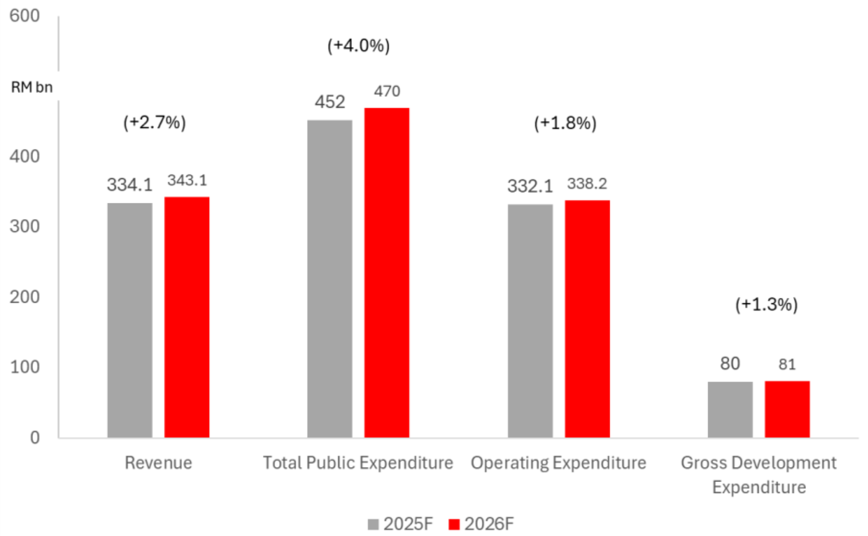
Market Highlights: Budget 2026

11 OCTOBER 2025

BUDGET 2026

Prime Minister Datuk Seri Anwar Ibrahim tabled the fourth MADANI Budget 2026 on 10 Oct 2025 with three focuses: **restoring fiscal resilience**, **strengthening economic foundations** and **uplifting the dignity and livelihoods of the rakyat**. Budget 2026 also marks the first Budget under the 13th Malaysian Plan (13MP) 2026-2030 and will reaffirm the 3 pillars of the MADANI Economy: Raising the ceiling of national growth, raising the floor of living standards and driving reform, focusing on good governance.

Government Financial Position:



GDP Growth

2025e: 4.0% - 4.8%

2026f: 4.0% - 4.5%

Fiscal Deficit

2025e: -3.8% of GDP

2026f: -3.5% of GDP

Government Debt

2025e: 64.7% of GDP

2026f: 64.6% of GDP

Source: Budget 2026, MoF

In line with the government remaining committed to fiscal consolidation, the fiscal deficit for 2026 is expected to be lower at 3.5% (2025: estimate 3.8%), but still remains expansionary with total expenditure projected at its highest ever at RM470bn. Development expenditure under Budget 2026 is relatively flat versus 2025, but there is still a great emphasis on Public-Private-Partnerships which will be expected to continue to drive investments as well as infrastructure works. RM10bn of Public-Private investments (PPI) are expected to be implemented, in addition to direct domestic investments by GLIC companies worth RM30bn.

According to Budget 2026, the government can save approximately RM15.5bn per year with subsidy targeting, which can then be channelled to vulnerable groups. The recent implementation of RON95 targeted subsidy exercise has the potential to save RM2.5bn, while enabling the rakyat to enjoy lower fuel prices at RM1.99 per litre.

In regard to infrastructure projects, Budget 2026 reaffirmed projects highlighted in RMK13, as well as upgrades to airports in Penang, Sabah and Sarawak valued at RM2.3bn, and spending on water related projects such as RM3 billion to be spent to replace over 820km of ageing pipes across Johor, Melaka, Negeri Sembilan, Kelantan, Pahang and Selangor under the National Non-Revenue Water programme. Pengurusan Aset Air Bhd will invest up to RM13 billion over the next five years in several water treatment plants, including the Langat 2 Water Treatment Plant (Selangor), LRA Machang (Kelantan), and the Sungai Karangan and Sidam Kiri plants (Kedah). Additionally, the Jeniang Water Transfer Project, which will cost RM1.28 billion, will commence construction in 2026.

Being a “People's Budget”, household disposable income is set to improve from the rollout of the Civil Service Pay Reform (SSPA Phase 2) where there will be an additional RM18bn for 1.6m civil servants to take effect Jan 2026. The government is also continuing the allocation for cash and welfare assistance under Sumbangan Tunai Rahmah (STR) and SARA Madani of RM15bn, having announced an additional SARA payment of RM100 to 22mn Malaysians aged 18 and above, effective mid-February 2026, which can be utilized for Ramadan and Chinese New Year preparations.

Equity view

Overall, the 2026 budget met our expectations with emphasis placed on reducing the cost of living, encouraging investment and fiscal prudence. In line with what was announced in the 13th Malaysia plan, fiscal consolidation continues with a lower fiscal deficit of 3.5% vs 3.8% in 2025. GDP growth is expected to range between 4.0% - 4.5% next year, from a projected growth of 4.0% - 4.8% which is supportive of EPS growth of 7-8% in 2026.

On a sectorial basis, we are pleasantly surprised by another round of SARA distribution costing the government an additional RM2.2bn to be distributed on Feb 26. Other sectors that are expected to benefit from the budget are tourism, automotive, financial services, construction, property, renewable energy and technology.

On the flip side, carbon tax which was mentioned last year was reiterated again in this year’s budget, with iron, steel and energy sector targeted for implementation but there were no details given on the rate and mechanism. The 10% excise duty on alcohol and tobacco was raised but not punitive.

In summary, the budget is well within expectations and contains no major surprises and we expect a muted reaction on the market. A more important development is the re-escalation of the US-China trade war at time of writing which we are watching closely.

Equity Strategy

Barring any prolonged trade escalation in the US-China relationship, we are constructive on equities. The catalysts are fiscal stimulus resulting in bigger deficits in the US and rate cuts in the US are likely to prompt broad USD weakness and hence diversification into emerging markets which Malaysia could be beneficiaries of it. Liquidity in the market remains ample as major funds may have completed their profit taking exercises and most mutual funds have around 8% cash. The launch of Celik Madani program is expected to raise approximately RM10bn in funds which we believe could help support buying in the local equity market.

Fixed Income View

From a fixed income perspective, we applaud the government's commitment to reduce fiscal deficit next year. FY2026 fiscal deficit is expected to edge lower to 3.5% (RM74.6b) from 3.8% this year as the administration plans to cut more subsidies and improve tax collection on the back of GDP growth between 4% - 4.5% next year. Bank Negara Malaysia has already undertaken a pre-emptive policy rate cut in July 2025 to 2.75% to safeguard Malaysia's economic growth trajectory amid external uncertainties given that the current inflation prospects remain benign. Meanwhile, headline inflation is forecasted to remain in check where it is to range between 1.3% – 2.0% (FY2025: 1.5% – 2.3%).

In terms of bond supply, FY2026 MGS and GII maturities surmount to a massive RM108.7 billion compared to RM83.5 billion in FY2025. Additionally, there is a USD1 billion MALAYS 4/26 maturing. In sum, there is about RM113 billion in maturities (MGS, GII, USD) plus RM74.6 billion in fiscal funding, bringing the total funding requirement close to RM187.5 billion, assuming the USD bond is refinanced with domestic currency, either MGS/GII. This, in our view, is significantly higher than FY2025 total funding requirements of RM170.5 billion (RM82.5b MGS and RM88b MGII). With heavy maturities towards 2H2026, there might be some yield curve steepening bias as circa of RM73 billion (out of RM108.5b) is scheduled to be redeemed then.

Fixed Income Strategy

We highlight the risk of higher redemption of government bonds especially towards 2H2026. Demand from local investors remains steady given the continued focus on MYR denominated assets. Corporate credit spreads continue to be historically tight given the strong onshore liquidity. We like primary corporate bond offerings which offer attractive yield pickups against the secondary market. In terms of duration strategy, we remain Neutral given the abundance in liquidity still lingering in the domestic Ringgit debt market.

Impact of Budget 2026 to Malaysian Sectors:

Automotive: Positive

- Proposal to provide a matching grant of RM4,000 to encourage owners of old vehicles (more than 20 years old) to purchase new national vehicles
- Continued 100% exemptions on excise duty and sales tax for taxi owners purchasing new Perodua or Proton cars
- Positive for national OEMs i.e. Proton and Perodua.

Banks and Non-Bank Financial Institutions: Positive

- SJPP guarantee limit raised to RM30bn.
- Extension of full stamp duty exemption for first-time homes up to RM500,000.
- Extension of stamp duty exemption and expanded tax relief on takaful and insurance products
- PNB's program to provide RM50 in ASB/ASM to 200,000 students and offers 5bn additional units
- Positive for banks and non-bank financial institutions from continued support for demand, potential liquidity injection and reduced credit risks.

Building Material: Negative

- Potentially negative depending on the details of the Carbon Tax implementation. Iron and steel industries are mentioned

Construction: Positive

- Budget 2026 maintains a high RM81bn development expenditure with no mention on mega projects but continues to focus on flood mitigation, water-related projects, airport upgrading, public transportation network expansion and utilities capacity expansion.
- Reaffirming of 13MP projects and focusing on more water related projects.

Consumer Positive

- Improving household disposable income from cash handouts will be positive. However, negative for Brewers and Tobacco companies as excise duties are raised.

ESG: Positive

- Reaffirming LSS6 with target of 2GW.
- GLICs and GLCs to invest in energy transition related projects valued at RM16.5bn in 2026.
- Introduce an additional 300MW quota for biogas, biomass & small hydro.
- Reiterate implementation of carbon tax to iron, steel, and energy industries in 2026 without more details.

Gaming: Neutral

- No impact

Healthcare: Positive

- Higher allocation of RM46.5bn (+2.6% yoy) in 2026. RM1.2b to repair and maintain hospitals. Consultation fees for general medical practitioners increased to RM10-80 (from RM10-35).

- RM140m is allocated to outsource patients to military, university and private hospitals as part of Government's effort to resolve congestion in public hospitals.
- RM20m allocated to the Malaysian Health Tourism Council (MHTC) to intensify health tourism programs.
- RM60m allocated to introduce affordable basic insurance products for all and implement Diagnosis Related Group (DRG) payment system.
- To ensure medicine security, the Government will pilot a public-private joint venture project for essential medicines that will increase the country's drug supply security and the competitiveness of the local pharmaceutical industry.

Oil & Gas: Neutral

- No Impact

Plantation: Neutral

- No impact

Property: Positive

- Budget 2026 remains focused on housing affordability, with a RM2.4bn allocation under Perumahan MADANI.
- First-time home buyers will get full stamp duty exemption for homes purchased priced up to RM500k, which will be extended for two years until December 31, 2027.

Rubber Gloves: Neutral

- No Impact

Techology/EMS: Positive

- With the semiconductor sector identified as a high-impact sector, the Budget introduces a range of initiatives, including investments by Khazanah and KWAP to foster joint ventures between local companies and MNCs. The SemiconStart – an incubator program will support early-stage startup companies by providing access to global mentorship, funding, and discounted prototyping opportunities. Under the National Semiconductor Strategy, BPMB will offer financing to local semiconductor firms engaged in R&D and other high value-added activities.
- To address talent development, PTPK will provide financing for training in specialized fields such as artificial intelligence (AI), electric vehicles (EV), and semiconductors.
- To support broader adoption of AI, measures outlined include the introduction of AI-related courses in universities, the establishment of the Microsoft National AI Innovation Centre and training program, National Artificial Intelligence Office (NAIO), tax deductions for expenditures on AI and cybersecurity training for micro, small and medium enterprises. MCMC will also develop a Sovereign AI Cloud with an RM2bn investment.

Telecommunication: Neutral

- MADANI Submarine Cable Connection (SALAM) is being developed by MCMC spanning 3190 KM costing RM2bn. The RM2bn outlay will be borne by the Universal Service Provision (USP) fund and hence would not impact any telecommunication players from a capex perspective. Once completed, it would reduce the risk of network outages, which would improve the quality and reliability of internet services.

Utilities: Neutral/Negative
• Positive for solar players with confirmation of LSS6. Carbon tax implementation may be negative for power producers - however still awaiting details.