

CHAPTER 1

Economic Management and Prospects

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CHAPTER 1

Economic Management and Prospects

Driving Ekonomi MADANI: Empowering the Rakyat

Assessing the impact of global uncertainties and higher tariffs imposed by the US have been a daunting task for developing countries, including Malaysia. Policy actions undertaken by the US administration have affected the rules-based trading environment and the global economy outlook. As a small and open economy, Malaysia's vulnerability to external shocks has become increasingly evident amid shifting trade dynamics and rising protectionism, which pose challenges to the country's long-term economic planning.

The Government remains committed to implementing strategic measures under Budget 2025, aimed at channelling resources toward inclusive and sustainable growth. The Budget focuses on three key thrusts, namely driving reforms, reinvigorating the economy and prospering the rakyat. It emphasises fiscal responsibility, investment in digital and green infrastructure, provisions for subsidy rationalisation, labour-related policies and expanded tax reliefs as well as support programmes for targeted groups and micro, small, and medium enterprises (MSMEs). By leveraging the Ekonomi MADANI framework in driving the economy forward, the Budget promotes industrial upgrading, digitalisation and innovation to enhance competitiveness as well as strengthen the domestic market.

Key Performance Indicators of Ekonomi MADANI Framework

In sustaining Malaysia's growth momentum, the Government remains committed to achieve the seven key performance indicators (KPIs) under the Framework, guiding Malaysia's transformation into a more competitive, inclusive and sustainable economy. These benchmarks serve as a barometer to measure reforms, outcomes, progress in global rankings, social inclusion and fiscal sustainability. Malaysia is making steady gains across several of the KPIs as shown in Figure 1.1. This approach will be strategically supported by the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan), which outlines initiatives over the next five years to drive high-value, inclusive and sustainable economic growth across all sectors.

On the path to becoming one of the top 30 largest economies, Malaysia is currently ranked 36th globally with a GDP of USD422 billion. Policy and institutional reforms as well as investments in human capital, infrastructure and digital technologies, in advanced industries such as semiconductors and artificial intelligence (AI), are driving this momentum. Similarly, Malaysia's competitiveness increased significantly since 2024, catapulting 11 places to 23rd in the 2025 International Institute for Management Development (IMD)

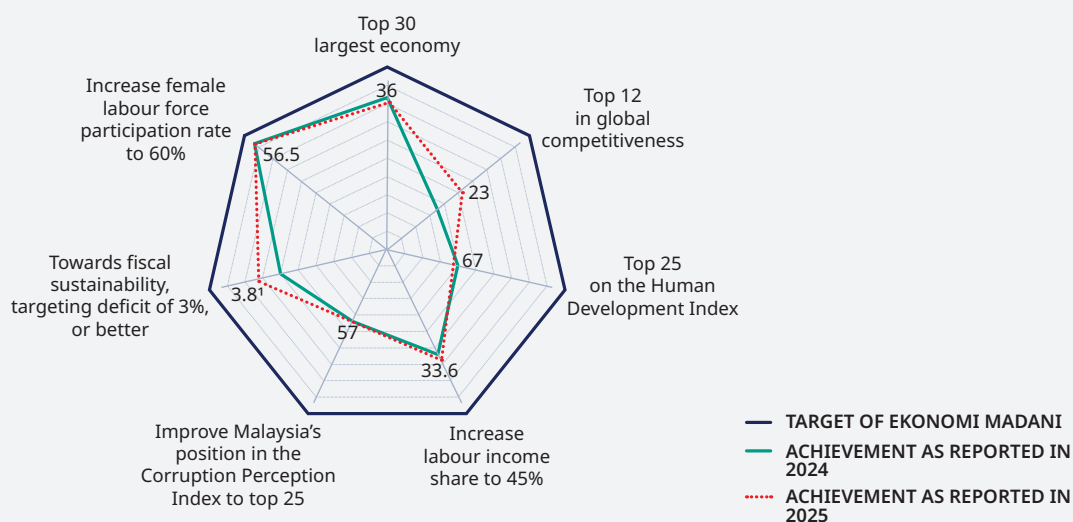
World Competitiveness Ranking. In the effort to reach among the top 12 in global competitiveness by 2033, trade diversification; stronger research, development, commercialisation and innovation (R&D&C&I); as well as streamlined regulations, enhanced governance and digital readiness are being prioritised.

In human development, Malaysia's Human Development Index (HDI) score rose to 0.819 in 2025, placing Malaysia at 67th globally. Continued investments in healthcare and education as well as reduced inequality remain critical in positioning the country within the top 25 HDI group. In 2024, the share of compensation of employees (CE) stood at 33.6%, below the 45% target. In narrowing this gap, initiatives such as the Progressive Wage Policy and skills upgrading are geared towards productivity-driven growth. Meanwhile, women's participation in the labour market rose from 56.2% in 2023 to 56.5% in 2024. Expanding affordable childcare, flexible

work arrangements as well as upskilling and reskilling programmes will be key to reaching the female labour force participation rate of 60%.

Governance remains central to the Ekonomi MADANI framework reforms as it supports economic growth, social justice and shared prosperity, which are essential in creating a resilient and competitive nation. Malaysia's Corruption Perception Index (CPI) ranking remains unchanged at 57th in 2024 with a score of 50. However, in order to achieve the top 25 CPI position by 2033, the country has to score between 68 and 70 as stated in the National Anti-Corruption Strategy, 2024 – 2028 (NACS). On fiscal sustainability, Malaysia has made notable progress, where the fiscal deficit gradually narrowed from 5% of GDP in 2023 to 4.1% in 2024 and is anticipated to further reduce to 3.8% in 2025. The continuation of fiscal reforms is expected to meet the 3% deficit target as stipulated under the Public Finance and Fiscal Responsibility Act 2023 [Act 850].

FIGURE 1.1. Achievement of Seven Key Performance Indicators



Thirteenth Malaysia Plan, 2026 – 2030: Melakar Semula Pembangunan

The Thirteenth Plan with the theme of “Melakar Semula Pembangunan”, marks a critical shift in Malaysia’s socioeconomic development narrative, as illustrated in Figure 1.2. In response to global uncertainties and domestic socioeconomic challenges, the Thirteenth Plan reflects Malaysia’s commitment to restructure socioeconomic development based on the Ekonomi MADANI framework. The Framework involves three thrusts, which are ‘Raising the Ceiling’ by propelling the economic growth of the nation, ‘Raising the Floor’ by uplifting the standard of living of the rakyat, and strengthening governance. This restructuring has to be implemented taking cognisance of the needs to accelerate the transition to a value creation-based economy

in a sustainable environment as well as to strengthen the spiritual and insaniah in building a strong social system anchored on the MADANI policy framework. This signals Malaysia’s determination to build resilience amid global fragmentation, while improving Malaysia’s readiness in the face of various challenges at the global and domestic levels.

In achieving this, the Thirteenth Plan focuses on four pillars, namely advancing economic complexity, enhancing social mobility, accelerating the implementation of the public service reform agenda as well as enhancing the rakyat’s well-being and environmental sustainability. The Thirteenth Plan is expected to involve significant investment, of which RM430 billion will be allocated for development expenditure while RM120 billion will be invested by the government-linked investment companies (GLICs) in domestic direct investment (DDI). Additionally, the implementation for development projects will be complemented via public-private partnerships (PPPs) over the next five years.

FIGURE 1.2 Key Essence of 13MP

Aspirations of the Thirteenth Plan *Melakar Semula Pembangunan*

The strategies and initiatives under the Thirteenth Plan have been aligned with the **three thrusts of the Ekonomi MADANI** framework, which are raising the ceiling, raising the floor and strengthening good governance to realise the **seven aspirations of the Ekonomi MADANI**.



Source: Ministry of Economy, Malaysia

In advancing economic complexity, the Government will shift from resource dependence towards a value-creation economy driven by AI, R&D&C&I, digitalisation, high growth high value (HGHV) industries and high-impact strategic sectors. Malaysia will also strengthen its position as a competitive economy by leveraging various multilateral, regional and bilateral agreements with strategic trading partners, towards diversifying Malaysia's economy. These efforts focus on smart agriculture, digital technology, semiconductors and sustainable energy.

In safeguarding the well-being of the rakyat, it is integral to create a pathway for an upward socioeconomic movement towards a better quality of life, resulting in a more resilient individual and inclusive society. This will be achieved by addressing inequalities in income as well as access to education and essential services, through various efforts including comprehensive wage reforms and enhanced social protection for every layer of society. These initiatives lay a foundation for a more inclusive and prosperous nation that enhances social mobility and creates opportunities for economic growth.

In accelerating the implementation of the public service reform, Malaysia is geared to build an agile, rakyat-focused government that provides efficient and transparent services through technology. A whole-of-government approach will be strengthened through public service reforms such as the introduction of the Malaysian Government Service Efficiency Commitment Act 2025 [Act 867] (ILTIZAM)¹ to improve service delivery, embed accountability and restore public trust.

Outlook

Global Economy

The global economy is projected to expand moderately by 3% in 2025 before improving slightly to 3.1% in 2026, supported by resilient labour markets, gradual easing of inflationary pressures and accommodative monetary stance in major advanced economies (IMF, 2025). Growth in advanced economies is expected to stabilise, while emerging markets and developing economies (EMDEs), particularly in Asia, will continue to drive global output, underpinned by robust domestic demand and investment. Nevertheless, downside risks persist, due to heightened geopolitical tensions, volatility in commodity and energy prices, as well as the potential escalation of trade restrictions, which could weigh on global trade and supply chains. As Malaysia's growth prospects are influenced by this complex global environment, navigating these headwinds are crucial while deepening regional integration and enhancing competitiveness.

Domestic Economy

In 2025, the economy is expected to grow between 4% and 4.8%, underpinned by firm domestic demand. From the demand perspective, private consumption is anticipated to remain resilient, supported by higher disposable income, favourable labour market conditions, targeted assistance programmes and vibrant tourism activities. Investment momentum will be sustained by the realisation of multi-year projects and strong inflows into high-growth segments such as semiconductors

¹ Refers to service efficiency, structural reform and accountability in governance and regulatory effectiveness.

and data centres. From a supply perspective, the services and manufacturing sectors will continue to lead growth. The services sector will be driven by robust tourism activities, dynamic retail trade and increased demand for business-related services. Meanwhile, the manufacturing sector will benefit from growing semiconductor demand due to the expansion of the digital economy and the increasing use of AI edge applications as well as strong performance in domestic-oriented industries.

In 2026, Malaysia's economy is projected to expand between 4% and 4.5%, supported by resilient domestic demand and a steady external sector. Growth will be anchored by private consumption, boosted by the implementation of the salary adjustment under Phase 2 of the Public Service Remuneration System (SSPA), continuation of targeted assistance programmes and robust tourism activities in conjunction with Visit Malaysia 2026 (VM2026). In addition, strong investment performance will be supported by higher capital expenditures, particularly in high-impact strategic sectors. The services and manufacturing will remain key drivers of growth, complemented by sustained construction and agriculture sectors.

Monetary and Financial Developments

Monetary policy in 2025 remains focused on supporting economic growth amid global uncertainties, while maintaining domestic price stability. In July 2025, the Overnight Policy Rate (OPR) was lowered from 3.00% to 2.75% as a pre-emptive measure to sustain steady growth, given moderate inflation prospects. The ringgit has demonstrated resilience against the US dollar, underpinned by sound macroeconomic fundamentals, ongoing measures to encourage capital flows and improved investor confidence. Building on a mature and robust ecosystem, Islamic finance continues to expand, both domestically

and globally, through innovative instruments by providing diversified funding channels for strategic programmes under national plans. Looking ahead, continued strong collaboration between the Government, financial regulators and industry players will be pivotal in advancing digitalisation, financial inclusion and sustainable financing to support long-term development.

Updates on Budget 2025

Budget 2025 focuses on driving reforms, reinvigorating the economy and prospering the rakyat. The Government allocated RM421 billion, comprising RM335 billion in operating expenditure and RM86 billion in development expenditure.

Focus 1: Driving Reforms

Budget 2025 prioritised rakyat-centric development covering logistics and transport infrastructure, public utilities, flood mitigation, renewable energy as well as tourism. As of end-August 2025, of the RM3.4 billion allocated, RM2.8 billion or 82.9% was spent for 34 transport and logistics projects. Similarly, of the RM2.1 billion allocated for the Rapid Transit System Link (RTS Link) and Penang LRT Mutiara Line, 99.9% was spent in the same period. In addition, several key national projects in Sabah and Sarawak have been rolled out, namely the Pan Borneo Highway Sabah, Pan Borneo Highway Sarawak and Sarawak Sabah Link Road (SSLR) Phase 2 projects, involving disbursement of RM1.2 billion, RM281.1 million and RM217.5 million respectively. Furthermore, more than RM620 million was spent on 12 projects in various states nationwide to mitigate flooding in high-risk areas.

Several rakyat-focused projects worth RM14.4 billion are also being developed under PPPs. These include the construction

of Hospital Sultanah Aminah 2 in Johor; West Ipoh Span Expressway (WISE) between Gopeng and Kuala Kangsar in Perak; and West Coast Expressway (WCE) from Banting, Selangor to Gelang Patah, Johor.

In ensuring a more balanced development across all states, collaborative efforts between the Federal and state governments were undertaken in major development projects involving transport connectivity, green economy and advanced manufacturing with an allocation of RM37.5 billion. These projects are the Johor-Singapore RTS; expansion of Port Klang and widening of roads at the Pulau Indah Ring Road and North Port Klang in Selangor; Kulim Hi-Tech Park expansion in Kedah; and Machang Water Treatment Plant in Kelantan; and renewable energy ventures including the Kenyir Hybrid Hydro Floating Solar Farm (HHFS) and a green hydrogen hub in Terengganu. Meanwhile, tourism-related projects recorded an expenditure of RM103.8 million in the same period.

In ensuring the projects are implemented efficiently, the Government emphasises strengthening governance and institutional framework, which are key focus areas of Budget 2025. In addition, the recently passed Government Procurement Bill and Freedom of Information Bill in 2025 will strengthen government accountability and transparency. At the same time, the amended Audit Act 1957 [Act 62] expands the audit coverage of the Auditor General to also include entities which receive public funds, loans or financial guarantees. In further enhancing transparency and effectiveness, the National Audit Department incorporates more current and dynamic auditing methodology to meet the needs of the digital era. Meanwhile, to reduce duplication of functions between government entities and improve operational effectiveness, institutional reforms were also executed,

such as the merger of Malaysian Aviation Commission (MAVCOM) with the Civil Aviation Authority of Malaysia (CAAM).

Reforms were also initiated as part of the Government's efforts to rationalise subsidies. The diesel subsidy rationalisation programme in Peninsular Malaysia has been complemented with the introduction of the BUDI MADANI programme to assist targeted diesel users through direct cash transfers or diesel quota. By end-August 2025, more than 280,000 individual recipients, including farmers and smallholders, as well as more than 148,000 companies, benefitted from this programme.

In addition, electricity tariff reform was implemented in July 2025. The new base electricity tariff incorporates efficiency incentives and tiered mechanisms, which reflects real time global fuel prices, with the majority of domestic consumers expected to benefit from reductions of up to 19% in their electricity bills. This new tariff mechanism will improve energy monitoring accuracy, enhance transparency and demonstrate fairer cost distribution for consumers.

The Government is leveraging technological platforms and fostering AI adoption to enhance public service delivery through collaborations with academia and industries. In this regard, the National AI Office (NAIO) was established to accelerate AI adoption, foster innovation and ensure ethical development of AI. For this purpose, RM10 million was allocated to NAIO, of which 42% was disbursed as of end-August 2025. NAIO is in the process of developing the National AI Action Plan 2030, AI Adoption Regulatory Framework and AI Code of Ethics, among others. At the regional level, Malaysia has spearheaded the establishment of the ASEAN AI Safety Network, strengthening cooperation and mobilising expertise to advance safe and secure AI development among neighbouring countries.

Focus 2: Reinvigorating the Economy

One of the central strategies driving Malaysia's economic growth is the implementation of the New Industrial Master Plan 2030 (NIMP 2030), which aims to elevate the manufacturing sector and its related services by increasing value-added output by 6.5% annually, targeting RM587.5 billion by 2030. In catalysing the implementation of this transformation, Budget 2025 allocated RM131.5 million as seed funding to facilitate investment in industrial development initiatives under the Strategic Co-Investment Fund (CoSIF). As of end-August 2025, CoSIF has attracted investments totalling approximately RM25 million in high-value industries, particularly semiconductors, data centres and cloud computing.

The success of startups in a country demonstrates innovation and competitiveness. Malaysia's progress in startups has shown improvement in various aspects. Under Startup Genome's Global Startup Ecosystem Report 2025, the country's ranking in the Emerging Ecosystems category rose three spots to 18th position compared to 2024. In view of this, the Government will continue to fully support the expansion of startups by creating a more conducive ecosystem.

The KL20 programme is a major initiative to position Kuala Lumpur to be among the top 20 global startup hubs by 2030, by leveraging Malaysia's high growth markets, robust digital infrastructure, skilled talent pool and vibrant startup community. Among the ongoing projects under KL20, the Malaysia Semiconductor IC Design Park, aims to hire 300 engineers by the end of 2025, with 134 currently employed as of end-August 2025. Concurrently, notable progress has been made, with about 90% of the targeted 5,000 startups have been registered through the MYStartup platform.

In fully supporting the expansion of local startups, key initiatives including KWAP's Dana Perintis and Khazanah's Jelawang Capital have been rolled out. Under Dana Perintis, KWAP has allocated RM250 million to spearhead the local startups ecosystem while Khazanah's Jelawang Capital established the National Fund-of-Funds (NFOF) with a RM300 million capital for venture capital fund managers to expand startup investments.

Malaysia's digital transformation strategy has successfully attracted leading firms such as Amazon Web Services, Google, Microsoft and Oracle, with investment commitments amounting to USD16.9 billion. Export expansion is also being supported through reimbursement grants under the Market Development Grant to assist businesses in promoting export products and services as well as accessing international markets, particularly in Africa, Latin America and the Middle East. As of end-August 2025, 77.5% has been spent from the total allocation of RM40 million.

Malaysia's energy landscape is being transformed through the development of flagship renewable energy projects. The HHFS in Terengganu will be Malaysia's largest hybrid solar-hydro facility, with the launch of a 100kW capacity pilot project. Complementing this is the Kenyir green hydrogen hub, a collaborative venture between PETRONAS and TNB, which will produce green hydrogen using renewable energy from the HHFS. Both the Kenyir HHFS and green hydrogen hub will be part of the Kenyir-Kerteh Corridor and linked to the ASEAN Power Grid, thereby enhancing regional energy trade.

The Government has undertaken various measures under Budget 2025 to enhance food security and strengthen commodities sector. In improving food security, RM300 million was allocated for initiatives such as onion farming in Perak, red tilapia farming in Pahang and paddy yield increment efforts in Negeri Sembilan, with more than RM280 million disbursed as of end-August 2025. Meanwhile, in supporting oil palm and rubber

smallholders, the Government has spent RM1.4 billion as of end-August, among others, for replanting programmes as well as plantation pest and disease management.

Majlis Amanah Rakyat (MARA) is mobilising community financing under the Wakaf MARA MADANI programme to strengthen social well-being and expand economic opportunities for the rakyat. This programme involves contributions from corporate sectors and individuals who have previously benefitted from MARA, with a focus of channelling funds for education, entrepreneurship, healthcare, transportation, social welfare and waqf assets. As of end-August 2025, RM54.7 million has been received.

In ensuring Malaysia continues to uphold its heritage, arts and culture, Khazanah is undertaking projects to revitalise Kuala Lumpur's historical and cultural landscape, particularly the restoration of the Sultan Abdul Samad building and Carcosa Seri Negara. From the pledge of RM230 million for 2025, around 33% has been deployed as of end-August. Meanwhile, in preparation for the VM2026, the Government has allocated RM550 million for promotional activities, arts and cultural programmes as well as increasing flight connectivity to Malaysia. As of end-August 2025, more than 90% was spent on these programmes. In complementing tourism activities, RM110 million was allocated for upgrading attractions, strengthening ecotourism partnerships and pursuing UNESCO nominations such as the Tapak Warisan Perlombongan Bijih Timah Sungai Lembing in Pahang as well as Chingay parade and lion dance. As of end-August 2025, 61.3% has been spent.

Focus 3: Prospering the Rakyat

Towards elevating the living standards and enhancing the well-being of the rakyat, the Government continues strengthening social protection, ensuring job security and supporting entrepreneurship. The Government

has allocated RM13 billion under Budget 2025 for the implementation of Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) cash aid programmes. The STR programme continues to benefit 9 million recipients, including 5.4 million who also enjoy additional benefits under the SARA programme. Furthermore, an additional RM2 billion was allocated in July 2025 for the Penghargaan SARA RM100 One-off initiative, benefitting 22 million Malaysians aged 18 and above. In ensuring comprehensive outreach of these programmes, disbursement was upgraded to a seamless delivery system using MyKad-linked payments.

In complementing social protection, there is a need for a multidimensional approach to address the rakyat's well-being, primarily in education, healthcare and housing. A sum of RM2 billion was allocated under Budget 2025 to upgrade schools nationwide including the refurbishment of dilapidated classrooms as well as upgrading of deteriorated infrastructure and facilities including basic amenities. Private organisations and GLCs have also committed to upgrading other school facilities. Furthermore, 44 new schools are in the early stages of development as of end-August 2025. Moreover, the Government allocated RM100 million for the expansion of internet access to schools in villages and remote areas, to support the national agenda to bridge the digital divide nationwide, through the Fixed-Line Broadband Infrastructure Connectivity to Rural Schools Programme.

About RM1.4 billion was allocated for the maintenance and upgrading of public healthcare facilities, with RM300 million for the rebuilding and upgrading of dilapidated clinics in 2025. In addition, RM100 million was allocated under the Skim Perubatan MADANI to provide free outpatient treatment at participating private clinics for the B40 income group, benefitting more than 320,000 recipients as of end-August 2025. Meanwhile, RM80 million was allocated for the PeKa B40 programme, providing healthcare screening for the B40 income group. As of end-August

2025, approximately 220,000 individuals have benefitted from this programme towards extending healthcare access for vulnerable communities.

The Government also invested in rural infrastructure and affordable housing to close regional development gaps. Budget 2025 focuses on providing conducive and comfortable home for the rural and underserved communities. This initiative involves RM2.9 billion for the upgrading of basic infrastructure, RM100 million for the operations of mobile health clinics and RM376 million for the socioeconomic development of Orang Asli communities. A sum of RM900 million was also allocated for Program Residensi Rakyat and Rumah Mesra Rakyat, benefitting more than 50% of the 17,500 targeted recipients in the first half of 2025. Furthermore, the Government also emphasises the well-being of civil servants by providing government quarters nationwide.

As part of the Government's effort in improving social mobility of the rakyat and ensuring job security, the national minimum wage was raised to RM1,700 per month starting 1 February 2025. In parallel, targeted support for informal and gig workers was expanded to include the i-Saraan voluntary contribution scheme under Employees Provident Fund (EPF). In the first half of 2025, more than 480,000 workers participated in this scheme.

In supporting entrepreneurship, RM11.4 billion was disbursed through microfinance schemes under various entities including Bank Simpanan Nasional, Bank Rakyat, MARA and TEKUN Nasional. These schemes have benefitted more than 73,000 MSMEs for working capital and business expansion, thereby increasing productivity. In addition, RM64.6 million was disbursed to empower women's participation in MSMEs. Furthermore, a sum of RM7.5 million was spent to encourage and increase utilisation of green and energy efficient technology among local industry players.

Economic Management

Malaysia's economic growth momentum is anticipated to be sustained, underpinned by resilient domestic demand, continued investment activities and stable external trade. In navigating an increasingly complex global environment, the Government remains steadfast in ensuring sound and balanced economic management. Fiscal policy will continue to be formulated in a responsible and responsive manner, focusing on broadening revenue base, enhancing expenditure efficiency and ensuring fiscal sustainability. These efforts are complemented by ongoing initiatives to accelerate structural reforms, widen economic opportunities as well as safeguard social protection towards achieving economic resilience.

At the same time, emphasis will be placed on productivity and competitiveness through innovation, digitalisation and green transition, in line with Malaysia's development aspirations. The Government will ensure economic progress translates into improved well-being for the rakyat by addressing rising cost of living, strengthening labour market and promoting inclusive growth across all segments of society. Collectively, these measures will reinforce Malaysia's economic fundamentals, sustain investor confidence as well as position the nation on a path towards becoming an inclusive high-income nation.

Opportunities and Challenges

Economy

Global Economic Uncertainties

The global economy continues to face uncertainties, particularly those emanating from the US trade policies, geopolitical tensions and climate-related adversities, potentially disrupting global supply chains. Although these challenges continue to pose

downside risks, they also provide opportunities to reposition Malaysia on the international stage. With robust infrastructure, skilled workforce and regulatory framework, Malaysia is well-positioned to attract investments and support diversified production networks. This provides the country with opportunities to cushion the global economic impact, deepen regional integration and further enhance economic resilience.

Investment and Competitiveness

Malaysia's strong economic fundamentals position the country to attract quality investment and improve competitiveness in driving economic growth. This will also provide opportunities for the country in potential areas such as digital, halal and semiconductor industries, underpinned by strategic location, developed infrastructure and highly capable workforce. Furthermore, the Johor-Singapore Special Economic Zone (JS-SEZ) will catalyse the nation towards becoming a centre for regional economic growth in these areas. At the same time, healthy competition from regional peers motivates Malaysia to refine the value proposition, enhance ease of doing business and attract quality investments. These developments not only spur economic progress but also create more skilled jobs and raise incomes for the rakyat.

A stable political environment also provides a solid foundation for implementing structural reforms to enhance policy continuity. Building on existing strengths, the country is poised to drive high-value, innovation-led growth that supports long-term resilience, sustainability and shared prosperity. In complementing these advantages, initiatives under the NIMP 2030, NETR, National Semiconductor Strategy (NSS) and an array of other impactful measures under the Thirteenth Plan are introduced to raise productivity further and move the nation into the world's top 12 competitive economies. This will boost investor confidence, support stronger trade relations, increase capital inflows and strengthen regional cooperation.

Fiscal Sustainability

A sustainable fiscal policy is crucial in supporting long-term inclusive growth. The Government has succeeded in reducing the fiscal deficit from 5.5% in 2022 to 4.1% of GDP in 2024 and to be further reduced to 3% in the medium-term, anchored by various fiscal reforms. In this regard, Act 850 focuses on responsibility, accountability and transparency to improve fiscal conduct, thus ensuring the country's sound public finances. In addition, efforts will be intensified to enhance revenue, reduce wastage and ensure prudent debt management. A stronger fiscal position enables the country to achieve the national development agenda and withstand economic challenges. A prudent fiscal policy complemented by strategic economic initiatives demonstrate the Government's commitment towards achieving the Ekonomi MADANI aspirations.

Business

New Growth Areas

Emerging industries are shaping Malaysia's next economic frontier. The digital economy is growing rapidly with AI, cloud computing, 5G technology and e-commerce, while the green economy is advancing through renewable energy, electric vehicles (EVs) ecosystems and battery technology. Businesses benefit from efficiency gains and market expansion, through policies such as the National Fourth Industrial Revolution (4IR) Policy, NSS and the forthcoming National AI Action Plan 2030. Recognising these opportunities as well as the challenges of MSMEs to adopt digital technology, the Government will continue to invest in digital infrastructure, particularly in rural areas, provide support and advisory services to MSMEs as well as enhance AI governance and cybersecurity frameworks. In addition, specific industries such as medical tourism, biotechnology and agrotechnology will be emphasised, which in turn boosting these related-sectors' growth and creating skilled jobs.

INFORMATION BOX 1.1**National Sustainability Reporting Framework***In collaboration with Securities Commission Malaysia & Bursa Malaysia***Introduction**

There has been tremendous development and growth across the sustainability ecosystem worldwide in recent years. Globally, 36 jurisdictions have already moved towards adopting or aligning with the IFRS¹ Sustainability Disclosure Standards (IFRS SDS), representing over 60% of global GDP, more than 40% of global stock-market capitalisation, and close to half of global greenhouse gas emissions. This is largely driven by the growing demand for stronger sustainability or ESG practices as well as more comprehensive disclosures by businesses. These demands come from various stakeholders, including regulators, institutional investors, lenders, customers, and NGOs. In line with this intensified global focus on sustainable finance and ESG transparency, Malaysia recognises the importance of developing a comprehensive and globally aligned sustainability reporting framework. Hence, Malaysia has undertaken significant steps to strengthen sustainability reporting requirements among businesses.

Malaysia Sustainability Reporting Ecosystem

Malaysia's journey towards formal sustainability reporting began in October 2015, when Bursa Malaysia first incorporated ESG disclosure requirements into its Listing Requirements². This marked a significant milestone in formalising corporate accountability on sustainability issues. In September 2022, Bursa Malaysia mandated all Main Market listed issuers to provide climate-related disclosures, aligning with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)³ beginning financial year ending on or after 31 December 2025. In response to the growing demand for the sustainability reporting requirements, Bank Negara Malaysia (BNM) also adapted the Climate Risk Management and Scenario Analysis (CRMSA)⁴ for financial institutions to produce TCFD-aligned climate disclosures beginning 1 January 2024. This initiative strengthens the alignment between financial sector risk assessments and global climate-related reporting standards.

For non-listed companies, however, sustainability reporting remains voluntary. Nevertheless, the Companies Act 2016 [Act 777] offers a basis for broader disclosure, stating that the directors' report may include a business review where necessary to provide a clear understanding of company's development, performance, or position. Importantly, this business review may also contain information on principal risks and uncertainties, as well as environmental, social, and community issues, thereby offering non-listed companies the opportunity to disclose sustainability information in a structured manner even in the absence of a formal mandate.

These developments provide a solid foundation for a nationally coordinated approach leading to the formulation of the National Sustainability Reporting Framework (NSRF), in accordance with the IFRS SDS, which fully incorporates the TCFD recommendations. The harmonisation of local regulatory requirements with international standards enhances the comparability and reliability of sustainability-related financial information. The NSRF was developed and officially launched in September 2024 by

¹ IFRS - International Financial Reporting Standard

² ESG disclosure requirements introduced in October 2015 were incorporated into the Listing Requirements for both the Main Market and the ACE Market.

³ TCFD is a global framework that guides companies in reporting climate-related financial risks and opportunities. It helps improve transparency for investors by focusing on governance, strategy, risk management, and climate-related metrics.

⁴ CRMSA guides financial institutions to manage climate-related risks and assess their impact through scenario analysis.

the Advisory Committee on Sustainability Reporting (ACSR), with the endorsement of the Ministry of Finance (MoF). The ACSR, chaired by the Securities Commission Malaysia (SC), comprises representatives from BNM, Bursa Malaysia, the Companies Commission of Malaysia (CCM), the Audit Oversight Board (AOB), and the Financial Reporting Foundation (FRF). Figure 1.1.1. illustrates a simplified timeline of the sustainability reporting ecosystem in Malaysia since inception. In supporting these initiatives, MoF also provides tax deduction of up to RM50,000 annually for expenses related to ESG reporting and sustainability compliance from 2024 to 2027 assessment year.

FIGURE 1.1.1. Malaysia's Sustainability Reporting Ecosystem



Source: Ministry of Finance, Malaysia

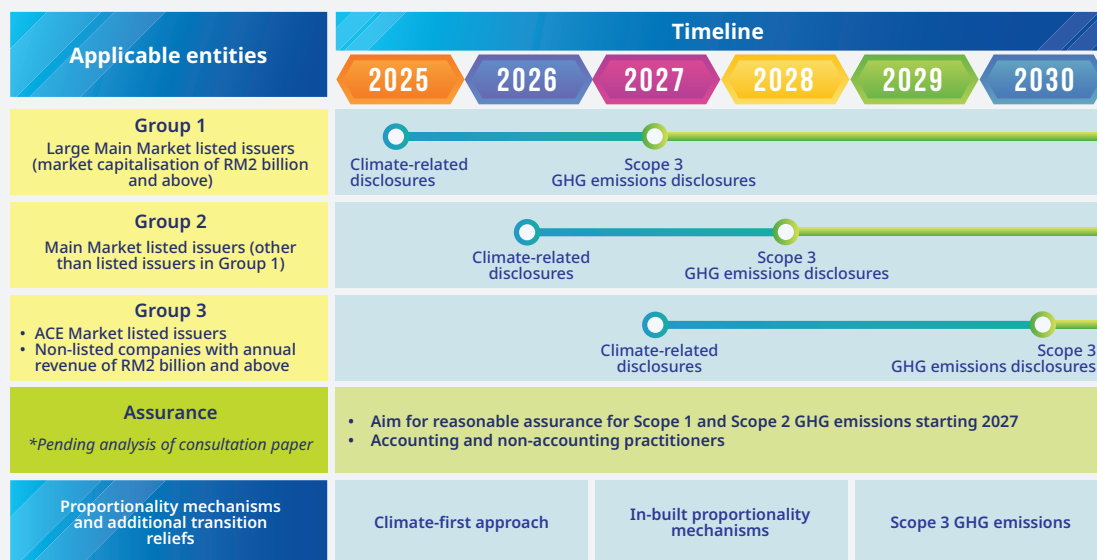
In ensuring that companies in Malaysia remain relevant in the face of the growing global demand for robust sustainability reporting, Malaysia has mandated the adoption of the IFRS SDS through the NSRF, particularly:

- IFRS S1 - *General Requirements for Disclosure of Sustainability-related Financial Information*
- IFRS S2 - *Climate-related Disclosures*.

Sustainability Reporting Requirements

Playing a key role in ensuring the competitiveness of the Malaysian capital market, Bursa Malaysia continuously enhances sustainability reporting requirements for both the Main Market and ACE⁵ Market. These enhancements aim to strengthen business resilience, and improve the ease of reference and comparability for investors. In this regard, the NSRF provides the groundwork for improving transparency and accountability in how listed issuers manage sustainability-related risks and opportunities, using a globally recognised standard. Figure 1.1.2. illustrates the implementation of the NSRF through a phased and developmental approach, reflecting the varying levels of adoptability among companies to implement the sustainability standard.

⁵ ACE Market - Access, Certainty, Efficiency Market - a sponsor-driven market designed for companies with growth prospects. It was formerly known as the MESDAQ Market.

FIGURE 1.1.2. NSRF Implementation Timeline

Source: Securities Commission Malaysia

In alignment with the NSRF, Bursa Malaysia Securities Berhad issued enhanced sustainability reporting requirements under the Main and ACE Market Listing Requirements in December 2024. Under these enhanced requirements, a listed issuer must prepare a Sustainability Statement in annual report in accordance with the IFRS SDS, which must include the following information:

- metrics and targets that demonstrate the listed issuer's performance and progress of its sustainability related risks and opportunities for the last three financial years on a rolling basis, together with a summary in a prescribed format; and
- a statement whether the listed issuer has subjected the Sustainability Statement to internal review by an internal auditor or independent assurance performed in accordance with recognised assurance standards.

Bursa Malaysia has also designated its Centralised Sustainability Intelligence Solution (CSI Solution) to serve as the Exchange's sustainability reporting channel for all listed issuers. This web-based platform supports listed issuers in meeting sustainability and climate-related disclosure requirements under IFRS S1 and S2 as part of the NSRF, and offers dedicated reporting modules alongside Scope 1 and Scope 2 carbon calculators.

Complementing Bursa Malaysia's initiative, BNM revised the CRMSA policy document in March 2025 to align with the requirements of the NSRF and to include all other financial institutions which are yet to be scoped into the NSRF, effective from the 2027 financial year.

Impacts and Benefits to Businesses

The NSRF plays a pivotal role in ensuring corporate Malaysia provides reliable, consistent and comparable sustainability information. The framework supports the country's commitment to strengthen investor confidence and attract long-term responsible capital. Reliable and standardised sustainability information

enhances transparency in financial markets, facilitates better investment decisions and positions Malaysia as a competitive and credible investment destination in the global sustainable finance ecosystem. In June 2025, the IFRS Foundation acknowledged Malaysia as being the sole ASEAN nation adopting the International Sustainability Standards Board (ISSB) standards,⁶ highlighting international recognition of Malaysia's commitment to sustainability efforts.

For listed issuers, the enhanced reporting requirements not only serve as a compliance exercise, but also as a strategic opportunity to embed sustainability practices into core business operations. The requirement to disclose key metrics, targets and progress on significant sustainability initiatives promotes a culture of accountability and strategic foresight. Over time, this will help businesses to better manage sustainability-related risks and seize new opportunities in the low-carbon economy, ultimately enhancing corporate resilience and performance.

While the primary focus of adopting the IFRS SDS is on listed issuers, it is also critical for non-listed companies, particularly those of economic significance, to identify and effectively manage their material sustainability risks and opportunities in order to maintain business resilience and competitive advantage. Hence, large non-listed companies with an annual revenue of RM2 billion and above were included in the NSRF, due to their wide geographical footprint and exposure to transition risk. As of June 2025, the scoped-in non-listed companies represent 22% of large non-listed companies⁷.

Furthermore, by adopting a unified framework that promotes comparability across industries and markets, the NSRF reduces reporting fragmentation and complexity. This consistency facilitates data interpretation for investors, rating agencies, and other stakeholders, while also encouraging continuous improvement and benchmarking among companies. The combined effect of these enhancements contribute to a more transparent, resilient, and future-ready corporate sector, better aligned with market expectations and national sustainable development priorities.

Implementation Support and Future Plans

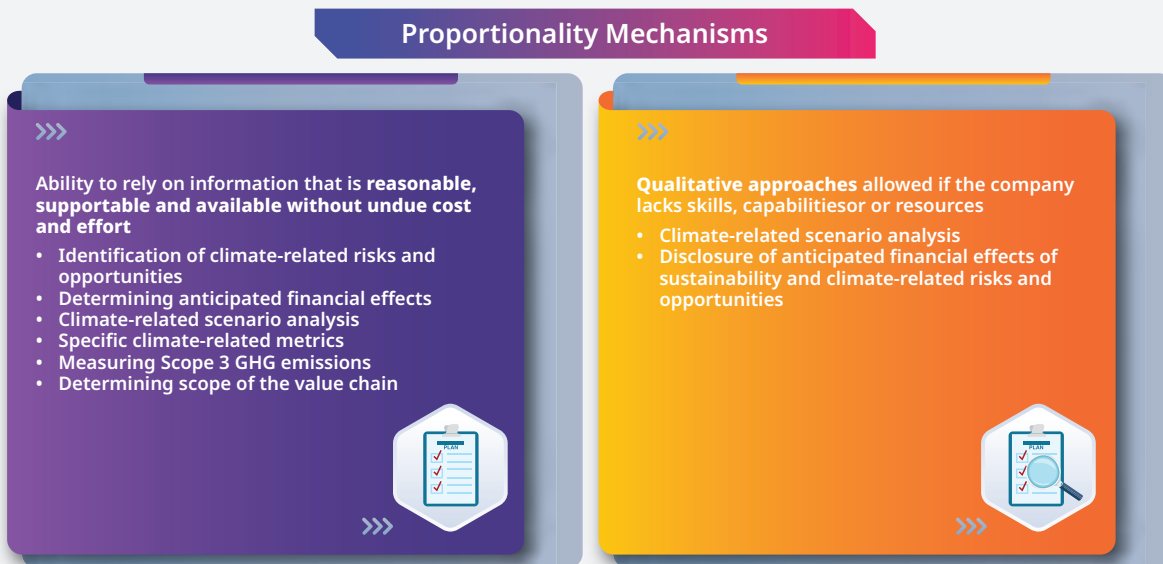
Given the varying maturity levels in companies' sustainability reporting journeys, the ACSR has incorporated proportionality mechanisms available within the IFRS SDS into the NSRF, to guide applicable disclosures, as outlined below:

- a. allow applicable entities to use reasonable and supportable information available without undue cost and effort. In such cases, entities may apply qualitative approaches in certain instances under the IFRS S1 and S2; and
- b. allow applicable entities to consider their skills, capabilities and resources when preparing disclosures in areas characterised by a high degree of measurement or outcome uncertainty.

These provisions apply to the information required for such disclosures and are intended to support the applicable entities in meeting the requirements of the Standards, as per Figure 1.1.3.

⁶ The acknowledgement comes via the IFRS Jurisdictional Profile 12 June 2025

⁷ Refers to non-listed companies that exceed the threshold of Mid-Tier Companies with annual revenue of RM500 million and above as defined by the Malaysia External Trade Development Corporation (MATRADE).

FIGURE 1.1.3. Proportionality mechanisms to facilitate adoption

Source: Securities Commission Malaysia

The ACSR also allows applicable entities to avail themselves of the following additional transition reliefs as shown in Figure 1.1.4. The NSRF provides these reliefs to facilitate a smoother transition towards a full adoption of the IFRS SDS for the respective reporting periods.

FIGURE 1.1.4. Additional transition reliefs

Additional transition reliefs (ATR) commencing from the first annual reporting period of the respective applicable entities		Duration of reliefs	
		Group 1 & 2	Group 3
	ATR 1 Applicable entities are permitted to disclose information on only climate-related risks and opportunities (in accordance with IFRS S2) and consequently apply the requirements of IFRS S1 only insofar as they relate to the disclosure of information on climate-related risks and opportunities.	2 years	3 years
	ATR 2 Applicable entities are permitted to focus on providing climate-related disclosures for principal business segments.		
	ATR 3 Applicable entities are permitted to not disclose Scope 3 GHG emissions (IFRS S2 Paragraph C4(b)), except for categories already required by applicable entities' respective regulators.		

Source: Securities Commission Malaysia

In providing capacity building programmes and support to the listed issuers in adopting the NSRF, the SC released an implementation support in the form of a simplified guide entitled 'Navigating the Transition: A Guide for Boards (Board Guide)'. The Board Guide provides board of directors with simplified and actionable steps on key areas such as governance, data boundaries, financial impact assessments and integration with enterprise risk management systems.

In addition, the ACSR will focus on capacity building programmes and tools to support companies in using the IFRS SDS. These measures will be implemented through an initiative referred to as PACE (Policy, Assumptions, Calculators and Education), a hub for implementation support on the NSRF. PACE will, among others:

- a. run capacity building programmes incorporating the NSRF Preparers' Programme;
- b. make available NSRF-related educational materials, guidance, toolkits and emissions calculator;
- c. provide granular help; and
- d. derive consensus on key assumptions and disclosures.

Moving forward, PACE will be issuing Illustrative Sustainability Reports for specific sectors to serve as a guide and basis for reporting. This will address hypothetical risks that may be relevant to both the entity and the industry in which it operates. As of July 2025, PACE has posted on the platform the draft Illustrative Sustainability Reports for the plantation and construction sectors.

Conclusion

The development and phased implementation of the NSRF marks a significant milestone in Malaysia's sustainability journey. Through collaboration across regulatory agencies and capital market institutions, Malaysia is creating a robust ecosystem for sustainability reporting that meets global demands while addressing local needs. By enhancing transparency and aligning disclosures with international standards, Malaysia is not only improving corporate accountability but also positioning itself as an attractive destination for sustainable and responsible investment. As highlighted in the Thirteenth Malaysia Plan, 2026-2030, the Government will continue to play a strategic role in supporting the sustainability agenda under the Ekonomi MADANI framework through institutional alignment, stakeholder engagement, and capacity building initiatives.

Rakyat

Wage Structure

Malaysia has transitioned to an upper middle-income economy for the past three decades. Over the years, the Government has consistently pursued policies to transform the market structures with the aim of ensuring that workers are fairly compensated commensurate with economic growth. However, the compensation of employees (CE) is still below the targeted 45%. Therefore, employers and employees' awareness and compliance with wage regulations in ensuring wage reforms are translated into real income gains for workers, remain critical factors.

Cost of Living

The Government continues to strengthen efforts in managing cost of living, particularly for the vulnerable groups. Over the past five years, targeted assistance such as STR, SARA and Payung RAHMAH as well as price control measures, among others, have minimised the impact of rising cost of living on the rakyat. In addition, the Government is shifting from blanket subsidy towards a more targeted mechanism to reduce leakages and wastage, increase market efficiency and optimise resources for the benefit of the rakyat.

Ageing Population

Malaysia is projected to shift from an ageing to aged nation by 2048, with 14% of the population aged 65 and above. Such status requires improvements in healthcare and living standards, resulting in larger allocations on healthcare and social protection systems. While addressing the crucial needs of an ageing population, the Government continues

to explore opportunities in leveraging the potential capacity of older Malaysians in contributing to the economy beyond retirement. With proper policies, ageing does not need to translate into economic dependency, but is seen as another component of human capital agenda, emphasising lifelong learning and reskilling as tools to sustain productivity and encourage active ageing.

Government

Good Governance

Over the past three years, the Government has adopted reforms in procurement, subsidy and financial reporting. However, the CPI score remains unchanged indicating more efforts required to improve governance, efficiency and policy consistency. The use of digitalisation, including procurement systems, data-driven monitoring platforms and open data initiatives as well as the recently passed Government Procurement Bill 2025 will further enhance accountability and transparency. The Government will continue to proactively engage stakeholders by leveraging the expertise and insights from civil society, academia and industry in shaping policies and monitoring outcomes.

Quality Infrastructure

Despite Malaysia's notable improvements in providing public infrastructure and amenities, development gaps between regions, specifically rural and underserved areas, are still prevalent. In some remote areas, providing better infrastructure, road networks and utilities are crucial to enhance efficiency, connectivity and accessibility. In addition, strengthening healthcare and education facilities will further improve the quality of life of the rakyat.

Strategic Initiatives – Budget 2026

As the first budget under the Thirteenth Plan, Budget 2026 will serve as a strategic policy instrument to sustain economic momentum, strengthen fiscal resilience and bridge structural gaps. The Budget will focus on three thrusts guided by the Ekonomi MADANI framework, namely, 'Administration and Governance', 'Raising the Ceiling' and 'Raising the Floor'. In essence, Budget 2026 will bridge short-term needs with long-term priorities, and chart a more inclusive, sustainable growth path for Malaysia.

Administration and Governance

Budget 2026 will continue advancing the Government's reform efforts, with emphasis on enhancing governance, strengthening service delivery and safeguarding fiscal sustainability. To this end, the Government will prioritise the modernisation of public services, introduce regulations to improve service delivery as well as reinforce the principles of integrity and ethical governance. These reforms will be underpinned by a commitment to optimise resources, minimise leakages and ensure assistance is effectively targeted to eligible recipients.

The Government is accelerating digitalisation across the public sector to enhance efficiency, transparency and accessibility. Nationwide GovTech initiatives, including MyVisa 2.0, MyJPJ and digital one-stop centres, are streamlining service delivery, reducing bureaucratic burdens and providing more seamless transactions. Budget 2026 will continue to invest in digital infrastructure, data integration and capacity building, which ensure faster, more inclusive and people-centric services. A central component of this effort is the rollout of MyDigital ID, which provides the rakyat with a verified digital identity for secured access to government and private sector services.

Furthermore, the acceleration of digitalisation in the public sector will also strengthen fiscal governance and optimise revenue collection. Advanced tools such as AI, big data analytics and automation are increasingly adopted to improve compliance monitoring and enforcement. Moving forward, the Government will continue to expand digitalisation of public services to offer convenient and transparent services.

A comprehensive governance agenda will be pursued through institutional reform to ensure the Government remains transparent, agile and efficient in serving the rakyat. Central to this effort is STAR, which streamlines structures, mandates and processes to strengthen organisational efficiency and accountability across ministries and agencies. Additionally, the reform is being institutionalised through *ILTIZAM* [Act 867], embedding performance-based evaluations, enhancing accountability and reinforcing public service delivery. Under Act 867, civil service performance will be assessed not only on compliance but also on outcomes, ensuring that policy objectives are delivered on time, with integrity and measurable impact. Budget 2026 will further support reform initiatives, by expanding collaborations with all level of governments, particularly through capacity-building and digital fluency. These measures aim to provide guidance for public officials in delivering services efficiently to the rakyat.

The Government is advancing a comprehensive agenda of legal and institutional reforms to strengthen public institutions, safeguard integrity and uphold the rule of law. In this regard, Budget 2026 will continue to enhance institutional regulatory frameworks, including fortifying parliamentary institutions, towards enabling greater legislative oversight and policy scrutiny. In addition, the Government will explore several new legislations to enhance governance, transparency and efficiency in the management of government-linked entities and to address complaints related to public administration. Furthermore, the Government

will table a Freedom of Information Bill to promote transparency and accountability by allowing public to access government information. These legislative reforms are in line with the NACS, which provides a whole-of-government and whole-of-society approaches to combat corruption, strengthen enforcement and inculcate integrity across all sectors of society.

Budget 2026 will also emphasise the Government's commitment to uphold integrity, accountability and transparency in fiscal management. This effort is reinforced by Act 850 and the Government Procurement Bill 2025, aiming to enhance fiscal responsibility and governance in managing public finances. In addition, the Public-Private Partnership Master Plan, 2030 will further strengthen collaboration between public and private sectors as well as promote efficient project management towards achieving national development agenda.

Raising the Ceiling

Malaysia's economic transformation requires bold measures to boost productivity and accelerate the shift towards higher value-added activities in supporting HGHV and energy transition efforts. In this regard, raising the ceiling entails advancing industrial capabilities, fostering innovation-driven growth and creating a conducive environment for businesses to scale up and integrate into global value chains. By leveraging technology, talent and sustainability principles, Malaysia is poised to unlock new sources of growth, which will fortify its position as a dynamic and resilient economy.

Malaysia is advancing towards becoming an AI-driven economy by recognising AI as a key enabler of productivity, innovation and competitiveness. The Government will introduce the National AI Action Plan 2030, a robust governance framework to guide and

accelerate AI adoption across priority sectors, while strengthening national capabilities in R&D&C&I. In this regard, Budget 2026 will focus on the utilisation of AI and big data analytics to enhance decision-making, optimise resources as well as improve efficiency across industries and public services.

By embedding AI across industries and cultivating a culture of innovation, Malaysia can accelerate the transition towards a dynamic and innovative economy, which will move the country up the global value chain. This reinforces Malaysia's aspiration to become a hub for high-value and technology-driven production, thus strengthening long-term competitiveness, creating high-paying jobs and ensuring the nation seizes opportunities in the digital age. Complementing this, the KL20 Plan seeks to position Kuala Lumpur among the world's top 20 startup ecosystem through nurturing innovation-driven enterprises and thereby developing a leading global startup hub. Budget 2026 will also provide funding such as seed funds and co-investment funding for potential startups.

The Government will continue to enhance productivity and competitiveness in HGHV industries and high-impact strategic sectors through targeted policies. This will include programmes under the Bumiputera Economic Transformation Plan 2035 (PuTERA35) that emphasises skills development and entrepreneurship to increase broader participation, meaningful ownership and upscale participation of the Bumiputera community in those industries and sectors. In addition, GLICs will continue to invest in strategic sectors to further boost domestic investments and strengthen global supply chains. Budget 2026 will also continue to focus on developing halal supply chains that are digitally enabled and internationally competitive, with Islamic finance serving as a key enabler for growth in the global Islamic economy.

INFORMATION BOX 1.2

Elevating the Bumiputera Agenda by Raising the Floor

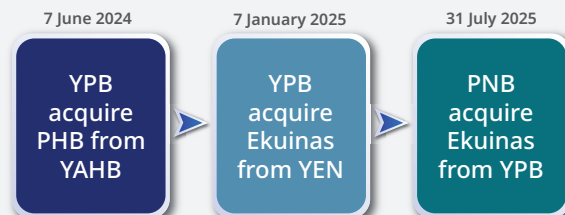
In 2024, the Ministry of Finance initiated the Government-Linked Enterprises Activation and Reform Programme (GEAR-uP) to strengthen strategic investments, innovation and social inclusion in supporting the nation's economic development agenda. GEAR-uP has delineated seven 'Raise the Floor' initiatives, one of which is empowering and uplifting Bumiputera communities and businesses. Beyond their commercial mandates, Government-Linked Investment Companies (GLICs) and Government-Linked Companies (GLCs) also contribute towards the development of a sustainable pipeline of talent and enterprises among Bumiputera.

GLICs' investments in Bumiputera-owned startups and mid-tier companies reached **RM1 billion** in 2024, underscoring continued commitment towards inclusive economic participation.

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Streamlining Bumiputera Investment Institutions for Greater Impact

Rationalisation of Yayasan Pelaburan Bumiputra (YPB), Yayasan Amanah Hartanah Bumiputera (YAHB) and Yayasan Ekuiti Nasional (YEN) reinforces investment institutional efficiency and mandate execution.



Creating Bumiputera champions

Through a unified effort, GLICs and GLCs are developing high-potential Bumiputera companies in strategic sectors to create **10 champions** by 2028.



- The champions are identified through GLICs and GLCs nomination, followed by financial and non-financial support including capacity building, market access, and regulatory facilitation.

Bumiputera Relay Race

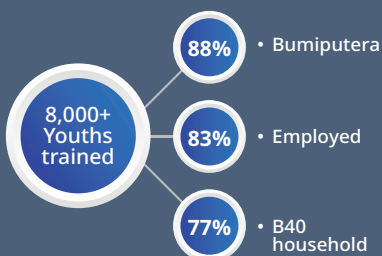


- Support mid- to late-stage Bumiputera firms through funding, value creation plans and eventual public listing.
- This structured handover from Ekuinas (private equity firm) to PNB (public institutional ownership) is at the core of the "relay race" metaphor, symbolising a seamless transition of ownership across growth stages.

'Raise the Floor' achievements in 2024



A youth employability initiative developed by Khazanah to nurture future talent.



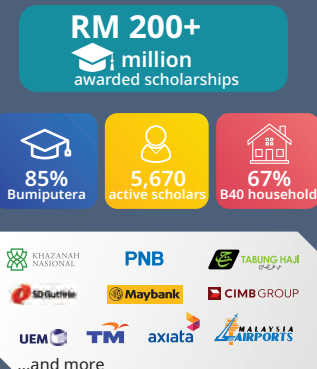
Lembaga Tabung Angkatan Tentera's PERHEBAT improved post-service employability of **3,500** armed forces personnel through upskilling.



Zakat contributions: Lembaga Tabung Haji and PNB disbursed **RM100 million** and **RM64 million**, respectively.



Education



Source: GEAR-uP 2025 Progress Report

In narrowing rural and regional development gaps, Budget 2026 will focus on diversifying the economic landscape beyond traditional economic activities. Leveraging collaborations between Federal and state governments with the private sector as exemplified in Cyberjaya, Port of Tanjung Pelepas, Kulim Hi-Tech Park, Kota Kinabalu Industrial Park and the Samalaju Industrial Park, the Government will continue the collaboration in developing other strategic locations across the nation. The collaboration can serve as impetus for state-level transformation, capitalising the untapped potential for industrial clustering, innovation ecosystems and inter-state synergies.

Underpinned by the New Investment Incentive Framework to accelerate the nation's industrial transformation, the Government will continue to provide tailored incentives to attract quality investments and maximise economic returns. Budget 2026 will focus on further streamlining approval processes, dismantling bureaucratic hurdles and realigning incentives with the complexity, value-add and technological intensity of targeted industries.

At the regional level, Malaysia is deepening ASEAN economic integration, with strategic initiatives such as the ASEAN Power Grid to enhance cross-border energy connectivity and security. These efforts will position Malaysia as a regional hub for renewable energy trade, reinforcing its role as a driver of sustainable growth within Southeast Asia.

In enhancing competitiveness and scalability of MSMEs, Budget 2026 will accelerate the adoption of digitalisation by expanding access to digital tools, training and e-commerce capabilities. This will foster an innovation ecosystem that connects MSMEs with technology providers, research institutions and global supply chains, thus enabling more firms to participate in international markets while improving productivity.

Similarly, Malaysia will harness growth in tourism and related services in conjunction with VM2026. In this regard, the Government will be focusing on progressive visa policies, including extended visa-free entry for selected key markets as well as maintaining and upgrading tourism-related infrastructure, enhancing public transportation and encouraging eco-tourism activities.

Overall, Budget 2026 initiatives will ensure Malaysia's integration with the global economy remains strategic, competitive, inclusive and future-oriented across all sectors. This is in line with the Government's aspirations to 'Raise the Ceiling' towards achieving objectives as outlined in the Ekonomi MADANI framework.

Raising the Floor

'Raising the Floor' is one of the key elements of Ekonomi MADANI manifested in Budget 2026 to enhance the rakyat's well-being. This development agenda explicitly requires the Government to safeguard the nation's most valuable asset, the rakyat. Emphasis will be placed in ensuring a decent standard of living and pathways for the rakyat to move upward.

For the rakyat to attain improved standards of living, the Government will continue to address socioeconomic issues across multiple dimensions of development. This entails ensuring fair wages and decent jobs, expanding assistance mechanisms to provide more dignified living conditions for the rakyat. This includes enhancing infrastructure as well as providing equitable access to quality healthcare and education, focusing on bridging the urban-rural divide towards balanced development.

FEATURE ARTICLE 1.1

A Decade of Minimum Wage: Assessing the Economic Impact

In collaboration with the National Wages Consultative Council

Introduction

Malaysia's minimum wage policy was introduced to address the low wage structure in the labour market and promote a more equitable and resilient economy. It was designed with the aim to raise wages of low-paid workers for a better safety net and well-being; encourage businesses to adopt automation for productivity improvement; and reduce the nation's dependency on low-skilled foreign labour while ensuring local employment is more competitive. After a decade of implementation, it is important to assess the outcome of the policy in improving the well-being of businesses and workers. Hence, this article will measure the impacts of minimum wage across several macroeconomic dimensions, including consumption, inflation, labour productivity, income distribution, as well as compliance and business operations, drawing on a decade's worth of data, findings from real-case studies and internal empirical analysis.

The Evolution of Minimum Wage Policy in Malaysia

Malaysia's journey towards implementing minimum wage has been lengthy pursuit with the aim to ensure workers earn enough to cope with the cost of living. It began in 1947 with the formation of the Wages Council, which was responsible for advising on fair wage practices for certain occupations. Over the years, as the economy grew and living expenses increased, the need for a more structured wage system became clear. This led to the official gazettement of the Minimum Wage Order in 2012, a major step in guaranteeing basic income for the low-wage earners across the country. Since then, the minimum wage has been revised five times, gradually rising to the current rate of RM1,700 per month, as illustrated in Figure 1.1.1. These changes reflect the ongoing efforts to ensure workers, especially those in low-paying jobs, can afford the essentials and live decently. Every adjustment made to the minimum wage, aims to strike a balance, between workers welfare and businesses competitiveness.

FIGURE 1.1.1. Evolution of Wages Policy and Institutions

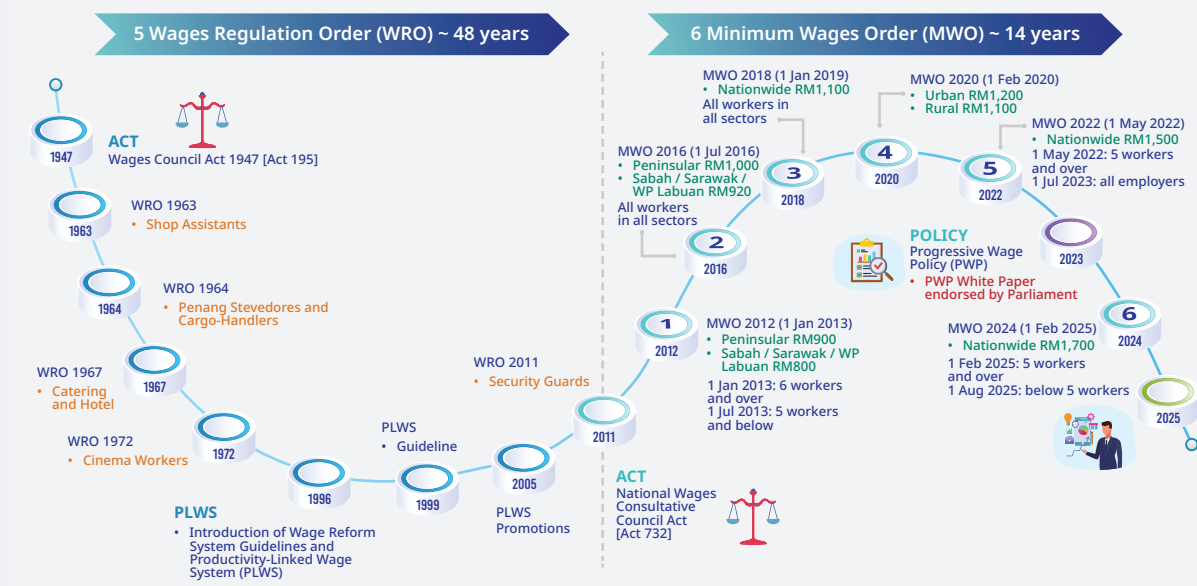


FIGURE 1.1.2. Profile of Wage Recipients Earning Below Minimum Wage (2010 – 2023)

Note: Wage recipients refer to workers earning below minimum wage for each year, which is about 2.5 million persons (30%) in 2010 to 2.3 million persons (20%) in 2023

Source: Calculations by Ministry of Finance, Malaysia

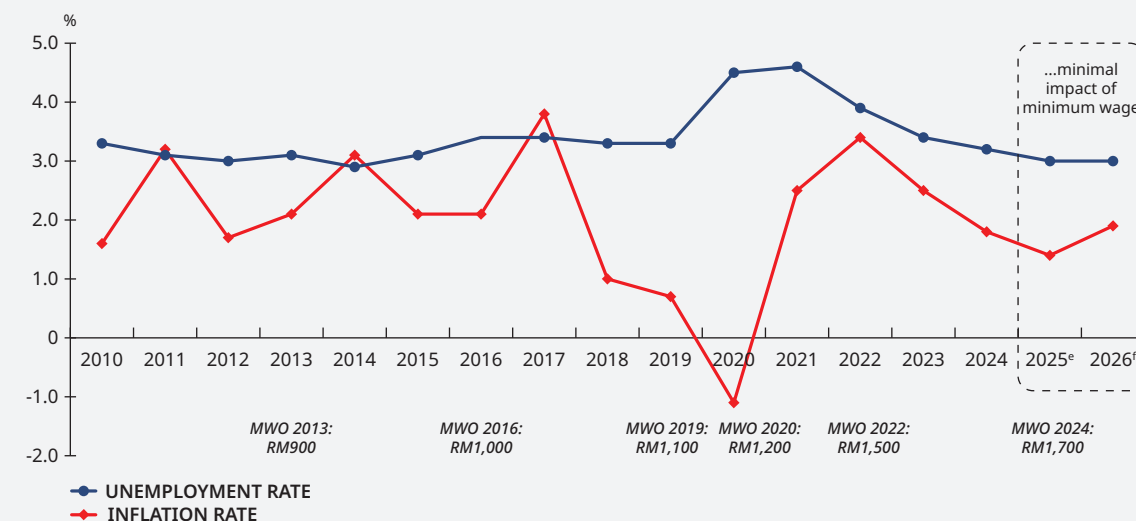
A common perception of workers receiving salary below minimum wage are foreign workers; women; youth; those concentrated in construction and agriculture sectors; as well as those located in less developed states¹. However, contrary to the perception, evidence presented in Figure 1.1.2. demonstrates that the majority of the wage recipients are local workers, mostly male, and largely within the 25 – 34 age group. Moreover, these workers are concentrated in the services and manufacturing sectors, with a significant share of around one-third, located in developed states such as Selangor and Johor.

Situational Analyses

From a macroeconomic perspective, minimum wage adjustments influence household consumption and inflation dynamics. Low-income households exhibiting higher marginal propensity to consume, with a substantial share (71.6%)² of their additional income for essential goods and services. Based on internal estimates, a minimum wage of RM1,700 a month could raise consumption³, resulting in a modest but steady boost to aggregate demand.

Higher labour costs can exert upward pressure on prices through cost-push effect. However, historical evidence shows that despite periodic wage hikes, Malaysia's inflation remained relatively stable at around 2% – 3% between 2010 and 2024, as shown in Figure 1.1.3., indicating the increasing minimum wage and household purchasing power have not triggered excessive inflationary pressures⁴. Instead, higher wages have bolstered domestic demand by enhancing the consumption capacity of lower-income groups. This is also in line with the expectation of Bank Negara Malaysia (BNM, 2025) that the overall impact on inflation following the announced domestic policy reforms, including the minimum wage revision, is to be contained.

FIGURE 1.1.3. Unemployment and Inflation Trend (2010 – 2026)



^e estimates

^f forecast

Source: Calculations by Ministry of Finance, Malaysia

¹ The Twelfth Malaysia Plan 2021 – 2025 defines less developed states as states with low GDP growth namely Kedah, Kelantan, Perlis, Sabah, Sarawak and Terengganu.

² Based on 2022 Household Income Survey report, essential needs refer to food and beverages; housing, water, electricity and other fuels; transportation; and restaurant & accommodation services.

³ Based on Ministry of Finance estimates, nominal private consumption will increase by 0.03 percentage points (ppt) within 2025 – 2026.

⁴ Based on Ministry of Finance estimates, inflation will increase by 0.01 ppt within 2025 – 2026.

Given Malaysia's resilient economic fundamentals and favourable labour market conditions, the recent minimum wage adjustment will not disrupt the economy's full employment trajectory. While a marginal increase⁵ in unemployment may occur due to higher labour costs, the effect is transitional and within manageable levels. On the other hand, Nurnaddia et al. (2020) and Sheikh Ahmad Faiz et al., (2023) indicate that minimum wage implementation can generate positive employment effects, particularly within low-skilled occupations.

The minimum wage policy is also projected to boost labour productivity and it is supported by Avila et al. (2023), where raising minimum wage can encourage firms to substitute low-skilled labour with automation, which will lift up productivity. A similar outcome was also found by Sheikh Ahmad Faiz et al. (2023) in Malaysia's manufacturing sector, showing positive linkages between minimum wage and worker output. Report in 2024 by the National Wages Consultative Council (NWCC) highlighted that majority of employers maintained and improved in automation and technology following the implementation of minimum wage. Despite this, NWCC reports⁶ also found that companies maintained and increased the employment of foreign workers. Hence, the minimum wage policy alone is not sufficient to address the issue of dependency on foreign workers. A combination of other specific policies is needed to reduce the number of foreign workers in various economic sectors.

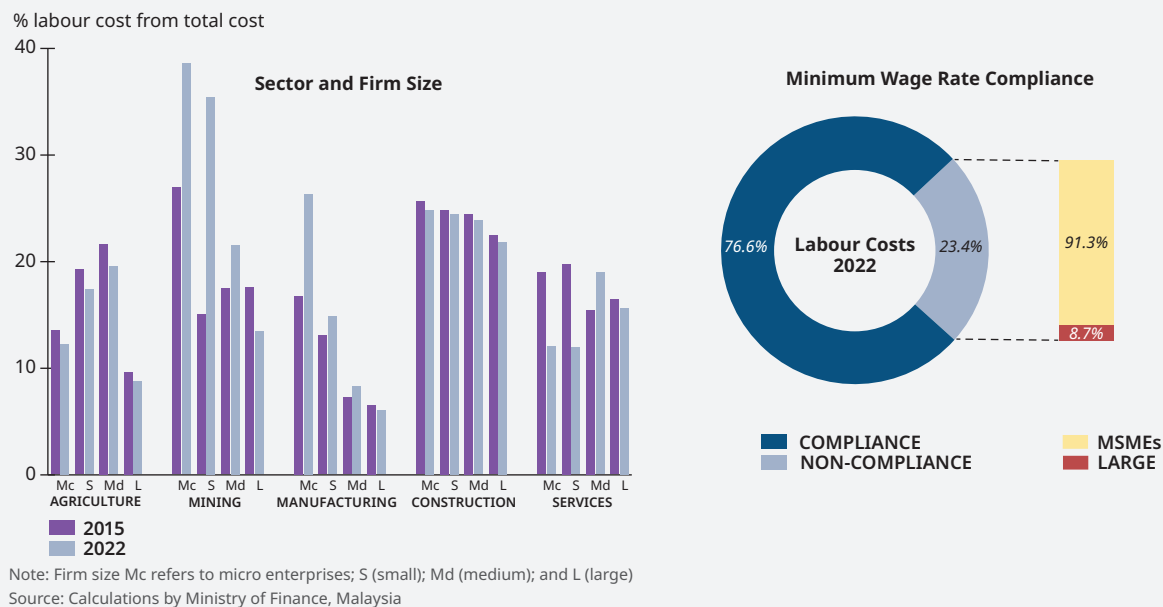
The increase in Kaitz Index⁷ or minimum-to-median wage ratio to around 65% in 2023, compared to 60% a decade ago, reflects the benefit of the policy in providing income safety-net for the low-wage workers. This is further supported by the Ministry of Finance (2023), which highlighted wage growth among low-wage earners were dependent on the implementation and revision of minimum wage. In addition, NWCC (2024) reports that of the total respondents, 83% received increment or adjustments as a result of the minimum wage revision and highlight that all employers agreed to salary increment based on workers performance.

The NWCC reports have consistently confirmed that the implementation of minimum wage benefit both employers and employees. While employers maintain and increase automation and technology to improve efficiency, employees are able to sustain remuneration packages including allowances, other cash benefits, bonuses, and trainings. Most businesses are able to maintain working hours and retain existing employees, which indicates the ability of employers to operate business as usual. Internal analyses also exhibit no significant variation in total labour costs by firm size in 2022 (11.3%) relative to 2015 (12.3%), especially in agriculture and construction sectors, as shown in Figure 1.1.4. Overall, businesses were able to maintain business competitiveness, despite periodic revisions in minimum wage.

⁵ Based on Ministry of Finance estimates, unemployment rate will increase by 0.03 ppt within 2025 – 2026.

⁶ NWCC series of surveys were conducted in 2013, 2018, 2019, 2020, 2021, 2022, 2023 and 2024 to measure the impacts of minimum wage on employers and employees throughout the country.

⁷ The Kaitz Index represents the share of minimum wage relative to median wage. It provides insights into the purchasing power of minimum wage earners. A higher ratio suggests a greater degree of income protection for low-wage workers.

FIGURE 1.1.4. Labour Costs by Economic Sectors and Firm Size

Challenges in the Implementation of Minimum Wage

Instituting the minimum wage policy into practice in Malaysia has come with its fair share of hurdles. One of the key challenges is the compliance rate, especially among small-scale businesses that often find it difficult to afford higher wages due to limited resources. On the other hand, limited capacity within enforcement agencies also contribute to challenges in enforcing and monitoring the minimum wage implementation. Based on the NWCC reports, on average around 9%⁸ of employers did not adhere to the minimum wage policy.

Internal analyses⁹ also shows that around 23.4% of establishments were not paying according to the minimum wage rate, of which 91.3% are micro, small and medium enterprises (MSMEs) and 8.7% are large firms. If these conditions persist, workers may remain trapped in low-income situations, amplifying financial stress and limiting the capacity to cope with the increasing cost of living.

Charting the Road Ahead

There are significant areas of improvement to enhance the overall effectiveness of minimum wage implementation in ensuring better wages for the nation's workforce. Policy recommendations may focus on strengthening monitoring and enforcement mechanisms to ensure full compliance across sectors. This includes enhancing the governance framework, leveraging digital-based reporting and declaration mechanism, and strengthening transparency in wage practices.

In ensuring a sustained income growth, the feasibility of instituting a compulsory structured annual wage increment which aligns with inflation and productivity trends may also be explored. In addition, a leap jump in minimum wage revision should be considered in expediting the achievement of the 45% labour income share by 2033, as aspired in the Ekonomi MADANI framework. Companies, particularly from developed states, are also encouraged to offer a minimum

⁸ Calculations by Ministry of Finance based on NWCC surveys from various years.

⁹ Calculations by Ministry of Finance based on data by Department of Statistics, Malaysia.

wage higher than the national rate, considering the differences in cost of living. These strategies will build a more equitable, productive, and resilient labour market that ensures fair remuneration for all workers.

Conclusion

The minimum wage policy has made notable progress in achieving some of its core objectives, such as increasing the purchasing power, strengthening safety net for low-wage workers and maintaining business competitiveness. However, the policy has had minimal impact in increasing automation adoption and reducing dependency on low-skilled foreign labour, as minimum wage revisions alone have not made local employment sufficiently attractive, especially in labour-oriented industries. This underscores the need for a more comprehensive approach, combining wage policy with broader labour market reforms, to fully realise the aspirations of Ekonomi MADANI framework and build a more resilient workforce in the future.

Reducing regional disparities remains integral for inclusive national development and providing adequate access to essential services. As such, Budget 2026 aims to increase nationwide connectivity by constructing or upgrading rural roads and improving the public transportation system, thus ensuring better interstate mobility. The Government will further improve highway and railway infrastructure projects, including road-to-rail shifts and urban transit expansions to promote economic inclusion by linking remote communities to regional growth areas.

The Government remains committed to building a sustainable and resilient healthcare system that guarantees universal access to quality and affordable services. Therefore, under Budget 2026, hospitals and clinics will continuously be equipped with appropriate advanced facilities and sufficient healthcare personnel for a more conducive environment across all healthcare centres. Initiatives related to sustainable healthcare financing will be explored to mobilise additional funding beyond traditional government allocation to offer premium economy services, while retaining talents in the public sector. Nevertheless, priority will continue to be given in improving access to affordable medicines, enhancing rural primary healthcare and accelerating digitalisation of healthcare services.

Education reforms will remain pivotal in fostering future-ready talent aligned with evolving labour market demands to support upward social mobility and inclusive growth.

Hence, adequate allocations will continue to be provided under Budget 2026 in enhancing access to quality education. Reforms will focus on revamping early childhood and preschool education to foster creativity and critical thinking skills from the early stages of child development. The teachers' professionalism and teaching approach will be modernised to improve students' learning outcomes. Budget 2026 will also continue to upgrade educational infrastructure and integrate digital learning, ensuring a conducive learning environment across all levels.

Meanwhile, stronger partnership between the industry and educational institutions, particularly tertiary education, including technical and vocational education and training (TVET), will be aligned to suit employment needs, thereby reducing skills mismatches and supporting workforce readiness in a dynamic jobs landscape.

Labour market reforms under Budget 2026 will focus on improving employability and supporting sustainable wage growth. Key reform initiatives include the expansion of skills development programmes, improvement in unionisation and collective bargaining as well as formalisation of informal employment. The strategy to increase women participation in the labour market will continue to be given priority. Additionally, the social protection mechanism will be explored to allow compulsory contribution by the self-employed. Meanwhile, accelerating the multi-tiered levy system will also reduce reliance on low-skilled

foreign labour while greater technological adoption will support productivity-driven wage growth.

As an integral part of a modern social protection system, the care economy contributes to building an equitable society, enhancing ageing support and safeguarding the well-being of families. The care economy broadens access to care by supplementing healthcare services with community-based support, ensuring that health needs are met more holistically to improve well-being.

In this regard, Budget 2026 will prioritise the caring society agenda to enhance community care and promote inclusive growth by strengthening the care workers' profession and the associated ecosystem. Improved household care services, particularly childcare, will also help reduce employment barriers and encourage greater female labour force participation.

Similarly, efforts will focus on preparing the rakyat for life after retirement. Recognising the knowledge and skills of the elderly, Budget 2026 will chart pathways to promote lifelong learning to enhance employability after retirement as well as encourage higher voluntary contributions to retirement schemes from an early age. These initiatives are aligned with the Thirteenth Plan's aspiration to foster a more inclusive and resilient social protection ecosystem, while upholding the dignity of the rakyat.

Budget 2026 strengthens efforts to enhance household resilience through a dual approach of empowering income generation and providing targeted support for vulnerable groups. This support is ultimately aimed at ensuring income security and dignified standards of living to ensure the rakyat can afford basic necessities, particularly food and essential goods. Hence, Budget 2026 will emphasise the improvement of targeting mechanisms and expanding the coverage of programmes such as Inisiatif Pendapatan Rakyat (IPR), STR, SARA and other dedicated support for vulnerable groups.

Complementing these initiatives are community-based programmes featuring a whole-of-nation approach involving the

Government, GLICs and GLCs as well as communities. Programmes such as Inisiatif Kesejahteraan Rakyat Malaysia MADANI (Sejahtera MADANI), Program Sejahtera Komuniti MADANI (SejaTi MADANI), Kampung Angkat MADANI and Sekolah Angkat MADANI aim to empower local communities, strengthen social cohesion and foster grassroots' participation in development. The continuation of these programmes will be improved under Budget 2026 in enhancing connectivity, raising living standards, supporting economic activities as well as ensuring equitable access to basic amenities.

In addition, food security remains a priority, with continued emphasis on boosting domestic production, strengthening supply chains and ensuring affordable access to nutritious food for all households. The Jualan Rahmah MADANI programme is one of the successful initiatives to enable consumers to enjoy essential goods at affordable prices, thus easing daily expenditure pressures. Budget 2026 will continue to improve the food supply chain in achieving self-sufficiency level (SSL) of food production while promoting price stability.

Conclusion

As the first budget under the Thirteenth Plan, Budget 2026 marks a pivotal step in charting the nation's direction in the medium-term towards a high-income nation by 2030. Malaysia's economy is projected to sustain the growth momentum in 2026 between 4% and 4.5%, underpinned by robust domestic demand and a resilient external sector. Emphasis will be placed on enhancing delivery through results-based budgeting and institutionalising best practices under the thrust of 'Administration and Governance'. Efforts will also continue to focus on transforming the economy to 'Raise the Ceiling' by supporting HGHV industries and high-impact strategic sectors, while initiatives related to labour market reforms as well as socioeconomic assistance expansion will be undertaken to 'Raise the Floor' of the rakyat. In essence, Budget 2026 will be instrumental in guiding the nation's economic trajectory and laying the pathway towards realising the targets set forth under the Thirteenth Plan.

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