Malaysia 2025 Federal Budget

Driving social reforms, shifting the burden to top earners

SUMMARY

- **The government has allocated a record RM421.0b for the 2025 Federal Budget**. This reflects a strategic focus on tackling economic challenges, supporting social programs, and driving growth. By committing this large sum, the government is aiming for sustainable development and social well-being.
- **GDP growth for 2025 is projected to rise 4.5% to 5.5%**, aligning with our forecast of 4.8% and Bloomberg's median consensus of 4.6%. Additionally, the Ministry of Finance (MoF) has upgraded its 2024 outlook to a range of 4.8% and 5.3% (KIBB Forecast: 5.0%) up from the previous 4.0% - 5.0%, reflecting confidence in continued strong growth.
- **The MoF forecast a slight reduction in the fiscal deficit to 3.8% of GDP in 2025**, down from a forecasted 4.3% this year. Despite higher revenue projection, increased operating expenditure (OE), and controlled development expenditure (DE), we maintain our fiscal deficit forecast at 4.0% (2024: 4.5%) as we remain cautious about growth due to lingering downside risk.
- **To boost revenue, the government is broadening the tax base** with new taxes, including tax on dividend incomes, a global minimum tax, and higher sugar duties. The sales and services tax (SST) will be progressively expanded in May to include commercial services, non-essential goods and premium imports. E-invoicing for all taxpayers will be implemented by July 2025, while a carbon tax is set to launch by 2026.
- **Government spending is projected to reach RM421.0b**, with RM335.0b allocated for OE, primarily driven by salary hikes for civil servants, increased retirement costs, and higher debt service charges (DSC). Subsidies and social assistance are expected to drop significantly by 8.8% YoY, reflecting targeted subsidy rationalisation.
- **DE remains at RM86.0b**, with the largest allocations going to transport, education, defence and health. Key initiatives include improving rural-urban connectivity projects, modernising educational institutions, and enhancing healthcare access in underserved areas.
- **The government plans to rationalise the RON95 subsidy by 2H25**, targeting the top 15% of earners (T15) for an annual projected savings of RM8.0b. DE will focus on regional infrastructure and public facilities, with RM1.0b dedicated to increasing agricultural productivity. However, concerns remain about the lack of transformative projects to boost job creation and economic stimulation.
- **DSC is expected to rise** due to the increasing budget deficit and high borrowing cost. As it may take a while for reforms to take effect, we project federal government debt to reach 65.0% of GDP in 2024 (2023: 64.3%) and continue to ease to 64.7% in 2025, versus a lower official forecast of 64.0% for both years.

OVERVIEW

- **The Budget 2025, presented on October 18, focuses on advancing Ekonomi MADANI** through reforms, reducing bureaucracy, and addressing rising living cost. It primarily supports key initiatives include the New Industrial Master Plan (NIMP), National Energy Transition Roadmap (NETR), and Bumiputera Economic Transformation Plan. Fiscal policies will align with the Public Financial Management and Fiscal Responsibility Act, alongside targeted subsidy reforms. Governance improvement will be guided by the National Anti-Corruption Strategy and streamlined processes.
- **The Budget 2025 supply bill is built on the '*Ekonomi Madani*' framework, focussing on three areas:**
  - **Reinvigorating the economy:** The government aims to drive sustainable growth and innovation with strategic investments and targeted policies. This includes promoting green technology, energy efficiency, and supporting SMEs and mid-sized companies. Initiatives will encourage entrepreneurship among women and youth, and ensure agricultural resilience. Tourism, creative, and digital sectors will continue to receive backing, while key incentives will attract high-value investments and develop local talent. These efforts are aimed at building a competitive, inclusive, and future-ready economy.
  - **Driving Reforms:** The government is pushing for reforms in welfare, fiscal responsibility, and governance. These efforts include tax reforms, targeted subsidies, and health initiatives like higher excise duties on sugary drinks. Social aid programs, regional development in rural areas, and national security will receive support along with infrastructure

upgrades such as road maintenance and public services. The goal is to create a more equitable, efficient, and resilient socio-economic framework.

– **Prospering the Rakyat:** The government is focused on enhancing social welfare, wages, and public services. This includes raising the minimum wage, expanding salary policies, and extending social security coverage for the self-employed. Major investments will support housing programs, public infrastructure maintenance, and child welfare. Public transport, including affordable passes and improved bus routes, will also be upgraded. Support for vulnerable groups – such as the elderly, disabled, and Orang Asli – will increase to improve their quality of life and access to essential services.

MOF'S GROWTH OUTLOOK

- **The MoF projects Malaysia's 2025 GDP growth at 4.5% - 5.5%, up from a revised target of 4.8% - 5.3%** (previously 4.0% - 5.0%) this year. The growth target aligns with our house estimate of 4.8% (2024F: 5.0%) and falls within Bloomberg's consensus of 4.6% (range: 3.9% to 5.3%)

  – **Sectoral:** GDP growth is expected to maintain its momentum and expand in 2025. On the supply side, growth will be driven by the services and manufacturing sectors.

  - **Services sector:** MoF projects growth of 5.5% (2024F: 5.3%), led by a broad-based expansion across subsectors, led by the wholesale and retail trade, which is expected to grow by 4.7%. Notably, the transportation and storage subsector could see 10.4% growth, driven by rail, highway, port and airport activities. Consumer spending and robust business and tourism activity will support overall sector growth.

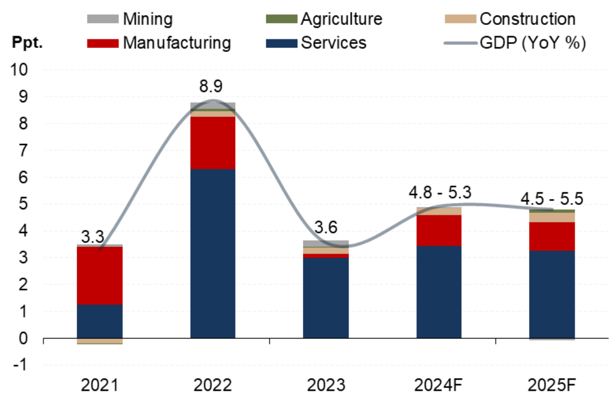
  - **Manufacturing:** Projected to grow 4.5% (2024F: 4.1%), fuelled policies like NIMP 2030 and National Semiconductor Strategy (NSS). Both domestic and export-oriented industries will contribute, driven by the expectation of resilient domestic demand and improved external sector.

  - **Agriculture sector:** Projected to grow 1.9% (2024F: 2.0%) with most subsectors expanding except forestry and logging. Notably, MoF projects the oil palm subsector to expand at a modest pace amid high production and yield, with the CPO price to stabilise in the RM3,500 and RM4,000 range per tonne.

  - **Construction sector:** Forecasted to moderate to 9.4% (2024F: 14.1%) after a surge in 2024. Growth will come the acceleration of strategic infrastructure projects particularly from LRT3 Phase 2 and Sarawak-Sabah Link Road Phase 2. Additionally, strong demand for industrial facilities following the realisation of approved investment as well as new industrial parks and special economic zones will also support the non-residential buildings subsector.

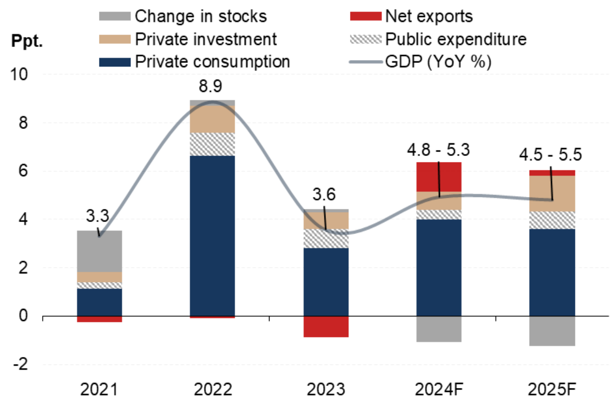
  - **Mining and quarrying sector:** Bucking the trend, MoF projects a 1.0% contraction (2024F: 2.2%) due to weak performance in key subsectors. Natural gas output is expected to fall due to planned maintenance shutdowns and weak demand from major importing countries like

Graph 1: GDP by Sector (MoF)



Source: MoF, Kenanga Research

Graph 2: GDP by Expenditure (MoF)



Source: MoF, Kenanga Research

Table 1: MoF Macroeconomic Forecast Summary

	2023	2024F	2025F
Unemployment (% rate)	3.4	3.2	3.1
Current Account Surplus (% of GNI)	1.5	2.3	2.4
Consumer Price Index (% change)	2.5	1.5 – 2.5	2.0 – 3.5
Brent Average Price (USD/barrel)	82.2	85.0	75.0 - 80.0

Source: MoF, Kenanga Research

Japan, China and South Korea. Similarly, crude oil and condensate production will also decline due to scheduled maintenance in Peninsular Malaysia in the 2H25, with Brent crude oil prices expected between USD75 and USD80 per barrel (bbl) in 2025.

- **Domestic demand:** Projected to grow by 6.1% in 2025 (2024F: 6.3%), supported by both private and public sector spending. This is driven by higher disposable income from an increase in minimum wage to RM1,700 from RM1,500, salary hikes for government workers, continued cash transfer for the targeted group, and approved investment.
- **External Sector:** Value-added exports are projected to moderate to 3.8% (2024F: 6.1%) in line with moderate growth in gross exports (3.9%; 2024F: 5.6%). Similarly, value-added imports are also projected to grow at a modest pace by 3.7% (2024F: 4.6%) as gross imports are forecasted to moderate sharply to 4.1% (2024F: 13.8%). Consequently, value-added net export is expected to slow to 5.7% (2024F: 27.8%) after a surge in 2024. However, growth will be supported by improved global trade and higher demand for E&E products driven by the global technology cycle.

● **Overall, we view the government's GDP growth projection as optimistic and above our expectations.** Growth risks remain, particularly from external factors like a potential global economic slowdown and geopolitical tensions. Our GDP growth forecast for 2025 is 4.8% (2024F: 5.0%), near the lower end of the government's forecast range.

Table 2: Malaysia GDP Growth (constant 2015 prices)

		Kenanga								MOF	
YoY %	**2023**	**1Q24**	**2Q24**	**3Q24F**	**4Q24F**	**1H24**	**2H24F**	**2024F**	**2025F**	**2024F**	**2025F**
By Sector											
Agriculture	0.7	1.7	7.2	3.5	2.1	4.5	2.8	3.6	1.7	2.0	1.9
Mining	0.5	5.7	2.7	1.9	1.1	4.3	1.5	2.9	-0.3	2.2	-1.0
Manufacturing	0.7	1.9	4.7	5.1	4.9	3.3	5.0	4.2	4.7	4.1	4.5
Construction	6.1	11.9	17.2	13.1	8.6	14.6	10.9	12.7	8.1	14.1	9.4
Services	5.1	4.8	5.9	5.5	4.8	5.4	5.2	5.3	5.3	5.3	5.5
Real GDP	**3.6**	**4.2**	**5.9**	**5.3**	**4.6**	**5.1**	**4.9**	**5.0**	**4.8**	**4.8 – 5.3**	**4.5 – 5.5**
By Expenditure											
Consumption	4.4	5.1	5.6	5.3	5.0	5.4	5.2	5.3	5.5	5.5	5.5
Public	3.3	7.3	3.6	4.5	4.7	5.5	4.6	5.0	3.6	0.3	3.8
Private	4.7	4.7	6.0	5.5	5.1	5.3	5.3	5.3	5.9	6.6	5.9
Investment	5.5	9.6	11.5	8.0	5.8	10.6	6.9	8.7	7.2	5.6	8.0
Public	8.6	11.5	9.1	7.5	6.1	10.3	6.6	8.1	4.9	7.8	4.9
Private	4.6	9.2	12.0	8.1	5.7	10.6	7.0	8.9	7.8	4.9	8.9
Public Spending	4.6	8.4	4.9	5.2	5.1	6.6	5.2	5.8	3.9	2.2	4.1
Private Spending	4.6	5.7	7.3	6.0	5.2	6.5	5.6	6.0	6.3	6.3	6.6
Aggregate Demand	4.6	6.1	6.9	5.9	5.2	6.5	5.5	6.0	5.9	3.9	4.8
Exports	-8.1	5.2	8.4	9.1	9.7	6.8	9.4	8.1	4.7	6.1	3.8
Imports	-7.4	8.0	8.7	9.5	8.7	8.4	9.1	8.7	4.8	4.6	3.7
Net Exports	-16.2	-24.5	3.4	4.1	27.5	-14.1	14.0	-0.4	2.3	27.8	5.7
Real GDP	**3.6**	**4.2**	**5.9**	**5.3**	**4.6**	**5.1**	**4.9**	**5.0**	**4.8**	**4.8 – 5.3**	**4.5 – 5.5**

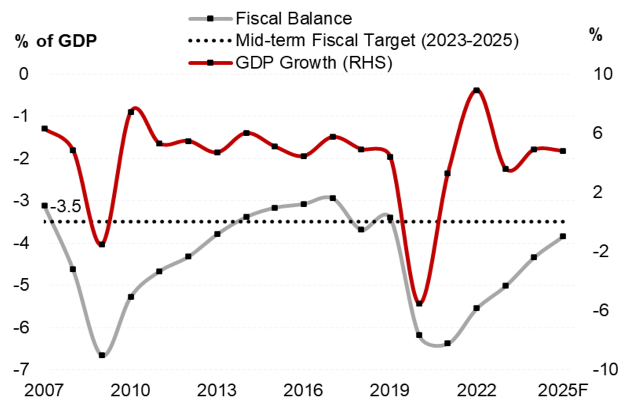
Source: DoSM, BNM, MoF, Kenanga Research

MOF'S FISCAL MANAGEMENT

● **Fiscal stance remains expansionary, but modest, to balance growth with fiscal consolidation**

- Despite the government's commitment to reduce fiscal deficit and overall debt-to-GDP ratio, it remains supportive of the domestic economy while ensuring minimal impact on people's well-being despite undertaking reforms agenda. **MoF expects the fiscal deficit to narrow to 3.8% in 2025, down from the 2024 forecast of 4.3% (2023: -5.0% of GDP). This aligns with our view that the government will pursue a measured and gradual approach to fiscal consolidation.** Under the 12th Malaysia Plan Midterm Review (12MP MTR) and MTFF 2024-2026, the government aims to achieve a fiscal deficit of 3.5% by 2025, which we find overly optimistic. Easing the fiscal consolidation path could allow more room to support growth amid rising global uncertainty.

Graph 3: Fiscal Deficit and GDP Growth (MoF)



Source: MoF, BNM, Macrobond, Kenanga Research

- The government expects to collect higher revenue next year (5.5% YoY; 2024F: 2.3%), outpacing growth in OE (4.2%; 2024F: 3.3%). DE for 2025 is projected to remain flat at RM86.0b (2024F: RM86.0b). However, this DE allocation falls short of our expectations, given the increased development spending of RM415.0b under the 12MP MTR for 2021-2025. With RM318.0b already allocated from 2021 to 2024, only RM97.1b remains for 2025, according to our estimate.
- Despite a year-to-date (YTD) contraction in revenue (Jan-Aug: -1.6% YoY), the government has raised its 2024 revenue forecast to 2.3% (2023: 7.0%), and appears more optimistic for 2025 (5.5%). This optimism is partly due to the implementation of e-invoicing, higher income tax collections, and robust GDP growth expectations for 2025. Therefore, we have revised our revenue projection slightly below MoF's forecast, remaining cautious due to external risks that could derail the growth outlook.
- **MoF's fiscal deficit target of 3.8% appears realistic, though slightly more bullish than our more conservative projection of 4.0%.** The new target provides room for fiscal expansion to boost domestic growth. Despite this, debt levels should remain manageable, as higher GDP growth and controlled deficit are expected to prevent significant debt increases.

- **The medium-term projections have been revised to reflect the latest projections for revenue, expenditure, and macroeconomic assumptions**
  - Under the 2025-2027 Medium-Term Fiscal Framework (MTFF) (table 4), **average real GDP growth is projected to grow slightly higher by 4.9% (2024-2026: 4.8%).** Crude oil is expected to remain at an average of USD80.0/bbl with production falling to 500,000 barrels per day (bpd) from 530,000 bpd. This reflects expectations for price stabilisation amid planned maintenance shutdowns. The average GDP growth forecast, however, remains below the neutral rate of 5.3%.
  - **The fiscal deficit is projected to average 3.5% of GDP (2024-2026: -3.5%)**, matching the 12MP MTR goal by 2025. This reflects the government's commitment to fiscal consolidation while rebuilding buffers for future crises. The gradual approach to consolidation provides space for development spending from 2026 onward under the 13th Malaysia Plan.

Table 3: Medium-Term Fiscal Framework 2025 – 2027 (MoF)

	2024 – 2026 (previous)		2025 – 2027 (new)	
	RM bil	*share of GDP (%)*	RM bil	*share of GDP (%)*
Revenue	986.9	*15.6*	1,055.0	*15.7*
Non-petroleum	816.2	*12.9*	901.3	*13.4*
Petroleum-related	170.7	*2.7*	153.7	*2.3*
Operating Expenditure	927.2	*14.7*	1,043.3	*15.6*
Current balance	**59.7**	***0.9***	**11.7**	***0.1***
Gross development expenditure	279	*4.4*	246.0	*3.7*
Less: Loan recovery	1.8	*0.0*	3.7	*0.1*
Net development expenditure	277.2	*4.4*	242.3	*3.6*
Overall balance	**-217.5**	***-3.5***	**-230.6**	***-3.5***
Primary balance	-58.0	*-0.9*	-53.7	*-0.8*
Underlying assumptions:				
Real GDP growth (%)	4.8		4.9	
Nominal GDP growth (%)	6.7		7.2	
Crude oil price (USD per barrel)	80		80	
Oil production (barrels per day)	530,000		500,000	

Source: MoF, Kenanga Research

Table 4: Federal Government Fiscal Balance Sheet Trend and Forecast

RM billion	Global Financial Crisis 2008	Global Financial Crisis 2009	2019	COVID-19 Crisis 2020	COVID-19 Crisis 2021	COVID-19 Crisis 2022	2023	MoF 2024F*	MoF 2025F	KIBB 2024F	KIBB 2025F
Revenue	**159.8**	**158.6**	**264.4**	**225.1**	**233.8**	**294.4**	**315.0**	**322.1**	**339.7**	**321.7**	**337.1**
Gross Expenditure	**196.3**	**206.6**	**317.5**	**314.0**	**333.5**	**395.2**	**407.4**	**407.5**	**421.0**	**410.8**	**421.0**
Net Expenditure	**195.4**	**206.1**	**315.9**	**312.7**	**332.5**	**393.8**	**406.4**	**406.3**	**419.7**	**409.5**	**420.0**
Operating Expenditure	153.5	157.1	263.3	224.6	231.5	292.7	311.3	321.5	335.0	322.6	331.0
Gross Development Expenditure	42.8	49.5	54.2	51.4	64.3	71.6	96.1	86.0	86.0	88.0	90.0
Loan Recoveries	-1.0	-0.5	-1.6	-1.3	-1.0	-1.4	-1.0	-1.2	-1.3	-1.2	-1.0
COVID-19 Fund				38.0	37.7	31.0					
Overall Balance	**-35.6**	**-47.4**	**-51.5**	**-90.2**	**-100.7**	**-102.3**	**-93.4**	**-84.3**	**-80.0**	**-87.8**	**-83.0**
% of GDP	-4.6	-6.7	-3.4	-6.2	-6.4	-5.5	-5.0	-4.3	-3.8	-4.5	-4.0
Federal Government Debt (% of GDP)	39.8	50.8	52.4	62.1	63.3	60.2	64.3	~64.0	~64.0	65.0	64.7
Real GDP Growth (%)	**4.8**	**-1.5**	**4.4**	**-5.5**	**3.3**	**8.9**	**3.6**	**4.8 - 5.3**	**4.5 - 5.5**	**5.0**	**4.8**
Average Brent Price (USD/barrel)	97.7	64.1	64.6	43.2	70.9	99.0	82.2	80.0	75.0 - 80.0	80.0	77.0

Source: Ministry of Finance, Kenanga's Forecast

*Note: *MoF updated forecast*

- **Total revenue is expected to rise, supported by strong economic growth expansion and enhanced tax collection measures**

  – **Tax revenue**, which account for 76.3% or 12.4% of GDP, is forecasted to grow by 7.5% (2024F: 5.2%) to RM259.0b in 2025 (2024F: RM241.0b). This is mainly driven by higher collection from direct tax (RM188.8b or 72.9% of total tax revenue; 2024F: RM177.1b) and indirect tax (RM70.2b; 2024F: RM64.0b).

    - Higher direct tax revenue projection will come from corporate income tax (CITA), and individual income tax, which both combined offsetting declines in petroleum income tax (PITA). This reflects an improving economic outlook, a stable job market, rising wages, as well as continued expansion in the real estate market.

Table 5: MoF Revenue Forecast (RMb, %YoY)

	2023	2024F*	2025F
Tax Revenue	229.2 (+9.8)	241.0 (+5.2)	259.0 (+7.5)
Direct Tax	171.3 (+11.6)	177.1 (+3.3)	188.8 (+6.6)
Indirect Tax	57.8 (+4.6)	64.0 (+10.6)	70.2 (+9.8)
SST	35.5 (+13.1)	40.9 (+15.4)	46.7 (+14.2)
Non-Tax Revenue	85.8 (0.2)	81.0 (-5.5)	80.7 (-0.4)
Total Revenue	**315.0 (+7.0)**	**322.1 (+2.3)**	**339.7 (+5.5)**

Source: MoF, Kenanga Research
**Revised estimate*

    - Robust indirect tax collections are expected due to higher SST revenue, driven by a full implementation of the 8.0% service tax, improving consumer sentiment and business confidence. The implementation of e-invoicing and higher excise duties due to increased motor vehicle production will further boost revenue.

  – **Non-tax revenue** is projected to decline slightly by 0.4% to RM80.7b, mainly due to lower investment income, though partially offset by higher licenses and permit collections. Lower Brent crude oil prices will impact non-tax revenue, but Petroliam Nasional (Petronas) is expected to maintain its dividend at RM32.0b (2024F: RM32.0b). Increased proceeds from levies on foreign workers and motor vehicle licences will help mitigate the shortfall.

  – **Petroleum-related revenue** is projected to decline further to 18.3% of total revenue (2024F: 19.6%), mainly due to lower petroleum royalties and PITA collection amid softer Brent crude oil price projections. However, Petronas dividends will still account for more than half of petroleum-related revenue.

EXPENDITURE – SCALING BACK SUBSIDIES FOR THE WEALTHY

- **Total government spending is projected to exceed RM400.0b for the first time in 2024 (RM407.5b), rising to RM421.0b in 2025.** The increase in 2025 is mainly due to higher OE, driven by a significant salary hike for civil servants, which also raises retirement-related costs

  – **OE (RM335.0b; 2024F: RM321.5b):** Despite an 8.8% YoY reduction in subsidies and social assistance, OE is expected to grow by 4.2% (2024F: 3.3%), reflecting higher emoluments (6.2%) and retirement charges (17.7%).

    - The allocation for subsidies and social assistance is projected to decrease significantly, dropping to RM52.6b (15.7% of OE) in 2025 from RM61.4b (19.1%) in 2024. This decline results from the removal of the diesel subsidy and the implementation of the electricity subsidy rationalisation. The decrease is also potentially **due to expectations of a moderate Brent crude oil price (KIBB: USD77.0/bbl on average) and a stronger ringgit in 2025 (KIBB: 4.23/USD on average)**. Roughly RM23.9b is designated for various social assistance programmes, aimed at supporting the most vulnerable.

    - After 12 years without revising public sector salaries, the government introduced a 7.0-15.0% pay increase under the new public service remuneration system (SSPA) in August, effective from December 1, 2024. Consequently, RM105.9b (31.6% of OE) has been allocated for civil servants' emoluments. This pay rise will also trigger a pension adjustment, with an estimated increase of RM6.1b. In our pre-budget report, **we argue that pension reform is crucial to address the rising financial burden**, with retirement charges projected to balloon to RM40.6b in 2025 from RM18.9b in 2015. This surge in pension liabilities presents a significant challenge to fiscal sustainability, and capping these costs will be essential for maintaining long-term fiscal stability.

    - DSC as a share of revenue surpassed the 10.0% mark in 2014 after seven years of hovering between 8.0% and 9.8%. Since then, DSC has risen steadily, peaking at 16.3% in 2021. After moderating to 14.0% in 2022 and 14.7% in 2023, **DSC is expected to breach the government's 15.0% self-imposed limit again in both 2024 (15.8%) and 2025 (16.1%)**. While the government continues efforts to enhance revenue collection and rationalise expenditure, **more proactive measures are needed to reduce debt**.

– **Gross DE (RM86.0b; 2024F: RM86.0b):** Despite no anticipated increase in gross DE from the 2024 level, key sectors continue to receive higher allocations, including transport (20.4%), education and training (17.5%), defence (9.6%), and health (8.0%).

- **Transport:** RM17.6b (43.9% of the economic sector's allocation) will go towards enhancing connectivity, particularly in rural areas, and reduce congestion in urban centres. Major projects include the construction of a bridge and road from Ng Belawai to Song-Kapit in Sarawak, the expansion of the North-South Expressway (PLUS) in Johor, and the continued development of the Pan Borneo Highway in Sabah and the Sabah-Sarawak Ring Road.
- **Education and training:** RM15.0b, its largest allocation to date, will focus on ICT infrastructure to bridge the rural-urban divide, improve Malaysia's standing in global educational assessments, and modernise educational institutions. Plans include upgrading Local Area Network infrastructure in 1,528 institutions, implementing smart classrooms in 400 institutions, and constructing 46 new schools, primarily in Sabah and Sarawak, alongside refurbishing dilapidated schools.
- **Health:** RM6.9b allocation to improve healthcare infrastructure, with an emphasis on expanding access to both urban and rural areas. Key initiatives include the construction of new rural clinics and upgrading dilapidated facilities at an estimated cost of RM800.0m, targeting underserved communities to ensure equitable access to healthcare.
- **Security**: RM12.3b will be allocated in 2025, slightly lower than the RM12.5b in 2024 due to reduced internal security funding (RM4.1b, 2024F: RM5.1b). However, defence spending will rise to RM8.2b (2024F: RM7.4b). This allocation will support the upgrading of military assets and security equipment, improve living conditions for personnel, and refurbish training facilities. Additionally, the reintroduction of the National Service Training Programme (PLKN) will be funded, aimed at fostering youth participation in national unity initiatives.

Table 6: MoF Expenditure Forecast (RMb)

	2023	2024F	2025F
Operating Expenditure	311.3	321.5	335.0
Emoluments	91.9	99.8	105.9
Debt service charges	46.3	50.8	54.7
Subsidies and social assistance	71.9	61.4	52.6
Supplies and services	35.9	39.2	40.7
Retirement charges	34.1	34.4	40.6
Grants to statutory bodies	15.8	15.6	16.3
Grants to state governments	8.7	50.8	54.7
Asset acquisition	1.0	1.7	1.2
Refunds and write-offs	0.5	0.5	0.5
Others	5.2	9.3	13.3
Current balance	3.7	0.6	4.7
Gross development expenditure	96.1	86.0	86.0
Economic	57.2	41.4	40.0
Social	24.2	28.2	29.9
Security	11.4	12.5	12.3
General administration	3.2	3.9	3.8
Less: Loan recovery	1.0	1.2	1.3
Net development expenditure	95.1	84.8	84.7
Overall balance	-91.4	-84.3	-80.0
Primary balance	-45.1	-33.5	-25.3
Fiscal balance (% of GDP)	**-5.0**	**-4.3**	**-3.8**

Source: MoF, Kenanga Research

- **In his Budget 2025 speech, PM Anwar announced that the T15 will no longer qualify for the RON95 subsidy, aiming to ease fiscal pressure while supporting the majority. The government will also shift focus from mega projects to regional infrastructure development**

– **OE:** In line with our expectation, the government has **announced plans to rationalise the RON95 petrol subsidy by opting out the T15**, bringing projected annual savings of RM8.0b (40.0% of total subsidy). If implemented by mid-2025, **this initiative is expected to yield RM4.0b in savings for the 2025 fiscal year**. This targeted approach seeks to alleviate the strain on public finances while ensuring that the remaining 85.0% of the population continues to receive the necessary support, though details are yet to be clarified. While this measure alone **may not fully address the broader challenges of fiscal sustainability, it represents a commendable step toward reducing unnecessary expenditure and reallocating resources for more productive use**. Prioritising subsidies based on income levels can improve public spending efficiency, allowing investment in critical areas like infrastructure, education, and healthcare, which are vital for long-term growth. As a result, **we have lowered our headline inflation forecast downwards to 2.7% from the initial 3.5% in 2025**, reflecting a shift from the assumption of a universal free float for all.

– **Gross DE:** Contrary to expectations, **the government has opted against launching new mega projects**, instead shifting its focus toward regional infrastructure, public facilities, and initiatives of public interest, while also supporting industrial areas based on the specific priorities of each state. No direct mentions were made of transformative projects like the MRT3 or the KL-Singapore High-Speed Rail, which may be omitted because it will be privately funded. The lack of such projects **raises concerns about multiplier effects on the economy, particularly for job creation and the stimulation of crucial sectors such as construction and services**. A positive highlight was the RM1.0b allocation to increase paddy yields by 15.0% and initiatives to boost livestock production and repurpose idle land, supporting food security.

- **Our budget wishlist:** While the government allocated RM5.0m for the 1,000 Days of Life Initiative to combat Hepatitis B among newborns, and extended individual income tax relief for TASKA and TADIKA fees until the 2027 tax assessment, **it missed the opportunity to address Malaysia's declining fertility rate and broader familiy support**. Our pre-budget wish list proposed strategies to incentivise marriage, enhance parental leave, and expand affordable childcare options — crucial steps for encouraging family formation. Addressing the demographic challenges is vital for securing Malaysia's long-term economic viability and their absence represents a missed opportunity for meaningful reform.

DEBT MANAGEMENT

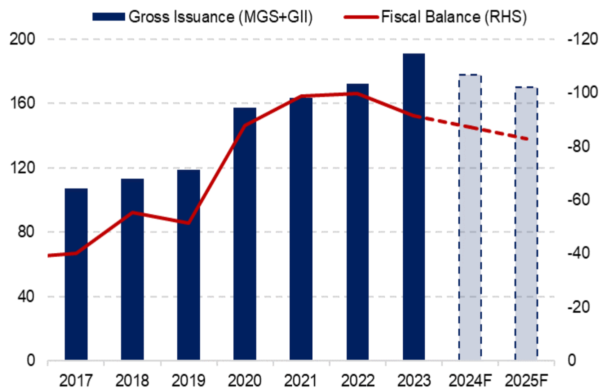
- **Debt is expected to decline in the medium term, aligning with fiscal goals**
  - As of the end of June 2024, Federal Government debt stood at RM1.2t, with a fiscal buffer estimated at RM63.1b. Statutory debt, including Malaysia Government Securities (MGS), Government Investment Issues (GII), and Malaysia Islamic Treasury Bills (MITB), is at 61.2% of GDP, leaving a margin of 3.8% before hitting the 65.0% statutory debt ceiling. Malaysia Treasury Bills remained manageable at RM6.0b, below the RM10.0b cap, while offshore borrowings stood atRM29.3b, within the RM35.0b limit.
  - The government heavily relies on domestic liquidity, with 97.6% of its debt in local currency, minimising exposure to foreign exchange risk. Of the total RM1.2t total public debt, MGS making up 50.0% and MGII 46.0%. Of the offshore borrowing, RM26.1b consists of market loans, primarily in USD (69.2%) via global sukuk and in JPY (30.6%) via Samurai Bonds, while RM3.2b comes from project loans secured via bilateral and multilateral agreements.
  - **The MoF projects public debt at 64.0% of GDP in 2025**, with gross borrowings expected to drop to 10.0% of GDP, driven by faster-than-expected nominal GDP growth. However, as we expect fiscal reforms focussed on optimising spending and boosting revenue may take a while to make an impact, **we expect federal government debt to reduce to 64.7% of GDP by end-2025 from a projected 65.0% in 2024 (2023: 64.3%)**.

Table 7: Federal Government Financing

	RM Bil		Share %	
	2023	2024F	2023	2024F
Gross Borrowings	**226.6**	**206.0**	**100.0**	**100.0**
Domestic Debt	**226.6**	**206.0**	**100.0**	**100.0**
MGS	90.0	90.5	39.7	43.9
GII	95.0	92.5	41.9	44.9
Treasury Bills	41.6	23.0	18.4	11.2
Repayments	**134.0**	**121.3**	**100.0**	**100.0**
Domestic	133.8	121.0	99.8	99.8
Offshore	0.2	0.3	0.2	0.2
Net Borrowings	**92.6**	**84.6**	-	-
Domestic	92.8	84.9	-	-
Offshore	-0.2	-0.3	-	-
Total Deficit Financing	**91.4**	**84.3**	**-**	**-**

Source: MoF, Kenanga Research

Graph 4: Gross Debt Issuance Vs Fiscal Balance (Deficit)



Source: BNM, Kenanga Research
Note: The fiscal balance in absolute terms (RM billion) and the scale is inverted on the right vertical axis

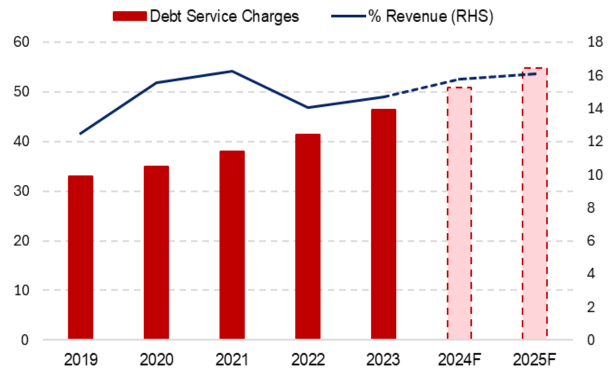
- **Bond issuances are set to decline due to reduced debt refinancing need**
  - Federal government's gross borrowing is expected to drop to 10.6% of GDP (RM206.0b) in 2024, down from 12.4% of GDP (RM226.6b) in 2023. Strong liquidity in the domestic market will support borrowing via ringgit-denominated issuances. Of this, around RM84.3b will finance the deficit, and RM121.3b will cover principal repayments. MGS and MGII will make up about 43.9% and 44.9% of total gross borrowings, respectively, with treasury bills covering the remaining 11.2% (RM23.0b), down from 18.4% last year, helping to consolidate the refinancing risk.
  - Due to lower refinancing needs and reduced government financing requirements, MoF projects RM183.0b worth of bonds issuance for 2024. Additionally, with RM80.0b deficit target coupled with around RM80.0b - RM85.0b worth of

maturing MGS and GII, the gross issuance is expected to decline further to RM160.0b - RM165.0bin 2025. We expect total bond issuances to decline to around RM180.0b - RM185.0b in 2024 and further to RM165.0b - RM170.0b in 2025, down from RM190.9b in 2023. The lower borrowing needs partly reflects the government's lower fiscal deficit projection of 4.3% of GDP in 2024 and 3.8% in 2025.

- **Foreign demand for local bonds remains strong**
  - YTD net foreign inflows have been strong, totalling RM16.3b, reflecting global investors' interest in Malaysian bonds. The average bid-to-cover (BTC) ratio for long-term issuances stands at 2.62x, underscoring strong demand for MGS and GII. Malaysia's leadership in Islamic finance supports high sukuk issuance projections, expected to make up 53.6% of gross borrowing. The BTC ratio for MGII is 2.93x, compared to 2.14x for MGS, showing growing demand for sukuk.
  - Local bond yields are trending downward, a trajectory that is likely to persist as foreign demand for government bonds strengthens, driven by expectations of further Fed rate cuts. As the Fed eases policy, the narrowing interest rate differentials make higher-yielding emerging market assets like Malaysian bonds more attractive. Investors seeking better returns amid low yields in developed markets are likely to turn to Malaysia, supported by stable macro fundamentals and BNM's status quo. The favourable yield differential encourages inflows, boosting liquidity and further compressing local yields.

- **DSC are set to rise in 2024**
  - MoF projects the DSC to increase to RM50.8b or 15.8% of revenue in 2024 and RM54.7b or 16.1% in 2025 (2023: RM46.3b; 14.7%), exceeding the 15.0% administrative limit. Most of the DSC will cover profit payments for domestic instruments (RM50.0b), with the remaining RM0.8b for offshore borrowings. The increase in DSC is mainly due to the ongoing budget deficit and high borrowing cost.

Graph 5: Debt Service Charges and % of Revenue



Source: MoF, Macrobond, Kenanga Research

Appendix: Budget 2025 Highlights

- RM421.0b allocated for Budget 2025
- RM 335.0b for operating expenditure
- RM 86.0b for development expenditure
- Education Ministry received the highest allocation of RM64.1b, highest allocation in history.
    - RM2.0b is provided for upgrading projects and organistion of schools across the country.
    - RM1.0b to maintain all types of schools especially the dilapidated classroom conditions
    - RM1.0b to upgrade poor infrastructure in 543 schools mainly in Sabah and Sarawak
    - RM100.0 m for Program Fixed Line Broadband Infrastructure Connectivity to rural schools
    - RM 100.0 m to refurbish school facilities like canteens and musolla
    - RM 2.0b for Hostel food assistance
    - RM 870.0m for Supplementary Food Plan (RMT)
    - RM 800.0m for early school assistance to 5.2 million students from year 1 to year 5
    - RM 180.0m Trust Fund for poor students
    - RM 900.0m for Per Capita Grant (PCG) for TVET education
    - RM 10.0m special allocation as Aid Schooling to 687 rural schools
    - RM 530 allowance given for student teachers Bachelor of Education Degree Program at the Institute of Teacher Education
    - RM 18.0b for the Ministry of Higher Education
    - RM 4.0b for scholarships, loans and educational allowances
    - RM 500.0m of education fund by PTPTN to students in STEM in IPTA
    - RM 635.0m to improve infrastructure, replace obsolete equipment and widespread internet access in all public universities.
    - RM 20.0m to UITM for producing more E&E engineers
    - RM 600.0m for R&D funds
    - RM 7.5b for TVET
    - RM 50.0m for AI-related education
    - RM 50.0m for National Service Training Program 3.0
- Health Ministry to receive RM45.3b.
    - RM1.35b for maintaining health infrastructure like toilets and beds
    - RM 300m to upgrade poor condition clinics
    - RM 25.0m initial allocation for KKM Partners's efforts to collaborate with GLC hospitals
    - RM 25.0m for Rare Disease Fund

Reinvigorating the Economy

- Carbon Tax on iron, steel and energy industries to be introduced by the year 2026
- Tax incentives to support the implementation of CCUS in Malaysia
- RM 10.0m allocation to the encourage the use electric motorcycles
- RM 200.0m to Strategic Joint Investment (CoSIF) and Industrial Development Fund NIMP (NIDF) to support the growth of SMEs and mid-sized companies
- RM 1.3b for empowering G1-G4 contractors giving them opportunities to implement small projects like road construction and repair and maintenance of public infrastructure
- RM 650.0m will also be dedicated to support women and youth enter the field of entrepreneurship
- RM 40.0b provided as loan facilities as well as business financing guarantees under government agencies
- RM 20.0m to MATRADE to develop many halal companies to be more competitive
- RM 40.0m to MyCIF to support social impact investments including Sharia-compliant P2P financing and public equity financing
- RM 20.0m matching grants for I-Tekad
- RM 60.0m for Smallholder Latex Production Promotion Program under RISDA
- RM2.6b to FELDA, FELCRA and RISDA to continue to boost agricommodity services
- RM2.8b subsidies and incentives to rice farmers and fishermen.
- RM 65.0m to develop irrigation and drainage of rice granaries as well as expanding the FELCRA rice estate in Sabah
- RM 300.0m to establish agricultural project collaboration with the state government
- RM 27.0m to farmers and breeders
- RM 70.0m e-rebate to encourage consumers and industry buy efficient electrical equipment energy
- RM 300.0m for NETR's projects entering the implementation phase
- RM 1.0b for Green Technology Financing Scheme (GTFS)
- RM 110.0m to maintain tourism area and establish ecotourism cooperation with UNESCO
- RM 550.0m to intensify promotion and tourism activities
- RM 107.0m to upgrade roads at Pulau Indah and North Port Klang

- RM 40.0m provided under MATRADE to help Malaysian exporters promoting products and services made in Malaysia
- RM 65.0m to Cradle Fund to help potential start-up companies to expand to the regional level and global
- RM 10.0m matching grant for Industrial Training Program for Small and Medium Enterprises (LiKES) to enable companies to train students in the STEM field through industrial training
- RM 20.0m to Bumiputera Youth Entrepreneur Budding Program (TUBE)
- RM230.0m for development of national sports
- RM20.0m to empower e-sport ecosystem
- RM50.0m to intensify language and literature activities
- RM65.0m Digital Content Fund
- RM40.0m to support international film production in Malaysia
- RM25.0m to support creative industry
- Stamp duty for hibah
- RM1.0b for fund New investment Incentive framework to promote high-value activities and boost local talent

Driving Reforms

- Progressive implementation of Sales Tax and Service Tax (SST)
- RM 13.0b for Rahmah Cash Contribution (STR) and Rahmah Basic Contribution (SARA)
- Dividend tax at 2.0% on dividend income of more than RM100,00 received by individual shareholders
- RM 2.9b for cash aid allocations under JKM
- RM6.7b and RM 5.9b allocation to the development of Sabah and Sarawak
- RM 27.0m to Malaysia Competition Comission (MyCC) to break the wall of cartel and exploitation
- RM12.0b to bear the subsidies for the needs of 85.0%
- Excise duties on sugary drinks will be raised in stages from January to help reduce national obesity and diabetes
- Targeted subsidy for RON 95 to be implemented by the middle of 2025
- RM1.8b to build, maintain and repair civil servant quarters, teachers, hospitals, policemen, soldiers and firefighters.
- RM 21.1b for Ministry of Defense
- RM 560.m for empowerment of national borders
- RM 2.9b for basic infrastructure in villages, villages and rural areas
- RM 1.8b to build and repair village roads
- RM 350.0m for bridge installation and maintenance of village street lights
- RM 500.0m to supply of clean water and electricity in Sabah and Sarawak
- RM 2.8b for maintenance of federal roads and bridges, with RM450.0m dedicated to G1 to G4 contractors.
- RM 178.0m to install new and smart traffic lights on Federal Roads across the country
- Multi-tiered levy to reduce dependence on foreign workers

Prospering the Rakyat

- RM52.6b for subsidies and social assistance
- Minimum wage to increase to RM1700.0 from RM1,500.0 in 1st Feb 2025
- RM200.0M for Progressive Salary Policy
- RM250.0m to increase the participation of more people in the IPR program
- RM100.0m for The Self Employed Social Security Scheme to cover up to 70% employee contribution
- RM900.0m to 48 Programs People's Residence (PPR)
- RM200.0m to maintain public low and medium cost strata
- RM100.0m for MADANI public parks
- RM30.0m for Anak Kita Program
- RM5.0m for efforts in addressing malnutrition among children in Klang Valley
- RM 7,000.0 tax relief on housing loan interest payments for first home ownership
- RM 200.0m for Sabah Sarawak Rural Air Service
- Continuation of My50 Monthly Pass
- RM 270.0m for stop-and-go bus services
- RM 10.0m for special bus lane involving Jalan Ipoh,Jalan Cheras and Jalan Gombak are 47 kilometers long
- RM 0.50 fee for van facilities for children to school (LRT Sri Rampai, LRT Taman Melati)
- RM 470.0m financing funds was provided by SME Banks, BSN, Bank Rakyat and MARA in supporting PMKS women get working capital, buy assets
- RM 25.0m for The Young Friends Program
- RM 1.0b welfare allocation for the elderly
- RM 1.3b for allocation of assistance for the disabled under JKM
- RM30.0m to improve disabled-friendly facilities throughout IPTA
- RM380.0m for the Orang Asli community to improve their standard of living

Source: MoF, Kenanga Research

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