Socio-Economic Research Centre
SERC 社会经济研究中心

Economic Update

Hanging In Balance Amid Persistent Uncertainty

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Executive Director
25 August 2025

Key points

1. The Global Economy Softening in 2H 2025, but Avoiding a Recession
2. The Malaysian Economy Slowing in 2H 2025; Domestic Demand to the Rescue
3. The 2026 National Budget to Lay the Foundation for the First-year Implementation of the 13MP (2026-2030)

Changing Landscape

- We are now living in a world that is more uncertain and complex than before; a world where the environment in which we operate keep changing around us.
- The rules of global trade have been turned on their head.
- New geopolitical realities are dawning.
- Artificial intelligence (AI), the energy transition, and demographic changes are fundamentally changing our economic activity, business landscape and workplace.

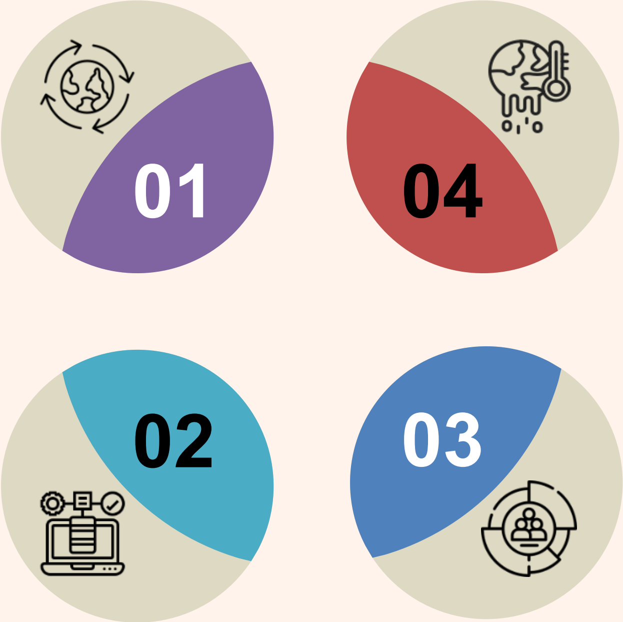
Four megatrends

01 Power Shifts and New Economic Blocks

- The rise of bipolarism, nationalism and protectionism.
- Economic blocs are experiencing significant shifts driven by factors like geopolitical tensions, geopolitical allies, technological advancements, and evolving national economic priorities.
- Potential shifts in global trade patterns, geopolitical allies, impacting global supply chains, investment and trade flows as well as technology restrictions.

02 Technological and Digital Revolution

- Increasingly powered by technology advancements in AI, big data, cloud technology, blockchain, cybersecurity, robotics and mechatronic as well as innovation.



04 Environmental and Climate Crisis

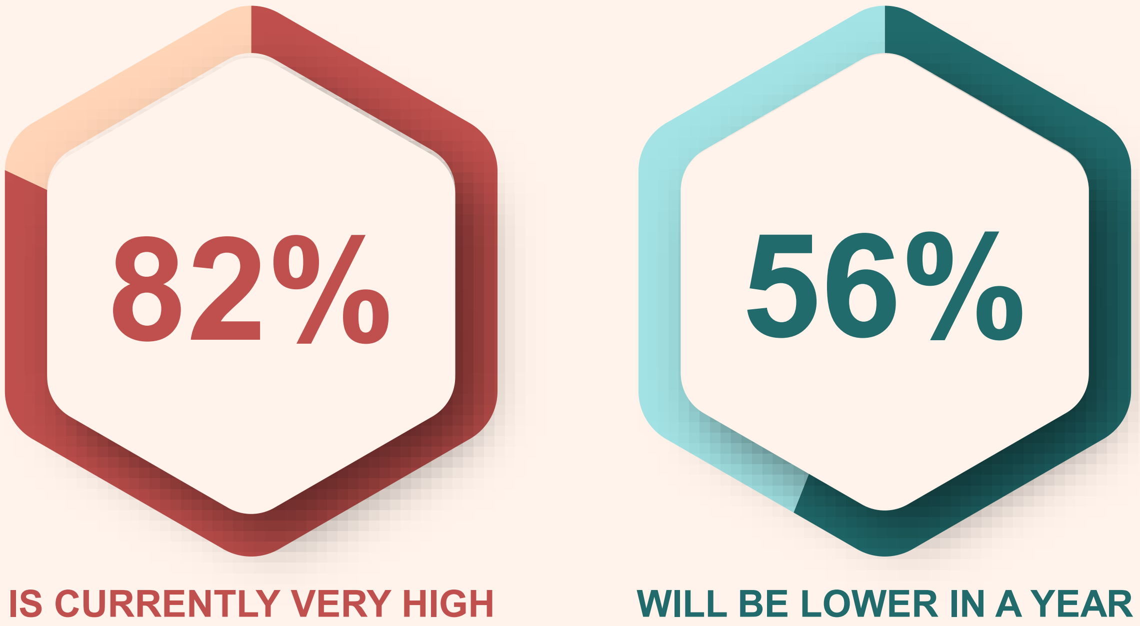
- Induced disruptions such as floods and soil erosion, impacting human lives and health, and land degradation.
- Sustainability and food security.

03 Demographic Shifts and Quality of Life

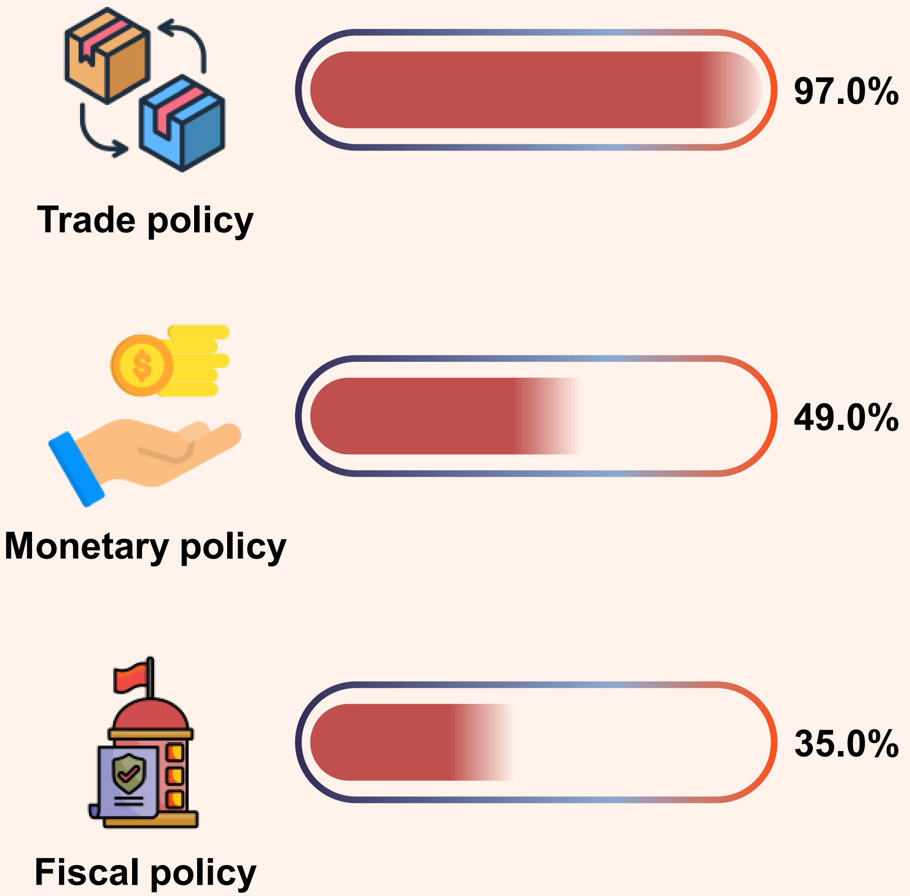
- Reshaping global priorities and public policies.
- Aging population impacts productivity, output and fiscal balance.
- Drive long-term transformations in ee markets, social systems, public health, education, and governance.

UNCERTAINTY – Policy upheaval and coordination risks

Share of chief economists who think that uncertainty:



Top 3 areas of the highest global uncertainty



Source: Chief Economists Survey. (2025, April)

What's our global outlook for 2H 2025 and 2026?

GLOBAL GROWTH

We expect continued global growth slowdown in 2H and 2026 due to **the impact of on-going tariffs and policy uncertainty as well as geopolitical risks**. Less restrictive monetary policy and fiscal stimulus will support growth.

THE US ECONOMY

We expect a near-term slowdown in growth as consumers' front-loading purchase wanes and consumer inflation finally showing up. Nevertheless, **monetary easing, tax cuts, deregulation and strong tech investments** are expected to cushion a severe economic slowdown. Higher consumer inflation risk could limit the Fed's rate easing.

CHINA ECONOMY

We expect China economy to slow further in 2H as the **trade tariffs impact continues and weakening consumer sentiment** amid **lingering risks in the property sector**.

THE FED'S ACTIONS

We expect the Fed to **pivot toward rate cuts** in 2H 2025 and 2026 to support the economy though the expected higher inflation may slow down the rate cut.

DOWNSIDE RISKS

The global outlook subjects to downside risks: **Elevated uncertainty and trade barriers as well as geopolitical conflicts**. Rising public debt and fiscal imbalances in the US may limit policy flexibility and increase sovereign risk premiums. Renewed inflationary pressures could derail plans for monetary easing.

Malaysia can buffer against external shocks

Malaysia is in a position of strength to face headwinds.

Still-sound economic and financial fundamentals supported by facilitative policies and accommodative monetary policy.

A well-diversified economic sectors, markets and products and sources of foreign direct investments.

Reduce **vulnerability and risks** inflicted by a particular sector and industry as well as a country.

Gradual fiscal consolidation path continues to build fiscal buffers.

Prudent and target fiscal policy to strengthen domestic resilience, protect the vulnerable group.

The financial sector is well-capitalised.

As at end-2024, **banks' liquidity buffers** exceeded regulatory levels with strong loan quality (aggregate non-performing loans (NPLs)) at 1.4% of gross loans) and sizeable provisions (91.4% of total impaired loans). **Liquidity coverage ratio** (LCR) is well-above the required level (100% starting 2019) at 160%.

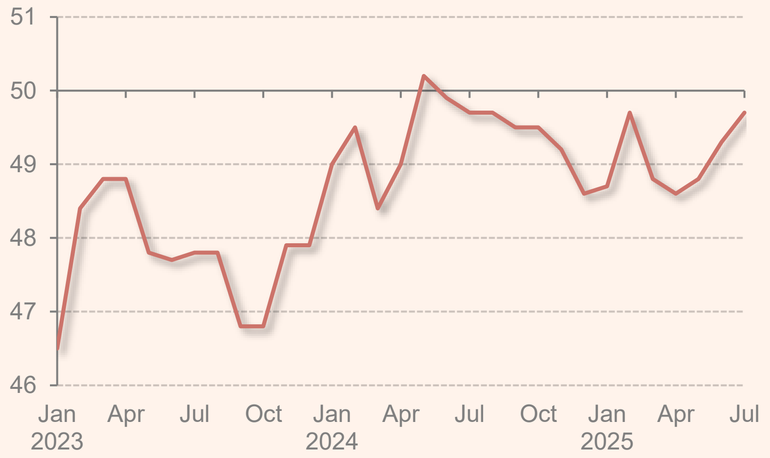
Flexible exchange rate is essential continue to play the role of shock absorber and remains the first line of defence against external shocks.

This is backed by **adequate international reserves** (USD121.3 billion at end-July 2025) and **sustained current account surplus**, albeit smaller.

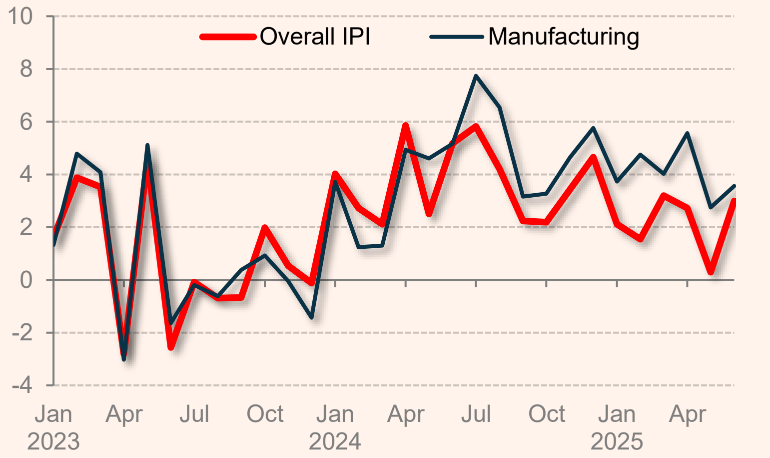
Tracking Malaysia's economic indicators

Leading indicators
%, YoY

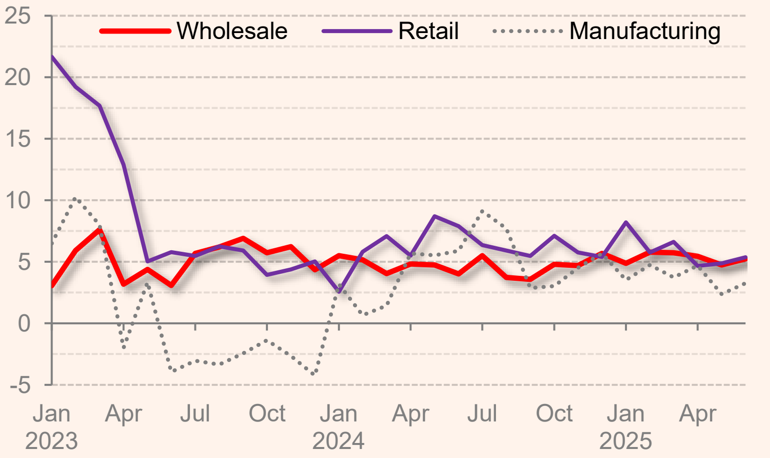
Purchasing Managers' Index (PMI)
50=Threshold



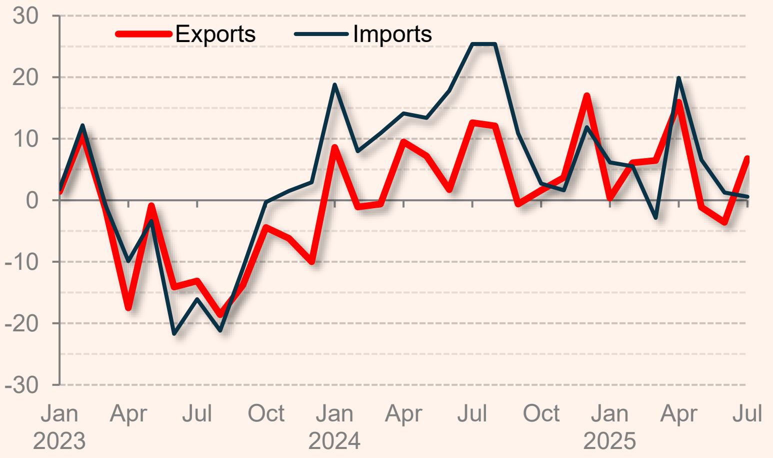
Industrial production index (IPI)
%, YoY



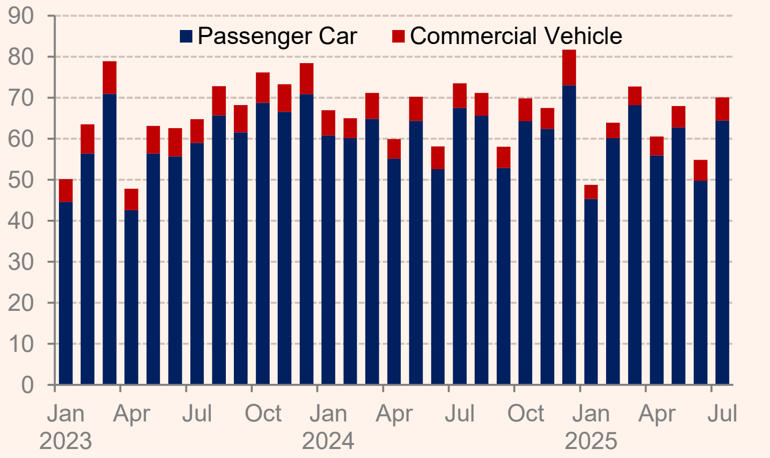
Wholesale, retail & manufacturing sales
%, YoY



External trade
%, YoY

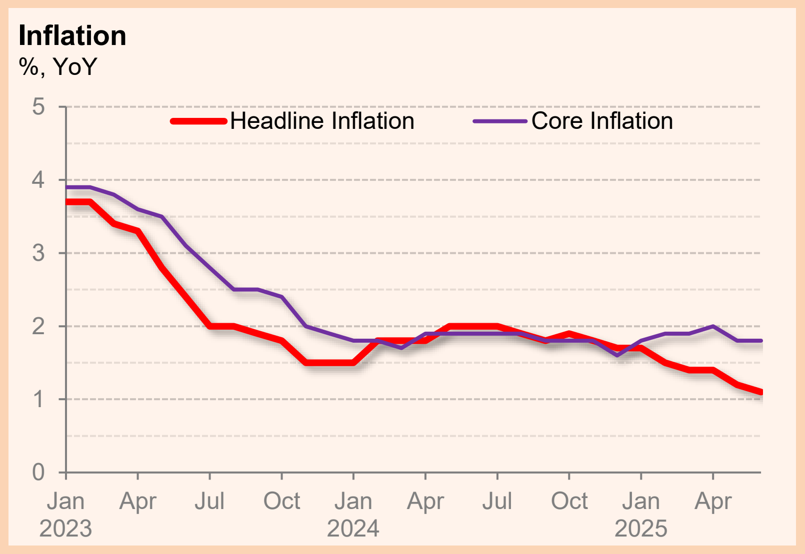


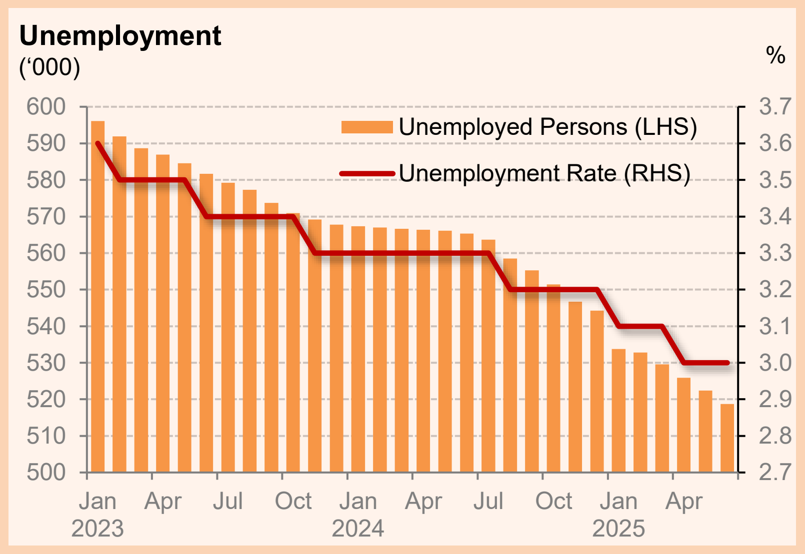
Sales of passenger & commercial vehicles
Thousand units

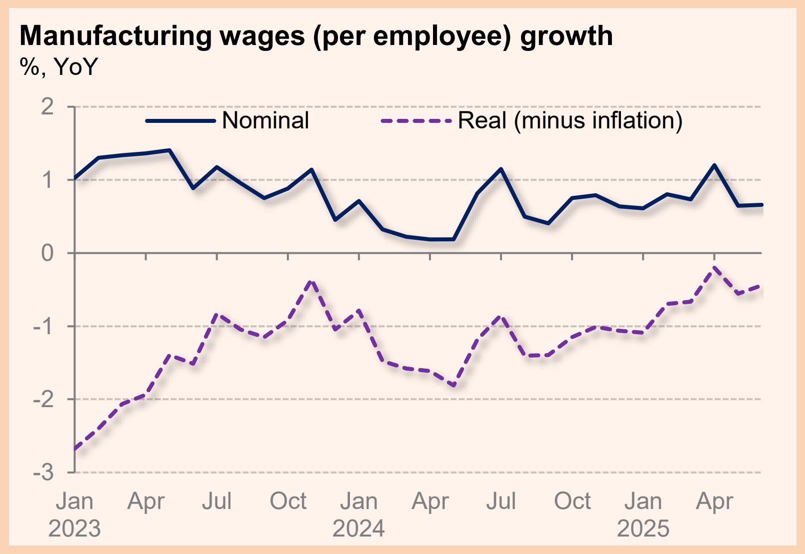


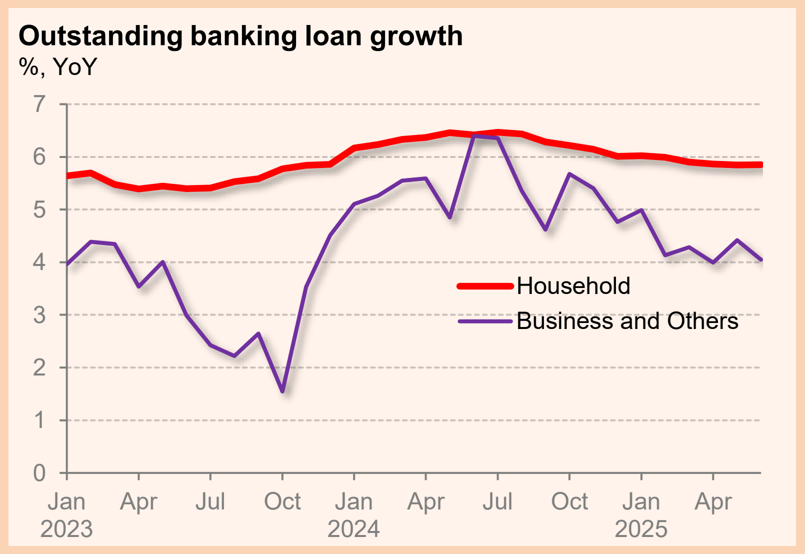
Source: DOSM; S&P Global; Malaysian Automotive Association (MAA)

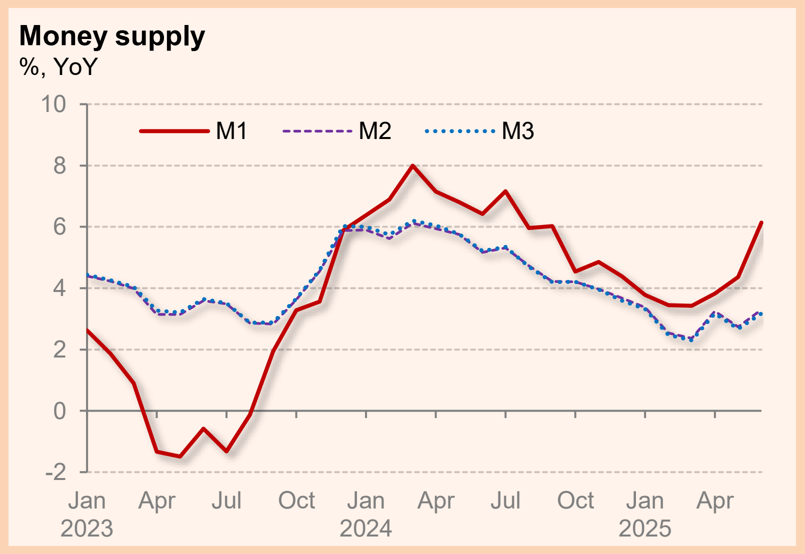
Tracking Malaysia's economic indicators (cont.)







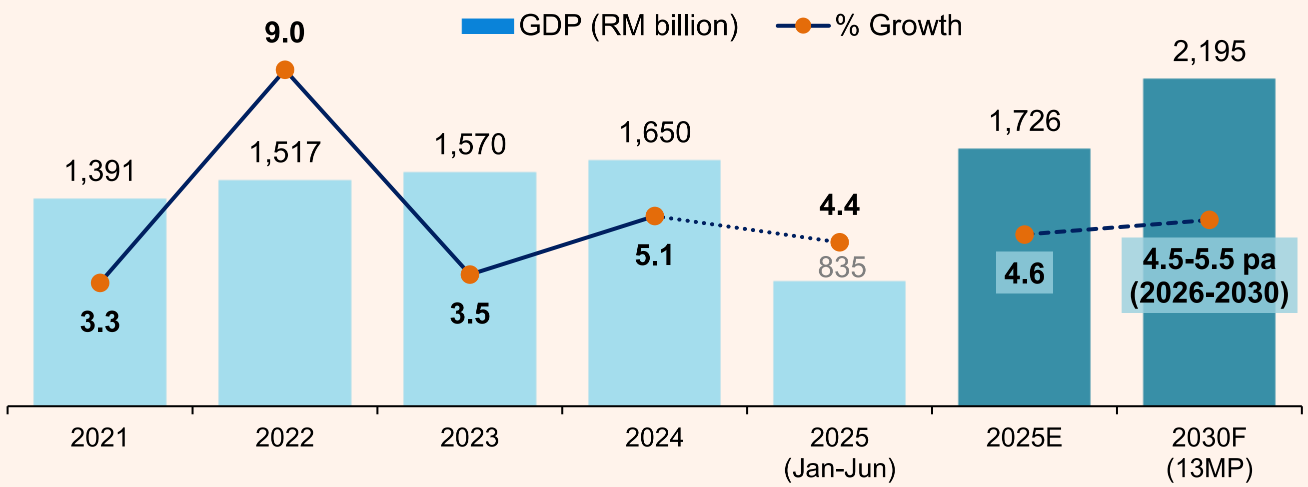




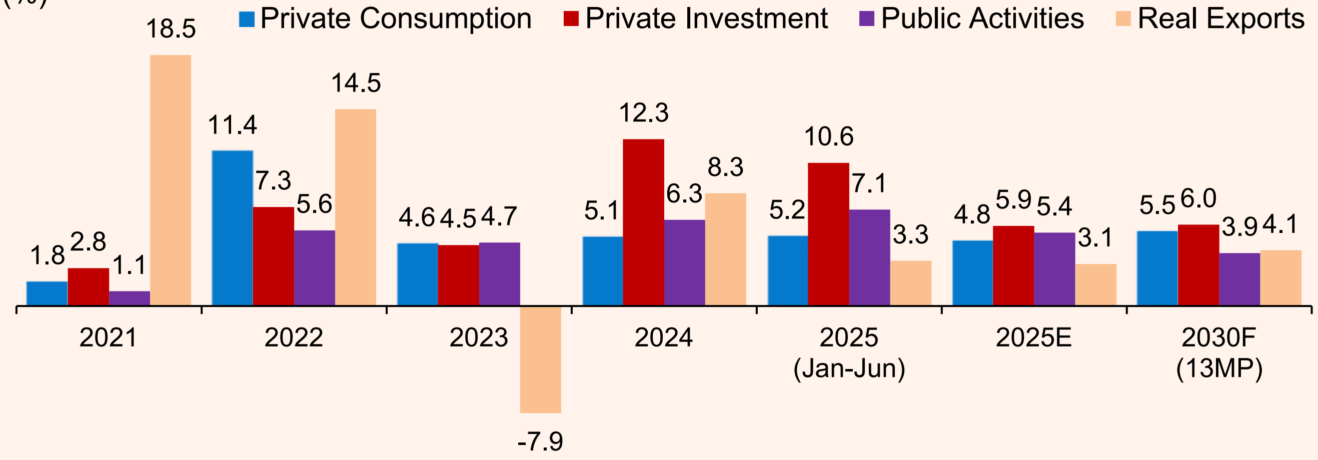
Source: DOSM; BNM

A resilient and growing economy, anchoring on domestic demand

Gross Domestic Product (GDP)



GDP growth by type of expenditure
(%)

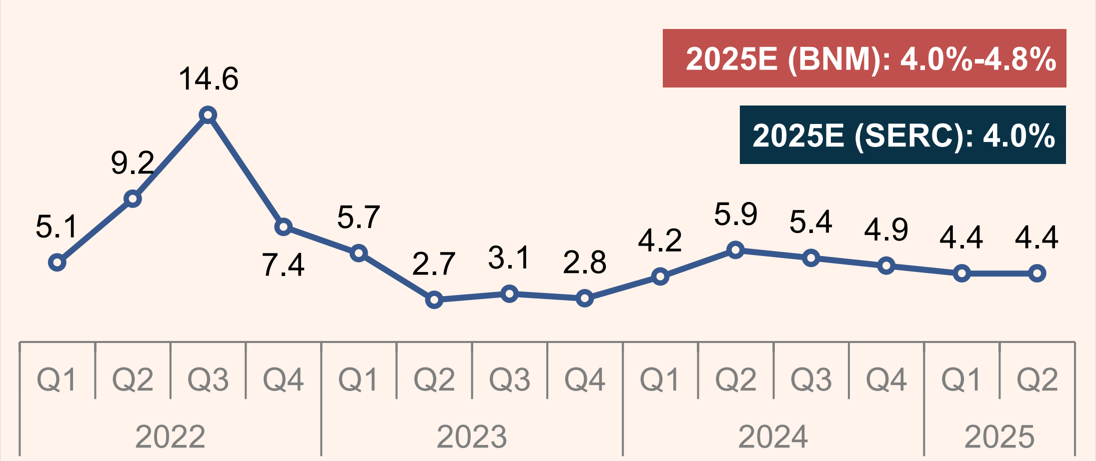


Note: 2025E was derived based on the 12MP estimates by Ministry of Economy in 13MP.
Source: Department of Statistics, Malaysia (DOSM); Ministry of Economy

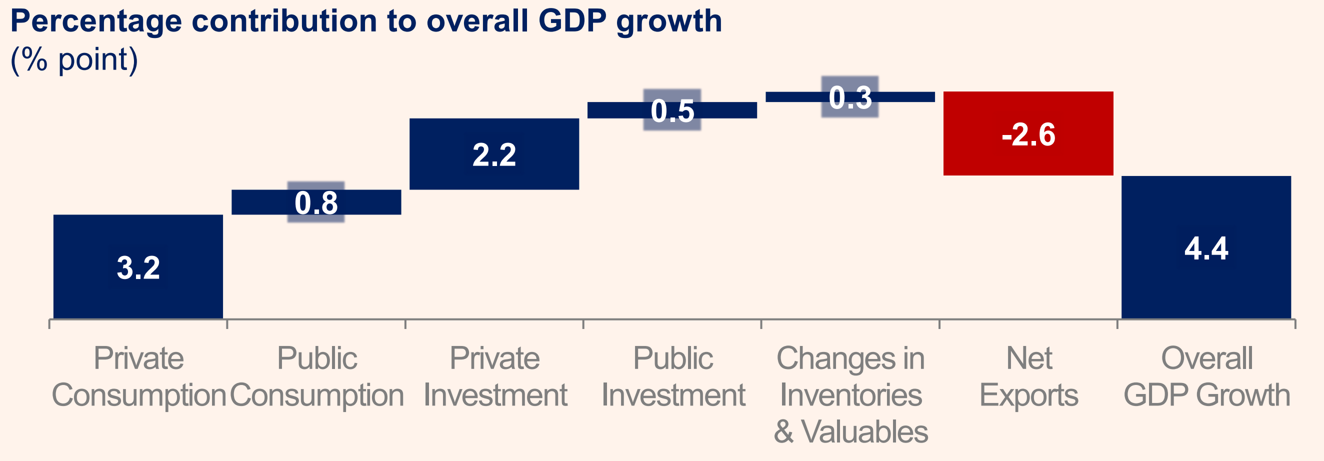
- **Real GDP growth expanded 4.4% in 1H 2025**, on track to achieve at least 4.0%-4.5% in 2025.
- **Resilient domestic demand**, particularly private sector expenditure continued to underpin domestic economic growth amid slowing exports in 2025.
- **Positive labour market conditions** (unemployment rate at 3.0% in Apr-Jun), **continuous wage growth, low inflation** (1.1% in June), **income-related policy,** and **lower interest rate** will support household spending.
- **Investment activity** will be sustained by the realisation of approved investment in 2021-2024 and progress of multi-year projects in both the private and public sectors.
- The **on-going implementation of catalytic initiatives and master plans**: New Industrial Master Plan (NIMP) 2030, National Energy Transition Roadmap (NETR), National Semiconductor Strategy (NSS). The impending implementation of the 13th Malaysia Plan (2026-2030).

The Malaysian economy will slow to 4.0% in 2025 and 4.0% in 2026

Quarterly Real GDP Growth (Annual change, %)

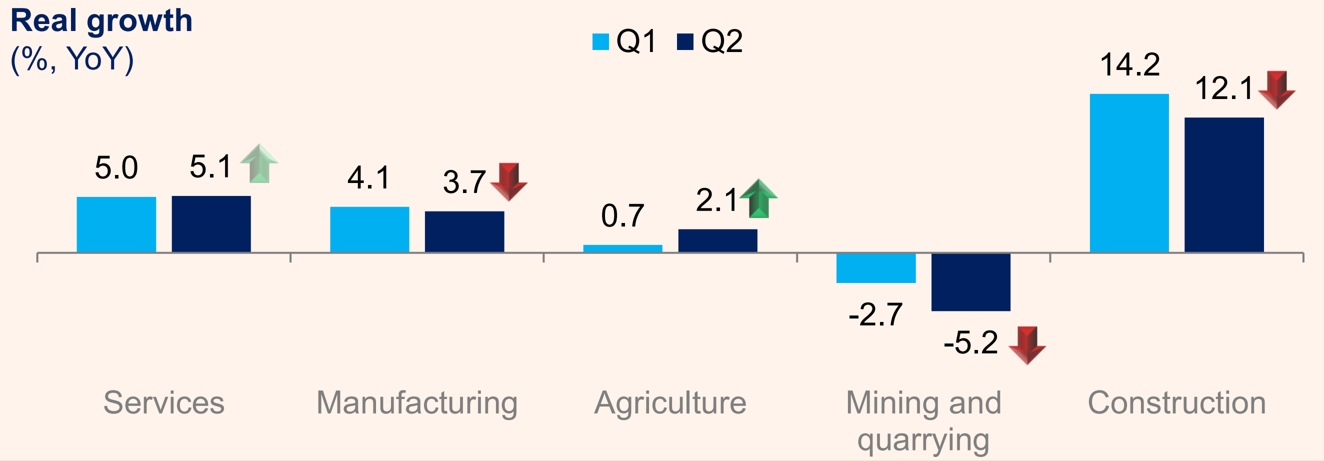


Resilient domestic demand partly offset by trade drag in Q2 2025



Monthly Real GDP Growth (Annual change, %)

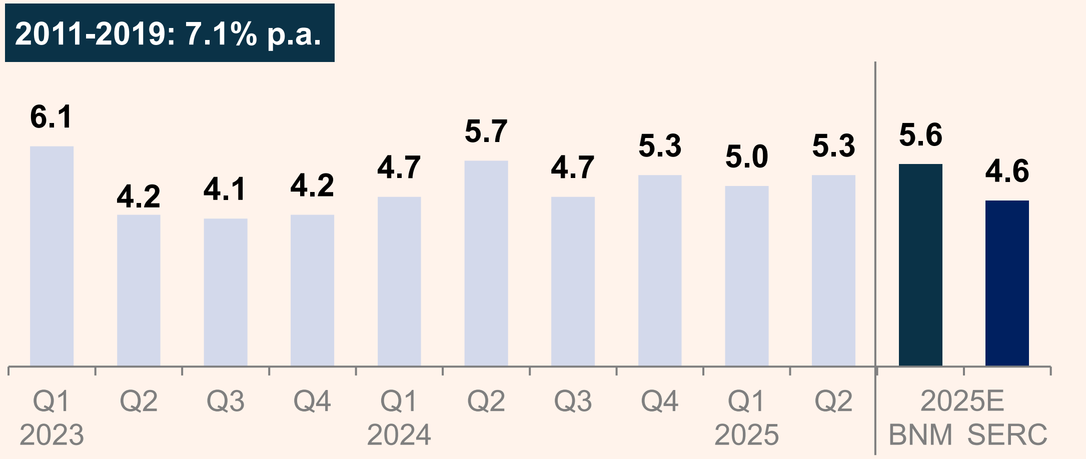
There were signs of the economy is slowing down as reflected in Q2



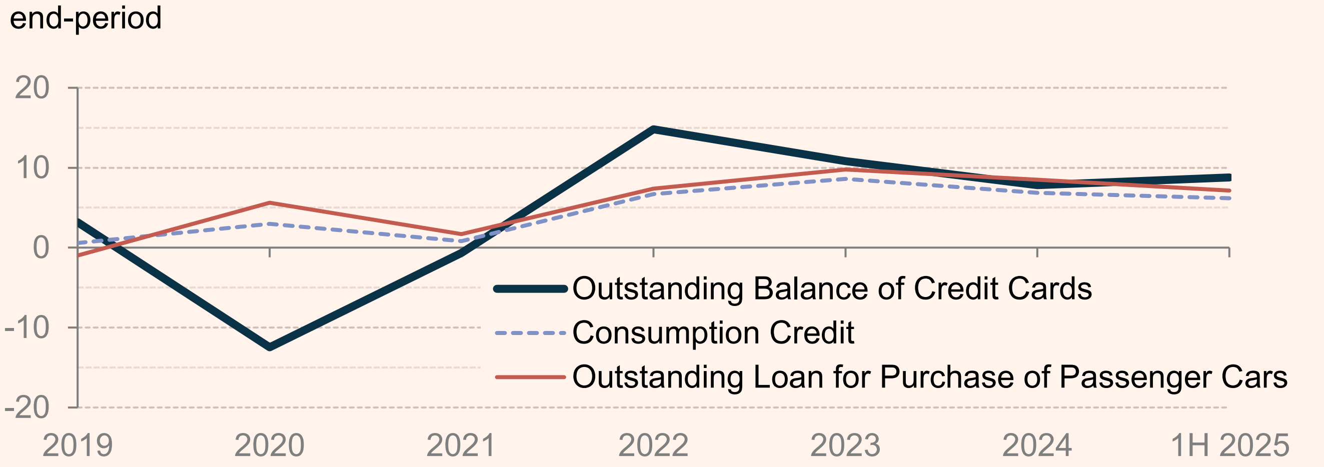
Source: DOSM *AE = Advance estimates*

Households could begin to bend, but not break

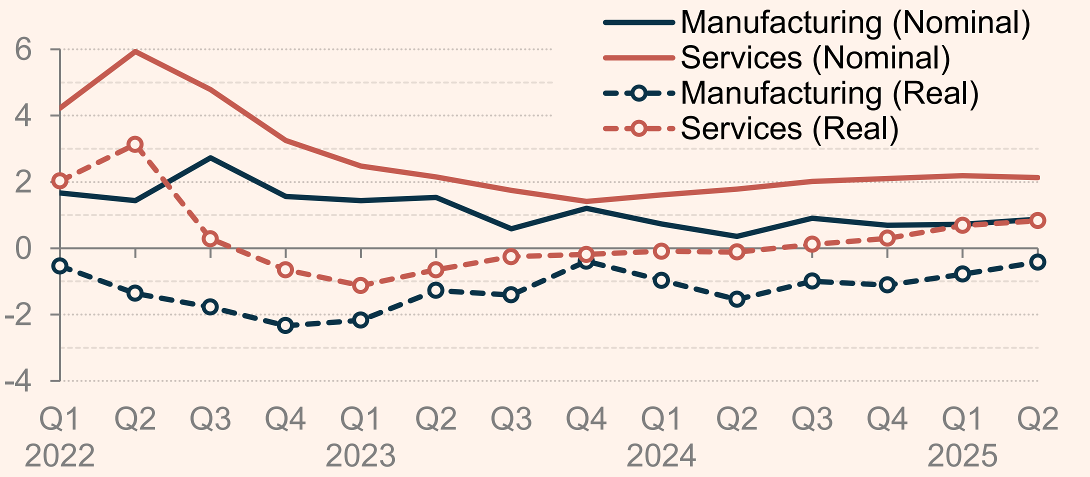
Private Consumption Growth (Annual change, %)



Selected Private Consumption Indicators (Annual change, %)



Real Wage Growth per Employee (Annual change, %)



Factors Supporting Household Consumption Expenditure

- Stable labour market conditions with a moderate wage growth.
- Higher minimum wage, EPF Flexible Account 3 withdrawal facility, and the Public Service Remuneration System (SSPA).
- Improved targeted cash assistance programmes: RM15 billion in 2025.
- Sustained tourism activities: Target 31.4 million tourist arrivals in 2025 (25.0 million in 2024).

Factors Weighing on Discretionary Consumer Spending

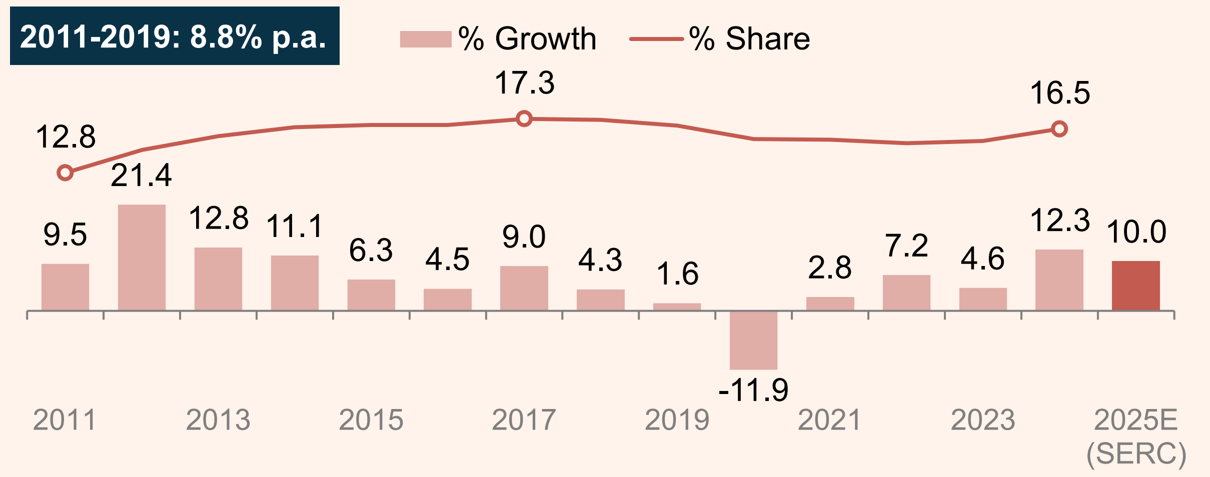
- Rising cost of living pressures.
- Consumer inflation due to pass-through effect from increased business costs. Direct and indirect effects from the expanded SST.

Source: DOSM; BNM; SERC's forecast

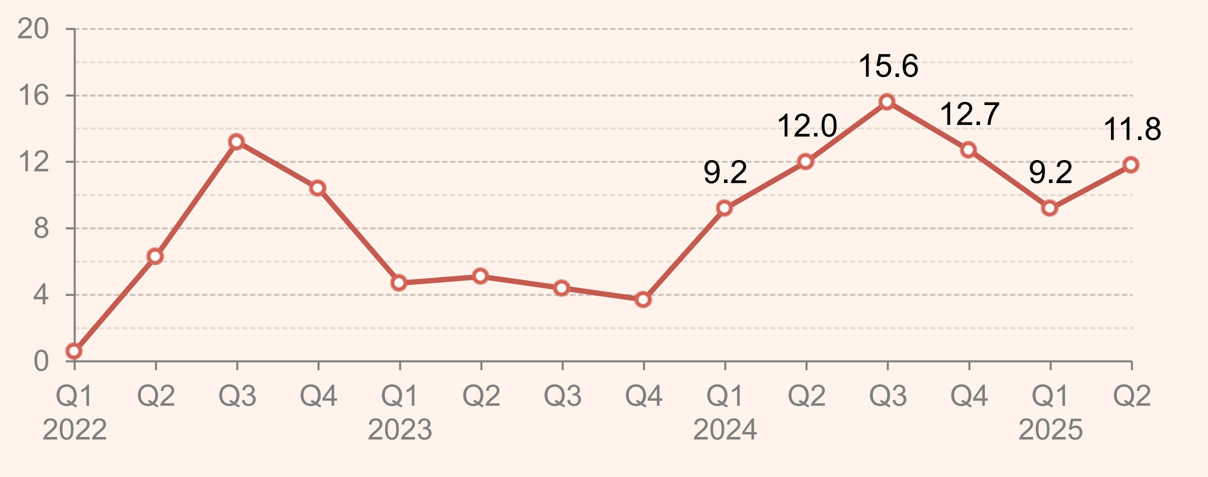
Note: Revision and expansion of the loans/financing data in 2022.

Malaysia is on the cusp of a multi-year private investment growth

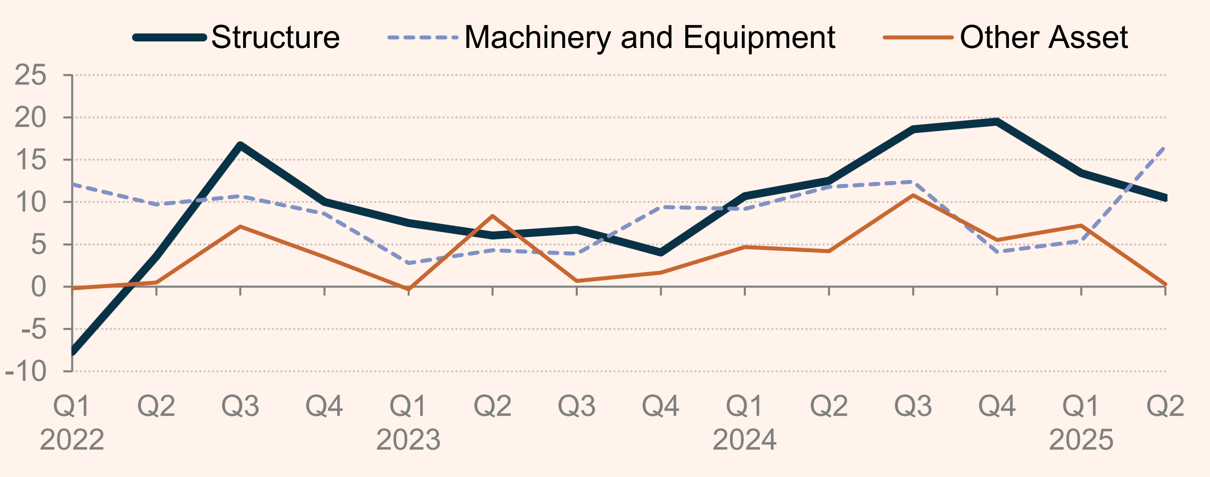
Private Investment Growth – Annually (%)



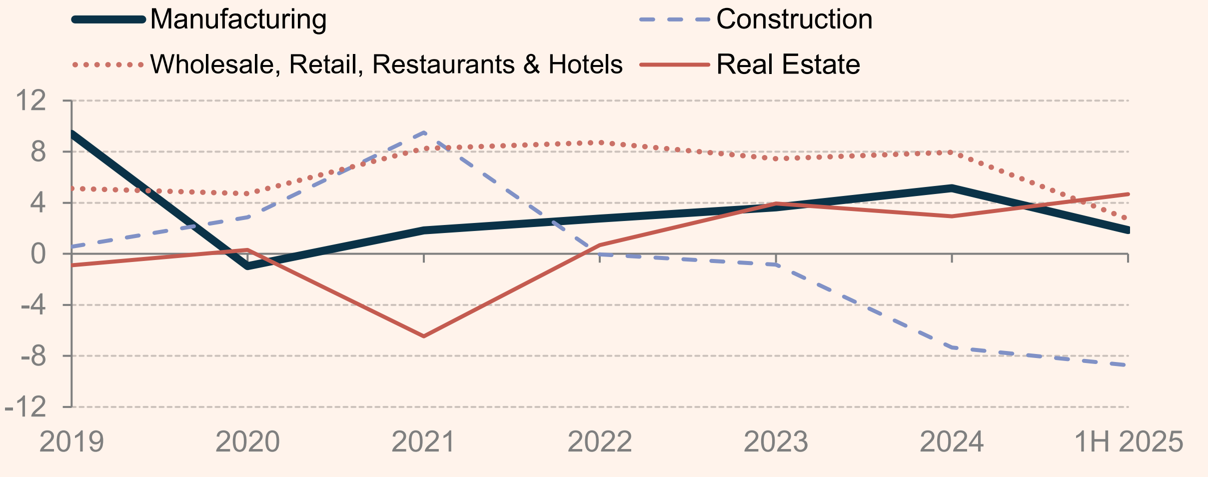
Private Investment Growth – Quarterly (Annual change, %)



Gross Fixed Capital Formation by Type of Assets (Annual change, %)



Selected Business Loans (Annual change, %)

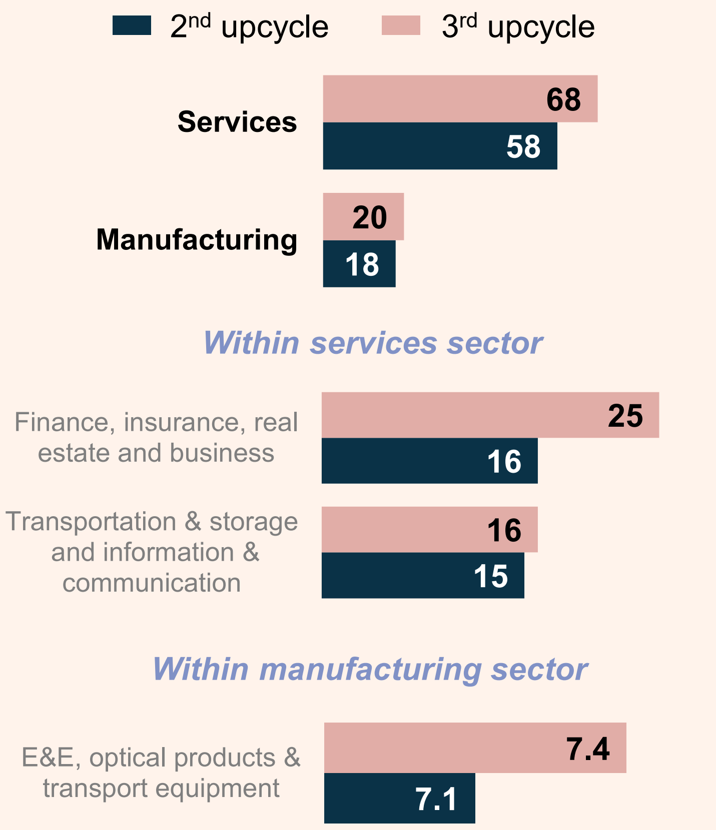


Source: DOSM; BNM; SERC's forecast *Note: Revision and expansion of the loans/financing data in 2022.*

Malaysia’s third investment upcycle characterised by high quality investments

1 **Shift towards high value-added services & manufacturing activities**

% Share of Real GFCF by Sectors

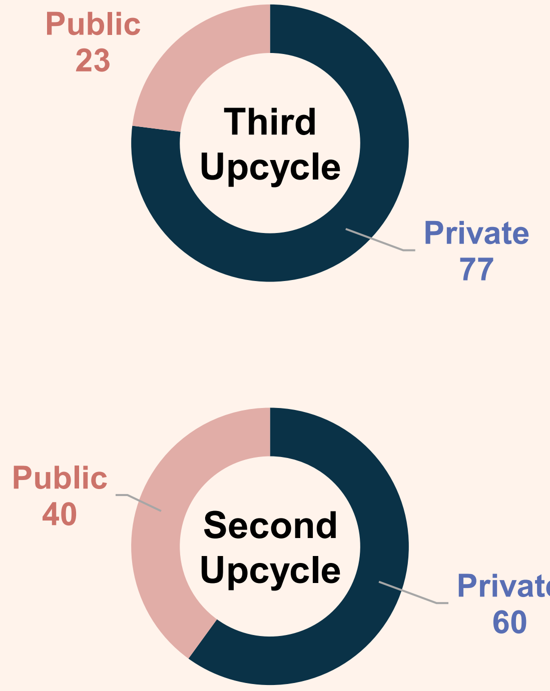


2 **Increased share of machinery & equipment investments**

Ratio of M&E to Real GFCF

3 **Greater role of private sector in driving investments**

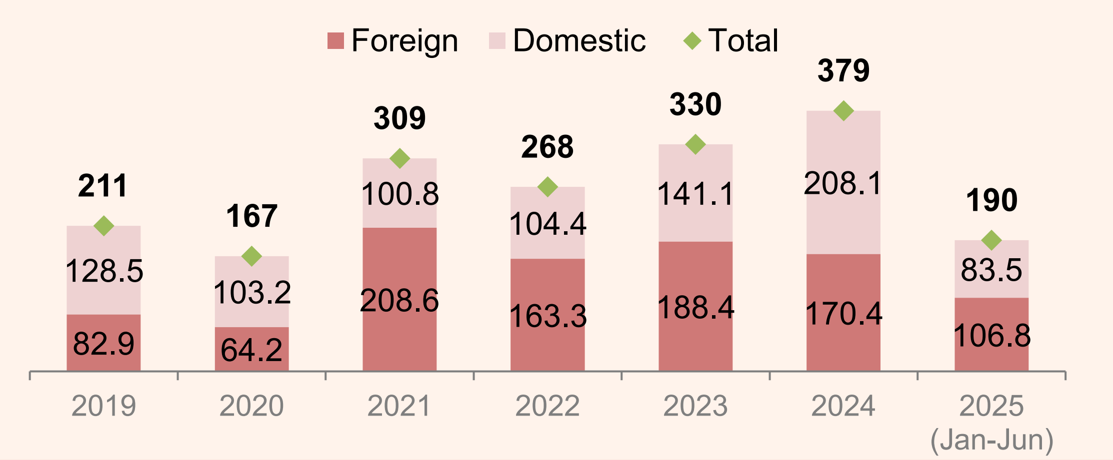
% Share of Real GFCF



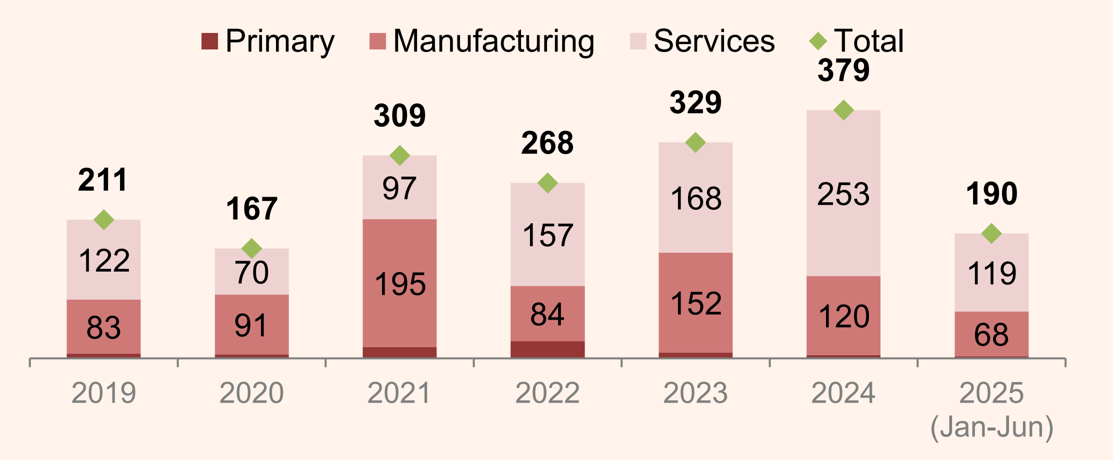
Note: Second upcycle refers to the 2011-15 period, while third upcycle refers to mid-2023 onwards. Where there are data constraints, comparisons are conducted using only 2023 data for the third cycle.
Source: DOSM; BNM; Haver

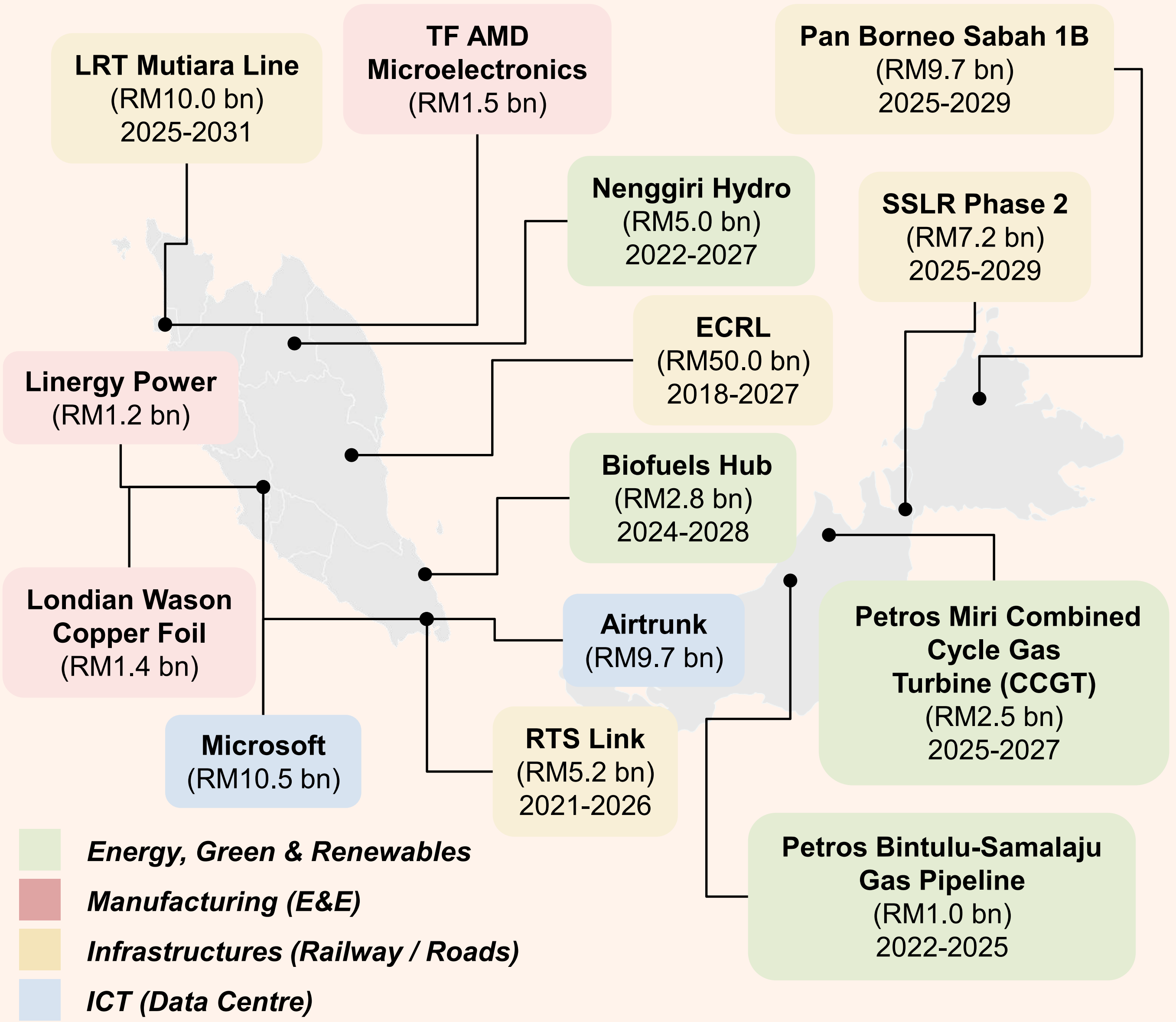
Investment is underpinned by the realisation of multi-years strong approvals

MIDA: Foreign vs Domestic Approved Investment (RM billion)



Approved Investment by Sectors (RM billion)

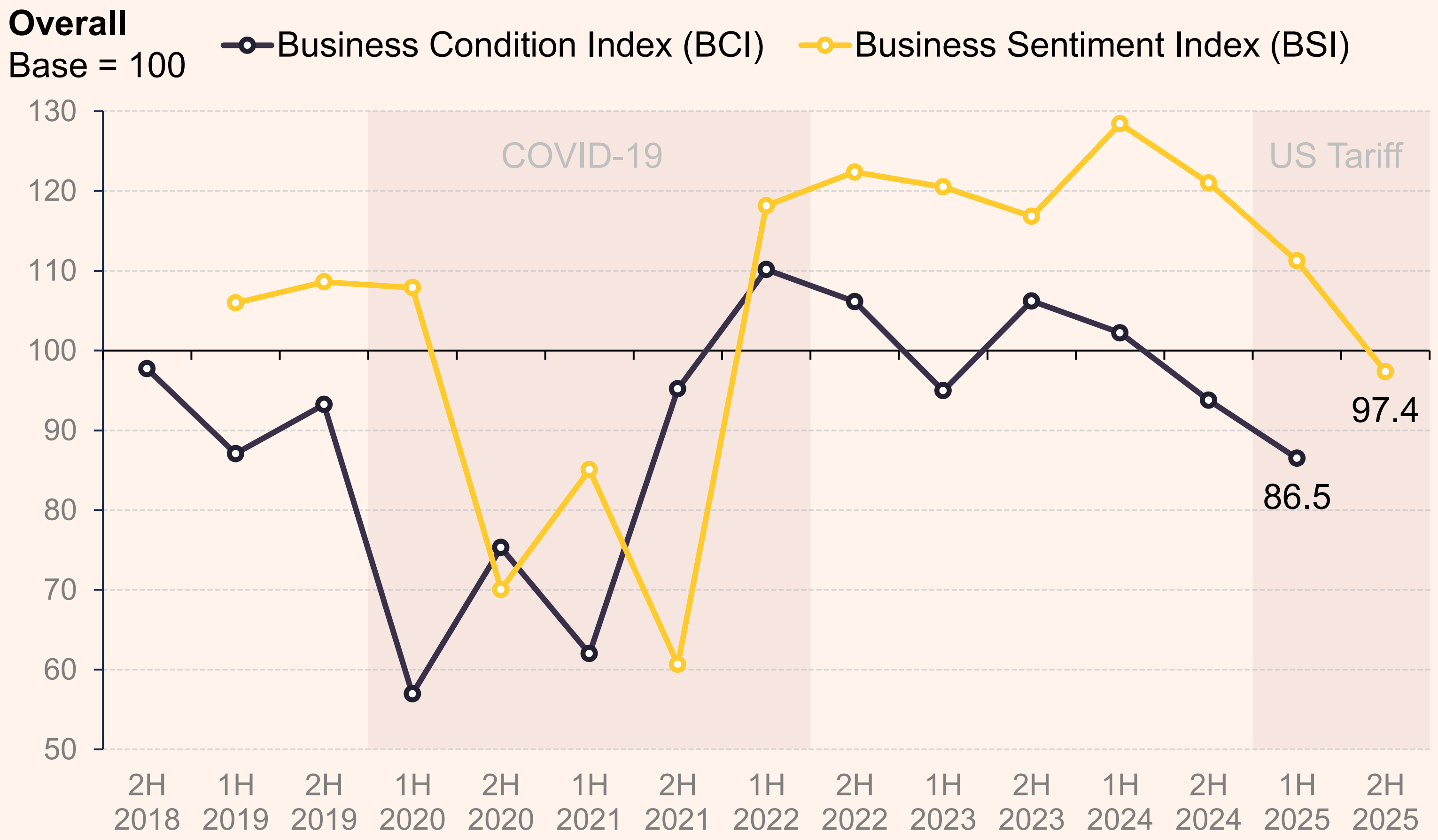




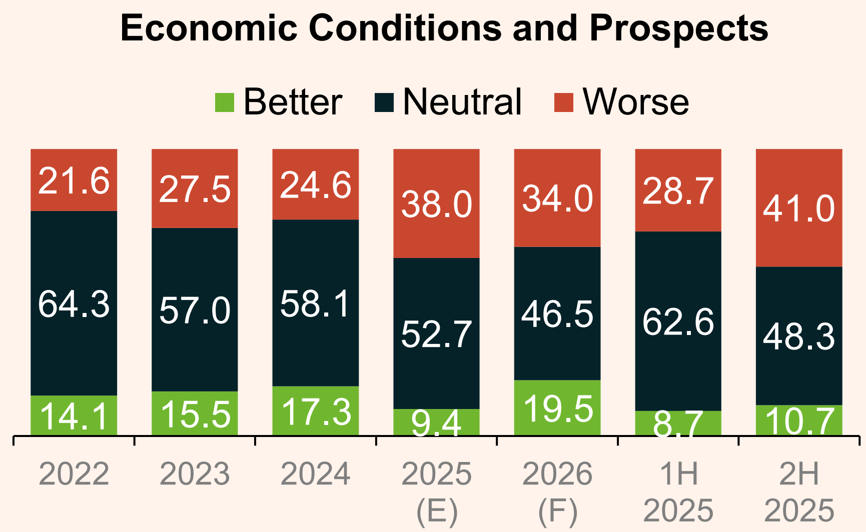
Source: MIDA; BNM

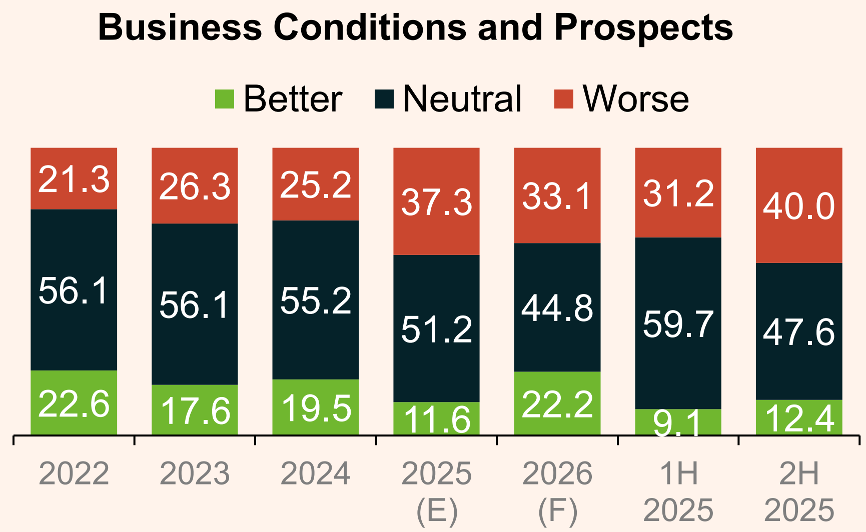
ACCCIM's M-BECS: Business confidence is at a low ebb

Both Business Condition Index (86.5) and Business Sentiment Index (97.4) in 2025 remained below the neutral threshold of 100, **reflecting sustained pessimism amid rising business costs, policy shifts, and external headwinds.**



Source: ACCCIM's Malaysia Business and Economic Conditions Survey (M-BECS) 1H 2025 preliminary results.





E=Estimation; F=Forecast

High operating costs have been ranked top 3 challenges since 2020

#1 High operating costs

54.8%

#2 Increase in prices of raw materials

42.0%

#3 Changing consumer behaviour

37.3%

#4 Declining business & consumer sentiment

37.1%

#5 Cash flow problem

34.7%

By Sectors (1H 2025)

Manufacturing	Construction	Wholesale and Retail Trade	Professional and Business Services
High operating cost (64.5%)	Increase in prices of raw materials (58.8%)	High operating cost (59.6%)	High operating cost (52.8%)
Increase in prices of raw materials (47.1%)	High operating cost (52.9%)	Changing consumer behaviour (50.6%)	Changing consumer behaviour (39.6%)
Lower domestic demand (47.1%)	Cash flow problem (51.8%)	Increase in prices of raw materials (46.6%)	Declining business & consumer sentiment (33.0%)
Declining business & consumer sentiment (38.0%)	Rising bad debts & delayed receivables (38.8%)	Lower domestic demand (44.4%)	Regulatory change (32.1%)
Skilled manpower shortage (33.1%)	Shortage of workers (36.5%)	Declining business & consumer sentiment (40.4%)	Skilled manpower shortage (31.1%)

Source: ACCCIM's Malaysia Business and Economic Conditions Survey (M-BECS) 1H 2025 preliminary results.

The SST Expansion: Rising business costs and compliance burdens

Impact of the expanded SST on businesses

- Increase in business costs 79.5%
- Reduce profit margins 67.8%
- Increased administrative burden 49.1%
- Lower customer demand 46.9%
- Supply chain disruption 12.9%

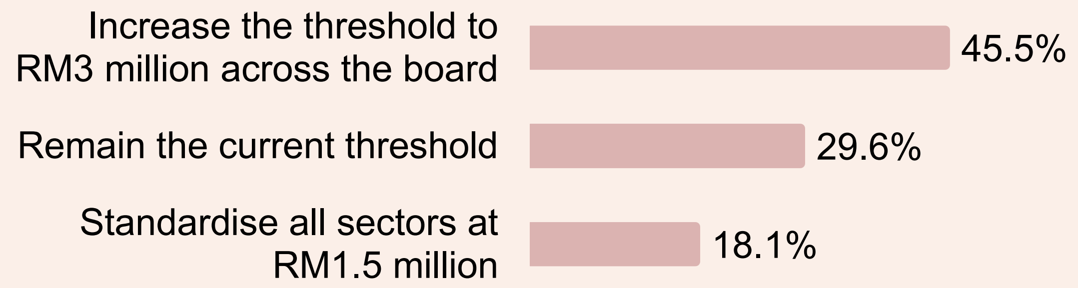
Business's response to SST

- Pass increased costs onto consumers 54.6%
- Absorb costs internally 44.6%
- Cautious business expansion / investment approach 37.4%
- Seek tax / accounting advisory services 36.1%
- Re-negotiate suppliers' / tenants' contracts 26.1%

Challenges

Ambiguous terms and definitions in the regulations	56.1%
Complex categorisation of taxable vs. non-taxable items / services	53.1%
Confusion across various announcements and documents	49.8%
Difficulty in understanding the SST guidelines	44.9%
Short timeline for preparation	43.1%
Limited stakeholder engagement / consultation	31.0%

Appropriate annual sales threshold for SST registration

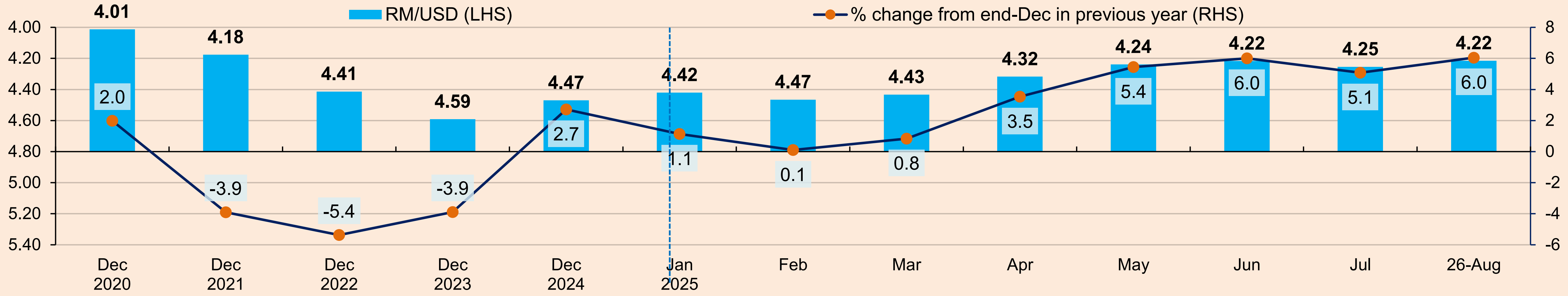


Source: ACCCIM's Malaysia Business and Economic Conditions Survey (M-BECS) 1H 2025 preliminary results.

The ringgit vs. Foreign exchange reserves vs. FDI inflows

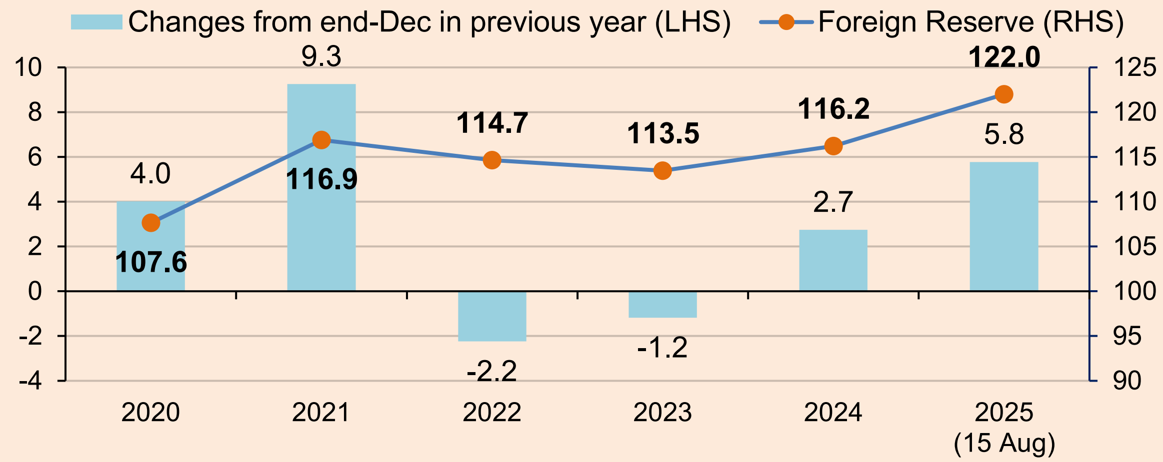
MYR/USD
End-period

% change from end-Dec in previous year

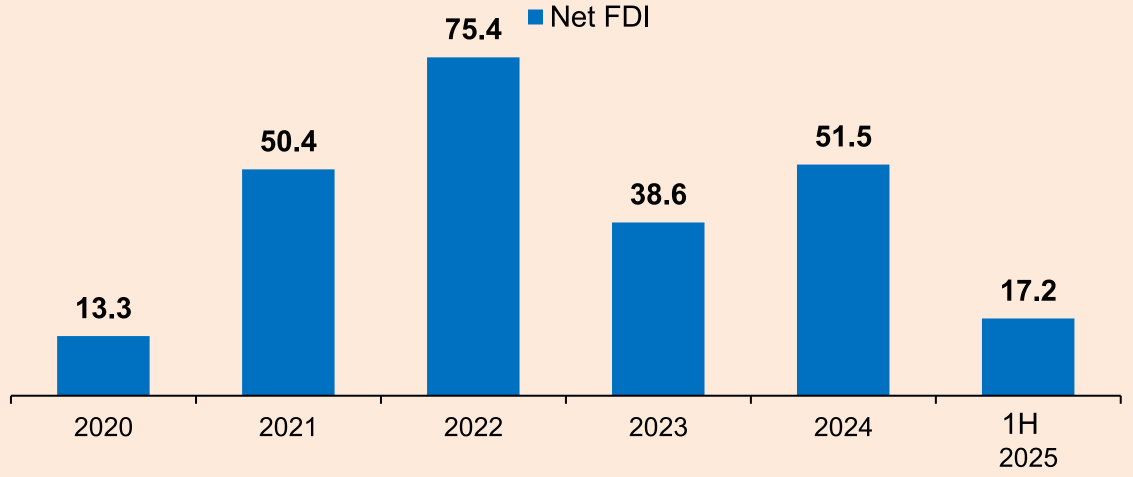


Changes in foreign reserve
USD billion

Foreign reserve
USD billion



Foreign Direct Investment (FDI) Inflow
RM billion



Source: Bank Negara Malaysia (BNM); Department of Statistics, Malaysia (DOSM); Ministry of Economy

Key macroeconomic targets under 13MP vs. estimated performance under 12MP

Indicator	13MP target	12MP estimated performance
Average annual GDP growth rate	4.5%-5.5% (2026-2030)	5.1% (2021-2025)
Average annual real private investment growth rate	6.0% (2026-2030)	6.5% (2021-2025)
Fiscal deficit to GDP ratio	<3.0% (2030)	4.1%** (2024)
Average annual gross export growth rate	5.8% (2026-2030)	9.8% (2021-2025)
Compensation of employees to GDP ratio	40% (2030)	33.5%* (2025)
GNI per capita	RM77,200 (2030)	RM57,598* (2025)
Average annual real public investment growth rate	3.6% (2026-2030)	3.8% (2021-2025)
Average inflation rate	2.0%-3.0% (2026-2030)	2.6% (2021-2025)
Current account balance under BOP to GNI ratio	2.2% (2030)	1.5%** (2024)
Average annual growth rate in Well-being Index (MyWI)	1.6% (2026-2030)	1.4% (2021-2025)

** 2025E was derived based on the 12MP estimates by Ministry of Economy under 13MP. ** No estimation made for 12MP or 2025 by Ministry of Economy under 13MP.*

2026 Budget theme – Catalysing MADANI Economy, Empowering the Rakyat (to be tabled on 10 Oct 2025)

2026, the first year of the 13MP (2026-2030), to lay stronger foundation to **strengthen economic resilience and future-proofing the economy through sound fiscal management, investing in high growth high value sector, accelerating technology and innovation, capacity building, developing a flexible and responsive workforce, and fostering public-private partnership in driving Malaysia forward.**

1 Economic Restructuring and Competitiveness

Positioning Malaysia as a key economic leader in the Asian region. Prioritizing investments in innovation, high growth high value sectors, and research and development (R&D).

2 Anchoring Domestic Demand

Focuses on income growth, targeted subsidies, and cash assistance (STR), aiming to boost private consumption and overall economic resilience.

3 High Growth High Value Sectors

Reduction in corporate tax rate; higher threshold for SMEs enjoying preferential tax rate; 100% Extended Reinvestment Allowance; overhaul of R&D support system; strategic fund and grant for AI and innovation.

4 Greening for Growth

Carbon tax is set for implementation in 2026. Low Carbon Transition Facility (LCTF) - financing amount, tenure and financing rate; incentives and invest in green innovation, sustainable technologies and green skillset.

5 Future-proofing for the Digital Economy

The formulation of the AI Technology Action Plan 2026–2030; Addressing the digital gap between SMEs and larger companies through strategic partnerships and tailored support.

6 Reskilling and Upskilling

Higher allocation for TVET - examining industry partnerships, curriculum changes, the integration of new and emerging technologies, and encouraging government policies. Continued allocation for skill enhancement, quality programmes and development.

Budget 2026 – Enhancing Drivers of Economic Growth and Transformation

A total of twelve (12) priorities

1 Enhancing Sumbangan Asas Rahmah (SARA)

2 RON95 Fuel Subsidy Rationalisation

3 Review of Sales Tax & Service Tax (SST)

4 A Competitive Tax & Friendly Investment Landscape

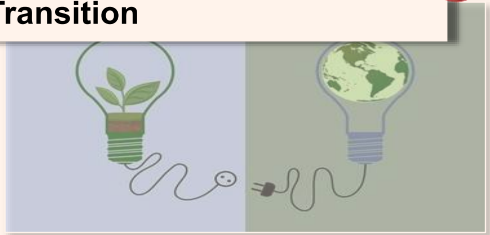
5 Enhancing R&D & Innovation Adoption

6 Empowering SMEs for AI

7 Reskilling & Upskilling for Future-Proof Workforce

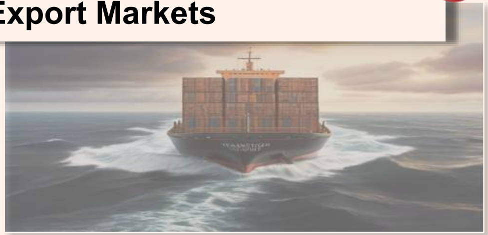
8 Strengthening Foreign Workers Management

9 Sustainable Green Energy Transition



10 An integrated Single Window System

11 Growing into Export Markets



12 Addressing Rising Healthcare & Medical Costs

Proposal 1: Enhancing Sumbangan Asas Rahmah (SARA)

Issues

- The SARA program is helpful to lessen the burden of rising cost of living. However, some grocery retailers may not be able to register as participating outlets if an area that has many registered stores.
- Currently, there are 14 category of products under SARA: Rice, egg, canned food, bread, cooking oil, personal hygiene products, biscuit, beverage, school supplies, flour, seasoning, medicine, instant noodles, household cleaning products.

Recommendations:

- **Encourage more grocery retailers to register as the authorised sellers, regardless the number of registered stores within an area**.
- **Assess the feasibility of adding essential fresh food items**, such as vegetables, fruits, chicken, and fish to the list of eligible products.
- **Dedicated students' back-to-school retailers, such as school uniform shops**, to be eligible to apply as registered stores.

Proposal 2: RON95 Fuel Subsidy Rationalisation

Issues

- By directing subsidies only to those who truly need them, the government can reduce wasteful spending, improve budget management, and free up resources for other critical areas like healthcare, education, and infrastructure.
- The Government spends RM20 billion a year in petrol subsidies to keep the price of RON 95 capped at RM2.05 per litre vs. the current market price of RON95. Moving to targeted subsidies would save the government RM8 billion.

Recommendations:

- **The transparency in Automatic Pricing Mechanism (APM), including the formula used**, can build trust with customers, improve fairness perceptions, and enhance market efficiency. Propose **a daily-updated tracker to publicly display the variables used to derive the market prices** vs. subsidised prices.
- **Strengthen public sector governance and accountability**. Net savings from subsidy reforms should be transparently allocated to high priority projects. Publish data on subsidy savings.
- **A combination of accurate data, robust verification processes, and streamlined distribution methods**, include employing efficient methods like MyKad for disbursement, and implementing clear communication to manage expectations and ease of implementation.
- **Built in price smoothing mechanism** (managed float) to ensure pass-through over the medium-term and avoid sharp increases (and decreases) in domestic prices.

Proposal 3: Review of Sales and Service Tax (SST)

Issues

- The expanded SST impacts a wide range of industries, with a significant portion of goods and services now subjecting to taxation, may lead to price adjustments for consumers, particularly for non-essential goods and services.
- Increased "bunching costs" stemming from various cost measures and tax changes would significantly burden businesses, especially SMEs. The effects of rising costs are expected to persist or influence the business and economic landscape in 2026.

Recommendations:

- **Lower the service tax rate for newly introduced services from 6%-8% to 4% in the first two years of implementation**.
- **Further increase the registration threshold for construction services, and leasing and rental services to RM3 million**. At the same time, **raise the tenant's annual turnover threshold for rental service tax exemption to RM3 million**, in line with the upper limit typically used to define small-sized enterprises.

Proposal 4: A Competitive Tax & Friendly Investment Landscape

Issues

- Malaysia's corporate tax rate of 24%, is significantly higher compared to Singapore (17%), Vietnam (20%), Thailand (20%), and Indonesia (22%).
- In making Malaysia's tax and regulatory systems more business-friendly, the government can implement reforms that simplify compliance, reduce costs, and enhance transparency. For example, implement a single-window digital platform for business registrations, licenses, and permits.
- Fast-track approvals for incentives - automatic approvals for low-risk businesses and expedited processing for the application of grants and incentives.

Recommendations:

- **Lower corporate tax rate to 22%** from 24%.
- **Increase the threshold for SMEs enjoying preferential tax rate (15%) for first RM2 million** chargeable income.
- **Enhance Reinvestment Allowance (RA) and Investment Tax Allowance (ITA)** by increasing both the qualifying capital expenditure allowance rate (to 80% for those eligible for 60% currently) and the percentage of statutory income to be set off (to 80% for those eligible for 70% currently).*
- **Domestic Investment Accelerator Fund (DIAF**) – **review the matching basis and maximum reimbursable amount**.
- Allow the **Investment Holding Company (IHC)** to be eligible for SMEs enjoying preferential corporate income tax rate.
- **Extend the Home Ownership Campaign 2.0 until Dec 31 2026**, first time home buyers would be given a 100% stamp duty exemption for properties priced RM500,000 and below.
- **Removing Real Property Gains Tax (RPGT) on the disposal of real property by corporations from the 6th year of holding onwards**. Additionally, allowing corporations to adopt 1 January 2013 as the base year for determining acquisition price, thereby aligning the RPGT computation methodology between corporate and individual taxpayers.

** Refer to next two slides for details.*

Proposal 5: Enhancing R&D and Innovation Adoption

Issues

- While the target of gross expenditure on R&D (GERD) to GDP ratio was set at 2.5% by 2025 and 3.5% by 2030, respectively, the GERD-to-GDP ratio reduced to 0.95 in 2020 from 1.44 in 2016 and 1.04 in 2018; and private R&D spending ratio at 34%, with less than half (45.5%) of total GERD dedicated to experimental development research.
- Although tax incentives for R&D are available in Malaysia, there is room to fine-tune the definitions, qualifying conditions and approval processes.
- Based on the Global Innovation Index (GII) 2024, Malaysia ranked 33rd overall, reflecting moderate innovation capabilities. However, Malaysia significantly lagging behind in key areas such as infrastructure (52nd) and creative outputs (49th), highlighting the underlying weaknesses in its innovation ecosystem. These shortcomings are closely tied to structural issues in Malaysia's R&D ecosystem, including low R&D expenditure, fragmented governance across multiple ministries, and weak collaboration between academia, industry, and government.

Recommendations:

- **Review and expand the scope of R&D incentives.** Offering more attractive R&D credits could entice investors to establish their R&D hubs in Malaysia.
- **Prioritise collaborations between private sector, academia, and government**, streamline R&D facilitation, and enhance R&D commercialisation.
- **Allocate higher R&D expenditure to boost Malaysia's R&D intensity**, aiming to align with countries like South Korea (5.2% of GDP), Japan (3.4% of GDP), China (2.6% of GDP), and Singapore (2.2% of GDP) while actively seeking private-sector partnership to drive up business enterprises' participation.

Proposal 5: Enhancing R&D and Innovation Adoption (cont.)

Issues

- While Malaysia provides single and double tax deductions for qualifying research and development (R&D) expenditures, Singapore offers significantly more generous incentives with enhanced tax deductions ranging from 250% to 400% for qualifying R&D expenses.*
- Digitalisation grant for SMEs is currently limited to a one-time application capped at RM5,000, even if the amount is not fully utilised. Many SMEs adopt digital tools in stages, so this one-off structure limits them from fully benefiting.

Recommendations:

- **Offer an enhanced tax deduction for research and development (R&D) expenses like Singapore at 250%-400%**, along with a capital gains tax exemption for investments in innovative startups.
- **Allowing multiple claims in digitalisation grant** for SMEs. Alternatively, provide an annual allocation of RM2,000 per SME, with priority given to higher allocations for those adopting local software to support local software development.
- **A simplification of the nation's research and development (R&D) tax incentives scheme and a complete overhaul of the grant system**, making it accessible and benefitting more SMEs through streamlining processes, simplification of applications, removing unnecessary bureaucratic hurdles that have deterred businesses for innovation.

** Refer to next two slides for details.*

Proposal 6: Empowering SMEs for AI

Issues

- While challenges like initial setup costs and the need for skilled personnel exist, the long-term benefits of AI, including cost savings, improved accuracy, and enhanced customer experiences, make it a worthwhile investment for businesses looking to stay competitive and innovate.
- The 2025 Malaysia Artificial Intelligence Research and Report showed that 84% of enterprises are still in the "exploration stage" and the actual usage rate is less than 20%.
- According to Cisco's AI Readiness Index, only 13% of organisations in Malaysia are fully prepared to deploy and leverage artificial intelligence-powered (AI-powered) technologies.

Recommendations:

- Implementation of **GenAI Navigator** to provide GenAI-enabled solutions for office productivity, customer engagement, marketing, and human resources. A comparable model is Singapore's CTO-as-a-Service initiative, which supports firms in identifying, selecting, and deploying digital and AI solutions aligned with their business goals.
- Provide **pre-approved GenAI solutions with up to 50% grant support**.
- **Incorporate AI and GenAI content in training curriculum**, including opportunities for workers to gain hands-on experience in using AI tools.

Proposal 6: Empowering SMEs for AI (cont.)

Issues

- According to the 2024 Government AI Readiness Index, Malaysia ranked 42nd globally in the "Data and Infrastructure" pillar, trailing behind Singapore (1st) and Thailand (40th), though ahead of Indonesia (59th) and Vietnam (73rd).
- Malaysia lacks a national AI computing infrastructure capable of supporting the development and deployment of advanced models, particularly Generative AI (GenAI).
- Malaysia currently does not provide open access to GPU clusters or high-performance computing resources tailored for AI workloads. This creates a barrier for training and scaling generative AI models such as large language models (LLMs) and image generators, which require significant computational power. The lack of shared infrastructure limits SMEs, which often lack the financial and technical capacity to acquire such resources independently.

Recommendations:

- **Establish a national AI compute hub to provide accessible, high-performance computing infrastructure tailored for AI research and applications development.** The hub should prioritise compute-intensive workloads, including GenAI model training, fine-tuning for Bahasa Malaysia and other local use cases, and multi-modal AI tasks involving text, images, and speech.
- To address the lack of accessible GPU clusters and high-performance computing resources, particularly for SMEs with limited capacity, **Malaysia should invest in shared AI compute infrastructure**. Countries such as Singapore (through its National Supercomputing Centre), South Korea, and the United States (via the NAIRR initiative) demonstrate how public investment in AI infrastructure can lower entry barriers, enable broader participation in AI development, and reduce reliance on foreign cloud providers.

Proposal 6: Empowering SMEs for AI (cont.)

Issues

- Malaysia lacks a public dataset ecosystem tailored for AI training, particularly for generative AI (GenAI) development.
- While Malaysia has a national open data portal (data.gov.my), it primarily hosts economic and administrative datasets such as trade, census, and public expenditure data. These datasets are generally unstructured, lack consistent labelling, and do not include multimodal formats (e.g. image, text, audio) that are essential for GenAI training.
- Additionally, Malaysia has introduced the National Technology and Innovation Sandbox (NTIS) to support the commercialisation of emerging technologies. However, NTIS is oriented toward product testing in real-world environments and does not provide curated AI-ready datasets or data-sharing infrastructure.
- This is in contrast to leading AI nations, where public data infrastructure is designed specifically to accelerate AI experimentation and foundation model development, especially using local language and context.

Recommendations:

- **Establish a National Open Data Sandbox** focused on enabling AI development by providing high-quality, anonymised, and labelled datasets designed for machine learning and GenAI training. This should include diverse datasets such as government documents and public service texts in Bahasa Malaysia and English, annotated images, audio in local dialects, and structured healthcare, legal, or urban data.
- Unlike the NTIS, which focuses on real-world product testing, **this sandbox would serve as a data infrastructure backbone to accelerate local GenAI and automation AI use cases**.
- It should **prioritise openness, technical interoperability, and safe data governance**. Countries such as the UK (Data First) have established similar ecosystems to fuel the growth of locally contextualised AI tools and services.

Proposal 7: Reskilling and Upskilling for Future-Proof Workforce

Issues

- **Fragmented Training Platforms, No Single-Entry Point**: Malaysia's training ecosystem is fragmented across multiple official platforms, including HRD Corp, National Training Week (NTW), and MDEC's MD Academy, each catering to different target groups and offering varying course standards, funding eligibility, and navigation systems.
- This fragmentation makes it difficult for individuals, job seekers, gig workers, and micro-enterprises to easily discover, compare, and access relevant training opportunities. Furthermore, there is currently no centralised portal to consolidate learning records, track individual progress, or offer personalised guidance based on career or industry needs.
- In contrast, countries like Singapore have successfully built a single, intuitive, and inclusive portal (e.g. MySkillsFuture) that enables anyone, regardless of employment status, to explore verified training, check subsidies, monitor progress, and receive tailored course suggestions based on interests and skill gaps.

Recommendations:

- **Establish a Unified National Training Platform**, similar to Singapore's MySkillsFuture portal, to consolidate all accredited programmes (from HRD Corp, NTW, MDEC, TVET, MOHE, etc.).
- Key features should include:
  - **Training Marketplace with Reviews and Ratings**, similar to an "ed-tech marketplace", where verified courses can be compared by content quality, trainer credibility, learner reviews, and industry relevance, improving transparency and decision-making.
  - **Integrated learning records** to track each citizen's skills, certifications, and micro-credentials earned across ministries and training providers.
  - **Personalised recommendations** using AI or rule-based engines to suggest courses based on an individual's career stage, previous training, or preferred industry.

Proposal 7: Reskilling and Upskilling for Future-Proof Workforce (cont.)

Issues

- **Abandoned National Skills Passport Initiative**:
  - Malaysia has attempted to launch a Skills Passport under HRD Corp to help individuals record certifications and learning history, but the project was discontinued in 2023 due to technical and procurement issues.
  - Currently, there is no secure, national platform to consolidate a citizen's education, training, micro-credentials, and job experience across their career. This limits both recognition and job mobility.

Recommendations:

- **Re-initiate a National Career & Skills Passport**, aligned with international benchmarks (e.g. Singapore's Skills Passport).
- This digital framework should let individuals store verifiable credentials, micro-credentials, training history, and employment records in a secure profile, supporting transparency, portability, and lifelong learning.

Proposal 7: Reskilling and Upskilling for Future-Proof Workforce (cont.)

Issues

- **Individual Skills Credits for Paid Learning or Industry-Certified Programmes**
  - Unlike Singapore, Malaysia currently lacks a national system that grants citizens direct financial support for self-initiated upskilling. HRD Corp's funding is employer-dependent, leaving individuals, especially gig workers, micro-enterprises, and the unemployed, unable to access paid, high-quality training.
  - Even though some globally recognised training programmes (e.g. Microsoft Skills for Jobs, Google Career Certificates, etc.) are offered locally, there is no universal credit scheme to help Malaysians take them.

Recommendations:

- To encourage self-driven upskilling and personal development, Malaysia should introduce **a Universal Skills Credit system that directly empowers individuals, particularly those who are not covered by their employer's HRD levy, to pay for their own training**.
- A practical reference is Singapore's SkillsFuture Credit, which provides all citizens aged 25 and above a one-off SGD500 from government funds, usable for eligible training courses listed on the SkillsFuture platform. Malaysia can adopt a similar approach by issuing a one-off Skills Credit to every citizen aged 25 and above who registers on the national training platform (to be developed in parallel). **Two options can be considered: (1) Standard flat rate (e.g. RM400 per person), or (2) Tiered incentive (e.g. RM200 for employed persons; RM400 for unemployed individuals or those in informal work).**

Proposal 7: Reskilling and Upskilling for Future-Proof Workforce (cont.)

Recommendations:

- With an estimated 18.1 million citizens and 12.0 million employed persons in the formal sector aged 25+ in 2024, **the estimated fiscal impact would range between RM4.8 billion and RM7.2 billion, assuming full participation**. This investment would be manageable as a one-time national initiative, particularly if co-financed via the unutilised HRD Fund, as previously done for the MADANI Training Program.

- To ensure its effectiveness, the **Skills Credit** must be: (1) **Usable only on accredited training providers and selected future-skills courses developed with trusted global tech or industry partners** (e.g. Microsoft, Google, Amazon); and (2) **Integrated within a central training portal**, modelled after Singapore's SkillsFuture platform, allowing course discovery, credit use, and tracking in one place. This system would lower barriers for lifelong learning and show national commitment to an inclusive, digitally prepared workforce.

Proposal 8: Strengthening Foreign Workers Management

Issues

- The 13MP stated that **a multi-tiered levy mechanism (MTLM) for foreign workers will be introduced in 2026**. The Plan also proposed **to reduce the ratio foreign workers to total workforce to 10% by 2030, and further to 5% by 2035**. An MTLM Trust Fund will be established to support automation and mechanisation.
- The conditions for the issuance of the Temporary Employment Visit Pass (PL(KS)) will be tightened, including stricter eligibility criteria for changing employers and sectors, restrictions on business activities, and a shorter limit on the number of working years allowed.
- As at end-Dec 2024, the number of foreign workers stood at 2.4 million (14% of total employed persons), approaching the existing ceiling of 15%. With the freezing intake of foreign workers in recent years, some industries have already been facing labour shortages.
- Under the 13MP, total employment is projected to reach 17.9 million by 2030. A planned cap of 10% would translate into around 1.8 million foreign workers, implying a reduction of approximately 0.6 million from current levels. The ratio is expected to decline further to 5% by 2035.

Recommendations:

- **Pre-announcement of the MTLM mechanism six months in advance** so as to give industries sufficient time to adapt to the upcoming changes.
- The tiered levy should be **structured based on the number of foreign workers instead of ratio to total workforce** will have proportionately impact on smaller businesses and is deemed fairer.
- **SMEs should be granted for a two-year moratorium** after its initial implementation for large companies.
- While the establishment of the MTLM Trust Fund to support automation and mechanisation will assist the industries toward the industry re-engineering and manpower adjustment, **a gradual transition is necessary to adjust their workforce, taking into account sector-specific considerations in terms of their nature of operations, economies of scale and cost savings**.

Proposal 8: Strengthening Foreign Workers Management (cont.)

Issues

- The Foreign Workers' Management System aims to improve the organisation's efficiency and compliance with managing foreign labour.
- The Integrated Foreign Workers Management System (ePPAx) and Foreign Workers Centralized Management System (FWCMS) under the Ministry of Human Resources (KESUMA) and Ministry of Home Affairs (KDN).

Recommendations:

- Further review its use of two separate foreign workers management systems that allegedly have overlapping functions, and this had caused a wastage of public funds.
- To ensure longer term planning and sustainable management of foreign workers, it is proposed that **KESUMA be made the single authority responsible for the management of the National Foreign Workers Management System**.

Proposal 9: Sustainable Green Energy Transition

Issues

- **The existing Solaris lacks medium-term visibility and transparency, with annual quota cap** creating uncertainty for investors and households interested in adopting solar energy.
- **The high upfront cost of battery systems remains a significant deterrent, particularly for households.** While rooftop solar adoption has accelerated due to falling panel prices and financing schemes, batteries are still seen as prohibitively expensive. **This is exacerbated by the absence of dedicated financial incentives, such as interest-free loans or direct subsidies**, which are common in leading renewable energy markets.
- For businesses, especially SMEs, **the existing Green Investment Tax Allowance (GITA) and Green Technology Financing Scheme (GTFS) are insufficiently targeted at storage technologies.**

Recommendations:

- **Continue and enhance Solaris by increasing its annual quota** and establishing a transparent, medium-term provision plan (e.g. a 3- to 5-year roadmap).
- **Introduce financial incentives to accelerate household battery adoption, such as interest-free or low-interest loans and/or direct rebates** under the Solaris or a separate battery scheme.
- Strengthen the **Green Investment Tax Allowance (GITA) by allowing 100% of statutory income to be set off for battery and solar investment**s and **reintroduce the profit rate subsidy under the Green Technology Financing Scheme (GTFS**) to reduce financing costs for eligible businesses.
- **Develop and operationalise a Virtual Power Plant (VPP**) framework to enable the aggregation and coordination of distributed energy resources (DERs) such as rooftop solar and Battery Energy Storage Systems (BESS). Support the rollout of VPP pilot projects, especially in solar-rich residential areas and industrial parks.

Proposal 9: Sustainable Green Energy Transition (cont.)

Issues

- **Malaysia has yet to operationalise a comprehensive Virtual Power Plant (VPP) framework, which limits the ability to integrate and optimise distributed energy resources (DERs)** like rooftop solar and BESS across the grid. Without proper aggregation mechanisms, households and businesses are unable to unlock the full grid and economic value of their distributed assets.
- **Import taxes and duties on critical renewable energy equipment** such as inverters, batteries, and solar modules continue to raise the cost of adoption.
- Urban residents in strata-titled properties such as condominiums face structural barriers in accessing solar energy due to space constraints, unclear ownership rights, and the absence of viable shared infrastructure models. Without government's intervention, including pilot projects, funding support, and regulatory clarity, **the majority of urban dwellers may be excluded from the solar transition.**

Recommendations:

- **Provide full exemptions on import duty and sales tax for key renewable energy components, including solar panels, inverters, and BESS**, to reduce the cost of installations for both residential and commercial users.
- **Introduce a Green Personal Tax Relie**f category for individuals, allowing tax deductions for new investments in solar panels, BESS, and EV charging equipment installed at private residences. The relief can be structured as RM5,000 per year up to a lifetime cap of RM20,000, or offered as a one-off RM20,000 tax deduction.
- **Promote solar deployment in urban areas (especially strata properties) through community solar projects** bundled with shared BESS. The government can support pilot models where a shared solar + battery installation benefits multiple units in a condominium or village. Funding support and regulatory clarification (e.g. licensing exemptions) are needed.

Proposal 10: An integrated Single Window System

Issues

- Being a trade-reliant nation (total trade to GDP ratio of 149.1% in 2024), seamless customs clearance is a critical part of international trade to enhance more trade flows efficiently, on time and reduced risks.
- Malaysia's average port dwell time for both export and import delays were at 4.4 days and 5.8 days, respectively, higher than Singapore's 3.1 days and 3.0 days, Indonesia's 3.5 days and 3.2 days, and Vietnam's 4.0 days and 5.3 days, respectively.
- Currently, approximately 13 Other Government Agencies (OGAs) are involved in the customs clearance process for imports, exports, and transit transactions. The Royal Malaysian Customs Department (RMCD) is the main agency, but OGAs also play a crucial role, such as those related to trade, health, agriculture, and environment.
- As each OGA has its own set of requirements and procedures, which can lead to delays, confusion, and increased costs for traders.

Recommendations:

- **The establishment of an Integrated Single Window by consolidating various government agencies and stakeholders into one platform** for customs clearance is pivotal in regulating imports and exports, ensuring national security, and collecting revenue.
- **To consider providing budget allocation for the establishment of a single integrated window**, leveraging on digital technology to streamline trade and customs operations by providing a single point of contact for traders to submit all required information and documents. This system aims to reduce bureaucracy, expedite clearance times, and improve transparency and predictability in customs processes.

Proposal 11: Growing into Export Markets

Issues

- The global market is slowing, with world trade expected to contract by 0.2% in 2025 before a modest rebound in 2026. This is further dampened by US tariff policies and growing geopolitical fragmentation. Malaysia has already recorded two consecutive months of exports contraction in May and June 2025.

- The Market Development Grant (MDG) by MATRADE is a very effective support mechanism, especially for exporters. However, with rising expenses of international marketing, particularly trade fairs and exhibitions, the current limits of RM5,000 for local and RM25,000 for overseas reimbursement are inadequate.

Recommendations:

- **Widen and increase Allowance for Increased Exports (AIE)** to expand exports. Currently, an allowance equal to 10% of the value of increased exports, deductible against 70% of statutory income, is given to selected agriculture products or manufacturers* who attain 30% of value-added exports (or 15% allowance for manufacturers who attain 50% of value-added exports). An enhanced AIE is given to those who achieve at least a 50% increase in exports (30% allowance), penetrate new markets (50% allowance), or are awarded an Export Excellence Award (100% allowance)

- Propose to **increase the lifetime cap of the Market Development Grant to RM500,000, while raising the per-claim ceiling to RM35,000 for international trade fairs and exhibitions, and RM10,000 for locally** held trade fairs and exhibitions.

- **Establish a special scheme for first-time exporter**, particularly SMEs, to cover certification, packaging redesign, compliance, and initial overseas marketing costs.

** Not applicable to selected manufacturing as listed in the Schedule in PUA 161/2019 and 162/2019.*

Proposal 12: Addressing Rising Healthcare and Medical Costs

Issues

- As Malaysia transitions into an ageing nation, rising medical costs remains a significant burden, particularly for Malaysian senior citizens from low- and middle-income groups.
- The cost of healthcare in Malaysia has grown significantly over the years, with medical cost inflation reaching 15% in 2024, well above the global and Asia Pacific average of 10%.
- Healthcare insurance premiums, intended as “safety nets” to ensure access to medical services and reduce financial burdens in emergencies, are increasingly becoming inaccessible. Children have to bear the medical and rehabilitation costs for their elderly parents.

Recommendations:

- **Increase fiscal allocation for healthcare to 3.0%-4.0% of GDP** (2025B: RM45.7 billion or 2.2% of GDP).
- **Strengthening the mainstream healthcare system**: Comprehensive upgrades of infrastructure, medical equipment, and human resource allocation of public hospitals and clinics.
- **Integrating traditional and complementary medicine (T&CM)**: Systematically incorporating traditional Chinese medicine, physiotherapy, nutritional care, herbal treatments, and other complementary approaches into the national public healthcare system to provide more diverse options in prevention, wellness, and rehabilitation.
- **Reducing the public’s healthcare burden and enhancing healthcare accessibility**: Narrowing the health gap between urban-rural areas and across social classes through equitable allocation of public resources and improved service delivery.
- **Increase income tax relief for medical expenses for parents to RM12,000** from the current RM8,000.
- **Increase income tax relief for life insurance to RM5,000** and **education and medical insurance to RM7,000**.

Proposal 12: Addressing Rising Healthcare and Medical Costs (cont.)

Recommendations:

- Introduce **"Program Kesihatan Sejagat Masyarakat Madani":**
  - **Health subsidy mechanism**: Non-communicable diseases (NCDs) have resulted in annual economic losses of RM64.2 billion. As a precautionary measure, **provide citizens aged 50 and above with an annual subsidy or voucher of RM200 to purchase nutritional supplements, health foods, or access traditional and complementary treatments related to the prevention or management of NCDs**. The allocation will amount to RM1.3 billion, benefiting 6.6 million citizens aged 50 and above.
  - **Health awareness promotion: Increase investment in public health education** and **preventive awareness campaigns**.
  - **Enhancing school-based health education and occupational health** programmes.
- Provide additional **R&D incentive for developing low sugar or zero-sugar products**.

Conclusion

- The dynamics of **TRADE POLICIES, GEOECONOMIC TENSIONS, CAPITAL FLOWS, AND CURRENCY MOVEMENTS** remain key influences on economic and business growth.
- Government, companies, and households must **CHANGE HOW THEY THINK, ACT, AND PLAN**.
- The Government to calibrate policy responses aimed at **BUFFERING NEAR-TERM DOWNSIDE RISKS** while **SUPPORTING MEDIUM-TERM ECONOMIC RESILIENCE**.

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