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Green ambitions in Budget 2027

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Gains, shortfalls and unanswered questions on carbon tax roadmap

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BUDGET 2027, themed "Reaching to the Sky, Rooted in the Earth", reflects the country's aspirations to protect the air we breathe and the land we depend on, while advancing the national sustainability agenda.

The announcements spanned a wide range of initiatives, from buying back old fishing nets and protecting the habitats of endangered species to investing in renewable energy and decarbonisation, as well as supporting the state governments' natural heritage conservation.

Commenting on Budget 2027, Natural Resources and Environmental Sustainability Minister Datuk Seri Arthur Joseph Kurup said the ministry will continue to ensure that biodiversity conservation, wildlife protection and management of natural resources and the environment contribute to sustainable, inclusive and balanced national development.

Under Budget 2027, the ministry has been allocated RM2.51bil, a 4.8% increase from 2026, while the operating expenditure allocation also rose 6.9% to RM1.59bil.

"This increase will support the continued implementation of the ministry's functions and responsibilities in strengthening natural resource management, conserving biodiversity and ensuring that environmental sustainability remains an integral part of the national development agenda," Arthur said.

Deloitte South-East Asia sustainability and specialised assurance leader K Ganesan Kolan De Velu said Budget 2027 demonstrates a credible and increasingly broad commitment to sustainability.

"Importantly, it does not treat sustainability solely as an environmental issue. It connects the energy transition with water security, climate resilience, biodiversity, employment, household affordability and economic competitiveness," he said.

Commending the positive direction, Ganesan said key measures included RM15bil to strengthen national grid, RM1bil for hybrid energy and storage projects, a RM1bil climate fund, RM2.5bil for non-revenue water programme and increased funding for biodiversity conservation.

"However, the real test is no longer the number of announcements or the amount allocated. It is whether these measures produce measurable outcomes, such as lower emissions, reduced water losses, better protection from flooding, improved energy reliability and a higher quality of life," he said.

Richard Baker, who is tax director, sustainability and climate change at PwC Malaysia, opined that Budget 2027 can be seen as a meaningful push towards net zero, with the nation's sustainability commitments reinforced through a continuation of existing measures.

He added that although no specific announcements were made in relation to climate policy, there are enablers to accelerate progress in meeting the country's net-zero commitments.

"Investment commitments from Tenaga Nasional Bhd, UEM Lestra's investment in energy storage at KLIA and a hybrid energy project in Johor as well as KWAP's RM1bil investment in renewable energy and decarbonisation through its climate fund Dana Iklim+ are positive moves."

Offering a more critical view of the Budget, Climate Governance Malaysia (CGM) council chair Dr Gary Theseira characterised it as a budget shaped by megatrend uncertainties, with the government attempting to balance climate action with economic pressures.

"In trying to balance climate change mitigation incentives with inflation and cost-of-living increases, it probably represents the minimum Malaysia can do on the climate change mitigation front," he said.

"On the climate change adaptation side, however, the budget seems woefully inadequate across education, awareness training, early warning, and disaster avoidance and risk management."

Green technology and energy transition

- Green Investment Tax Allowance (GITA) for green and sustainable technologies extended until Dec 31, 2030
- RM1.5bil investment in centralised solar farm for government buildings

Tax incentives can materially improve the business case for green tech adoption, particularly for projects that are technically viable but have been constrained by high upfront costs or longer investment payback periods.

Ganesan said the investment tax allowances for qualifying green technology projects and assets can reduce capital costs and improve expected returns.

"The extension of green technology incentives until Dec 31, 2030, provides businesses with a more useful planning horizon," he said.

However, the effectiveness of these incentives will depend more on just the financial appeal. Supporting infrastructure, including sufficient grid capacity, charging infrastructure, renewable energy supply and technical expertise are available, is one of the critical factors, he added.

Ganesan recommended businesses to assess the incentives as part of a com-

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plete investment case covering tax benefits, energy savings, carbon exposure, financing costs, technology performance and operational resilience.

"This may require multidisciplinary support across decarbonisation strategy, green project feasibility, tax incentive eligibility, sustainable financing, emissions measurement and independent assurance," he said.

Without this assessment, he warned that there could be a risk of increasing green capital expenditure without delivering proportionate or verifiable emissions reductions.

The scope of incentives should keep pace with technological change, Baker said.

This would encourage investment in newer and more advanced solutions that can deliver the strongest potential gains in efficiency, performance and long-term decarbonisation outcomes.

He cited ocean thermal energy conversion, a relatively under-adopted technology, as an example of where incentives could help improve commercial viability and support wider application in the long run.

"However, while incentives can strengthen the business case for these technologies, they do not by themselves guarantee adoption and the resulting decarbonisation benefits. That makes their scope and targeting particularly important in shaping the pace and breadth of the transition."

Meanwhile, the removal of energy-efficient assets (such as chillers and transformers) and green buildings from the incentives may not have been anticipated as there were still opportunities to widen adoption and improve their financial viability, Baker added.

"These incentives were a meaningful way of encouraging companies to invest in these projects.

"At present, the renewable energy mix is not at a sufficient level even though significant investments in the Large Scale Solar programme have increased renewable energy generation," he said.

Infrastructure resilience for business continuity

- RM320mil for nationwide slope stabilisation and drainage improvements
- Various flood mitigation measures in Klang Valley, Kelantan, Terengganu and Sarawak

These announced funds will be crucial in enhancing infrastructure resilience and potentially reducing disruptions from flooding, according to Baker.

"This will give businesses greater confidence to undertake longer-term investment, particularly in industries like manufacturing where water usage is an important consideration."

He also highlighted the need for measures to address transboundary haze, which impacts productivity, business continuity and food security – these are much anticipated in line with the implementation of the National Climate Adaptation Plan in the coming months.

The incentives for EV infrastructure, waste composting and recycling systems, as well as wastewater recycling and rainwater harvesting systems specifically for assets, equipment and homegrown products will help promote local manufacturing, Baker added.

Beyond reducing exposure to flood-related losses, Ganesan said potential benefits for businesses include fewer production interruptions and supply chain delays, more reliable water access and lower asset repair.

It could also improve workforce safety and accessibility, while giving companies greater confidence when locating or expanding facilities.

"The wider economy benefits when infrastructure remains operational, workers can travel safely and businesses do not repeatedly absorb climate-related losses," he said.

However, these benefits should be measured rather than assumed, Ganesan stressed. Companies should incorporate physical climate risks into site selection, capital planning, supply chain assessments and business continuity arrangements.

Public project reporting, meanwhile, should similarly move beyond expenditure to track indicators such as avoided economic losses, reduced water leakage, fewer disruption hours and the number of households and businesses benefiting from improved protection, he added.

More sophisticated climate risk assessments and adaptation investment plans could help organisations prioritise vulnerable assets, quantify potential financial losses and direct capital towards the most cost-effective resilience measures, he said.

Theseira noted that climate disaster adaptation measures have received much-needed attention in Budget 2027.

However, given the accelerating pace of climate impacts, the RM260mil allocated to the National Disaster Management Agency to strengthen disaster response and preparedness – along the RM100mil designated for retention ponds and river maintenance – will likely be insufficient, he said.

Nature conservation

- Ecological Fiscal Transfer (EFT) increased to RM270mil
- RM15mil in cess funds from palm oil industry to be used for nature conservation
- RM65mil to be spent on engaging 2,500 community rangers and construction and maintenance of ranger posts
- New programme to purchase old fishing nets to prevent abandoned nets from endangering marine life

For CGM's Theseira, the expansion of the EFT to RM270mil from the previous year's RM250mil is a welcome move to encourage state governments to conserve and upgrade natural forests, restore encroached areas and return forest reserves that are currently monoculture to their original biodiverse state.

He added that the spillover effects on biodiversity could be substantially greater if the additional allocation could be greater in the coming years.

The funding for rangers also addresses both the need to intensify biodiversity conservation while alleviating poverty among marginalised communities.

"When coupled with the EFT, this initiative could reduce encroachment in protected areas and reduce poaching and wildlife and animal parts trafficking," he said.

However, WWF-Malaysia said the Budget remains largely focused on hard infrastructure and remedial measures.

"(There is) insufficient emphasis on preventing environmental degradation and investing in nature-based solutions that can strengthen climate resilience, biodiversity, water security and long-term economic sustainability," it added.

While noting that Budget 2027 includes positive measures for conservation and environmental protection, WWF-Malaysia stressed that long-term resilience depends not only on responding to floods, droughts and biodiversity loss, but also on preventing these challenges from worsening.

"Allocations for flood mitigation, food security, road infrastructure and others can incorporate holistic approaches to build benefits into the long-term too.

"By investing more in nature-based solutions, ecosystem protection and community-led conservation, Malaysia can address underlying risks while building a more resilient and nature-positive future."

For the people

- Rebates of up to RM200 for purchase of energy-efficient air conditioners and refrigerators
- Electricity bill protection threshold increased from 600kWh to 800kWh per month
- My50 to be continued for 2027; new MyKomuter50 for KTM Komuter users
- Kuala Lumpur City Hall to build 22km of covered walkways, create 120 acres of new green spaces and upgrade parks and facilities

Measures affecting wages, electricity affordability, energy efficiency, water reliability, flood protection and community infrastructure are mostly likely to have the most direct impact on households, Deloitte's Ganesan said.

"The proposed increase in the minimum wage from RM1,700 to RM2,000 from June 2027 can strengthen household financial resilience and purchasing power.

"However, its ultimate benefit will depend on whether wage growth is accompanied by productivity improvements and does not result in materially higher consumer prices or reduced employment opportunities," he said.

Ultimately, he added, a people-centric transition should not be judged only by national targets.

"It should be judged by whether households experience more reliable essential services, lower exposure to climate shocks, improved affordability and access to better economic opportunities."

No clear pathway to carbon tax

A clear carbon pricing roadmap was missing from Budget 2027, the experts noted, adding that businesses need certainty over the timing and implementation of carbon tax.

PwC's Baker said the postponement of the carbon tax in response to the energy shock is understandable, but businesses would benefit from greater clarity on the medium-term carbon pricing roadmap.

There needs to be a robust and transparent framework that balances environmental objectives with economic considerations, including cost of living pressures and the impact of rising energy costs on businesses, he said.

"Clearer decarbonisation measures to drive change, through stronger links between the Budget's measures and emissions reduction, would have been welcomed."

Ganesan, too, highlighted the need for greater visibility over how and when carbon costs may be introduced.

Without a credible forward signal, he said, high-emitting technologies may continue to appear financially attractive, while companies may defer investments in decarbonisation.

"This is particularly relevant to exporters that will face international carbon-related requirements and customer expectations, regardless of the pace of domestic regulation," he said.

Deloitte South-East Asia sustainability and specialised assurance leader K Ganesan Kolan De Velu

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PwC Malaysia sustainability and climate change tax director Richard Baker

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