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Budget 2027 charts path to sustainable economy, inclusive growth

The Malaysian Reserve, Malaysia



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Federal Govt Budget	Budget 2026 Allocations	Budget 2027 Allocations	Increase (%)
Total Budget	RM444.1b	RM459.8b	3.6
Education	RM66.2b	RM69b	4.23
Healthcare	RM46.5b	RM47.7b	2.5
Defence and Home Security	RM43b	RM44b	2.3
Ministry of Higher Education (MOHE)	RM18.6b	RM19.1b	2.7
STR & Sara	RM15b	RM16b	6.7
TVET funding	RM7.9b	RM8b	1.27
Sabah's allocation	RM6.9b	RM18.7b	171
Sarawak's allocation	RM6b	RM16.2b	170
Tourism	RM700m	RM935m	33.6
Sports development	RM580m	RM757m	30.5

Investment Framework

GLICs	RM25b
Public-private investments	RM11b
Federal statutory bodies and MOF Inc	RM14.2b

by AUFA MARDHIAH

MALAYSIA unveiled a RM510 billion spending and investment framework under Budget 2027, aimed at strengthening domestic businesses, accelerating high-value investments and maintaining fiscal discipline.

The budget also announced higher wages, tax reductions and expanded household assistance to ease living costs and spread the benefits of economic growth.

Prime Minister (PM) and Finance Minister Datuk Seri Anwar Ibrahim, who tabled the fifth Madani Budget in the Dewan Rakyat on Oct 9, said the

government's priorities went beyond economic expansion to improving incomes and living standards.

"The measure of a budget is not the thickness of its documents, the size of its allocations or the number of announcements. What matters is whether more people can live with dignity," he said.

The RM510 billion framework, up from RM470 billion previously, comprises RM376.8 billion in federal operating expenditure and RM83 billion in development spending.

Another RM25 billion will come from government-linked invest-



ment companies (GLICs), RM11 billion from public-private investments and RM14.2 billion from federal statutory bodies and Minister of Finance Inc companies.

These additional commitments sit outside direct federal expenditure and are intended to mobilise more investment without relying solely on government allocations.

Malaysia's GDP is projected to grow between 4.2% and 5.2% in

2027, against an estimated 4.8% to 5.3% in 2026.

The government expects the fiscal deficit to narrow to 3.3% of GDP next year from 3.6% this year.

However, Centre for Market Education (CME) CEO Dr Carmelo Ferlito questioned whether the spending plans could deliver lasting gains without placing greater pressure on public finances.

"The balance favours short-term household relief and an expanding state, with fiscal discipline more in the headline ratio than in the underlying numbers," he told *The Malaysian Reserve* (TMR).

Higher Wages, Tax Relief and Household Support

A key household measure was the increase in the monthly minimum wage from RM1,700 to RM2,000, effective June 2027, covering more than four million workers.

Micro, small and medium enterprises (MSMEs) with annual sales below RM50 million will be exempted to allow them time to adjust.

The government also proposed a RM2,500 monthly wage floor for semi-skilled workers and graduates, while GLICs and government-linked companies (GLCs) will raise their living wage

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benchmark from RM3,100 to RM3,400, benefitting around 230,000 workers.

The Economic Outlook 2027 report highlighted the need for wages to rise alongside productivity.

However, Ferlito warned that mandatory increases could discourage hiring, particularly where businesses were unable to absorb higher labour costs.

He also questioned the proposed graduate wage floor, saying employers might reduce entry-level recruitment if the prescribed salary exceeded the value of the work performed.

The exemption for smaller businesses, he added, could create different wage conditions based on company size.

"Mandating a higher price does not make a worker more productive. Low-productivity workers may end up hired less, given fewer hours or other benefits, pushed into informal work or replaced by machines," he said.

On taxation, personal income tax relief will rise from RM9,000 to RM12,000, its first revision since 2010.

Rates will fall by one percentage point (ppt) to 18% for chargeable income between RM70,000 and RM100,000, and to 24% for RM100,000 to RM150,000. The rate for income exceeding RM1 million will increase to 30%.

Anwar said about five million taxpayers could gain up to RM1,600 in additional disposable income.

Relief provisions were also broadened to cover certain family care, education, sports and digital expenses, including artificial intelligence (AI) subscriptions.

Ferlito regarded the tax cuts as one of the budget's stronger measures, although he noted that they would offer little direct benefit to the lowest earners, who do not pay income tax.

"These measures leave income with the people who earned it. I favour that over redistribution because individuals, not ministries, are best placed to decide how their money is spent," he said.

Allocations for Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) rose to RM16 billion from RM15 billion in 2026.

Up to nine million STR recipients will receive as much as RM150 monthly under SARA, or RM1,800 a year.

Another 13 million adults who are not STR recipients, including middle-income Malaysians, will receive RM100 twice next year.

SARA purchases will also cover fresh produce at 216 farmers' markets and traditional community markets under the Federal Agricultural Marketing Authority (FAMA).

More than RM80 billion was earmarked for subsidies, assistance and incentives in 2027, including an estimated RM40 billion in fuel subsidies.

Funding for Jualan Rahmah Madani and Jualan Agro Madani increased to RM750 million from RM630 million, supporting 35,000 sales programmes.

Ferlito said targeted aid could provide immediate relief but would not resolve weak productivity and wage growth, which he argued required greater private investment.

He also preferred direct cash assistance to subsidised prices, although he questioned restric-



Mandating higher salary may cause low-productivity workers to be hired less, given fewer hours or other benefits, pushed into informal work or replaced by machines

tions that limit SARA spending to approved goods and outlets.

Strengthening Businesses, Domestic Investment

Budget 2027 introduced lower income tax rates for qualifying MSMEs, cutting the rate on the first RM150,000 of chargeable income from 15% to 14% and the rate on RM150,000 to RM600,000 from 17% to 16%.

Around 300,000 MSMEs are expected to benefit, with savings of up to RM6,000 annually.

The government also allocated RM6.6 billion in microfinancing and raised available loans and financing guarantees to RM57 billion from RM50 billion.

Of this, Syarikat Jaminan Pembiayaan Perniagaan Bhd (SJPP) and Credit Guarantee Corp (M) Bhd (CGC) will provide up to RM32 billion in guarantees.

The SJPP scheme will also cover mid-tier companies, with its maximum guarantee raised to RM50 million.

Bank Negara Malaysia (BNM) will provide another RM5 billion in financing for small and medium enterprises (SMEs) affected by the conflict in West Asia.

GLICs are expected to mobilise RM25 billion under the GEAR-up programme for domestic investments, including semiconductors and digital infrastructure.

Khazanah Nasional Bhd and Retirement Fund Inc (KWAP) will invest RM1.2 billion in local semiconductor companies and RM2.1 billion in mid-tier firms across strategic industries.

Another RM450 million, channelled through Khazanah's Jelawang Capital and KWAP's Dana Perintis, will support start-ups.

These initiatives seek to help Malaysian businesses move beyond low-value activities and build their own technologies and capabilities.

Approved investments reached RM218.5 billion in the first half of 2026 (H126), up 11.7% from a year earlier.

Ferlito welcomed lower business taxes but argued that targeted financing and industry-specific incentives were less effective than broad reforms to improve competition and encourage reinvestment.

"The tax cut is right but small. The SME rate cut is worth at most RM6,000 a year per firm, and the threshold effects remain," he said.

He called for simpler taxation, deregulation and fewer barriers to business expansion, warning that subsidised financing risked supporting firms that might struggle to compete commercially.

In his view, broader competition and allowing companies to retain more earnings for reinvestment would support productivity more effectively than incentives limited to selected sectors.

Technology, Skills and Energy Transition

For longer-term growth, the budget allocated RM6 billion across ministries for research, development and commercialisation, alongside RM8 billion for technical and vocational education and training (TVET).

Human Resource Development Corp (HRD Corp) will provide RM3 billion for three million training opportunities, while Rakat Madani aims to create 30,000 job opportunities next year.

The Malaysia Digital Economy Corp (MDEC) received RM30 million to help 4,000 MSMEs adopt AI and train 5,000 AI professionals. Another 100,000 free AI subscriptions will be provided, including access to ChatGPT.

In energy, Tenaga Nasional Bhd (TNB) is set to invest RM15 billion in the national electricity grid.

UEM Lestira Bhd will invest RM1 billion in projects including energy storage at Kuala Lumpur International Airport (KLIA) and a one-gigawatt (GW) hybrid energy project in Johor, according to Budget 2027.

The investments are intended to meet growing electricity demand from data centres and manufacturing, which the Economic Outlook 2027 report identified as a challenge for infrastructure planning and supply reliability.

Green technology tax incentives, including investment tax allowances of up to 100% for qualifying projects, were extended to the end of 2030.

Education, Healthcare and Regional Development

The Education Ministry (MOE) received the largest ministerial allocation at nearly RM69 billion, up from RM66.2 billion in 2026, while RM19.1 billion went to the Higher Education Ministry (MOHE).

School maintenance funding doubled to RM2 billion, with almost RM1.3 billion set aside to upgrade 682 dilapidated schools, particularly in Sabah and Sarawak. Early Schooling Assistance will increase from RM150 to RM200 per pupil, benefitting about 5.3 million students.

Separately, the Health Ministry's (MOH) allocation rose to RM47.7 billion from RM46.5 billion.

More than 9,000 contract doctors will be offered permanent posts next year, while the affordable MediAsas healthcare plan is scheduled for introduction in January 2027.

The budget also included measures to improve transparency in private hospital charges and make medical treatment more accessible.

The government also allocated RM1.3 billion for assistance to nearly 200,000 senior citizens and RM1.5 billion for more than 300,000 persons with disabilities.

These measures formed part of a wider effort to extend support beyond working households to groups requiring ongoing assistance.

Sabah's federal allocation increased to RM18.7 billion from RM17.6 billion, while Sarawak's rose to RM16.2 billion from RM15.1 billion.

Another RM3.3 billion was allocated to rural infrastructure, including roads, clean water and electricity, to address regional development gaps.

Fiscal Discipline Amid Spending Pressures

According to the Fiscal Outlook and Federal Government Revenue Estimates 2027 report, federal revenue is projected to rise 4.7% to RM380.8 billion next year, from a revised RM363.6 billion in 2026.

Sales and Service Tax (SST)

collections are forecast to reach RM73.3 billion, while Petrolim Nasional Bhd's (Petronas) dividend is expected to increase to RM32 billion from RM27 billion this year.

Debt servicing costs are projected to rise 6.8% to RM61 billion, equivalent to 16.2% of operating expenditure.

The government also expects to spend RM111.6 billion on emoluments and RM44.6 billion on retirement charges.

The fiscal deficit is forecast to fall to RM77.3 billion in 2027 from RM78.5 billion in 2026, while the federal debt-to-GDP ratio is projected to ease to 63.7% from 64%.

The projected reduction in the deficit amounts to RM1 billion, highlighting the difference between a smaller deficit ratio and a substantial cut in annual borrowing.

Ferlito argued that the modest reduction in the absolute deficit highlighted the limits of fiscal consolidation, particularly when projected federal revenue of RM380.8 billion barely exceeded operating expenditure of RM376.8 billion.

He pointed to rising debt-servicing costs and other fixed commitments that could limit the government's ability to fund development projects.

"Debt-servicing charges rose about 41%, from RM38.07 billion in 2021 to RM53.71 billion in 2025. About half of total spending goes to salaries, pensions and debt servicing, which cannot be cut quickly."

"When something has to give, it is usually development spending, the most productive part of the budget," he said.

The Economic Outlook 2027 report forecasts inflation of 1.8% to 2.8% next year, although geopolitical tensions, trade restrictions and commodity price volatility remain risks.

While Budget 2027 set out measures to lift incomes, develop industries and improve public services, their longer-term impact will depend on implementation, productivity growth and the government's ability to contain recurring spending.