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Consumer staples, construction and technology emerge as winners

The Malaysian Reserve, Malaysia



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Investors should remain invested and focus on sectors that stand to benefit directly from Budget 2027

by IFAST RESEARCH TEAM

ON OCT 9, 2026, Prime Minister (PM) Datuk Seri Anwar Ibrahim tabled Budget 2027, themed "Reaching for the Sky, Rooted in the Ground".

The total budget rises 8.5% to a record RM510 billion, comprising RM376.8 billion in operating expenditure, RM83 billion in development expenditure and RM50.2 billion in government-linked investment company (GLIC), public-private and statutory body investments.

Ahead of the general election (GE), Budget 2027 returns a larger share of the gains from past reforms to households through tax cuts, higher cash assistance and a RM2,000 minimum wage, while still targeting a narrower fiscal deficit of 3.3% of GDP in 2027.

Spending Tilted Towards Households

Federal expenditure for 2027 is set at RM459.8 billion, with operating expenditure rising 11.4% to RM376.8 billion, while development expenditure grows only 2.5% to RM83 billion.

With that, the spending mix is clearly tilted towards protecting household purchasing power, while public capital expenditure (capex) relies increasingly on institutional capital.

Key initiatives, including the Johor-Singapore Special Economic Zone (JSSEZ) master plan, the Government-linked Enterprises Activation and Reform Programme's (GEAR-up) RM25 billion in domestic investment and enhanced Global Services Hub incentives, should reinforce Malaysia's position as a regional investment hub.

Notably, the JSSEZ has recorded RM132 billion in investments since 2025, indicating that commitments are moving into implementation.

Fiscal Consolidation Slowed

The 2026 deficit is now estimated at 3.6% of GDP, above the 3.5% target, as fuel subsidies rose to RM40 billion from the RM15 billion budgeted amid the West Asia conflict. That said, revenue absorbed most of the impact, with 2026 revenue revised up to RM363.6 billion from RM343.1 billion, largely due to the Sales and Service Tax (SST) expansion, electronic invoicing (e-Invoicing) and a higher Petroleum Nasional Bhd (Petronas) dividend.

Moving forward, the government targets a narrower deficit of 3.3% of GDP in 2027, supported by a further increase in the Petronas dividend to RM32 billion, while subsidies and social assistance ease 2.3% from the revised 2026 estimate.

While this ties the near-term fiscal path more closely to oil prices, lower crude prices would also reduce the subsidy bill, limiting the downside. Nevertheless, the medium-term framework, which projects an average deficit of 3.1% of GDP over 2027-2029, points to a more gradual consolidation path. As such, we do not see the 2026 slippage as a major fiscal concern.

Meanwhile, 2026 GDP growth is now estimated at 4.8%-5.3%, above the 4%-4.5% forecast in Budget 2026. While the 2027 forecast of 4.2%-5.2% is lower, we believe this mainly reflects the higher base, as real export growth normalises to 3% from 11.4% after a strong electrical and electronics (E&E) cycle.

Although rising bond yields could weigh on activity, higher disposable income from this budget should keep domestic demand firm. The government introduced no major new revenue measures and instead handed out more "candies" to households.

Personal income tax rates for the RM70,000-RM150,000 bands are cut by one percentage point (ppt), individual relief rises to RM12,000 from RM9,000, micro, small and medium enterprise (MSME) tax rates are lowered to 14% and 16%, and Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (Sara) assistance increases to RM16 billion. These measures could reduce 2027 revenue by about RM3 billion, which we see as manageable given that the projected RM6.3 billion increase in SST collections should more than offset the shortfall.

How Does Budget 2027 Impact the Sectors? Consumer staples — The winner of the people-friendly budget RM16 billion in STR and Sara assistance, personal tax cuts worth up to RM1,600 for about five million taxpayers and a RM2,000 minimum wage from June 2027 should lift household spending power, particularly among lower- and middle-income groups. Two RM100 Sara Madani payments to non-STR adults and RM750 million for Jualan Rahmah and Agro Madani should further direct spending towards groceries and essentials.

On top of that, the wider Sara merchant base may spread spending

beyond the major chains, benefiting broader consumer staples companies. That said, the minimum wage increase is also a margin headwind for labour-intensive retailers. Larger contractors to capture most of the project flow The absence of mega projects is in line with our expectations. The reinstated price adjustment clause shields contractors from rising diesel and bitumen costs, the key margin risk for construction players this year. Meanwhile, higher development expenditure, Prasarana (M) Bhd's RM3.4 billion rail overhaul and JSSEZ-related projects should keep order books replenished. We expect larger contractors with stronger balance sheets and execution track records to secure most of these packages.

Utilities, RE to benefit from grid, green investment Tenaga Nasional Bhd's (TNB) RM15 billion grid investment, part of its regulated capex under Regulatory Period 4 (RP4), should expand its regulated asset base and improve earnings visibility, while easing power availability, a key constraint for data centre and industrial growth.

Meanwhile, green investment tax allowances of up to 100%, extended to 2030, RM1.5 billion for centralised solar parks and UEM Lestira Bhd's energy storage and hybrid energy projects should add to the pipeline for solar engineering, procurement, construction and commissioning (EPCC) and battery storage players.

Tech to benefit from continued chip push RM2.1 billion in funding for mid-tier companies in E&E, digital,



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aerospace and medical devices, together with RM1.2 billion in semiconductor investments by Khazanah Nasional Bhd and Retirement Fund Inc (KWAP), and a RM100 million fund for early-stage semiconductor firms in Penang, should help local technology players scale up and move into higher-value activities such as integrated circuit (IC) design and advanced packaging.

Moreover, the 5% Global Services Hub tax rate and continued data centre investment in the JSSEZ should sustain foreign investment into the domestic supply chain, with companies exposed to advanced packaging, testing and data centre infrastructure best positioned.

Banks to benefit from stronger loan demand Total loan facilities and financing guarantees rise to RM57 billion from RM50 billion, while RM20 billion in Syarikat Jaminan Kredit Perumahan Bhd (SJKP) housing guarantees for first-time buyers should further support loan growth. While inflation and political uncertainty may keep bond yields elevated, we expect stronger loan demand to help offset the impact of rising yields on banks' earnings.

Smaller contractors, planters and private hospitals are the losers In construction, a large share of workers already earns above the new minimum wage threshold, and we instead see greater cost pressure on smaller contractors, which have less financial scale to absorb rising material and labour costs.

In plantation, general and upkeep workers, who account for roughly half of the workforce, are still largely paid at the minimum wage.

Although MSMEs with annual sales below RM50 million are exempted, smaller planters may still need to raise wages to retain workers as pay benchmarks rise across the industry. Meanwhile, standardised charge categories on private hospital bills from 2027, along with the planned diagnosis-related group (DRG) billing under MediAsas, could limit pricing flexibility for private hospitals.

Fixed-income View From a fixed-income perspective, the government's commitment to fiscal consolidation remains supportive of Malaysia's sovereign credit profile.

Together with Malaysian Government Securities (MGS) and Government Investment Issues (GII) maturities of RM101.8 billion, the projected fiscal deficit of RM77.5 billion brings the government's gross funding requirement to approximately RM179.3 billion in 2027.

We project net issuance at RM80 billion-RM82 billion and do not expect the supply to exert significant pressure on bond yields. Looking ahead, domestic political uncertainty, including the possibility of an early GE, and a potential modest pickup in inflation could contribute to a steeper MGS yield curve, particularly if investors ask for higher term premiums.

In addition, we expect the Overnight Policy Rate (OPR) to be held in 2027, with risks tilted towards a rate hike. Against this backdrop, we maintain our preference for short- to medium-duration bonds (three to five years), which offer a more defensive positioning against potential yield volatility without too much duration risk.

With the government continuing to focus on fiscal discipline and household support set to sustain domestic demand into 2027, we maintain our constructive view on Malaysian equities and recommend investors stay invested, with a focus on sectors that benefit directly from the budget's measures.

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