Malaysian Institute of Economic Research

Budget 2025: Shaping Malaysia's Economic Future

Budget 2025, set to be tabled on 18 October, marks the final budget under the 12th Malaysia Plan (2021–2025) and is expected to set the stage for the upcoming 13th Malaysia Plan (2026–2030).

This budget aims to balance economic growth with targeted measures to support households, businesses, and key economic sectors, while maintaining fiscal discipline. It is expected to address pressing challenges such as cost-of-living pressures, wage stagnation, and the green transition.

Economic Growth and Fiscal Responsibility

The government's aim to meet its fiscal deficit target of 4.3% of GDP in 2024 is within reach. It will be supported by a better-than expected GDP growth in 2024, envisaged to overshoot the previous target of 4% -5% to now 5% -5.5%.

And the fiscal deficit target for 2025 is projected to be around 3.5%. Through the Fiscal Responsibility Act and debt Management, the government remains committed to reducing the fiscal deficit and managing national debt. Prudent economic policies and governance reforms will ensure fiscal discipline while continuing to support private sector growth.

This will be achieved through continued subsidy rationalisation, higher revenue from taxes, and prudent management of government spending.

Besides, the continuous strong growth momentum, projected to expand between 4.5% and 5.5% will add support to lower the fiscal deficit. Growth will be driven by strong domestic demand, exports, impact from approved and realized investments, positive wealth effect from improving confidence and stable political environment.

Ongoing multiyear investments and the realization of the newly substantial approved private sector investments will continue to promote economic activities directly and indirectly. The ongoing strategic infrastructure projects like ECRL, KVLRT3, the Pan Borneo Highway, and the JB-Singapore RTS will underpin public investment activity in the interim.

The economy will benefit from the government's commitment to foster innovation, digitalization, automation and green initiatives with a particular focus on MSMEs and mid-tier companies.

Investments in technology and infrastructure, particularly under the New Industrial Master Plan (NIMP 2030), are expected to fuel long-term growth and enhance the country's competitiveness.

The full impact of new revenue streams introduced in 2024 will be realized in 2025. Amongst them are (1) service tax (RM3.5 billion); (2) taxes on low-value goods (RM0.2 billion); (3) capital gains tax on unlisted shares (RM0.8 billion); and (4) e-invoicing (RM2 billion)

Additionally, subsidy rationalisation, a bold move by the Madani government, is expected to yield significant cost savings. These savings will be reallocated to support targeted policy measures such as civil servant pay hikes (ranging from 16.8% to 42.7%, costing around RM10 billion) and expanded cash handouts through Bantuan Sara Hidup (BSH) and Budi MADANI programs.

Tax Reforms and New Revenue Measures

To align with international standards, the government will introduce a global minimum tax rate of 15%, and there is ongoing discussion about the reintroduction of the Goods and Services Tax (GST).

Focus will also be on tax reforms to support the SMEs. The budget could extend reinvestment allowances and raise SJPP (government-backed loan guarantees) limits from RM20 million to RM30 million.

Inflation Control and Cost of Living

Keeping inflation within the 2% to 3% range remains a key priority.

To contain inflationary pressure and address rising living costs, particularly for essential goods and services, the budget will maintain targeted subsidies and price controls to assist the vulnerable groups.

The government is expected to relax its blanket RON95 fuel subsidy. Based on the current scenario, the top 20% of households (T20) account for about 53% of the RON95 subsidies, making the system unsustainable and unfair.

Move to relax the RON95 fuel subsidy will involve a mix of targeted subsidies, gradual price adjustments, and social safety nets. By shifting towards a targeted subsidy approach it would ensure that fuel subsidies benefit only lower-income groups (B40) rather than wealthier segments of society. Gradual price adjustments would not overburden those in the M40 group especially the M1 and M2.

This shift is expected to alleviate the fiscal burden on the government while promoting a more balanced subsidy structure. The new plan aligns with other socio-economic initiatives by the MADANI government, such as the progressive wage policy, aimed at addressing low wages in Malaysia.

The government can leverage on technology and market-based solutions to ensure that the transition is smooth, equitable, and in line with broader economic and environmental goals. It will help contain inflationary pressures.

Besides, the Overnight Policy Rate (OPR) will likely remain at 3.00%. A consistent borrowing cost eases undue erosion on household disposable income. A strong USD/MYR.

Sector-Specific Initiatives

1. Digital Economy and Technology: To enhance Malaysia's competitiveness and productivity, Budget 2025 will focus on automation, AI, and digitalisation. The government will support high-value industries such as startups, technology innovation, solar panel, EV infrastructure development and AI development to position Malaysia as a regional leader under the Ekonomi MADANI framework.

2. Agriculture and Food Security: Aiming for self-sufficiency, the budget will target the agro-food industry with investments in sustainable agricultural practices, supply chain improvements, and climate change mitigation strategies.

3. Support for MSMEs: MSMEs, a vital part of Malaysia's economy, will receive enhanced financing and support schemes to scale up, boost productivity, and become more export-ready. Tax rebates and corporate support for SMEs will also be introduced to help manage rising business costs, alongside a tiered levy system for foreign workers. Need to improve collaboration between the government and private enterprises to enhance any global competitiveness.

4. Manufacturing and Industrial Growth: The NIMP 2030 will play a critical role in promoting high-value manufacturing, automation, and green technologies. The budget will target sectors such as semiconductors, automotive, and renewable energy, creating high-value job opportunities and driving sustainable growth. Request for a reduction or elimination of CESS to improve their competitiveness with China.

5. Green Economy and Sustainability: Environmental initiatives will be central to Budget 2025, with a focus on carbon capture and storage (CCUS), sustainable agro-food value chains, and climate resilience. Incentives for green technologies, including renewable energy, electric vehicles, and carbon tax frameworks, will be expanded. A potential carbon trading scheme could also be introduced to support emissions reductions, guided by the National Energy Transition Roadmap (NETR). Encouraged to adopt green energy solutions and energy-efficient equipment to align with Environmental, Social, and Governance (ESG) principles, vital for maintaining competitiveness in the global market.

6. Islamic Finance and Sustainable Growth: Budget 2025 will further develop Malaysia's Islamic finance sector, with a focus on venture capital and equity-sharing financial models. These initiatives will support ethical financial practices and align with the government's broader economic reform goals.

7. Regional and Global Competitiveness: Malaysia will assume the ASEAN chairmanship in 2025. Hence, there will be a strong focus on regional cooperation, particularly in fintech, financial inclusion, and cross-border trade. Budget 2025 will support initiatives that enhance Malaysia's role in regional trade and economic integration.

8. Education and Talent Development: The budget is expected to revisit the current approach of education system. Students are guided into streams to enhance school's ranking than to focus on streams that align with their ability and potential. Focus should be on talent creation to be able to meet the key sectors demand that are vital for future economic growth. They could be more emphasis on openness in data sharing, digitalize research and academic paper.

9. Real Estate Investment and Housing Affordability: Housing market anticipates additional measures in Budget 2025 to address the needs of homebuyers, particularly focusing on affordability for first-time buyers. The government's commitment to affordable housing is evident through initiatives such as PR1MA, Rumah Selangorku, and PPR, which have increased the supply of affordable homes.

10. Medical Care: Budget 2025 is anticipated to allocate more funds to the Malaysian healthcare sector in order to support infrastructural and human capital developments. Among the main recommendations is raising the healthcare budget to 5% of GDP in order to support the more than 70% of Malaysians who depend on public healthcare.

11. Skills Improvement: The budget is expected to focus on high priority skill developments in the field of Technical and Vocational Education and Training (TVET) and digital transformation. Understanding the need for a trained workforce, the government has boosted TVET financing to meet employer requests.

12. Labor Market and Social Reforms: The government is intensifying efforts to improve the standard of living by promoting the creation of employment opportunities with respectable jobs and decent wages. This initiative aims to afford all Malaysians a higher standard of living. The focus will start with priority sectors under the NIMP 2030. The introduction of the Progressive Wage Policy is a significant step forward to complement this task.

Conclusion

Budget 2025 aims to strike a balance between promoting economic growth and maintaining fiscal responsibility. With a focus on innovation, sustainability, and inclusivity, the budget will help Malaysia navigate the challenges of today while preparing for the opportunities of tomorrow.

By addressing key issues such as cost of living, inflation, and subsidy rationalization, the government is positioning Malaysia for long-term prosperity while ensuring fiscal discipline and responsible debt management.