

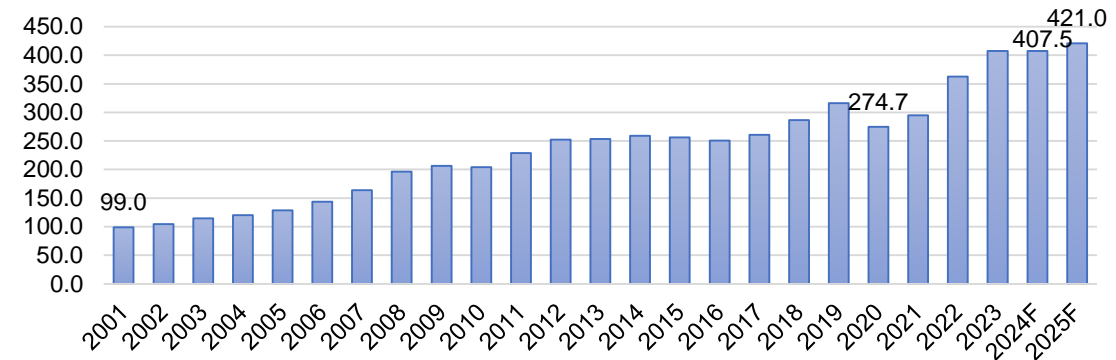
# Malaysia's Budget 2025 – a delicate balancing act

The Malaysian government unveiled its 2025 Budget on 18 October 2024, setting a record-high allocation of RM421 billion. Of this total, 80% is directed toward Operating Expenditure (OE), while the remainder is designated for Development Expenditure (DE). Projected revenue for 2025 is set to increase by 5.5% to RM339.7 billion, with tax revenue contributing 76.3% of this amount. Overall, the government anticipates a fiscal deficit of RM80 billion, or 3.8% of GDP, in 2025, improving from an estimated RM84.3 billion, or 4.3% of GDP, in 2024.

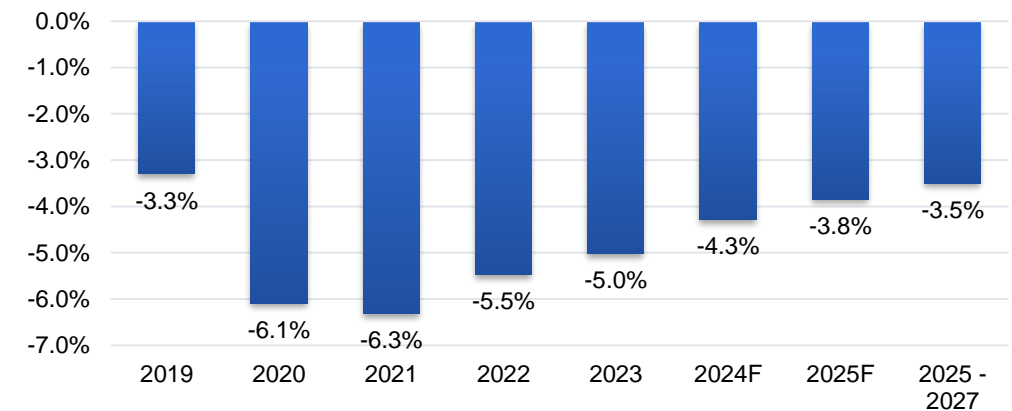
The government reaffirms its commitment to fiscal consolidation, targeting a fiscal deficit of around 3.5% of GDP from 2025 to 2027 under the Medium-Term Fiscal Framework (MTFF). This indicates a focus on boosting revenue collection and optimizing expenditure, while also ensuring support for middle- to low-income households and encouraging investment and entrepreneurship.

Overall, the government forecasts that Malaysia's economy will shift to a higher growth path of 4.5% to 5.5% in 2025, up from an estimated 4.8% to 5.3% this year. The economy will be driven by both domestic demand and net exports, despite ongoing external challenges such as trade protectionism, geopolitical conflicts, supply chain disruptions, and volatile financial markets.

**Total expenditure in RM billion**



**Fiscal deficits % of GDP**



Sources: MOF & CEIC

# Tax policies are being utilized to expand the tax base while encouraging healthier lifestyles and supporting homeownership.

Several new taxes have been introduced to expand the tax revenue base. These include a 2% tax on dividend income received by individual shareholders. Additionally, there will be an increase in the Sales Tax on non-essential items, such as imported premium goods. The scope of the Service Tax will also be broadened to cover new services, including business-to-business commercial transactions. The expanded SST will take effect on 1 May 2025, with the government planning to consult with industry players beforehand to ensure smooth implementation.

To encourage healthier lifestyles, the excise duty on sugar-sweetened beverages (SSB) will increase by 40 sen per liter, starting in phases from 1 January 2025. Previously, on 1 January 2024, the excise duty on specific SSBs—such as carbonated drinks, flavored milk-based beverages containing lactose, fruit juices, and vegetable juices—was raised from 40 sen to 50 sen per liter. The latest announcement is expected to extend to a broader range of SSBs.

To encourage home ownership, the government has reintroduced individual income tax relief for first-time homebuyers on housing loan interest payments. The last time this relief was offered was in 2009, allowing up to RM10,000 in tax relief for three consecutive assessment years. This time, the relief will be available for three years for sales and purchase agreements executed between 1 January 2025 and 31 December 2027. For homes priced up to RM500,000, the relief will be RM7,000, while for homes priced between RM500,000 and RM750,000, the relief will be RM5,000.

On the expenditure side, the rationalization of RON95 subsidies will be implemented in mid-2025. This move will be a key part of the fiscal consolidation efforts, as RON95 makes up 5.0% of the Consumer Price Index (CPI), compared to only 0.2% for Diesel. This indicates that RON95 is widely consumed by Malaysian consumers.

# Selected industries that are affected by the budget

Sector	Description
Automotive	<ul style="list-style-type: none"> <li>- PERODUA is in the planning stage to produce Electric Vehicle (EV) priced RM100,000 and below</li> </ul>
Palm Oil	<ul style="list-style-type: none"> <li>- Export duty for Crude Palm Oil (CPO) was at 8.0% for prices at RM3,450 per MT and above.</li> <li>- The new structure will be:                      RM3,451 – RM3,600 = 8.0%                      RM3,601 – RM3,750 = 8.5%                      RM3,751 – RM3,900 = 9.0%                      RM3,901 – RM4,050 = 9.5%                      &gt;RM4,050 = 10.0%.</li> </ul> <p>The main idea is to discourage exports in order to promote domestic consumption and economic complexity by encouraging the development of mid and downstream industries. Currently, the spot price for CPO stood at RM4,355 per MT. The measure will be effective on 1 November 2024.</p> <ul style="list-style-type: none"> <li>- Petronas, SD Guthrie and FGV Holdings will work together to produce Sustainable Aviation Fuel (SAF).</li> </ul>
Residential property sector	<ul style="list-style-type: none"> <li>- Income tax relief on housing loan interest payments for the first time house.</li> <li>- Step-up financing from SJKP up to RM5 billion for the younger generation to purchase a house.</li> </ul>
Islamic economy (Waqf Land Development)	<ul style="list-style-type: none"> <li>- KWAP will provide RM300 million funds to develop for retirement home for low income retirees.</li> <li>- UDA will develop affordable houses on Waqf land</li> <li>- Home financing from LPPSA to buy house on Waqf land</li> <li>- SJKP will provide guarantees to assist first-time home buyer worth up to RM500,000 to buy house on Waqf land.</li> </ul>
Construction	<ul style="list-style-type: none"> <li>- No mega projects</li> <li>- Development projects would include flood mitigation, special economic zone, industrial park water treatment plants, expressways, pave roads, Light Rail Transit (LRT), airports expansion etc.</li> </ul>

# Selected industries that are affected by the budget

Sector	Description
Construction	<p>Examples</p> <ul style="list-style-type: none"> <li>- Pulau Pinang LRT</li> <li>- Penang International Airport expansion</li> <li>- Batu Kawan Industrial Park 3</li> <li>- Johore-Singapore RTS</li> <li>- Automotive High Tech Valley (AHTV) in Tanjung Malim</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>- RM550 million allocation for promotional activities in conjunction with Visit Malaysia Year 2026</li> <li>- RM110 million for ecotourism development</li> <li>- Khazanah will allocate RM600 million for Bangunan Sultan Abdul Samad and Carcosa Seri Negara refurbishment.</li> </ul>
Agrofood	<ul style="list-style-type: none"> <li>- RM300 million allocation for a joint venture agricultural projects with the state government</li> <li>- 8,800 acres of abandon land will be developed for agricultural projects (poultry, livestock and crops)</li> <li>- Financing from Agrobank totaling RM200 million to improve food security</li> <li>- Cultivation of five-season two-year rice</li> <li>- RM2.78 billion for subsidies, assistance and incentives for farmers and fisherman</li> </ul>
Halal	<ul style="list-style-type: none"> <li>- 100 more JAKIM's Halal auditors</li> <li>- BPMB &amp; SME Bank will provide RM600 million financing to halal MSME</li> <li>- SJPP will guarantee 80% of halal SME financing worth up to RM1 billion</li> <li>- MATRADE will be responsible for capacity building among halal businesses with total allocation of RM20 million.</li> </ul>

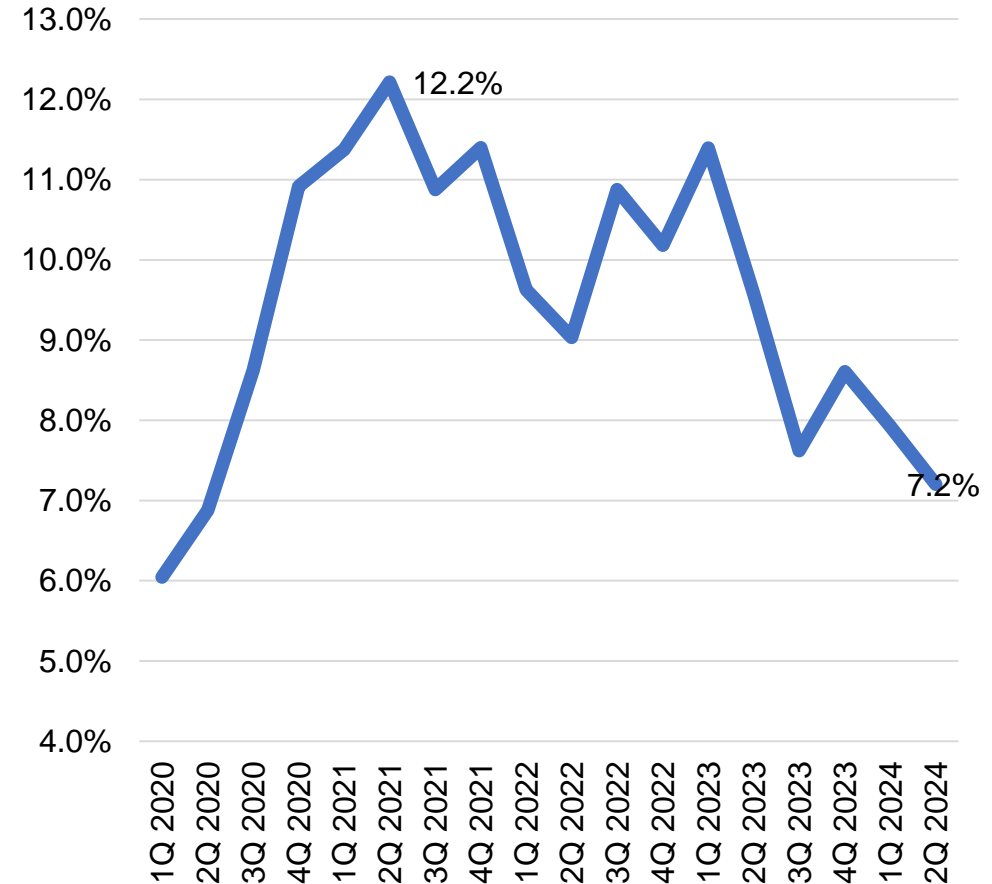
# Budget 2025 could be positive for Malaysia's credit rating

Budget 2025 strikes a delicate balance as the government aims to tackle the cost of living and stagnant wages. The allocation for Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) will increase to RM13 billion in 2025, up from RM10 billion this year, benefiting 9 million recipients. The expanded scope of the SST is expected to generate RM47 billion in revenue in 2025, compared to an estimated RM41 billion in 2024. Additionally, the rationalization of RON95 subsidies will be implemented by mid-next year. As a result, Malaysia's inflation rate is forecasted to range between 2.0% and 3.5% in 2025, up from an estimated 1.5% to 2.0% in 2024.

So far, the growth of the federal government's debt has slowed to 7.2% year-on-year in 2Q2024, down from a peak of 12.2% in 2Q2021. This indicates disciplined financial management by the government. This trend is seen as credit-positive, as the reduced fiscal deficit next year is expected to moderate debt growth. Historical data shows that new debt issuances have been declining, from RM100 billion in 2022 to RM90 billion in 2023 and RM85 billion in 2024. In 2025, new debts are projected to reach RM80 billion.

This could positively impact foreign fund inflows, as favorable reviews from Credit Rating Agencies (CRAs) might lead to an upgrade in the rating outlook, and possibly the credit rating itself. As a result, there could be upside potential for the ringgit. With Malaysia's economy currently in a favorable position, the country's GDP is expected to grow by around 5.0% in 2025. As for the Overnight Policy Rate (OPR), Bank Negara Malaysia (BNM) may be inclined to keep interest rates steady, as inflation risks are tilted to the upside. This could further support the ringgit, especially as other regional central banks begin to ease monetary policies.

**Malaysian government debt growth**



Source: CEIC

# Appendix.

## Federal government finances

RM Million	2020	2021	2022	2023	2024F	2025F
Revenue	225,076	233,752	294,357	314,960	322,050	339,706
%chg	-14.9%	3.9%	25.9%	7.0%	2.3%	5.5%
Operating expenditure	224,600	231,516	292,693	311,267	321,500	335,000
%chg	-14.7%	3.1%	26.4%	6.3%	3.3%	4.2%
Current balance	476	2,235	1,664	3,693	550	4,706
Gross development expenditure	50,101	63,282	70,167	96,091	86,000	86,000
%chg	-4.7%	26.3%	10.9%	36.9%	-10.5%	0.0%
Less: Loan recoveries	1,259	975	1,407	1,007	1,154	1,321
Net development expenditure	48,842	62,307	68,760	95,084	84,846	84,679
%chg	-4.2%	27.6%	10.4%	38.3%	-10.8%	-0.2%
Covid-19 Fund	38,019	37,711	30,979	-	-	-
Overall balance	(86,385)	(97,782)	(98,075)	(91,391)	(84,296)	(79,973)
Overall balance % of GDP	-6.1%	-6.3%	-5.5%	-5.0%	-4.3%	-3.8%

Source: MOF

## Federal government revenue

	RM million			Change			Share		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Tax revenue	229,185	241,035	259,037	9.8%	5.2%	7.5%	72.8%	74.8%	76.3%
Direct tax	171,336	177,060	188,799	11.6%	3.3%	6.6%	54.4%	55.0%	55.6%
of which:									
CITA	91,743	98,540	106,478	11.7%	7.4%	8.1%	29.1%	30.6%	31.3%
Individuals	37,770	40,776	43,970	11.8%	8.0%	7.8%	12.0%	12.7%	12.9%
PITA	26,096	21,750	20,742	11.4%	-16.7%	-4.6%	8.3%	6.8%	6.1%
Indirect tax	57,849	63,795	70,238	4.6%	10.6%	9.8%	18.4%	19.8%	20.7%
of which:									
SST	35,463	40,914	46,743	13.1%	15.4%	14.2%	11.3%	12.7%	13.8%
Excise duties	13,144	13,684	13,795	4.7%	4.1%	0.8%	4.2%	4.2%	4.1%
Import duty	3,037	3,027	3,269	-4.9%	-0.3%	8.0%	1.0%	0.9%	1.0%
Export duty	2,039	1,974	1,955	-22.2%	-3.2%	-1.0%	0.6%	0.6%	0.6%
Non-tax revenue	85,774	81,015	80,699	0.2%	-5.5%	-0.4%	27.2%	25.2%	23.8%
of which:									
Licences and permits	16,741	16,547	16,659	7.1%	-1.2%	0.7%	5.3%	5.1%	4.9%
Investment income	55,824	49,321	48,213	-4.1%	-11.6%	-2.2%	17.7%	15.3%	14.2%
Total revenue	314,959	322,050	339,706	7.0%	2.3%	5.5%	100.0%	100.0%	100.0%

Source: MOF  
CITA = Corporate Income Tax  
PITA = Petroleum Income Tax

## Federal government operating expenditure

	RM million			Change			Share		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Emoluments	91,860	99,760	105,917	4.6%	8.6%	6.2%	29.5%	31.0%	31.6%
Retirement charges	34,080	34,446	40,560	8.5%	1.1%	17.7%	10.9%	10.7%	12.1%
Debt service charges	46,331	50,800	54,700	12.3%	9.6%	7.7%	14.9%	15.8%	16.3%
Grants & transfers to state government	8,688	8,747	9,260	7.0%	0.7%	5.9%	2.8%	2.7%	2.8%
Supplies & services	35,898	39,210	40,654	3.5%	9.2%	3.7%	11.5%	12.2%	12.1%
Subsidies & social assistance	71,873	61,392	52,571	6.7%	-14.6%	-14.4%	23.1%	19.1%	15.7%
Asset acquisition	1,023	1,704	1,182	33.3%	66.6%	-30.6%	0.3%	0.5%	0.4%
Refunds & write-offs	526	534	541	-4.2%	1.5%	1.3%	0.2%	0.2%	0.2%
Grants to statutory bodies	15,753	15,645	16,304	12.4%	-0.7%	4.2%	5.1%	4.9%	4.9%
Others	5,235	9,262	13,311	-22.3%	76.9%	43.7%	1.7%	2.9%	3.9%
<b>Total</b>	<b>311,267</b>	<b>321,500</b>	<b>335,000</b>	<b>6.3%</b>	<b>3.3%</b>	<b>4.2%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MOF

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## Federal government development expenditure

	RM million			Change			Share		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Economic	57,238	41,371	39,976	46.3%	-27.7%	-3.4%	59.6%	48.1%	46.5%
of which:									
Transport	17,761	16,258	17,559	7.3%	-8.5%	8.0%	18.5%	18.9%	20.4%
Trade and industry	3,011	3,611	3,131	30.4%	19.9%	-13.3%	3.1%	4.2%	3.6%
Energy and public utilities	2,374	3,070	3,044	0.6%	29.3%	-0.8%	2.5%	3.6%	3.5%
Agriculture	3,020	3,116	3,062	18.5%	3.2%	-1.7%	3.1%	3.6%	3.6%
Environment	1,860	3,330	3,203	7.1%	79.0%	-3.8%	1.9%	3.9%	3.7%
Social	24,247	28,220	29,902	14.7%	16.4%	6.0%	25.2%	32.8%	34.8%
of which:									
Education & training	12,185	14,268	15,024	21.5%	17.1%	5.3%	12.7%	16.6%	17.5%
Health	4,796	6,143	6,853	8.7%	28.1%	11.6%	5.0%	7.1%	8.0%
Housing	2,105	1,998	2,318	27.4%	-5.1%	16.0%	2.2%	2.3%	2.7%
Security	11,381	12,514	12,334	38.6%	10.0%	-1.4%	11.8%	14.6%	14.3%
General administration	3,225	3,895	3,788	3.4%	20.8%	-2.7%	3.4%	4.5%	4.4%
<b>Total</b>	<b>96,091</b>	<b>86,000</b>	<b>86,000</b>	<b>34.3%</b>	<b>-10.5%</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: MOF

## Gross domestic product (GDP)

Growth	2021	2022	2023	2024F	2025F
<b>GDP</b>	<b>3.3%</b>	<b>8.9%</b>	<b>3.6%</b>	<b>4.8% - 5.3%</b>	<b>4.5% - 5.5%</b>
<i>By expenditure</i>					
<b>Domestic Demand</b>	<b>1.8%</b>	<b>9.4%</b>	<b>4.6%</b>	<b>6.4%</b>	<b>6.1%</b>
<b>Consumption</b>	<b>2.5%</b>	<b>10.1%</b>	<b>4.4%</b>	<b>5.2%</b>	<b>5.5%</b>
-Private	1.8%	11.3%	4.7%	5.5%	5.9%
-Public	5.8%	5.1%	3.3%	3.5%	3.8%
<b>Investment</b>	<b>-0.7%</b>	<b>6.8%</b>	<b>5.5%</b>	<b>10.7%</b>	<b>8.0%</b>
-Private	2.8%	7.2%	4.6%	11.1%	8.9%
-Public	-11.0%	5.3%	8.6%	9.3%	4.9%
<b>Net Export</b>	<b>-4.0%</b>	<b>-1.5%</b>	<b>-16.2%</b>	<b>0.6%</b>	<b>5.7%</b>
Exports	18.5%	14.5%	-8.1%	7.8%	3.8%
Imports	21.2%	16.0%	-7.4%	8.4%	3.7%
<i>By industry</i>					
Agriculture	-0.3%	0.1%	0.7%	2.0%	1.9%
Mining & Quarrying	0.9%	2.6%	0.5%	2.2%	-0.9%
Manufacturing	9.5%	8.1%	0.7%	4.1%	4.5%
Construction	-5.2%	5.0%	6.1%	14.1%	9.4%
Services	2.2%	10.9%	5.1%	5.3%	5.5%

Source: MOF

## Medium-Term Fiscal Framework (MTFF), 2025 - 2027

	RM billion	% of GDP
Revenue	1,055.0	15.7
Non-petroleum	901.3	13.4
Petroleum related	153.7	2.3
Operating expenditure	1,043.3	15.6
Current balance	11.7	0.1
Gross development expenditure	246.0	3.7
Less: loan recovery	3.7	0.1
Net development expenditure	242.3	3.6
Overall balance	(230.6)	3.5
Underlying assumptions		
Average real GDP growth	4.90%	
Average nominal GDP growth	7.20%	
Average crude oil prices (USD per barrel)	80	
Average crude oil production (barrels per day)	500,000	

Source: MOF