

A clever balancing act that keeps the country on track

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PETALING JAYA: After doing the heavy lifting over the past two years with a raft of new taxes and the politically risky targeted fuel subsidy system, Prime Minister Datuk Seri Anwar Ibrahim has shifted to consolidation without squeezing.

Budget 2026 was a deft balancing act, one that tightens fiscal screws while still sweetening the ground ahead of the 16th General Election - which will be held any time before early 2028.

No new taxes were introduced under Budget 2026 which Anwar, who is also Finance Minister, tabled yesterday.

This was a major relief for most businesses, which have been complaining about rising costs and margin compression.

The business community also receives various tax and non-tax incentives, although Anwar stopped short of responding to pleas for the easing of the sales and service tax that was expanded this year.

As for households, the Budget was packed with welfare spending, right from cash handouts and continued fuel subsidies to free tertiary education for the poor.

The supposedly one-off RM100

Sumbangan Asas Rahmah incentive this year, given to all Malaysians above the age of 18, will now be repeated next year.

Together with the Sumbangan Tunai Rahmah cash handouts, this will cost the government another RM15bil.

While Anwar told Parliament that the RM15bil allocation was funded by savings from the targeted fuel subsidy mechanism, one could argue the money would have been better spent trimming Malaysia's RM1.3 trillion federal debt.

Regardless, Budget 2026 projects federal revenue to rise to RM343.1bil, an increase of RM9bil from the revised 2025 estimate.

It is worth noting that Malaysia is likely to miss its 2025 revenue target of RM339.7bil, as mentioned previously in Budget 2025. The revised figure stands at RM334bil, more than RM5bil short.

This is a risk that could recur in 2026, at a time when the dividends from Petroliaam Nasional Bhd is expected to fall to its lowest level in nine years.

Yet, the Anwar administration's fiscal policy remains expansionary, which includes RM338.2bil for operating expenditure (OE) and RM81bil for development expenditure (DE).

This amounts to RM419bil in

spending. Coupled with extra expenditures from government-linked investment companies (GLICs) and statutory entities, the final amount is higher at around RM470bil.

That said, the modest increase in DE - often seen as the engine of growth through infrastructure and public works - is disappointing. In 2026, DE is set to increase by RM1bil or just about 1%.

Development spending has barely kept pace with inflation, constraining Malaysia's long-term growth ambitions even as it stays committed to deficit reduction.

However, it is noteworthy that the government is banking on the help from state-owned enterprises to fund several development projects, instead of directly funding them through the Budget.

iFAST Capital analyst Kevin Khaw said the reclassification of DE into new categories such as GLIC investments, public-private investments, and allocations to federal statutory bodies and GLCs reflects a "more targeted and optimised approach by the government".

"This suggests a clearer strategic direction in channelling funds toward areas with higher economic multiplier effects," he said.

Overall, despite the lingering fiscal risks and headwinds, the Anwar government must be com-

mended for its commitment to continue the trimming of the fiscal deficit to 3.5% of gross domestic product (GDP), down from 3.8% in 2025 - the lowest in more than a decade.

Budget 2026 also maintains Anwar's anti-corruption and efficiency drive.

Despite a populist tinge, Budget 2026 remains aligned with Malaysia's Fiscal Responsibility Act, which anchors spending discipline and transparency.

The administration continues to pursue a medium-term target of reducing the deficit to 3% of GDP, while cutting new borrowings from RM100bil in 2022 to RM77bil this year.

Beyond fiscal consolidation, Khaw said investment promotion has been a central theme in this budget.

Key initiatives, including the introduction of the Status Asean Business Entity, JS-SEZ-related policies, the Mida Investor Pass and the Residence Pass-Talent Fast Track are expected to enhance Malaysia's attractiveness to foreign investors.

"Budget 2026 sets a clear tone for Malaysia's forward-looking growth trajectory.

"The dual focus on future-ready industries and social well-being reflects a strategic vision that inspires confidence, reinforcing

our positive outlook on the nation's development path," he said.

Anthony Dass, senior economic adviser at KSI Strategic Institute for Asia Pacific, applauded the government for delivering a disciplined, people-centred, and forward-looking Budget that balances fiscal responsibility with real-economy impact.

"From an economic standpoint, Malaysia is shifting from subsidy-driven consumption to investment-driven transformation.

"The tone of the Budget signals credible policy continuity - something both markets and investors have long demanded," he said.

Meanwhile, Socio-Economic Research Centre (SERC) executive director Lee Heng Guie said the Finance Ministry has made conservative revenue projections for 2026, to build in a buffer against uncertainty.

"Budget 2026, being the first Budget implementing the 13th Malaysia Plan, has laid out strategies and initiatives to address immediate economic concerns for households and businesses while continuing to unlock new sources of growth, shifting the industrial base towards technology-driven and innovative models, and integrating sustainable practices and green technologies," he said.