, with private consumption underpinned by robust labour market conditions, and cash transfers. On the investment side, growth will be lifted by the **realisation of approved investments and major national policies**, as well as the **continuation and acceleration of infrastructure projects under DE and NFPC**. External prospects are more mixed: while **exports could benefit from higher demand for semiconductors, AI edge applications, and competitive commodity prices**, downside risks remain from trade policy uncertainty and supply chain disruptions. **Inflation is forecast at 1.3–2.0% (2025E:1.0% - 2.0%)**, reflecting easing global supply constraints and softer commodity prices. The benign outlook provides space for monetary policy to stay accommodative, though upside risks stem from domestic policy measures.

On balance, **the government's projections look achievable**, but execution will be critical. Sustaining investment realisation and shielding household demand against policy and external shocks will determine whether the growth trajectory holds.

GDP Forecast 2025-2026

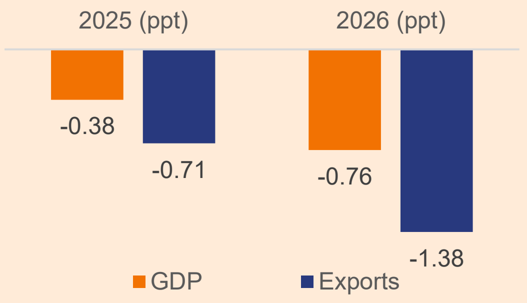


GDP Forecast by DD Component

	2025	2026
GDP	**4.5**	**4.1**
Private Consumption	5.0	5.1
Private Investment	10.0	7.8
Public Consumption	4.0	3.2
Public Investment	12.7	7.3
Net exports	-15.0	-32.0
Exports	1.9	3.8
Imports	3.1	5.8

Source: MOF, BMMB Economics

Impact of US Tariff



- **US tariffs set to bite**, with MOF estimating GDP shaved by −0.38 ppt in 2025 and worsening to −0.76 ppt in 2026.
- **E&E most exposed**, given the US is Malaysia's top market for semiconductors. Risks also extend to **machinery, steel, agriculture, and textiles**.
- **Policy buffers in play**: NGCC activated to coordinate response, while CPTPP, RCEP, NTBp and incentives under NIMP2030, Industrial Development Fund and Export Service Fund.

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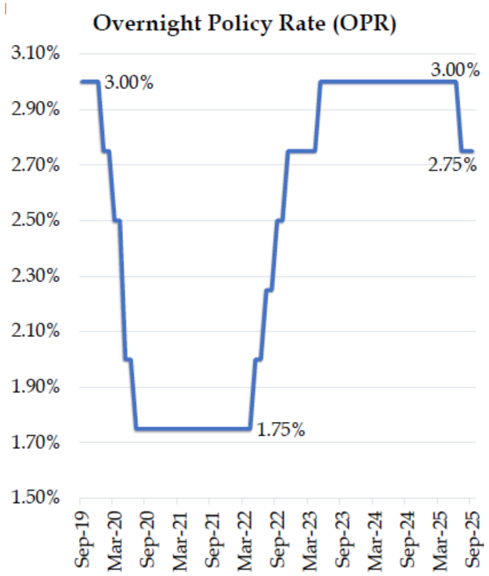
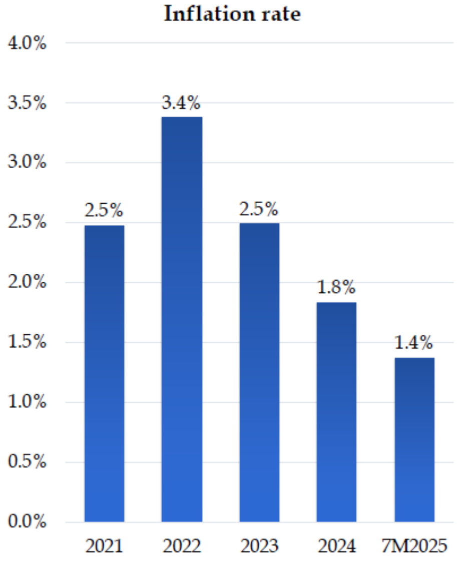
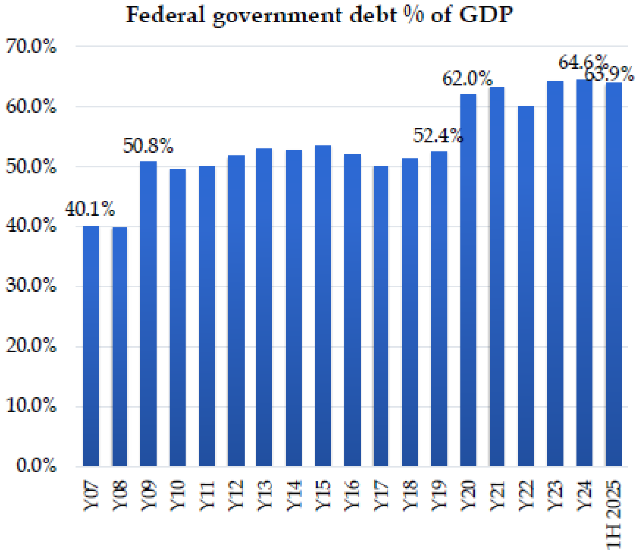
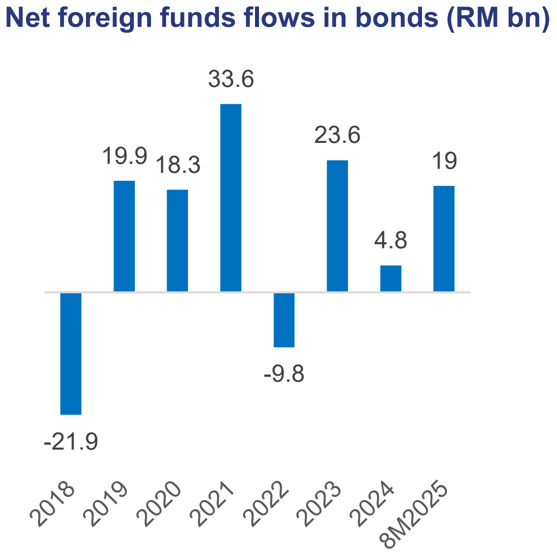
Outlook: Lower Deficit, Stable Yields, Supported Ringgit









Source: CEIC, BMMB Economics

Budget 2026 reinforces Malaysia's fiscal consolidation trajectory, with the deficit target of −3.5% of GDP credibly aligned to FRA milestones. The narrower shortfall reduces funding needs, **implying a lighter government bond supply in 2026**, which should **help keep yields broadly stable**. Coupled with measured expenditure growth and declining subsidy outlays, the framework enhances fiscal credibility and **supports Malaysia's sovereign ratings outlook**.

On the macro front, the government's GDP (4.0%–4.5%) and inflation (1.3%–2%) **targets appear cautious but achievable**, anchored by resilient domestic demand and targeted policy support. Barring major external shocks, we are of the view **monetary policy is likely to remain on hold** through 2026. The **ringgit should find support from broad USD softness**, steady current account surpluses, and Malaysia's credible fiscal stance, limiting downside risks despite global uncertainties. **Our year end target for USDMYR stays at RM4.15 to RM4.20.**