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

Quarterly Economic Tracker
Apr-Jun 2026

The Economy Endures War Shock So Far

Lee Heng Guie
Executive Director

4 August 2026

Global economy

“Two-way track” - push and pull of contradictory forces

Real GDP	Inflation	Federal Funds Rate
2026E: 3.0%	2026E: 4.7%	2026E: 3.75 - 4.00%
2027F: 3.4%	2027F: 3.9%	2027F: 3.25 - 3.50%

1. **Global economy has endured the war-inflicted oil shock so far**. Growth disparities between major advanced economies and emerging economies. AI-driven investment and semiconductor exports cushion global growth from the energy shock.

2. **Consumer demand, services, inflation and expectations for it have all been impacted**. Central banks globally pivoted to tightening monetary policy to anchor inflation expectations.

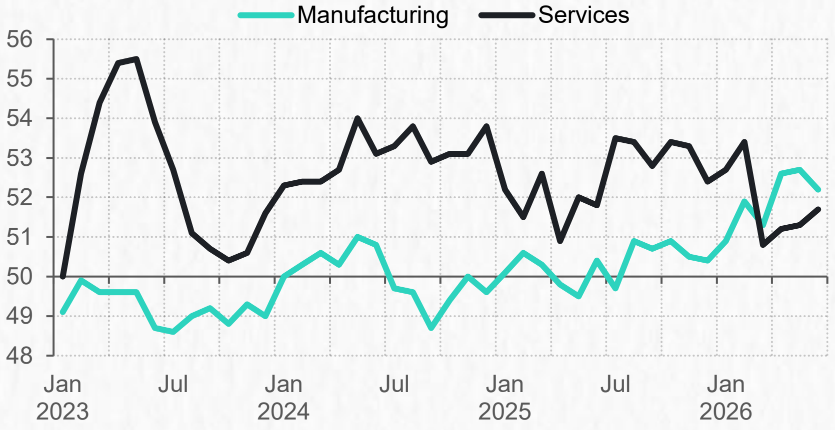
3. **2H 2026 expectations and 2027 outlook**: Still fragile certainty - keeping high alert on the US-Iran ceasefire deal, trade frictions remain highly active, the AI hyper-enthusiasm, and a probable strong strength of the El Niño conditions.

Source: International Monetary Fund (IMF)

The global economy appears to be holding up well, so far.

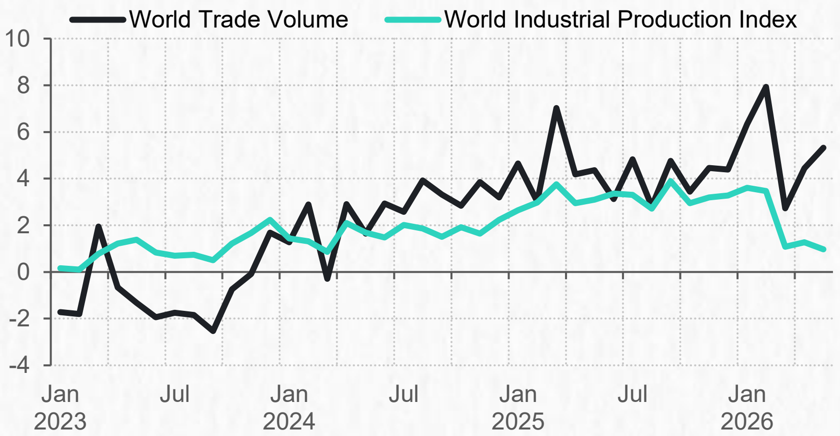
Global PMI for manufacturing & services

Index, 50 = Threshold



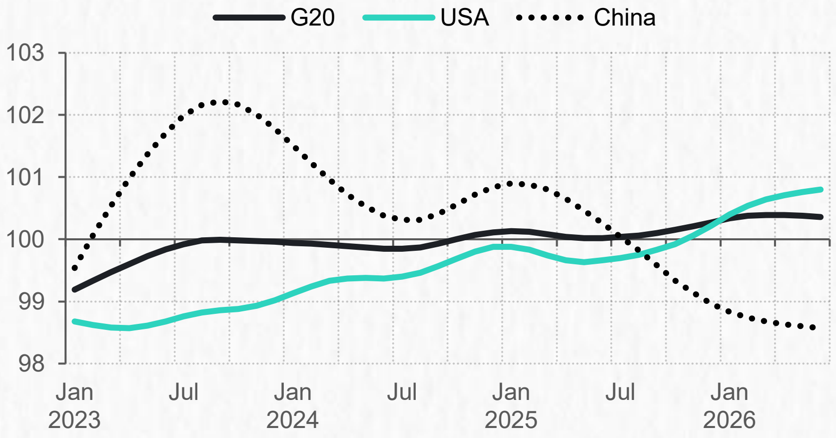
World trade volume and industrial production

%, Year-on-Year



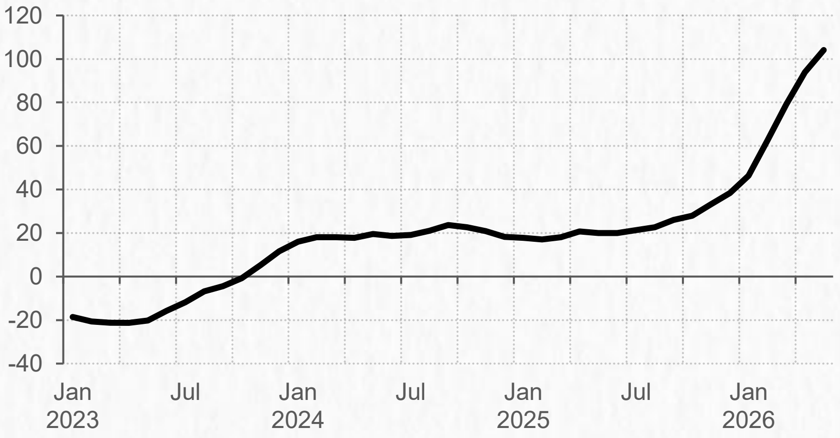
OECD Composite Leading Indicators (CLI)

Index, 100 = Long-term average



Global semiconductor sales

%, Year-on-Year of 3-Month Moving Average



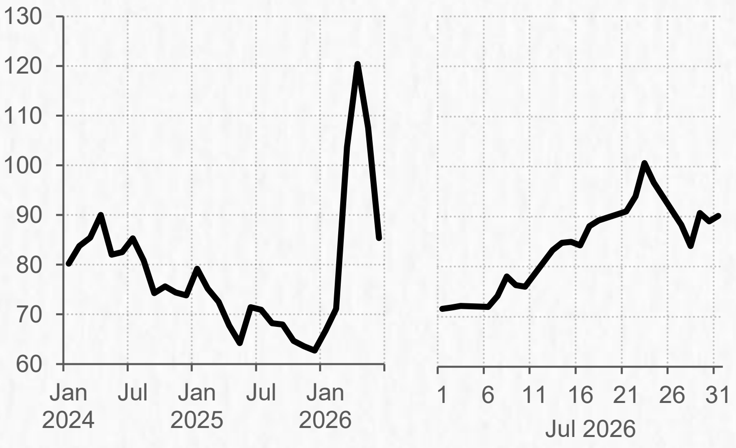
- Global manufacturing PMI eased to 52.2 in June, **suggesting the manufacturing growth may have passed its peak.** While the sector has expanded for 11 consecutive months, growth in output and new orders slowed for the second consecutive month **as the boost from precautionary stockpiling faded**.
- The WTO projects **global trade growth to slow from 4.6% (2025) to 1.9% (2026)** as tariff-related front-loading fades.
- The OECD CLIs remain stable for the G20 and show improvement for the US, **while China's CLI continues to weaken**, reflecting softer emerging-market conditions.
- **Global semiconductor sales surged by 104.1% year-over-year** in May due to **explosive, continuous demand for artificial intelligence (AI) infrastructure** and accelerated computing platforms.
- **Key risks:**
  - ➢ Geopolitical
  - ➢ Persistent inflation
  - ➢ Sustainability of AI-related investments
  - ➢ Growing financial vulnerabilities
  - ➢ Weakening fiscal positions

Source: S&P Global; Organisation for Economic Co-operation and Development (OECD); CPB Netherlands; World Semiconductor Trade Statistics (WSTS)

Oil prices ease after spiking, resilient equities on AI-driven gains, gold price consolidates, the USD stages a powerful recovery…

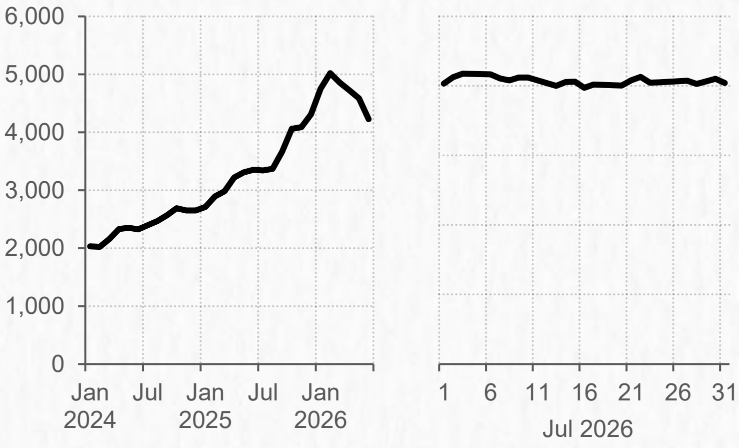
Brent crude oil price

USD/bbl; futures (continuous) for Jul 2026



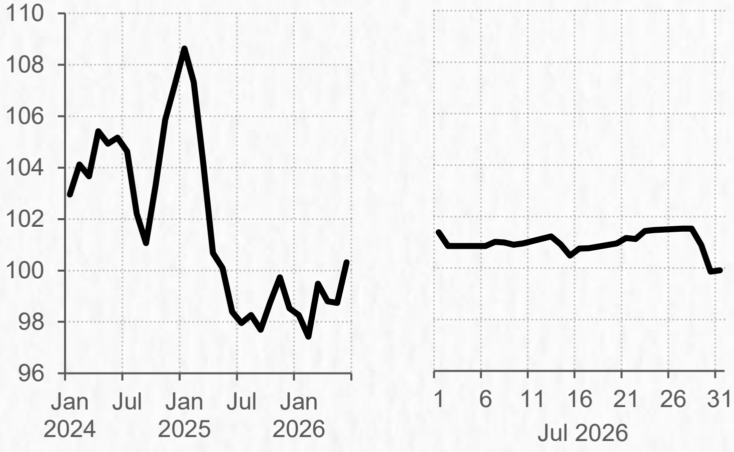
Gold price

USD/troy oz; spot for Jul 2026



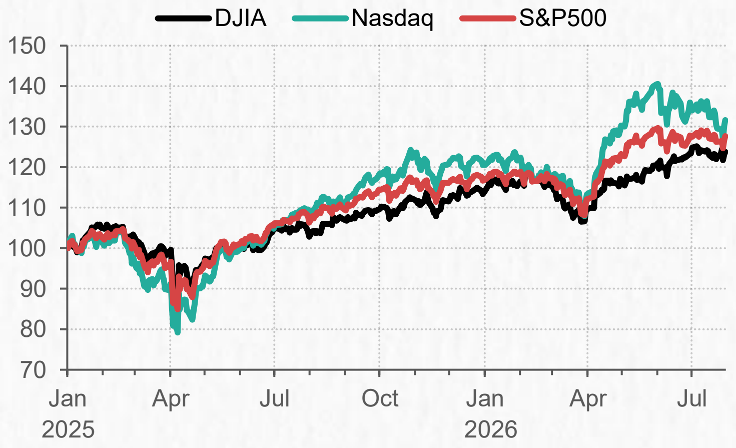
The USD index

Base = 100



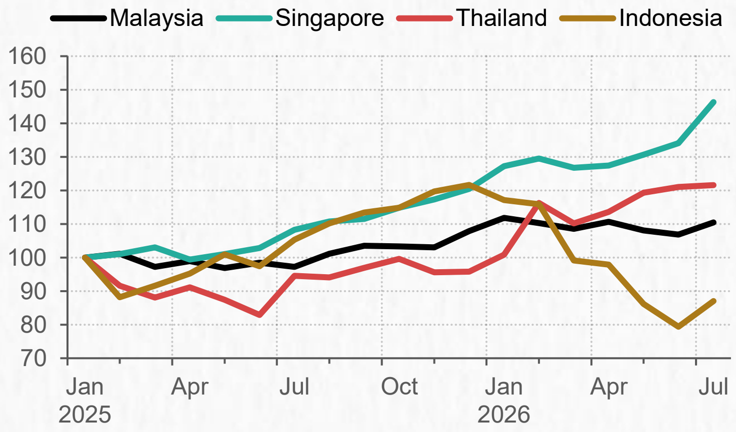
US major stock indices

Close price @ 2 Jan 2025 = 100



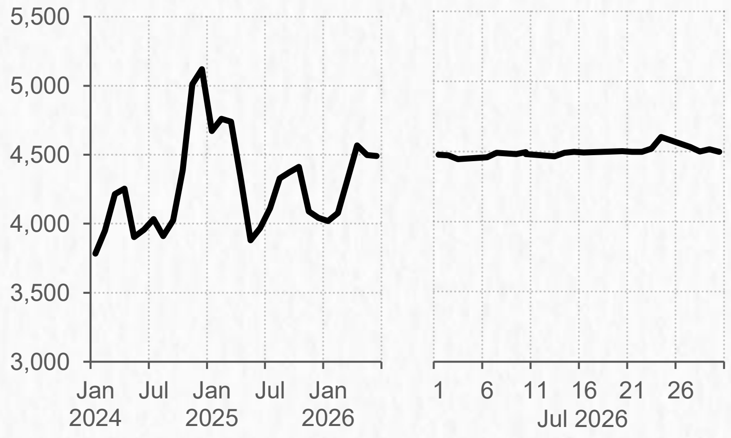
Regional stock indices

Close price @ end-Jan 2025 = 100; end-month



Crude palm oil (CPO) price

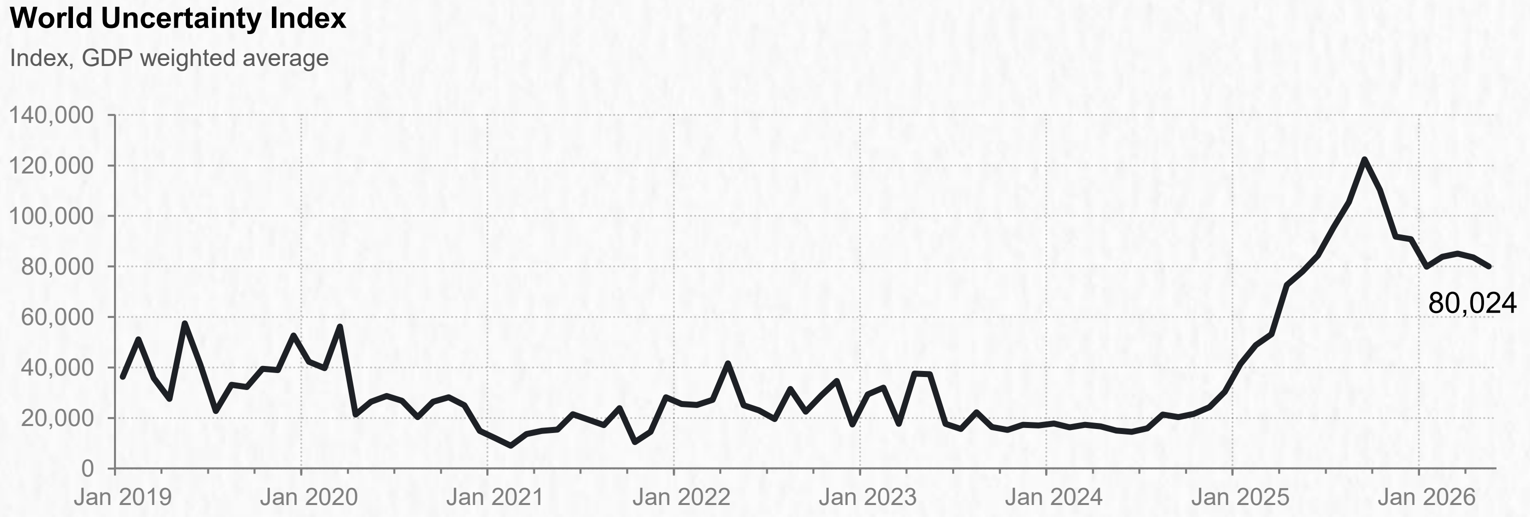
RM/MT



Source: World Bank; Bloomberg; Google Finance; Yahoo Finance

Global Geopolitical Risk Index has retreated from the extreme peaks but remains persistently elevated.

Similarly, global uncertainty is also cooling off but remains exceptionally high.



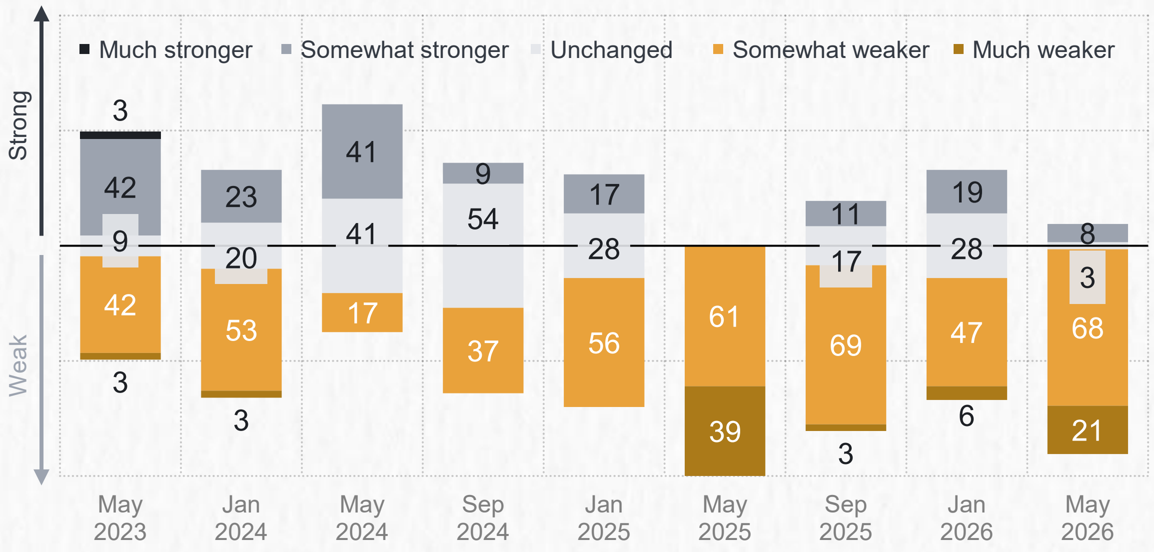
Source: NBER Working Paper

World Economic Forum Chief economists' outlook - Global growth to weaken

Global economic outlook

Looking to the next 12 months, what are your expectations for the future condition of the global economy?

Percentage of Chief economists' responses



Percentage of Chief economists' responses

94%

agree or strongly agree that global inflation will rise in the next 12 months.

58%

disagree or strongly **disagree that a global recession** would occur within the next 12 months.

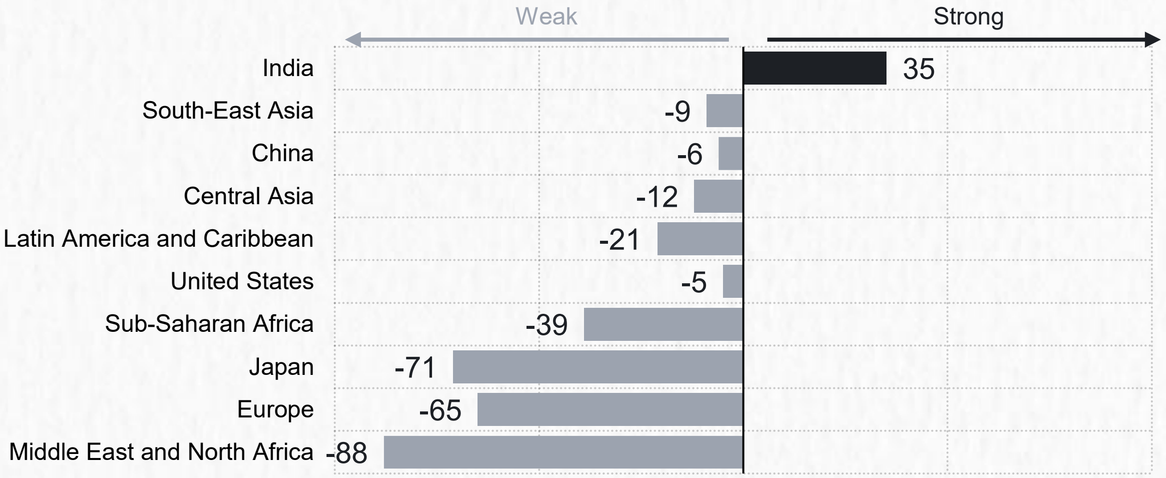
60%

do not expect the global economy to become more resilient in the next 12 months either.

Regional economic growth

Looking at the next 12 months, what is your expectation for economic growth in the following geographies?

Percentage point difference between stronger and weaker



Market volatility

Looking at the next 12 months, do you agree/disagree with the following statements?

Percentage point difference between volatility increase or not increase

Source: World Economic Forum (WEF)

Vulnerabilities in 2H 2026 and 2027

Geopolitical & Energy Volatility

Oil and natural gas prices remain vulnerable to geopolitical tensions, the implementation of the US-Iran MoU, the time taken to resume the flow of oil supply and unwind disrupted global supply chains.

Inflationary Pressures & Hawkish Monetary Stance

Inflation is no longer transitory and second-order inflation effects were beginning to creep up. Most central banks' narratives - "to maintain or adopt hawkish stances".

Higher Probability of El Niño

Potential strong El Niño conditions and supply disruptions add to a fresh bout of food inflation, compounded by rising energy costs and higher fertiliser prices linked to the Middle East conflict.

AI Enthusiasm & Financial Market Risks

Rapid AI investment is driving productivity gains but also raises concerns over asset valuations, return on investment and labour market disruptions.

Malaysia's economy

Tested economic resilience

Real GDP	Headline Inflation	BNM OPR
2026E: 5.0 - 5.2%	2026E: 2.5 - 2.8%	2026E: 2.75%
2027F: 4.0 - 5.0%	2027F: 2.0 - 2.5%	2027F: 2.75%

1 **The economy endures war shock**. "K-shaped" growth is likely to persist - not all sectors are being affected equally. GDP growth better than expected averaging 5.6% yoy in 1H 2026 before moderating to an estimated 4.5-5.0% in 2H 2026 (2026E: 5.0%-5.2%; 2027F: 4.0%-5.0%).

2 **Oil shock's economic playbook** - Policy recalibration, discipline and agility. Timely interventions to minimise economic pain. Targeted fiscal responses to cushion households and businesses from energy-related costs increase.

3 **What are we watching? Weathering the shock but not complacency.**
External headwinds: The struggling US-Iran military conflict peace talk, highly active US trade frictions, the AI valuation correction, compounded by a prolonged monetary tightening and the El Niño event.
Domestic dampeners: Cautious consumer and business spending, as well as lingering political risk.

Malaysia's economic playbook - Initial conditions matter !!!

INITIAL CONDITIONS MATTER

Pre-crisis conditions dictate the trajectory, duration, and severity of any economic shocks.

A stable and strong starting environment, clear planning, and well-understood vulnerabilities allow for **more effective responses** to ensure economic stability and resilience.

5.6%
Resilient economic growth
5.8% in 2Q 2026 (AE) & 5.4% in 1Q 2026; 5.2% in 2025

3.0%
Strong labour market conditions
Jobless rate at 3.0% in May 2026; 3.0% in 2025

1.9%
Manageable inflation
1.9% in Jun 2026; 1.4% in 2025

131.8B
Large accumulation of foreign reserves
USD131.8 bn at 15 Jul 2026

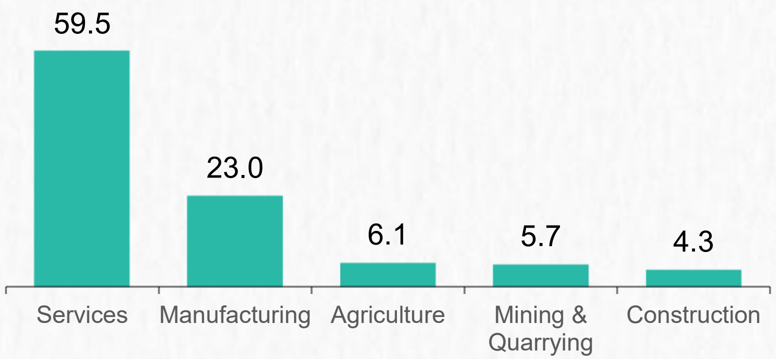
- Sustained consumer demand and continued investment growth.
- A strongly capitalised banking sector and well-developed capital market.

Macroeconomic fundamentals lay the groundwork for fostering resilience

Diversified sources of growth

Malaysia's GDP by economic sectors in 2025

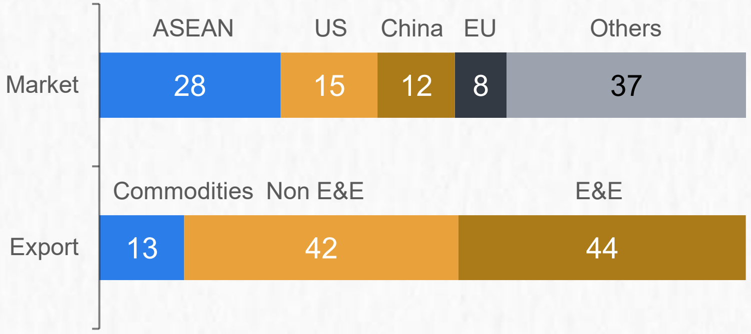
% share of GDP



Diversified export markets and products

Exports by markets and products in 2025

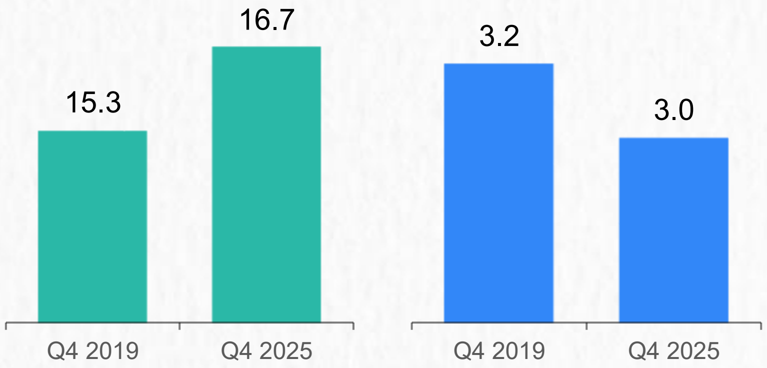
% share of exports



Stable labour market conditions

Employed persons **Unemployment rate**

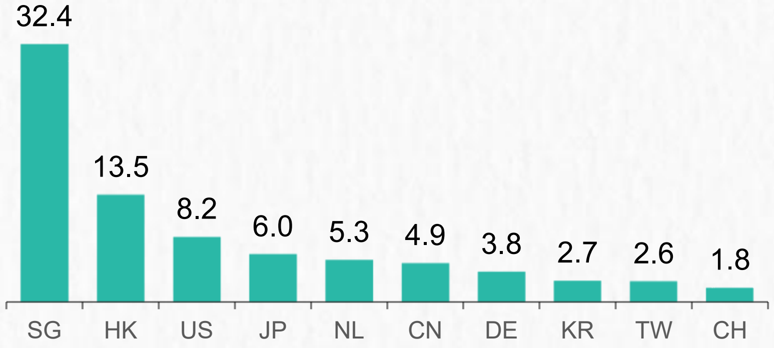
million %



Conducive investment destination for foreign investors

Gross FDI inflows by source country in 2025

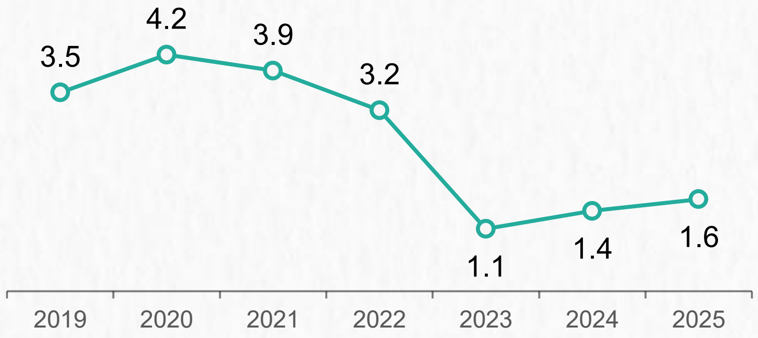
% share of total



Current account balance remains surplus

Current Account Balance

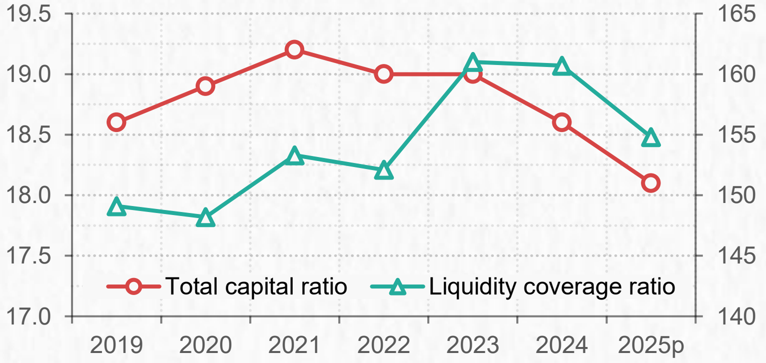
% share of GDP



Banking system remained well-capitalised with strong buffers

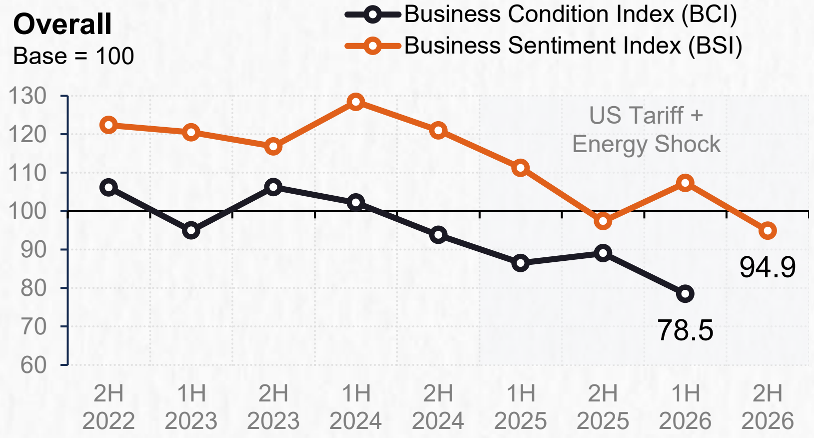
Capital ratio LCR

% of risk-weighted assets %



Source: Department of Statistics Malaysia (DOSM); BNM

ACCCIM M-BECS 1H 2026 and 2H 2026F: Key Findings



Increase   Unchanged   Decrease

% of respondents

	Increase	Unchanged	Decrease
1H 2026 (Actual)			
Sales Performance			
Domestic Sales	20.7%	28.3%	50.9%
Export Sales	20.4%	49.1%	30.4%
Business Production			
Production Level	20.7%	36.8%	42.5%
Investment			
Capital Expenditure	49.7%	40.9%	9.4%

Note: Based on ACCCIM M-BECS results with a total of 791 respondents, conducting between 3 and 30 June 2026

Factors that adversely affected business performance in 1H 2026:

1	Increase in prices of raw materials	51.2%
2	High operating cost	48.2%
3	Changing consumer behaviour	32.2%
4	Declining business & consumer sentiment	31.2%
5	Cash flow problem	30.7%

Tracking of business conditions

In 1H 2026, while most respondents maintained a neutral stance on overall conditions, **34.4% indicated a deterioration in economic conditions and 34.6% reported weaker business conditions.** Cautious sentiment is expected to persist into 2H 2026.

50.9% of respondents reported lower domestic sales revenue and 42.5% reduced production volumes in 1H 2026. Businesses also experienced neutral-to-negative financial conditions, with 95.1% (61.2% neutral; 33.9% worse) in cash flow and 97.0% in debtors' condition.

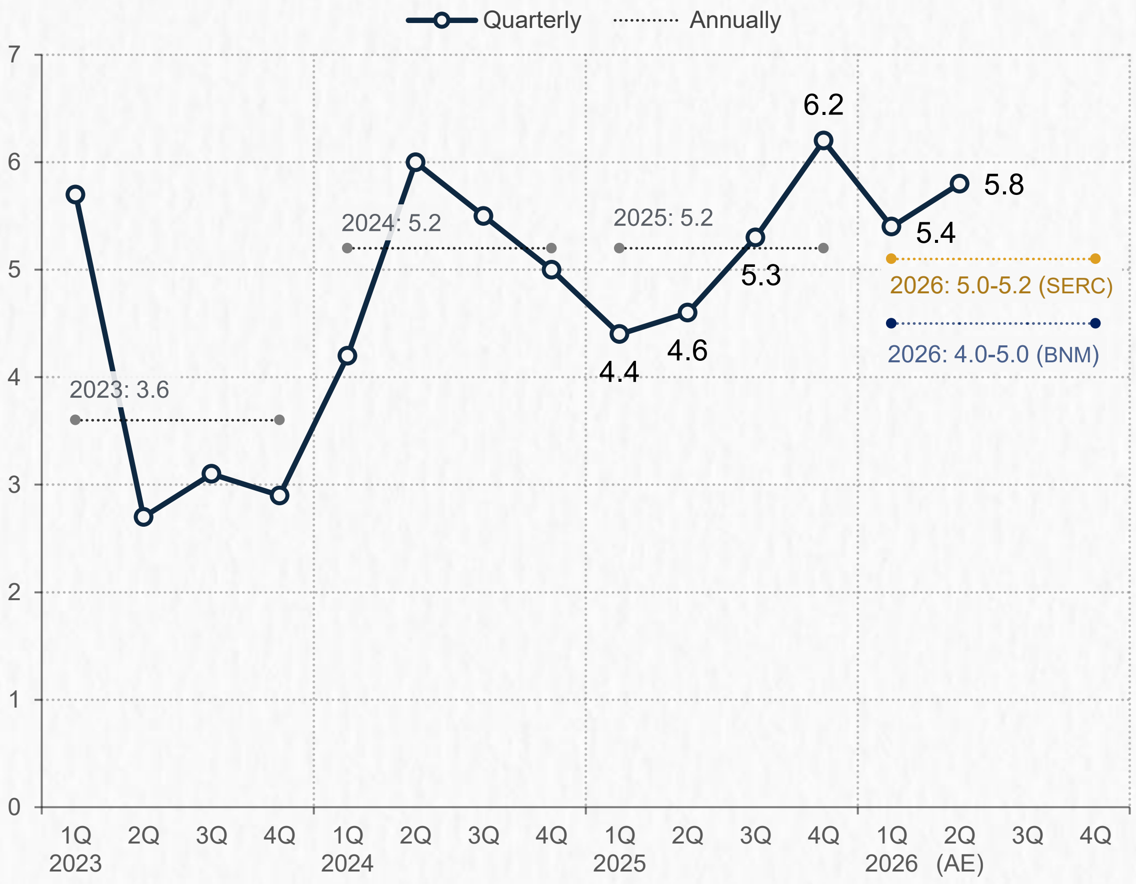
At least 65.0% of respondents reported higher costs for both local and imported inputs. Nevertheless, 33.2% raised domestic selling prices, while 33.9% lowered prices, suggesting that competitive pressures and weak demand may have limited firms' ability to pass on rising costs to customers.

Drivers of Malaysia's resilience so far...

Economic growth recorded a strong start in 1H 2026

Malaysia's real GDP growth

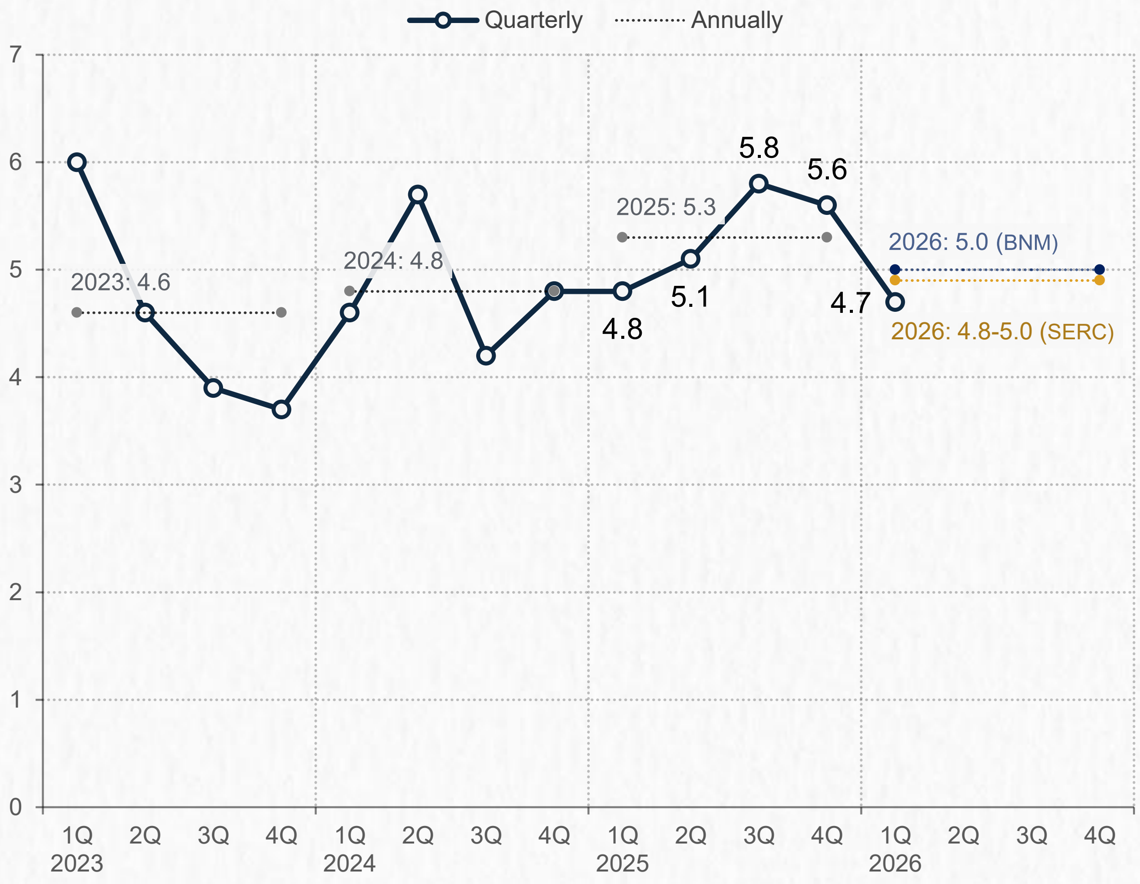
Year-on-year %



Consumer spending continued, albeit more slowly

Private consumption growth

Year-on-year %



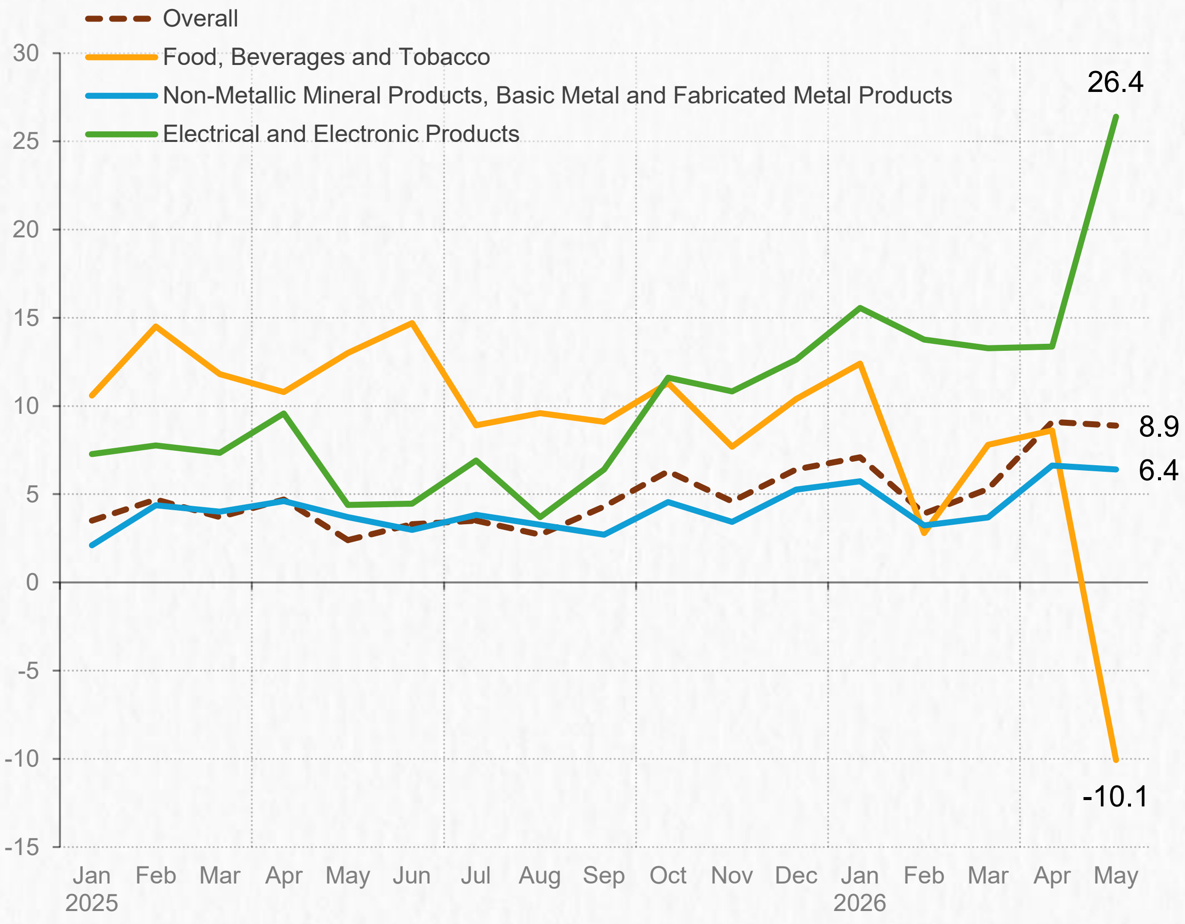
AE = Advanced Estimate
Source: DOSM

Drivers of Malaysia's resilience so far... (cont.)

Growing K-shaped divergence in manufacturing output

Manufacturing Sales by Subsector

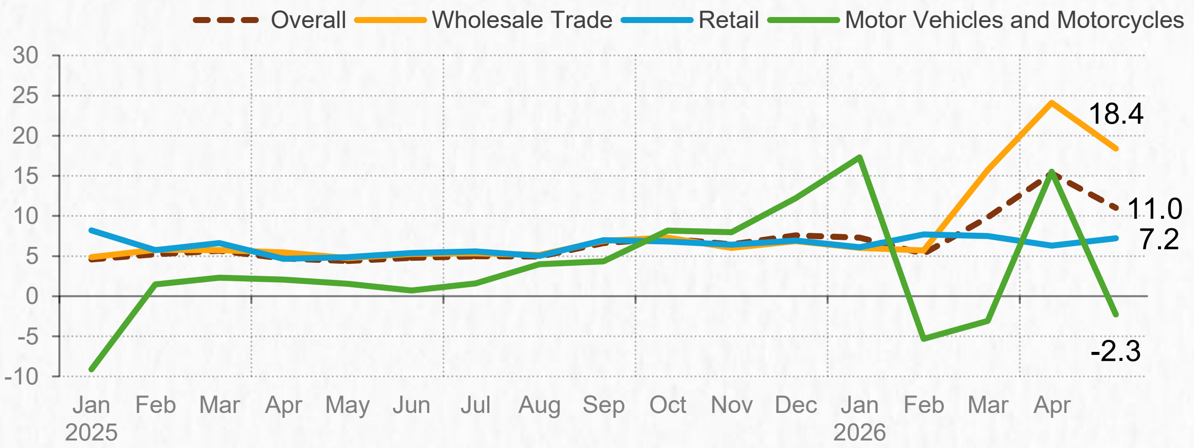
Year-on-year %



Still resilient wholesale and retail trade

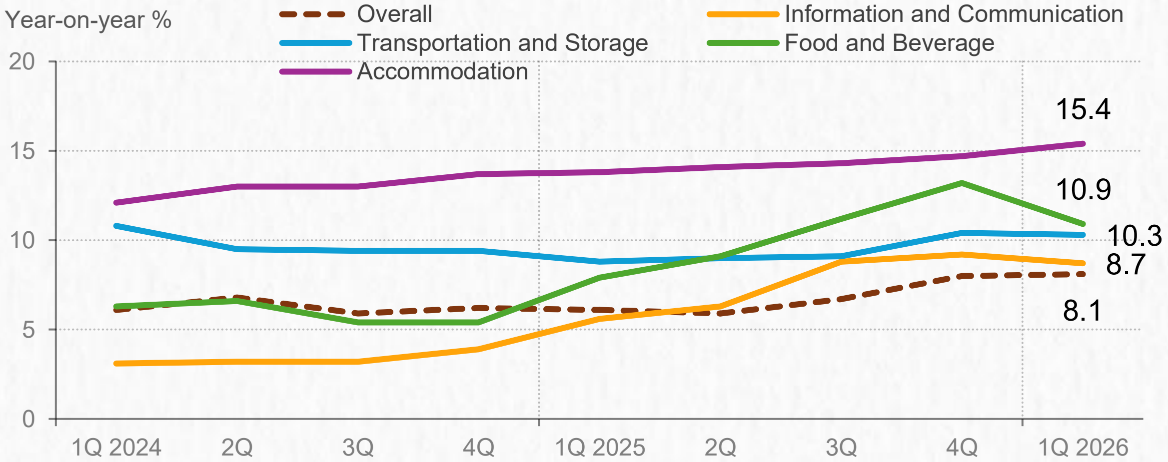
Wholesale & Retail Trade Sales by Subsector

Year-on-year %



Volume Index of Services by Subsector

Year-on-year %



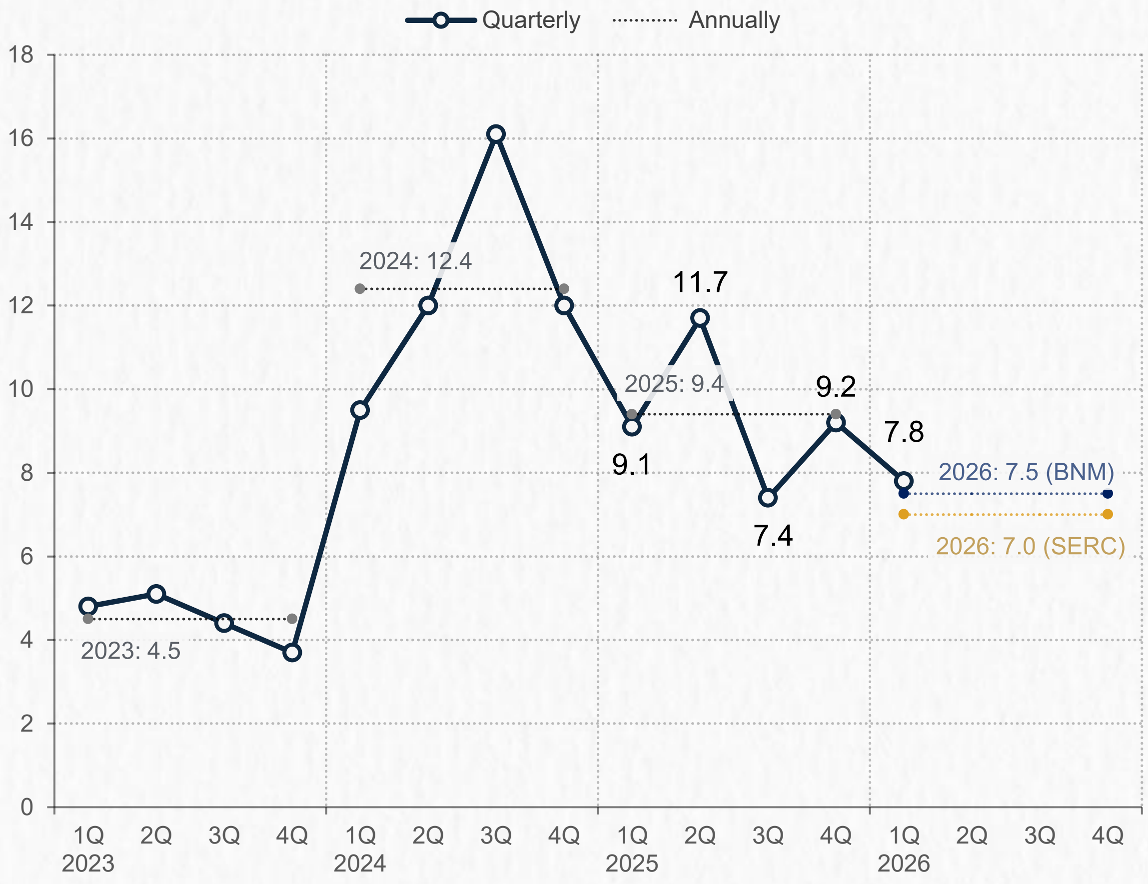
Source: DOSM

Drivers of Malaysia's resilience so far… (cont.)

Continued private investment amid increased business costs

Private investment growth

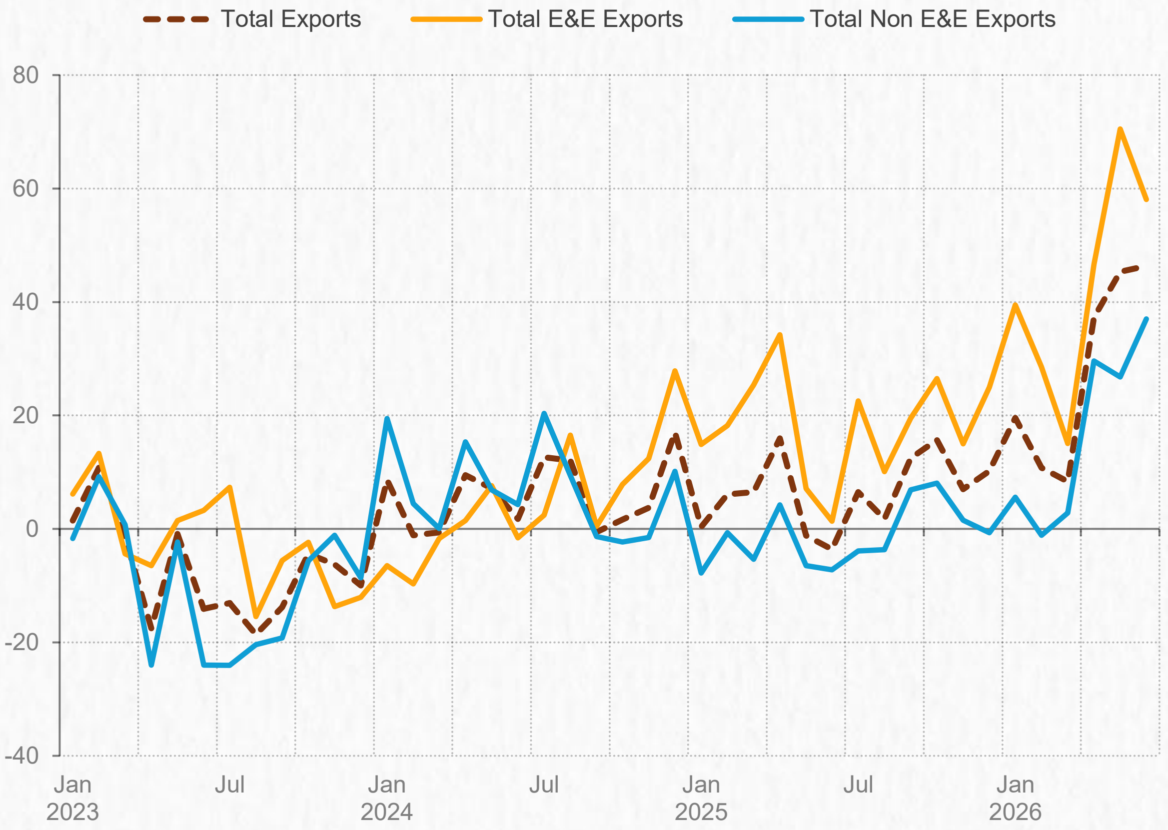
Year-on-year %



Exports surge primarily due to front-loading in the electronics and electrical products (E&E) sector

Total exports

Year-on-year %

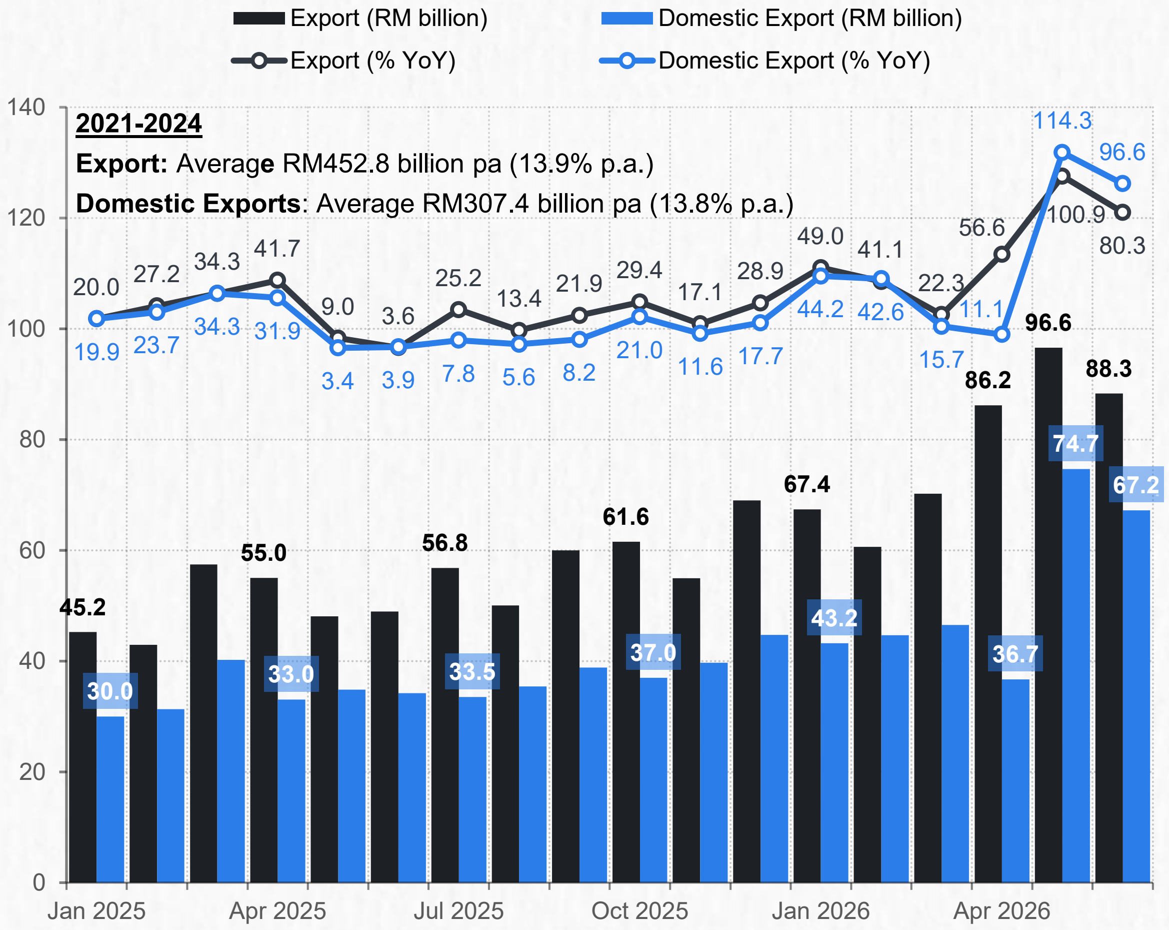


Source: DOSM

AI-driven global demand boosts Malaysia's ICT exports

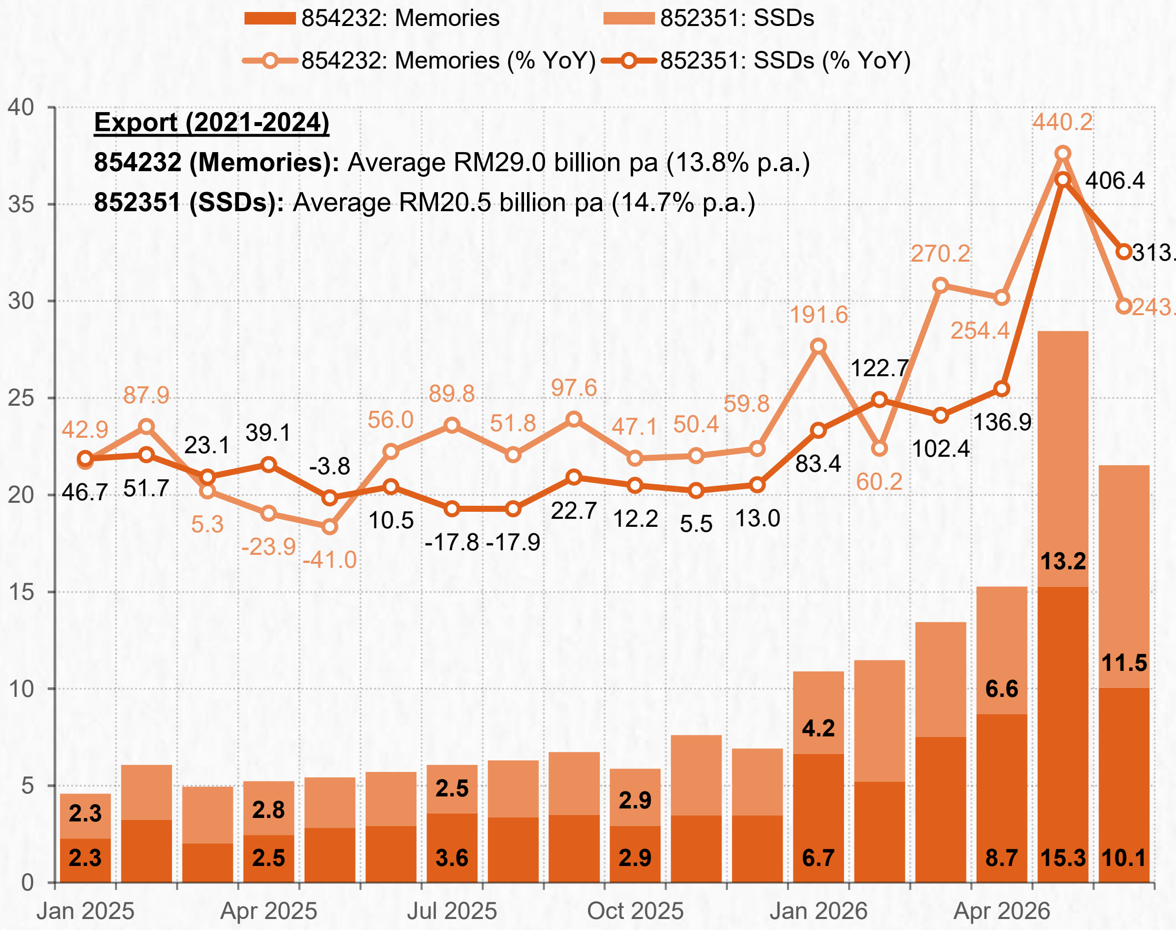
Malaysia's ICT exports and domestic exports

RM billion; % YoY



Malaysia's ICT exports by selected items

RM billion; % YoY



Note: ICT exports definition is based on UN Trade's ICT goods categories and composition (HS 2022).
Source: DOSM

Current status of the US tariff policy on Malaysia

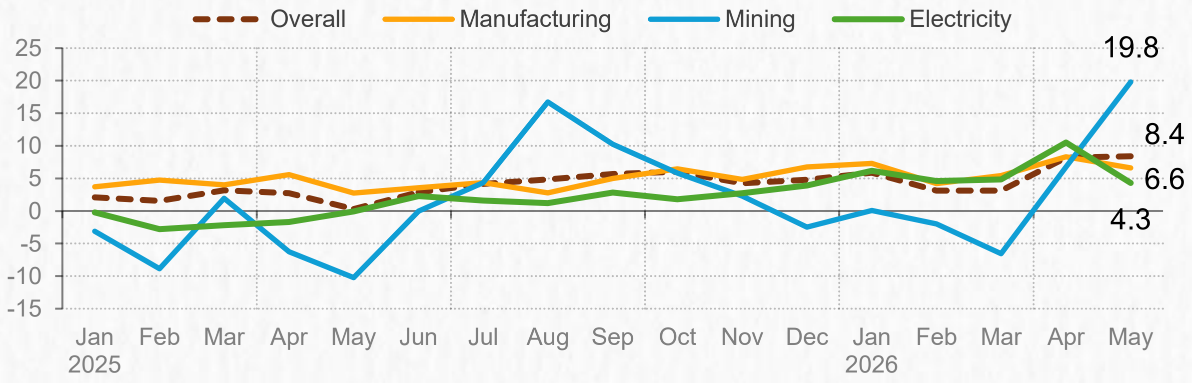
	Reciprocal & Fentanyl Tariffs	Section 232	Section 301	Section 122
Statute	International Emergency Economic Powers Act (1977)	Trade Expansion Act of 1962	Trade Act of 1974	Trade Act of 1974
Purpose	Respond to a declared national emergency	Protect US national security	Respond to unfair foreign trade practices	Address serious balance-of-payments deficits
Investigation Requirement	No	Yes	Yes	No
Effective Duration	Until modified or terminated	Until modified or terminated	Until modified or terminated	Up to 150 days
Typical Target	Countries	Industrial sectors or products	Countries or specific trade practices	Broad-based import surcharge
Status	Terminated	Effective	Effective	Expired
Coverage	-	Steel & aluminium; Copper; Automobiles & auto parts; Pharmaceuticals; Semiconductors; Timber & lumber; Trucks & buses	Forced labour (10%); Excess capacity and production (ongoing investigation)	-

Drivers of Malaysia’s resilience so far… (cont.)

Industrial production growth was lifted by the front-loading of manufacturing and export activity

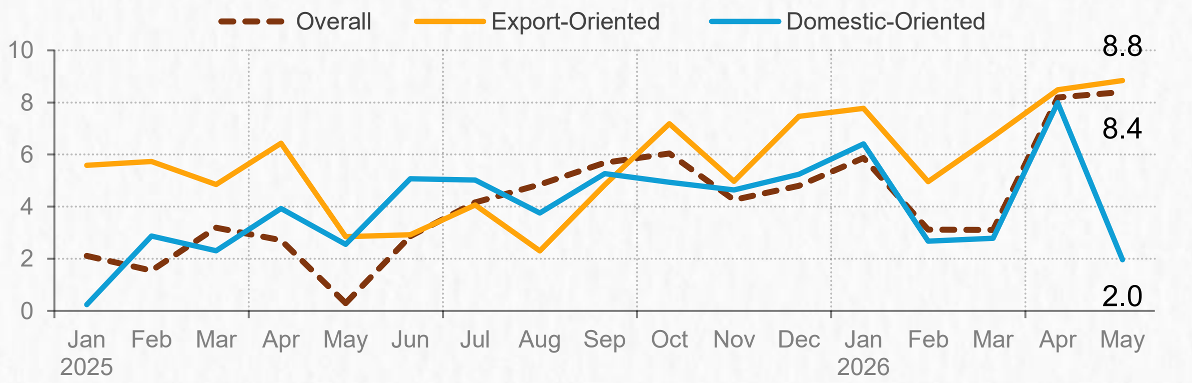
Industrial Production Index by sector

Year-on-year %



Industrial Production Index by domestic/export orientation

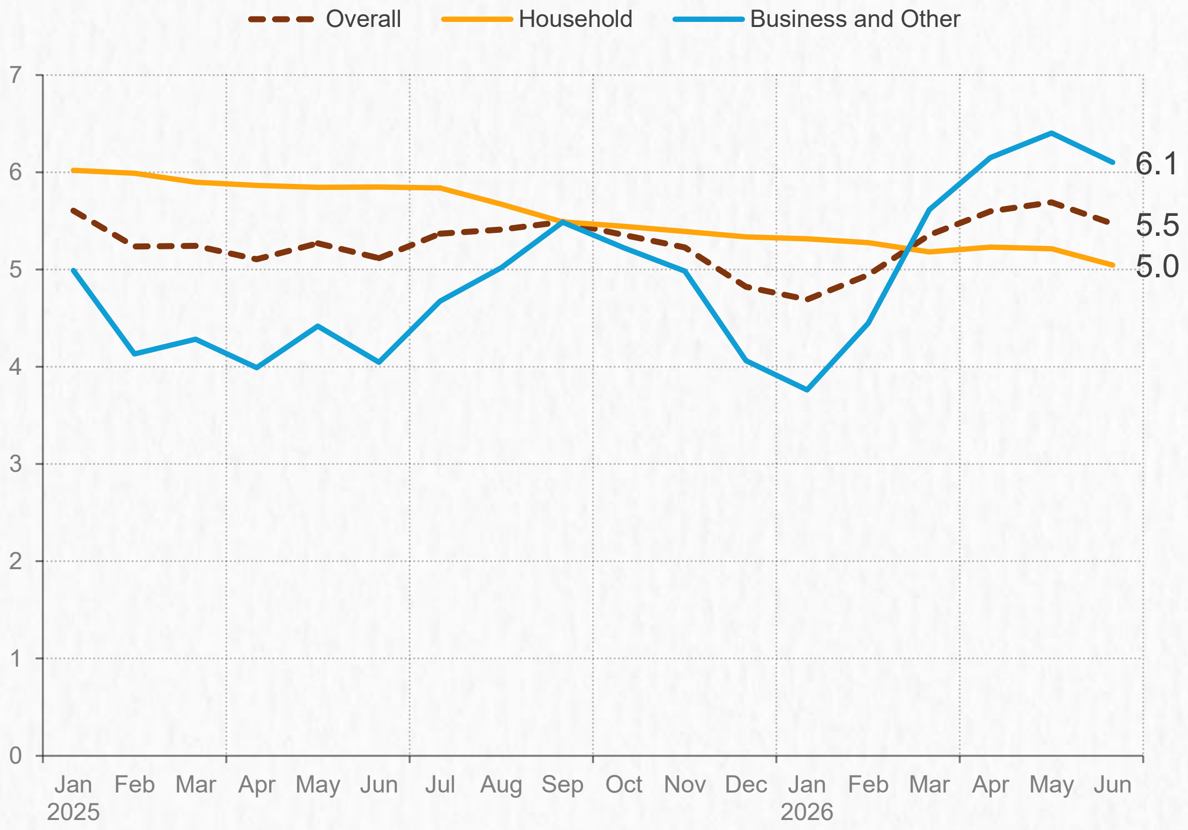
Year-on-year %



Overall banking lending growth to households and businesses

Loan / financing by sector

Year-on-year %



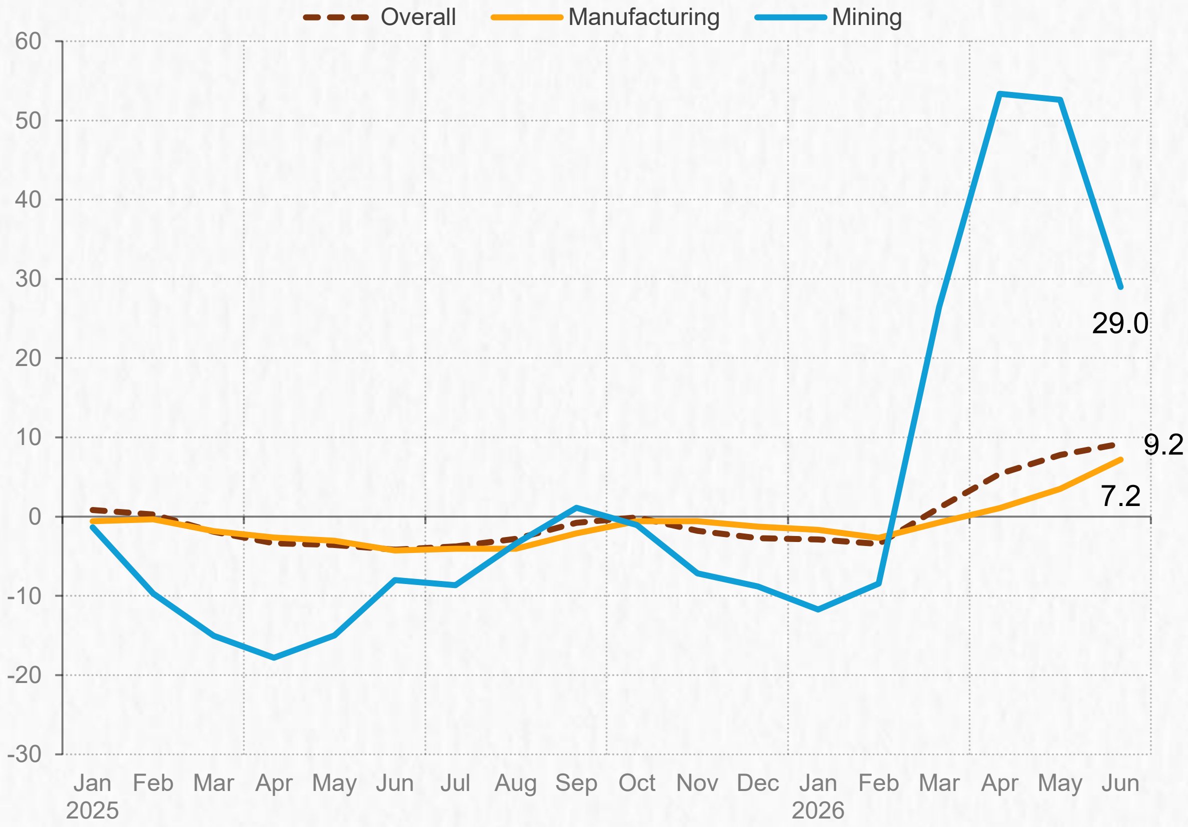
Source: DOSM; BNM

Wholesale inflation is accelerating; consumer inflation also picking up…

Producer Price Index has been accelerating

Producer Price Index

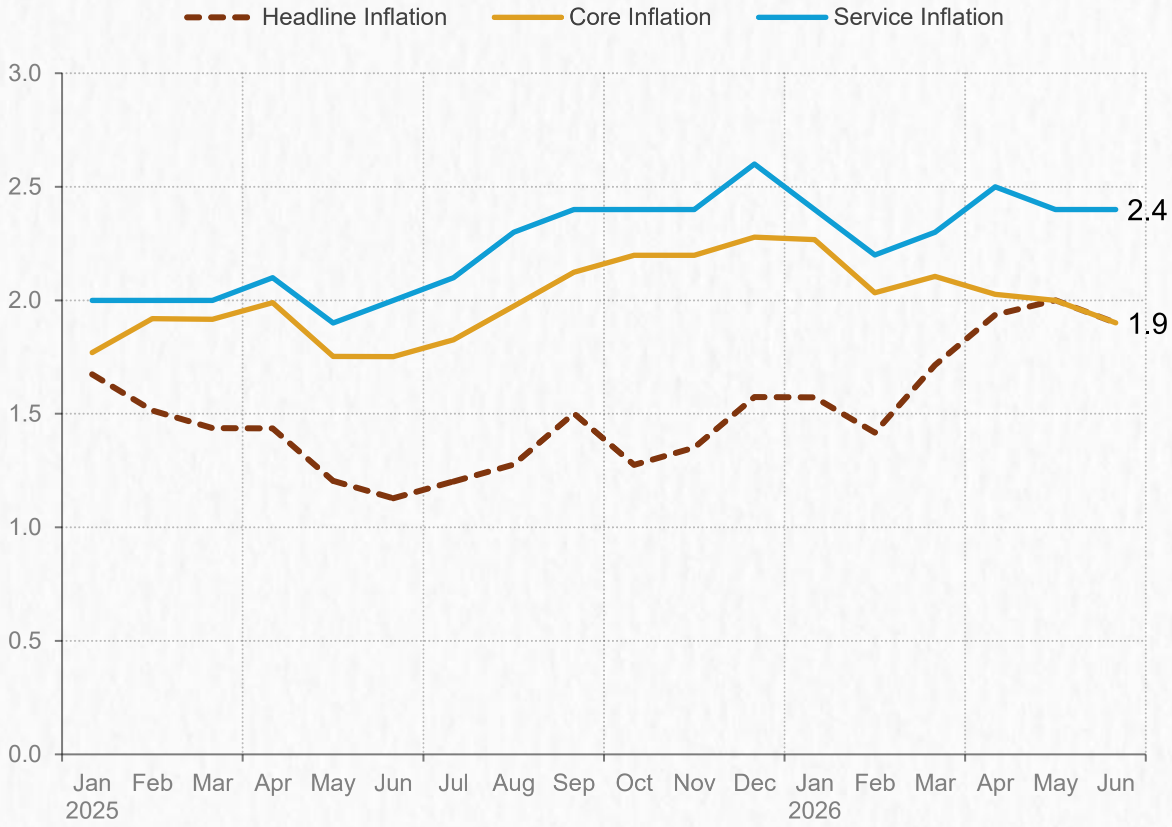
Year-on-year %



Headline and core inflation rates are inching up

Inflation

Year-on-year %



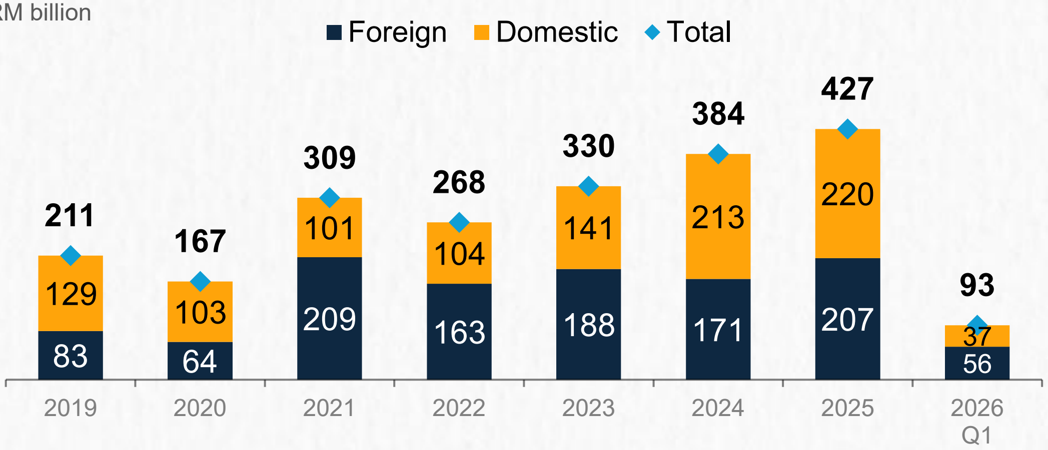
Source: DOSM

Strong approved investments in the services, manufacturing, and primary sectors

85.0% of manufacturing projects between 2021 and Feb 2026 were realised at various implementation stages

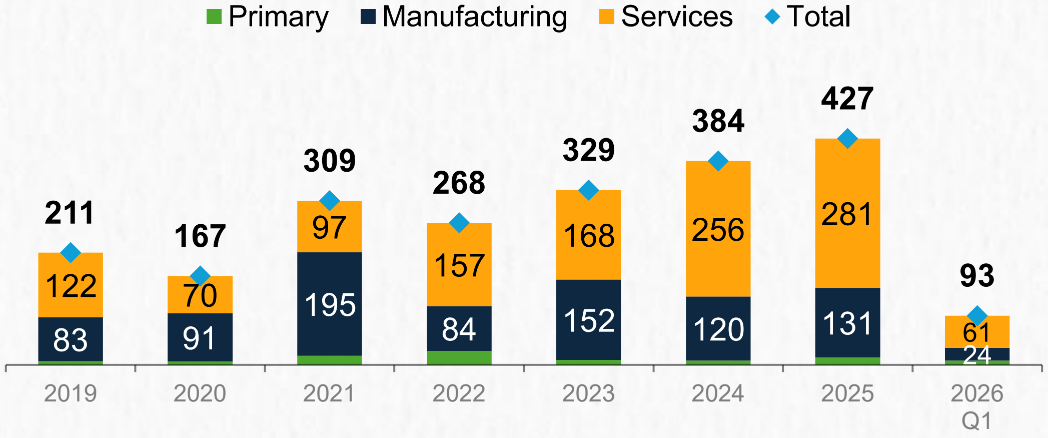
MIDA: Foreign vs. Domestic Approved Investment

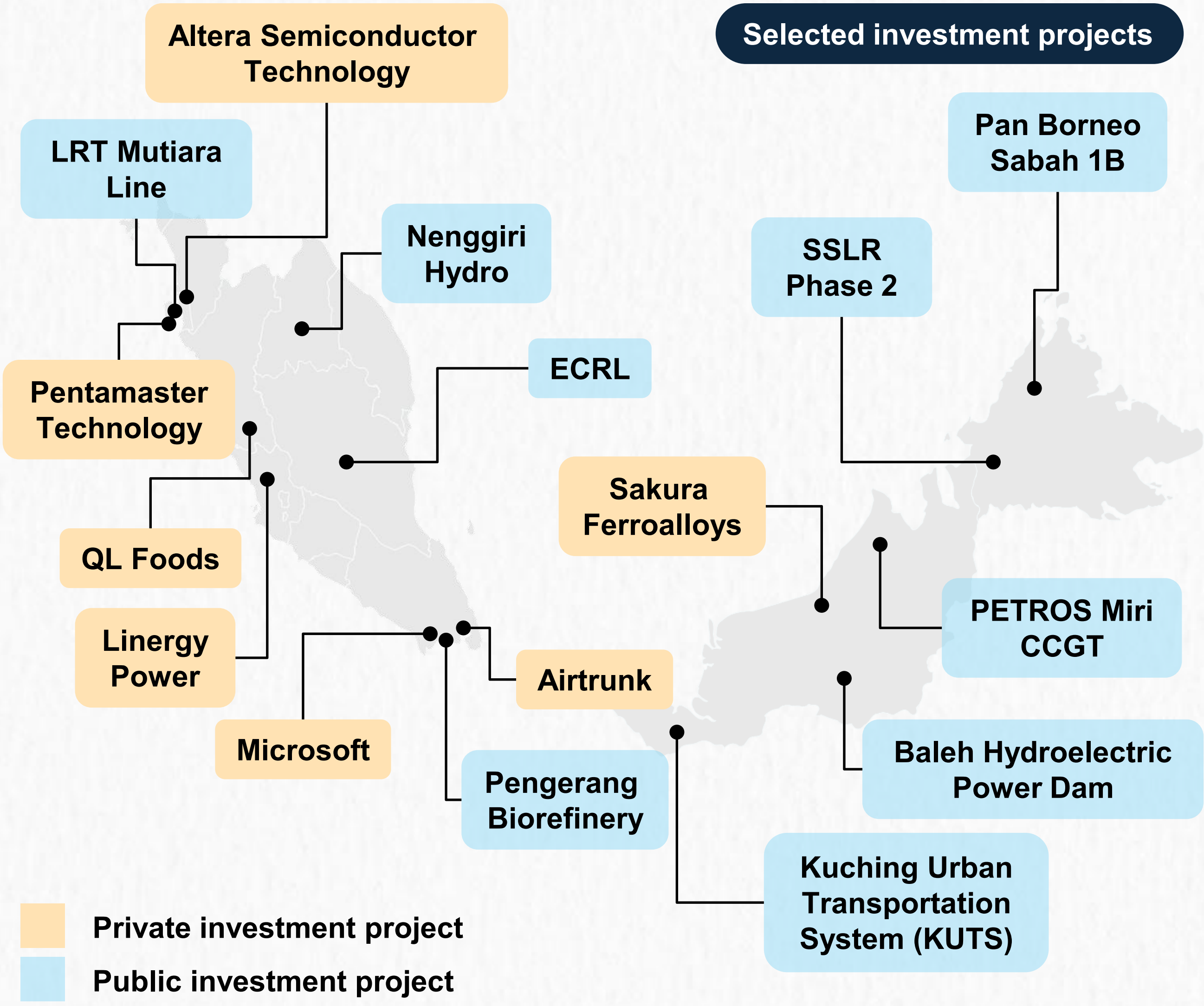
RM billion



Approved Investment by Sector

RM billion





Energy, green and renewable energy, electrical and electronics (E&E), infrastructure, and information and communications technology (data centres)

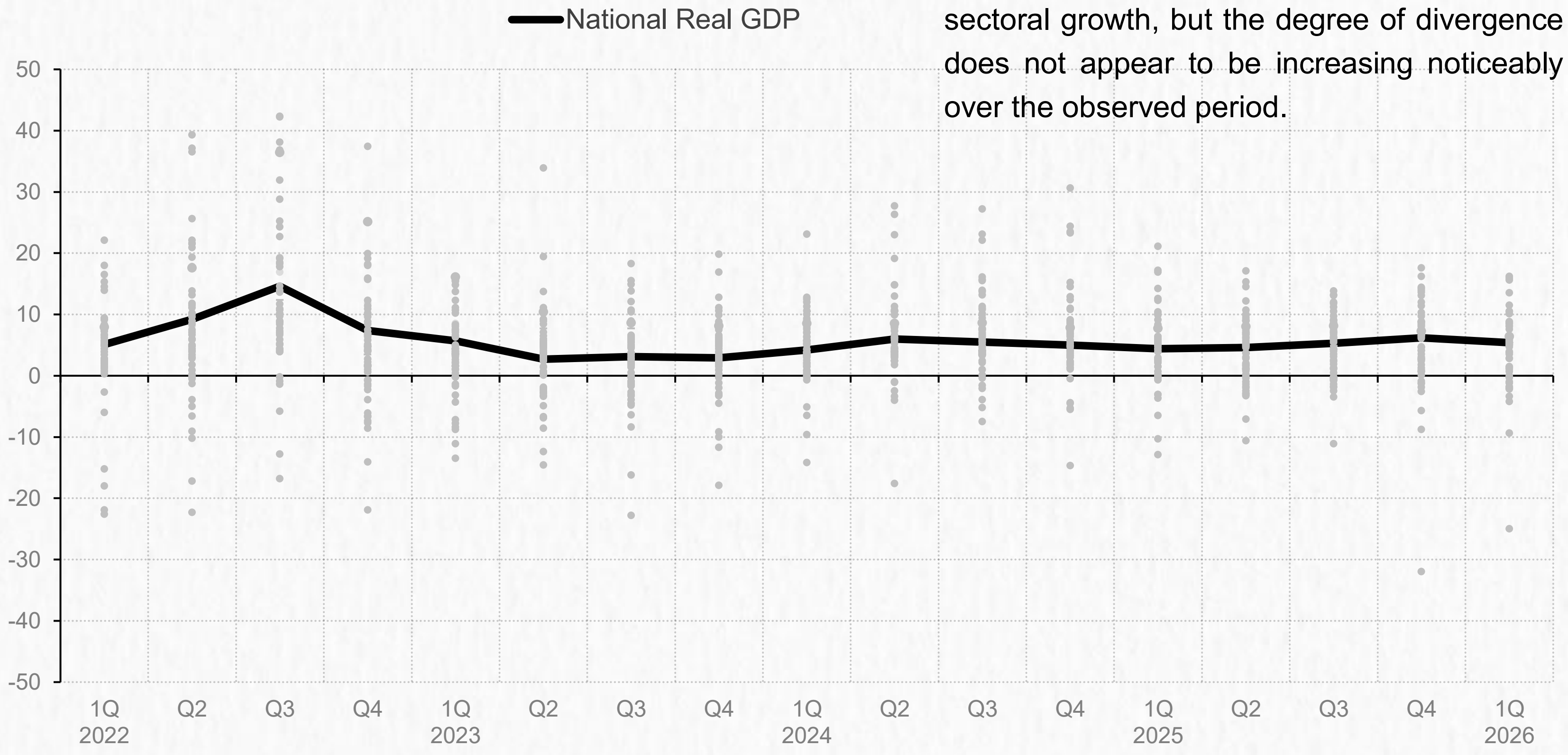
Source: Malaysian Investment Development Authority (MIDA); BNM

Malaysia is experiencing elements of a K-Shaped Economy…

A K-shaped economy occurs when some segments continue to expand while others stagnate or decline. Economic conditions should therefore be assessed using disaggregated rather than headline indicators alone.

Real GDP Growth by Subsector

% YoY



Malaysia has persistent heterogeneity in sectoral growth, but the degree of divergence does not appear to be increasing noticeably over the observed period.

Source: DOSM

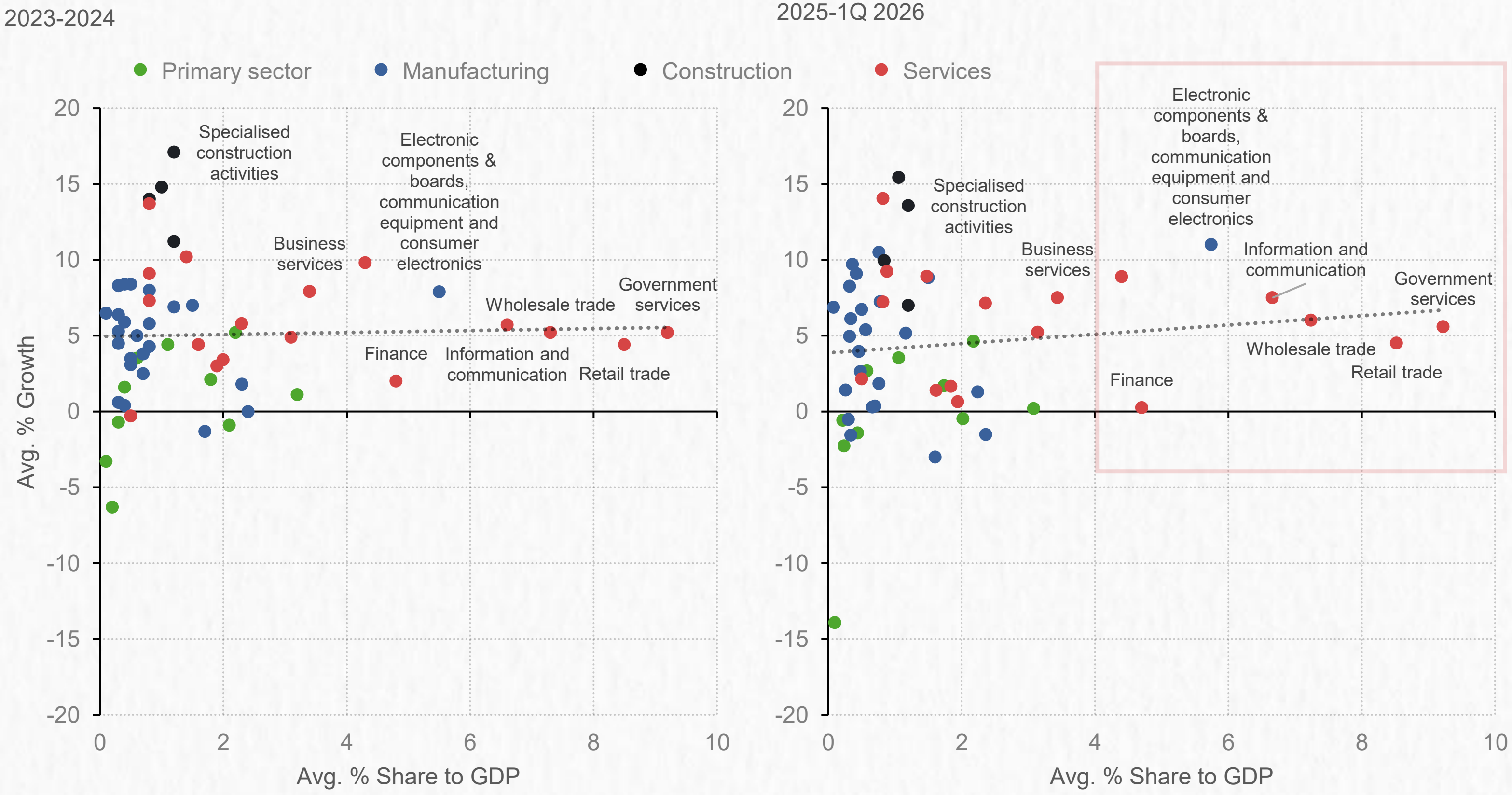
Note: Dots indicate subsectors.

Sectoral growth is uneven, becoming more concentrated

High-tech, semiconductor, and financial sectors thrive on strong global demand, while traditional retail, small businesses, and low-skilled workers lag behind

Recent economic growth appears increasingly concentrated in a small number of high-growth sectors, particularly the E&E and ICT. While most major sectors continue to record positive growth, the pace of expansion differs considerably across industries.

Average growth (%) vs. GDP share (%) by subsector



Source: DOSM

Good GDP growth is not the whole story

... is an incomplete measure of societal progress because it overlooks income inequality, environmental degradation, and daily human well-being

1.3% pa — **Malaysian Well-being Index (MyWI)**
2020: 114.6
2024: 120.6

Target under RMK13
1.6% pa
(2026-2030)

Three sub-composites

1.7% pa — **Economic**
2020: 120.4
2024: 128.8

- Better transportation, income and distribution

1.4% pa — **Social**
2020: 115.2
2024: 121.8

- Better improvement in entertainment and recreation, housing, culture and governance

0.2% pa — **Environmental**
2020: 105.1
2024: 105.9

- Declines in the air quality and biodiversity resources

Selected components warrant attention

0.04% pa	Working Life
-0.6% pa	Healthcare
-0.6% pa	Public Safety
1.1% pa	Education
-1.0% pa	Air
-0.2% pa	Biodiversity Resources

Source: DOSM

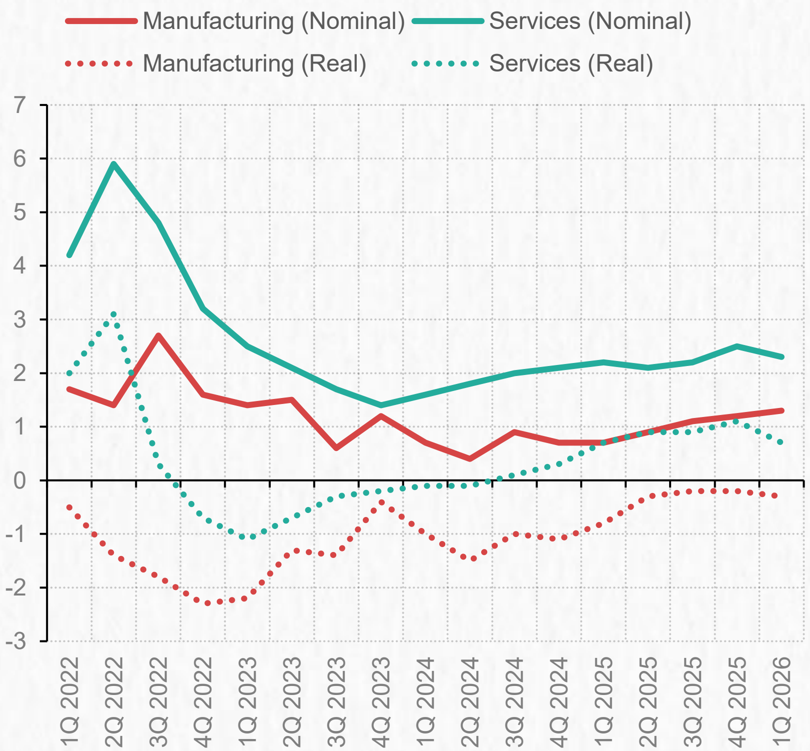
Note: Percentage indicates compounded change from 2020 to 2024.

Household disconnect: Macro data like GDP looks healthy, but B40 and M40 households struggle with the high cost of living, rent, and daily essentials.

In 2022-2025, real wage declined by an average of -1.1% pa in the manufacturing sector, while the services sector recorded average real wage growth of 0.4% pa. In 2022-2024, median household income grew by an average of 5.3% per annum for the B40, 5.7% for the M40, and 2.0% for the T20

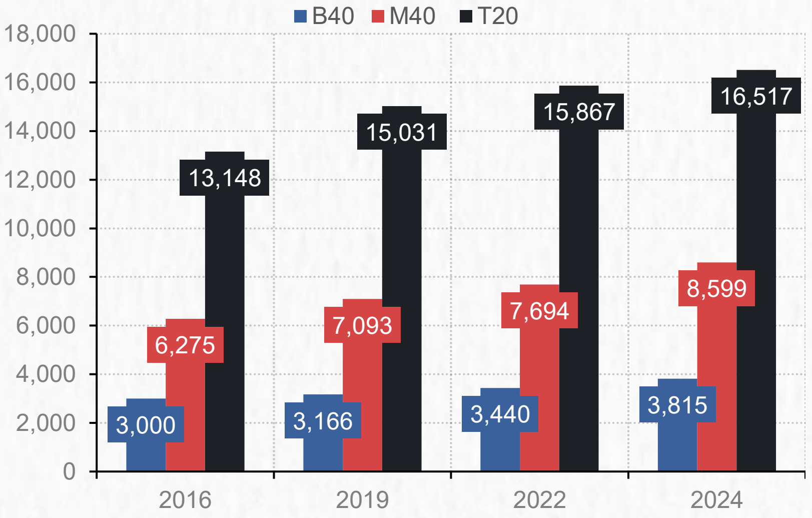
Real wage growth per employee

% YoY



Median household income by household group

RM



CAGR % p.a.	2016 - 2019	2019 - 2022	2022 - 2024
B40	1.8%	2.8%	5.3%
M40	4.2%	2.7%	5.7%
T20	4.6%	1.8%	2.0%

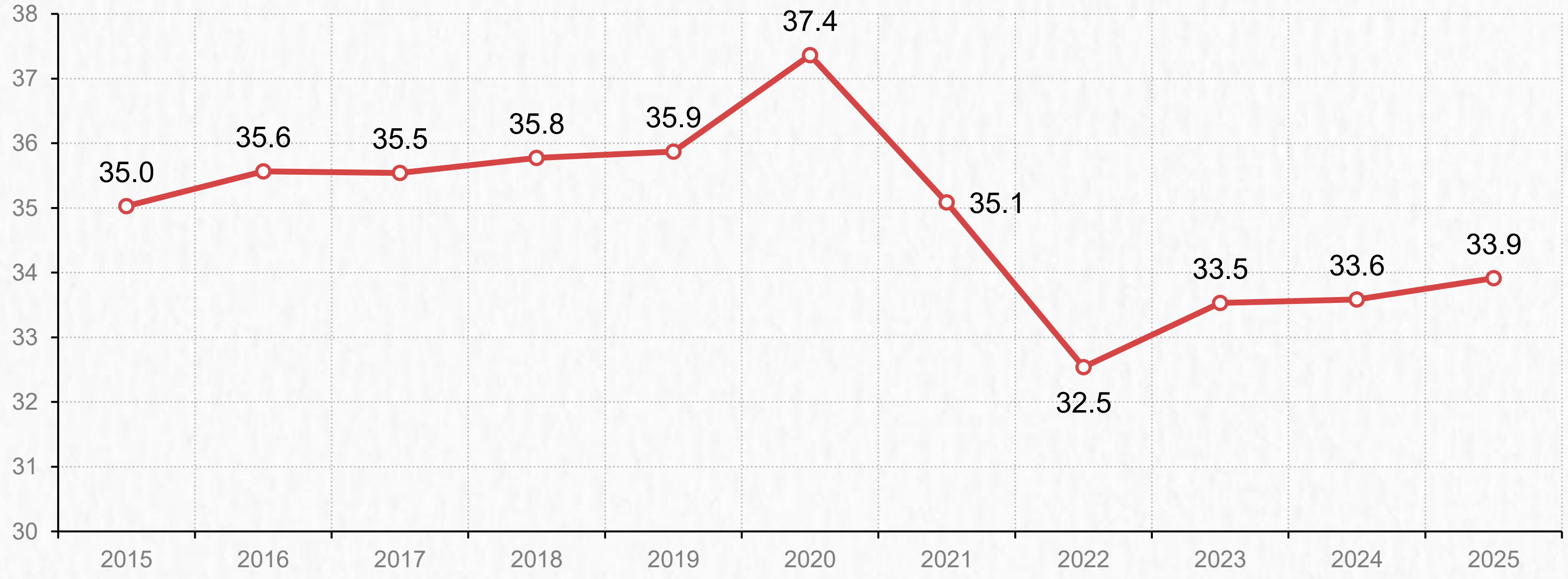
Source: DOSM

Good GDP growth is not the whole story

- The **Compensation of Employees (CE) to GDP ratio** is used to track progress in wealth equality. Under the 13th Malaysia Plan (13MP), the target is to raise the CE to GDP ratio to 40% by 2030. The CE stood at 33.9% of GDP in 2025, slipping from a high of 37.4% in 2020 and average of 35.6% in 2015-2019. This ratio trails mature, developed economies (2024)[1]: Germany (60.0%), the UK (54.1%), South Korea (51.9%), Australia (51.8%) and Singapore (37.1%).

Compensation of employees ratio

% share



Source: DOSM

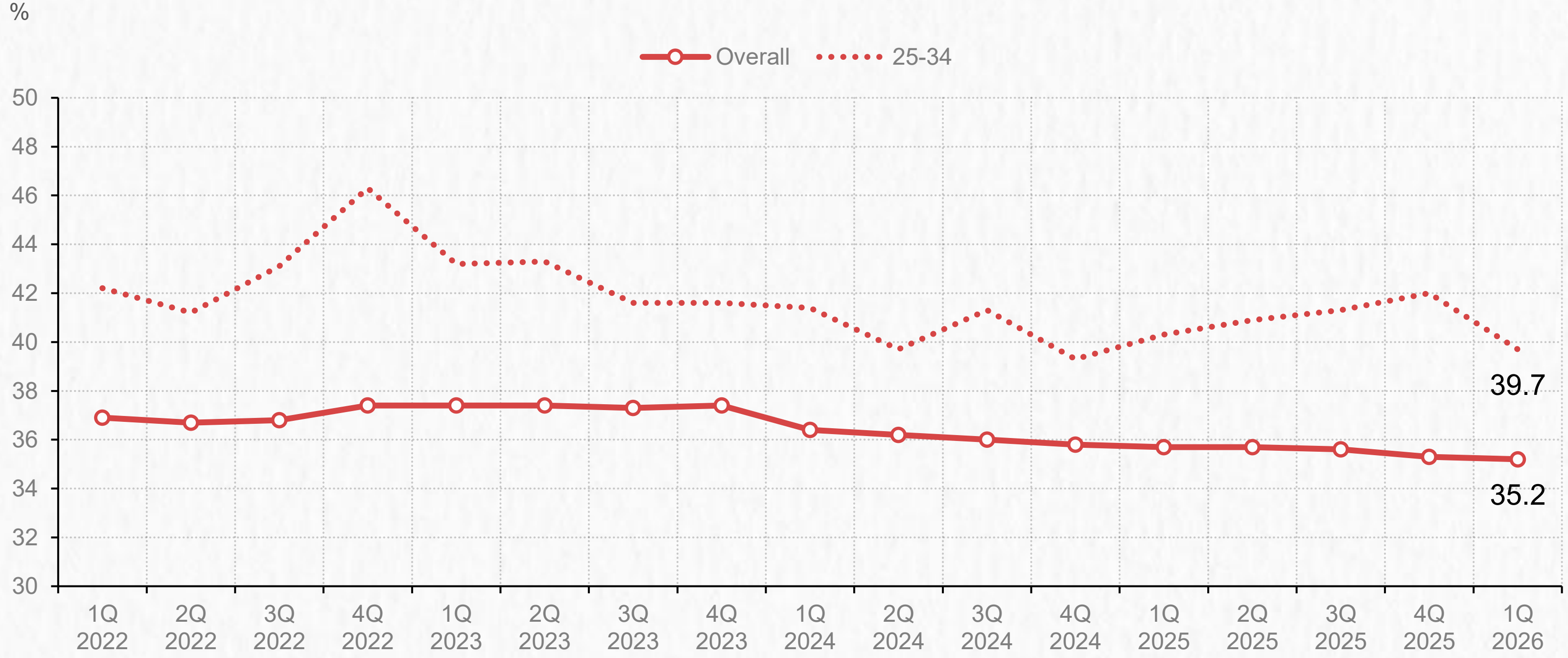
[1] Sourced from the OECD, except Singapore, which is based on official data.

Good GDP growth is not the whole story

Skill-related underemployment holds Malaysia back from full potential

- **Skills-related underemployment is increasingly weakening** the link between education, productivity, and wage growth. Skills-related underemployment is highest among younger workers. As of Q1 2026, 39.7% of tertiary-educated workers aged 25-34 are in jobs below their skill level, but the rate falls steadily with age.

Skill-related underemployment rate



Source: DOSM

Good GDP growth is not the whole story

Improving the CE to GDP ratio requires structural reforms that ensure wage growth outpaces or matches the employees' qualification and skillset

Structurally actionable strategies to raise the CE-to-GDP ratio

- **Increasing awareness for implementing a Productivity-Linked Wage System (PLWS**), which ties wage adjustments to individual productivity and corporate performance, including employee share option scheme, and aligns labour costs with revenue growth.
- **Ensuring effective and wider implementation of progressive wage policy** and enforcing minimum wage legislation.
- **Encouraging industrial upgrading** toward high-value sectors.
- **Upskilling the workforce with digital competencies, AI skills, and Technical and Vocational Education and Training (TVET)** to justify higher wages as well as the strengthening of collective bargaining rights.

Addressing skill underemployment

- **Enrolling in upskilling or reskilling programs** to meet high-demand fields in industries (such as AI, semiconductor technology, data science, or green energy).
- **Gaining targeted certifications** to boost the resume with industry-recognised credentials and professional certificates, seeking out mentorship, and actively volunteering to build specialised experience in the desired field.

Good GDP growth is not the whole story

- The government needs to sustain trust in institutions, as public trust is the bedrock of effective policy implementation. Sustaining trust in institutions requires consistent accountability, transparency, and responsiveness.

- When citizens trust institutions, they are more likely to voluntarily comply with rules and regulations, support (buy-in) reforms for ensuring economic sustainability, and engage with the government.

- The Government need a broader way to judge whether economic development is working. It calls for complementing the GDP with a practical dashboard of indicators that captures what GDP misses: **well-being, equity, sustainability and resilience**.

- People feeling the impact of good GDP growth requires **effective execution of economic policies and development programs** that directly translate economic expansion into **generating better-paying jobs, improving living standards, lowering costs of living, boosting real wages, and implementing targeted structural reforms**.

Global and domestic risks in 2027

1. External Risks

Geoeconomic Fragmentation

Continue from 2026

Rising tariffs, export controls and technology restrictions continue to disrupt global supply chains and temper business confidence.

Geopolitical & Energy Risks

Continue from 2026

Ongoing geopolitical tensions may trigger renewed energy price volatility, inflationary pressures and logistics disruptions.

Financial Market Correction

Continue from 2026

Elevated asset valuations, particularly in the AI-related sectors, increase the risk of market corrections and financial volatility.

Climate & Food Security

More severe

Extreme weather and climate events continue to threaten agricultural production, food prices and supply-chain resilience.

SUPPLY LINK
< Import Squeeze >

COST CHANNEL
< Operating Friction >

FX FRICTION
< Imported Costs >

2. Domestic Pressures

Cost of Living Pressures

Inflation, rising cost of living and subsidy reforms continue to pressure household purchasing power and consumer spending.

Rising Business Costs

Higher input costs, utilities, taxation, regulatory and compliance costs continue to burden SMEs.

Food Security & Import Dependence

Heavy reliance on imported food exposes Malaysia to global supply disruptions and commodity price shocks.

Political Stability Concerns

Heightened anxiety stems from rolling state elections and internal political realignments. Highly complex global and geopolitical risks, domestic economic performance, corruption issues, and government's reform credibility.

2027 Budget
9 October 2026

Budget 2027: Resilience, sustainability, inclusivity

A responsible, predictable, robust, investment-oriented and citizen-centred Budget is more essential than ever

- **A responsible fiscal stance**. Overall fiscal policy responses should remain prudent, targeted and proportionate.

- **Budget strategies and focus areas.** Mitigating cost of living, managing operating costs pressures, supporting business sustainability and sustaining private investment in key growth sectors, workforce productivity and skill development, technological and AI adoption; green transition; the circular economy and inclusive prosperity.

1	Easing Cost of Living and Sustaining Consumption Resilience	6	Integrated Policies for the Agrifood Sector
2	Reforming the Tax System for Resilience and Competitiveness	7	Advancing the Green Economy Transition
3	Business Facilitation and Operational Support	8	Expanding Market Reach and Export Resilience
4	Tackling the Influx of Foreign Businesses and Cross-Border E-commerce	9	Workforce Upskilling and Training Management
5	Driving High-Value Investment and Domestic Competitiveness	10	Cross-cutting Business Enablers

Priorities in Budget 2027

1. Easing Cost of Living and Sustaining Consumption Resilience

Issues

- **Persistent rising cost of living:** Geopolitical shocks and supply chain disruptions caused cost-push inflation, which raises production costs, drives up consumer prices, reducing household purchasing power and weakening private consumption momentum.
- **Middle-income tax squeeze:** Wages have been lagging behind rising cost of living while tax brackets remain steep and personal reliefs (e.g. the RM9,000 personal relief) have been stagnant since 2010.

Chargeable income tier	Tax rate	vs. previous tier
RM35,001-RM50,000	6%	+3%
RM50,001-RM70,000	11%	+5%
RM70,001-RM100,000	19%	+8%
RM100,001-RM400,000	25%	+7%
RM400,001-RM600,000	26%	+1%

- **Food security vulnerabilities:** Surging fuel and fertiliser costs, coupled with the "super El Niño" risk in 2H 2026 and a heavy reliance on imports, threaten food affordability and supply.
- **Restrictive social assistance access:** Current merchant eligibility for the SARA programme is restrictive, excluding key operators like petrol marts and convenience stores, which creates uneven access for consumers.

Recommendations

- **Pivot to targeted consumption support:** The continuation of SARA and STR programs involves potential increases in aid allocation. Expanding SARA to include fresh food, fuel, and utilities as well as to open-air markets and farmers' market using QR code payments. Gradually rebalance funding from STR toward SARA to ensure assistance is directed specifically at essential consumption.
- **Streamlining personal tax regime.** Smooth marginal tax progression by reducing rates for the RM70k-RM200k bands. Review outdated reliefs for personal (to RM10k-12k), spouse (to RM6k), dependents (to RM3k-4k), the EPF contributions (to RM5k), life and medical insurance premium (to RM4k-5k) to reflect current expenditure patterns.
- **Bolster food resilience & accessibility:** Expand MADANI Rahmah Sales to a weekly frequency across 30,000 locations. Build precautionary food stocks to mitigate climate-induced shortages and provide targeted social protection for affected smallholders.
- **Enhance social protection efficiency:** Broaden SARA merchant eligibility to all distributive trade businesses meeting basic criteria. Improve merchant sustainability by reducing transaction fees from 1% to 0.5% and exempting them from service tax. Enhance tax incentives and recognition for hiring senior citizens.

Priorities in Budget 2027

2. Reforming the Tax System for Resilience and Competitiveness

Issues	Recommendations
• **Eroding business tax competitiveness:** Existing SME tax thresholds and investment incentives ((Reinvestment Allowance (RA)/Investment Tax Allowance (ITA)) are less competitive relative to regional peers, while the proposed 2% tax on LLP profit distributions threatens the primary source of reinvestment for entrepreneurs.	• **Enhance corporate tax incentives:** Raise SMEs preferential tax threshold to the first RM500,000 of chargeable income (at 15%) from RM150,000 and the next RM500,000 up to RM1 million (at 17%) from RM450,000, and the standard 24% rate on any remaining balance. Increase RA and ITA allowance/set-off rates to 80% and exempt SMEs from the 2% LLP distribution tax to preserve growth capital.
• **SST-driven tax cascading:** The lack of a comprehensive input tax credit mechanism in the current SST system creates a "tax-on-tax" effect, inflating downstream production costs by as much as 8% to 12% in sectors like construction and furniture.	• **Transition to an efficient indirect tax regime:** Reintroduce GST at an initial 4% rate to broaden the tax base and reduce tax cascading. In the interim, exempt SST on key intermediary goods and raise the SMEs registration thresholds for construction and rental services to RM3 million.
• **Liquidity strains from rigid tax administration:** Inflexible CP204 rules requiring an 85% minimum tax estimation, combined with chronic refund delays, lock up vital working capital and penalise businesses for unforeseen economic volatility.	• **Optimise cash flow management:** Lower the CP204 estimation threshold to 50% to allow for realistic mid-year adjustments. Implement an automatic tax offset mechanism for delayed refunds and suspend penalties arising from forecasting inaccuracies.
• **Disproportionate compliance burdens:** While Malaysia's transfer pricing documentation requirements have been eased through exemptions for low-risk taxpayers, some start-ups and SMEs continue to face compliance costs where they exceed the exemption thresholds or undertake cross-border related-party transactions.	• **Introduce targeted compliance relief:** Grant time-bound TP documentation exemptions (3-5 years) for start-ups with annual revenue below RM5 million or net profit margins under 20% to support innovation-driven sectors.

Priorities in Budget 2027

3. Business Facilitation and Operational Support

Issues	Recommendations
• **Compounding operational and compliance costs:** MSMEs are struggling with "converging cost pressures“, including higher minimum wages, utility hikes, expanded SST, and e-invoicing, which continue to erode business cash flow and profitability. • **Bureaucratic licensing fragmentation:** Businesses face administrative complexity and operational delays due to duplicated licensing requirements and inconsistent renewal procedures across Federal and local authorities • **Inefficient financing and support ecosystem:** Fragmented tracking of government schemes and the need for repetitive document submissions to multiple banks create unnecessary hurdles for SMEs seeking liquidity • **Low-value, high-friction compliance requirements:** Specific regulations, such as mandatory speed limiter audits, employment stamp duties, and rigid e-invoicing caps, impose disproportionate financial strain without clear economic benefit	• **Adopt the One-in-One-out principle:** Offset every new regulatory cost by eliminating an existing administrative burden or tax. • **Energy cost relief:** Review electricity tariffs under the Time of Use (ToU) scheme and increase the eligibility threshold for Energy Efficiency Incentives (EEI) to 600 kWh to support MSMEs. • **Digitise and streamline licensing renewal:** Establish a centralised, all-in-one digital portal with automated reminders. Introduce automatic renewals for low-risk licences, pilot three-year renewal cycles for non-critical sectors, and provide formal grace periods for administrative delays • **Centralise fund tracking and transparency:** Launch a "Consolidated Central Unit" and digital platform to coordinate all government's financing and guarantee schemes. Publicly report fund availability, approval rates, and disbursement progress to improve transparency and delivery. • **Recalibrate compliance thresholds:** Allow double tax deductions for speed limiter audits. Suspend employment contract stamp duties or raise the exemption threshold to RM10,000. Align e-invoicing consolidation thresholds with Anti-Money Laundering (AML) standards (RM25,000) and halve the SARA merchant charge to 0.5%.

Priorities in Budget 2027

4. Tackling the Influx of Foreign Businesses and Cross-Border E-commerce

Issues	Recommendations
• **Unregulated foreign business influx:** The exploitation of visa-free facilities and weak enforcement have allowed illegal foreign operations to proliferate, causing "aggressive price undercutting" and eroding the market share of local enterprises in retail and services. • **Cross-border e-commerce imbalances:** Domestic businesses face "unequal competition" as foreign online sellers leverage heavy subsidies and a high import duty threshold to maintain pricing advantages while bypassing local regulatory obligations. • **Safety risks from uncertified online products:** The rapid expansion of online marketplaces has led to the sale of uncertified, safety-critical products (e.g. tyres, brake pads, and helmets), posing severe physical threats and liability risks to consumers.	• **Enforce a level playing field:** Restore market fairness by tightening licensing criteria, raising capital requirements for the wholesale and retail trade, and mandating at least 50% local equity participation. Establish a centralised database to track the registration and operational status of all foreign-owned businesses. • **Recalibrate the e-commerce framework:** Lower the import duty de minimis threshold from RM500 to RM50 to mitigate pricing disparities. Mandate that high-volume foreign sellers (>RM1 million annually) to register as Malaysian business entities with local representatives responsible for consumer protection and compliance. • **Mandate platform accountability:** Require marketplaces to verify SIRIM or equivalent certifications before listing any regulated products. Enhance transparency by launching a "Malaysian Authenticity Portal" that allows consumers to verify product certifications via QR-code authentication

Priorities in Budget 2027

5. Driving High-Value Investment and Domestic Competitiveness

Issues

- **Stagnating domestic investment momentum:** While the FDI remains strong, approved domestic manufacturing investment fell by 2.8% in 2025. Local mid-tier firms and SMEs face significant hurdles in scaling up and upgrading production capabilities due to limited reinvestment capacity.
- **Digital transformation funding gaps:** The previous SMEs Digitalisation Grant, capped at a one-off RM5,000, is inadequate for financing modern industrial tools, such as diagnostic equipment costing up to RM80,000 per unit. Furthermore, the suspension of applications since late 2025 has halted technological adoption.
- **Marginalised local content in procurement:** Despite an enactment of the Government Procurement Act 2026, Malaysian-made products and SMEs remain underrepresented in government and GLC supply chains, missing vital opportunities for industrial upgrading.

Recommendations

- **Incentivise large-scale reinvestment:** Extend the Accelerated Capital Allowance (ACA) until 2030. Strengthen the Reinvestment Allowance (RA) and Investment Tax Allowance (ITA) by raising both the qualifying capex rate and statutory income set-off to 80%. Update the 2013 SMEs definition to ensure mid-tier companies are not excluded from support.
- **Reactivate and scale digital support:** Relaunch the Digitalisation Grant with a significantly higher ceiling and allow multiple claims or an annual RM2,000 allocation to support phased technology adoption. Prioritise fiscal support for locally developed software solutions and industry-specific advanced technologies.
- **Institutionalise the "Buy Made by Malaysia First" procurement framework:** Implement a standardised local procurement scoring framework across all Ministries and GLCs. Set mandatory local-content KPIs for public infrastructure projects and establish a public dashboard to track and report procurement performance for greater accountability.

Priorities in Budget 2027

6. Integrated Policies for the Agrifood Sector

Issues	Recommendations
• **High food import dependency and chronic food deficit:** Malaysia's heavy reliance on imported food (reaching RM92.8 billion in 2025) and low Self-Sufficiency Rates (SSR) for certain foods such as beef, ginger and round cabbage (ranging between 8.5% and 41.7%) expose the nation to global supply shocks and a widening food deficit averaging RM34.1 billion per year in 2022-2025. • **Structural uneven allocation of land-use:** There is a severe misallocation of resources, with 87% of agricultural land dedicated to the cultivation of commercial commodities (palm oil and rubber) while over 90,000 hectares of arable land lie abandoned in Peninsular Malaysia. • **Land tenure insecurity:** Insecure land tenure and fragmented farming operations deter large-scale investment in mechanisation, reducing the bankability and long-term productivity of agrofood projects.	• **Targeted high-SSR cultivation**: Release 100,000-200,000 hectares annually for agrofood cultivation, specifically targeting commodities with high import dependency. Strengthen public R&D in seed development and post-harvest technology (e.g. cold chains) to ensure outputs are scalable for SMEs. • **Expansion and targeted allocation of arable land for agrofood:** (a) Allocate 1% of total forest cover, equivalent to 179,300 hectares for the Integrated Farming Systems (IFS) combine modern crop cultivation, livestock rearing, and aquaculture into a single, interconnected ecosystem; (b) Introduce state-level KPIs to monitor and expand agrofood land development; and (c) Unlock underutilised GLC land through Public-Private Partnerships and Integrated Farming Systems (IFS) to maximise the productivity of existing agricultural zones. • **Land leasing arrangements for ensuring long-term security:** Provide between 30 and 60 years land lease at concessionary rates to enhance the growers' confidence for undertaking capital-intensive investment. Establish a National Agrofood Landbank to catalogue and systematically allocate abandoned or underutilised land to qualified private enterprises.

Priorities in Budget 2027

7. Advancing the Green Economy Transition

Issues

- **Prohibitive barriers to green tech adoption:** High upfront capital costs and financing constraints continue to stall the adoption of green technology and energy-efficient (EE) solutions, leaving MSMEs participation "uneven" despite national energy transition goals.
- **Carbon-intensive logistics & fleet ageing:** The transport sector remains heavily reliant on ageing, high-emission diesel engines. Fleet renewal is hindered by a lack of heavy-duty charging infrastructure and insufficient fiscal incentives for commercial EVs.
- **Weaknesses in the green industrial ecosystem:** The discontinuation of the Industrial Tree Plantation (ITP) programme, due to fund exhaustion, has created a "gap" in sustainable raw material security, while circular economy investment remains limited

Recommendations

- **Lower the green entry threshold:** Implement a full SST waiver on solar equipment and exemptions for industrial EE machinery (e.g. pumps, compressors). Extend GITA to YA2030, reactivate GTFS interest subsidies, and provide soft loans or co-funding to bridge the financing gap for high-cost green assets.
- **Decarbonise the logistics corridor:** Offer a RM20,000 Direct Scrapping Incentive for 15-year-old trucks in transitioning to Euro 5/6 or electric commercial vehicles. Establish a "Logistics Green Corridor" with high-KW fast chargers at ports and highway rest stops to incentivise lower-emission fleet renewal.
- **Strengthen the green industrial ecosystem:** Relaunch the ITP programme with higher allocations to offset high gestation costs (RM10k-RM20k/ha) and secure sustainable timber for downstream industries. Strengthen the ecosystem by introducing "green levies" tax breaks and continued support for circular economy initiatives

Priorities in Budget 2027

8. Expanding Market Reach and Export Resilience

Issues	Recommendations
• **Geoeconomic fragmentation & supply chain risks:** Malaysia's heavy trade concentration with the US and China, combined with a global shift toward protectionism and "resilience over efficiency," exposes domestic exporters to material vulnerabilities in the global value chain (GVC). • **Eroding logistics & trade competitiveness:** Malaysia's average port dwell times (5.6 days for exports; 5.5 days for imports) are significantly higher than regional peers like Singapore (3.3/2.1) and Thailand (5.1/4.0), driven by fragmented processes across 13 different government agencies. • **Targeted support gaps for strategic exporters:** Key sectors face unique burdens, such as the 0.2% export cess on rubber gloves, while existing Market Development Grant (MDG) caps are insufficient to cover the rising costs of international trade fairs and branding.	• **Diversify markets & localise supply:** Introduce export performance tax incentives (based on revenue growth) and implement a strategic import substitution framework for machinery and food. Map new growth clusters under NIMP 2030 to deepen MNC-SME linkages and enhance local content participation. • **Accelerate the national single window:** Establish a fully integrated, end-to-end digital trade platform to consolidate all Other Government Agencies (OGAs). Streamline customs clearance through real-time inter-agency data sharing to reduce bureaucracy and improve trade predictability. • **Strengthen strategic export competitiveness:** Fully abolish the 0.2% rubber glove export cess to restore regional parity. Raise the MDG lifetime cap to RM500,000 and increase per-claim ceilings for trade fairs (RM35k for international events; RM10k for domestic events). Introduce targeted natural gas rebates for strategic manufacturers to offset regional energy cost differentials.

Priorities in Budget 2027

9. Workforce Upskilling and Training Management

Issues	Recommendations
• **Fragmented workforce development ecosystem:** Malaysia's training landscape is scattered across standalone digital portals (e.g. HRD Corp, MDEC, NTW), making it difficult for individual including job seekers as well as micro-enterprises to locate, evaluate, or compare suitable upskilling programmes. • **Persistent skills mismatch and underemployment:** Nearly 40% of tertiary-educated workers aged 25-34 are in jobs below their qualification level, a mismatch that decouples education from productivity and suppresses national wage growth. • **Acute digital talent shortages:** Intensifying demand for AI, cybersecurity, and data analytics talent outpaces local supply, while restrictive Graduate Pass initiatives and the exclusion of digital sectors from strategic visa pathways hinder talent retention.	• **Establish a unified national training portal:** Consolidate fragmented portals into a single, centrally governed platform (modelled on Singapore's MySkillsFuture). Feature a "Digital Credential Passport" that integrates academic and vocational achievements (MQA and JPK) into a verifiable personal portfolio to support career mobility. • **Empower individual-led upskilling:** Introduce a Universal Skills Credit (one-off RM400) for citizens aged 25+ to fund self-initiated training, particularly for those in the informal sector. Expand double tax deductions for AI and digital innovation training and mandate structured industry participation in TVET curriculum design. • **Strengthen strategic talent retention:** Malaysia currently offers the Employment Pass for Foreign Graduates, which allows eligible international graduates to work in the country for up to 24 months. However, the scheme is limited to five NIMP 2030 priority manufacturing sectors and excludes digital and ICT disciplines, despite their strategic importance to Malaysia's digital economy. To retain Malaysia-trained talent, reduce brain drain, and equip SMEs with the skills needed for digital transformation, include international graduates in digital and technology disciplines for a two-year automatic working visa.

Priorities in Budget 2027

10. Cross-cutting Business Enablers

Issues	Recommendations
• **Property sector:** Rising property prices have reduced housing affordability, amid persistent overhang in selected segments of the residential market. Bumiputera quotas of 30%-50% further increase developers' losses and holding costs, affecting project viability and tax collection. • **Entertainment sector:** Entertainment duties reduce competitiveness against regional peers, with outdated scope of activities under Entertainments Duty Act 1953 amid not aligned with the societal and technological changes. • **Event industry:** Malaysia's event industry remains uncompetitive due to limited support and structural constraints, while Budget 2026 raised the foreign participants threshold for income tax exemption, reducing its accessibility and effectiveness for event organisers. • **Plastic industry:** Persistent structural and external challenges hinder its competitiveness and circular economy transition. Key issues include fragmented waste management policies, inconsistent quality of recycled plastics, regulatory and tax burdens that increase recycling costs, limited uptake of green investment incentives due to high capital requirements, and dependence on fossil-based feedstocks.	• **Property sector:** Raise the eligibility threshold for first-home ownership incentives from RM500,000 to RM700,000. Remove RPGT on corporate property disposals from the sixth year onwards. Introduce automatic Bumiputera quota release. • **Entertainment sector:** Repeal the outdated Entertainments Duty Act 1953. • **Event industry:** Introduce co-investment grants and a national bidding fund, enhance tax incentives for organisers and venue upgrades, and exempt key business event services from service tax. Introduce a 70% income tax exemption tier for mid-sized events with lower participant thresholds for at least 5 years. • **Plastic industry:** Enhance circular economy and export competitiveness by expanding Green Investment Tax Allowance (GITA) incentives for recycling and waste management, setting recycled content targets and standards, and introducing tax credits to promote the use of recycled content in plastic products. Targeted SST relief for plastic traders, stockists, collectors, sorters and EPR compliance fees, to ease structural cost pressures across the recycling value chain.

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

THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang,
50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Email : serc@acccimserc.com
Website : https://www.acccimserc.com

SERC is an independent, non-profit think tank under ACCCIM that conducts in-depth research on economic, business, and social issues, with the aim of informing policy-making and enhancing public understanding of Malaysia's socioeconomic development.