SECTION 3

Federal Government Expenditure

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Overview

The Federal Government remains committed to fiscal prudence in supporting economic development, social protection and public service efficiency. Anchored by the Public Finance and Fiscal Responsibility Act 2023 [Act 850], fiscal reforms emphasise discipline, transparency and efficiency, ensuring public funds are channelled to programmes and projects that support the national agenda. Subsequently, the recently passed Government Procurement Bill 2025 introduces a comprehensive legal framework for procurement across federal, state and public-funded entities, which aims to ensure efficiency, best value for money, transparency, fairness and accountability in public spending.

In general, spending policy is aligned with priorities of the Ekonomi MADANI framework, emphasising efforts to raise the floor by improving the people's quality of life and lift the ceiling by driving economic growth. To improve fiscal sustainability, the Government has initiated key reforms, including the phased implementation of the Public Service Remuneration System (SSPA) and the rationalisation of subsidies for electricity, diesel and RON95. Development expenditure (DE) has been strategically prioritised towards high-impact projects, including public transport, digital infrastructure and flood mitigation. As the final year of the Twelfth Malaysia Plan, 2021 – 2025 (Twelfth Plan), 2025 represents a critical phase in accelerating development outcomes. Accordingly, project selection has been further refined to ensure efficient and effective fund utilisation. As such, DE will continue to anchor public investment and drive positive economic outcomes.

Expenditure in 2025

During the year, the Government revised the 2025 total expenditure from the approved allocation of RM421 billion to RM412.1 billion, due to optimisation of emoluments and lower debt service charges (DSC) as well as lesser disbursement for DE. This adjustment reflects the Government's commitment to reprioritise its expenditure plan in line with fiscal consolidation efforts. Of this revised total, 80.6%, is allocated to operating expenditure (OE), while the remaining 19.4%, is earmarked for DE.

The social sector received the largest portion of total expenditure, at RM148.9 billion, accounting for 36.1% of the total allocation, followed by the economic (RM58.7 billion; 14.2%), security (RM42.2 billion; 10.2%) and general administration (RM21 billion; 5.1%) sectors. The remaining 34.4% of the total budget was allocated to charged expenditures and transfer payments, which include DSC, retirement charges and transfers to states.

The total **OE** in 2025 is estimated at RM332.1 billion compared with the initial allocation of RM335 billion. This adjustment is mainly due to the optimisation of emoluments, retirement charges, DSC and grants to statutory bodies. Nevertheless, allocations for supplies and services, as well as subsidies and social assistance, are estimated to increase due to implementation of policies related to the well-being of the rakyat.

As compared to 2024, OE in 2025 is expected to increase by 3.3% mainly due to higher allocation for emoluments, retirement charges, DSC as well as supplies and services. These

TABLE 3.1. *Federal Government Operating Expenditure by Component, 2024 – 2026*

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2024	2025[1]	2026[2]	2024	2025[1]	2026[2]	2024	2025[1]	2026[2]
Emoluments	95,936	103,522	109,366	*4.4*	*7.9*	*5.6*	*29.8*	*31.2*	*32.3*
Retirement charges	35,901	40,060	42,801	*5.3*	*11.6*	*6.8*	*11.2*	*12.1*	*12.7*
Debt service charges	50,481	54,300	58,300	*9.0*	*7.6*	*7.4*	*15.7*	*16.3*	*17.2*
Grants and transfers to state governments	8,949	9,260	9,828	*3.0*	*3.5*	*6.1*	*2.8*	*2.8*	*2.9*
Supplies and services	37,668	42,497	40,292	*4.9*	*12.8*	*-5.2*	*11.7*	*12.8*	*11.9*
Subsidies and social assistance	67,360	57,062	49,004	*-6.3*	*-15.3*	*-14.1*	*21.0*	*17.2*	*14.5*
Asset acquisition	1,189	1,182	1,002	*16.2*	*-0.6*	*-15.2*	*0.4*	*0.4*	*0.3*
Refunds and write-offs	499	541	547	*-5.1*	*8.4*	*1.1*	*0.2*	*0.2*	*0.2*
Grants to statutory bodies	13,997	14,804	15,809	*-11.1*	*5.8*	*6.8*	*4.4*	*4.5*	*4.7*
Others	9,529	8,922	11,253	*82.0*	*-6.4*	*26.1*	*2.8*	*2.5*	*3.3*
Total	**321,509**	**332,150**	**338,202**	***3.3***	***3.3***	***1.8***	***100.0***	***100.0***	***100.0***
% of GDP	***16.6***	***16.5***	***15.9***						

[1] Revised estimate
[2] Budget estimate, excluding Budget 2026 measures

Source: Ministry of Finance, Malaysia

components constituted 72.4% of total OE. In contrast, subsidies and social assistance declined attributed to lower disbursement for fuel subsidies.

Emoluments remain the largest component of OE, representing 31.2% or RM103.5 billion. The allocation is projected to increase by 7.9% due to the implementation of the SSPA in December 2024, which revises service schemes, basic wages, retirement benefits and pensions. Complementing the SSPA, the Government Service Efficiency Commitment Act 2025 [Act 867] was gazetted in May 2025. Together, these efforts are aimed at enhancing productivity, discipline and efficiency, thereby strengthening public service delivery.

Retirement charges is estimated to increase by 11.6% to RM40.1 billion, reflecting the growing number of pensioners and beneficiaries, which is now approaching one million recipients. In a significant move to address pension liabilities, the Government is finalising the implementation of a defined-contribution scheme to replace the defined-benefits pension scheme for public servants. The new scheme will be administered by the Employees Provident Fund, while the Retirement Fund (Incorporated) will continue to manage the defined-benefits pension scheme under the Retirement Fund Act 2007 [Act 662].

Subsidies and social assistance are expected to decrease by 15.3%, from RM67.4 billion to RM57.1 billion, primarily due to the implementation of fuel subsidy rationalisation and lower global oil prices. The retargeting of the diesel subsidy has effectively curbed leakages, particularly cross-border smuggling activities and yielded significant savings estimated at up to RM600 million a month. Additionally, the Government ended the blanket subsidy for chicken eggs in August 2025 as part of a phased approach to discontinue subsidies and promote a more sustainable and targeted support system for the poultry industry and consumers.

In return, the Government is enhancing Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA) programmes to provide targeted support to vulnerable groups and help them cope with the rising cost of living. In tandem with the initiative to rationalise the subsidy, the Government rolled out BUDI95, a targeted RON95 subsidy scheme, beginning 27 September 2025. This initiative is expected to prevent leakages and curb the sale of subsidised petrol to foreigners, thus generating savings to the Government.

Debt service charges represent the third-largest component of OE, accounting for 16.3% of the total. These charges are estimated to increase by 7.6%, reaching RM54.3 billion. The Government remains committed to the fiscal consolidation path to ensure a lower fiscal deficit that will translate into reduced borrowing needs, thereby moderating the future growth of DSC.

Supplies and services are projected to increase by 12.8% to RM42.5 billion, mainly due to higher requirement for professional services and contractual commitment as a result of the implementation of the minimum wage policy. In addition, a one-off allocation earmarked for the organisation of meetings and conventions during ASEAN-Malaysia Chairmanship 2025, as well as promoting tourism in preparation for Visit Malaysia 2026 also contributed to this increase.

A total of RM14.8 billion, or 4.5% of OE, is allocated for *grants to statutory bodies*, particularly for public institutions of higher learning as well as regional and rural development agencies. To address issues of redundancy and relevance of federal statutory bodies, the Jawatankuasa Khas Rasionalisasi Badan Berkanun Persekutuan has been established. Additionally, *grants and transfers to state governments* are estimated at RM9.3 billion, with RM7.2 billion of this amount designated for constitutional transfers as mandated by the Federal Constitution.

The **DE** in 2025 is estimated to reduce by 4.8% to RM80 billion, primarily due to lower spending requirements to the economic sector. Funds have been also strategically channelled to priority projects, ensuring optimal resource allocation and alignment with development planning in the final year of the Twelfth Plan. Nevertheless, the economic sector remains the largest recipient at 45.8%, followed by the social (34.7%), security (14.8%) and general administration (4.7%) sectors.

The allocation for the *economic sector* stood at RM36.6 billion, with a focus on driving development and sustainability initiatives. The transportation subsector receives the largest share, accounting for 44.7% of the sector's total, mainly for ongoing key infrastructure projects such as the Pan Borneo Highway in Sabah and Sarawak, LRT Mutiara Line Pulau Pinang, Electrified Double Track from Gemas to Johor Bahru and Rapid Transit System Link between Johor Bahru and Singapore. The environment subsector is anticipated to grow by 14.5% to RM3 billion, reflecting a heightened focus on flood-mitigation initiatives in Kota Bharu, Kelantan and Kuching, Sarawak. Meanwhile, the agriculture subsector is estimated to grow by 4.6% to RM2.9 billion, driven by the ongoing Water Transfer Scheme Project in Jeniang, Kedah and the Agricultural Driver Project implemented across Peninsular Malaysia. In contrast, the trade and industry subsector is projected to decline by 12.4% to RM2.6 billion, owing to the gradual disbursement of the Industry Development Fund and Joint Strategic Investment Fund under the New Industrial Master Plan 2030.

The *social sector* spending is forecast to rise 8.5% to RM27.8 billion, maintaining its position as the second-largest sector, with the education and training subsector receiving the major share of the allocation. Outlay for the education and training subsector is estimated to increase by 16.8% to RM14.7 billion, reflecting continued investments in human capital development and education facilities. Key initiatives include the provision for the Training Fund for Technical and Vocational Education and Training as well as upgrading of 56 vocational colleges nationwide with new facilities as well as new construction projects, including the Universiti Sains Islam Malaysia Teaching Hospital Complex (Phase 1) in Kota Tinggi, Johor and Lundu Matriculation College in Kuching, Sarawak. Similarly, disbursement for the health subsector is expected to grow by 16.3% to RM6.8 billion, underpinned by the upgrading of medical and non-medical equipment and vehicles procurement; construction of new hospitals in Kapar, Selangor and Petra Jaya, Sarawak; as well as establishment of a daycare treatment centre and specialist complex at Hospital Sultanah Aminah, Johor. The allocation for the housing subsector amounted to RM1.3 billion, primarily for the Projek Perumahan Rakyat particularly in Pulau Pinang, Sabah and Pahang.

Allocation for the *security sector* grew by 2.5% to RM11.9 billion. Of this, spending on the defence and internal security subsectors is set to rise 2.8% to RM7.8 billion and 1.8% to RM4 billion, respectively. A significant share of these allocations is directed towards the acquisition of defence assets, including weapons, aircraft and patrol ships as well as construction of the army camp in Felda Sahabat, Lahad Datu, Sabah. Funds were also allocated for the construction of border control posts and the Immigration, Customs, Quarantine and Security complex, particularly at Rantau Panjang, Kelantan and Nabawan, Sabah.

TABLE 3.2. *Federal Government Development Expenditure by Sector, 2024 – 2026*

SECTOR	RM MILLION			CHANGE (%)			SHARE (%)		
	2024	2025[1]	2026[2]	2024	2025[1]	2026[2]	2024	2025[1]	2026[2]
Economic	**43,401**	**36,648**	**36,785**	***-24.2***	***-15.6***	***0.4***	***51.7***	***45.8***	***45.4***
of which:									
Transport	20,466	16,368	17,534	*15.2*	*-20.0*	*7.1*	*24.4*	*20.5*	*21.6*
Trade and industry	2,985	2,615	3,031	*-0.8*	*-12.4*	*15.9*	*3.6*	*3.3*	*3.7*
Energy and public utilities	2,185	2,471	2,790	*-8.0*	*13.1*	*12.9*	*2.6*	*3.1*	*3.4*
Agriculture	2,810	2,940	551	*-6.9*	*4.6*	*-81.3*	*3.3*	*3.7*	*0.7*
Environment	2,625	3,005	3,818	*41.1*	*14.5*	*27.1*	*3.1*	*3.8*	*4.7*
Social	**25,602**	**27,784**	**28,592**	***5.6***	***8.5***	***2.9***	***30.5***	***34.7***	***35.3***
of which:									
Education and training	12,590	14,703	14,451	*3.3*	*16.8*	*-1.7*	*15.0*	*18.4*	*17.8*
Health	5,867	6,825	6,969	*22.3*	*16.3*	*2.1*	*7.0*	*8.5*	*8.6*
Housing	1,603	1,318	1,457	*-23.9*	*-17.8*	*10.5*	*1.9*	*1.6*	*1.8*
Security	**11,576**	**11,861**	**11,738**	***1.7***	***2.5***	***-1.0***	***13.8***	***14.8***	***14.5***
General administration	**3,433**	**3,707**	**3,885**	***6.5***	***8.0***	***4.8***	***4.0***	***4.7***	***4.8***
Total	**84,012**	**80,000**	**81,000**	***-12.6***	***-4.8***	***1.3***	***100.0***	***100.0***	***100.0***
% of GDP	***4.4***	***4.0***	***3.8***						

[1] Revised estimate
[2] Budget estimate, excluding Budget 2026 measures

Source: Ministry of Finance, Malaysia

The allocation for *general administration sector* is projected to increase by 8% with total allocation of RM3.7 billion. The majority of this allocation is channelled to enhancing the network systems, such as Neo MyGovnet, Government Hybrid Cloud Services and the Expansion of the Public Sector Data Centre (Phase 2), aimed at strengthening public service data management.

Outlook for 2026

In 2026, Federal Government will continue to uphold fiscal responsibility and align its expenditure with strategic priorities outlined under the Ekonomi MADANI framework. Fiscal reforms will also be focused on expenditure optimisation to create sufficient fiscal space and safeguard the well-being of the rakyat. In this regard, a total of RM419.2 billion has been allocated under Budget 2026, representing 19.7% of GDP, an increase of 1.7% from the revised 2025 budget. Of this amount, RM338.2 billion, or 80.7%, is designated for OE, with the remaining RM81 billion allocated for DE. The bulk of the allocation amounting to 32.1% of the total is channelled to the Ministry of Education (MOE), Ministry of Health (MOH) and Ministry of Defence. In terms of sectoral allocation, the social sector will receive RM155.9 billion or 37.2% of the overall budget, followed by the economy (RM58.9 billion; 14.1%), security (RM44.5 billion; 10.6%) and general administration (RM20.7 billion; 4.9%) sectors. The balance of 33.2% is budgeted under charged expenditures and transfer payments.

OE is budgeted at RM338.2 billion, or 15.9% of GDP, representing an increase of 1.8% from the revised 2025 budget. Higher allocations for emoluments, retirement charges and DSC were partly offset by lower provisions for subsidies, as well as supplies and services, in line with lower global commodity prices and ongoing expenditure rationalisation measures. The Government will continue to emphasise prudent expenditure management to optimise resources as well as improve the efficiency and effectiveness of public spending.

Emoluments remain the largest component of OE, projected to grow by 5.6% to RM109.4 billion, mainly attributed to the second phase of the SSPA implementation, which includes a 7% basic salary increase for civil servants in Grade 15 and below. This growth is also attributed to the enhancement of recruitment and career progression of armed forces as announced during the Majlis Amanat Perdana Perkhidmatan Awam 2025.

Retirement charges, which account for 12.7% of OE, is expected to increase by 6.8% to RM42.8 billion. Of this, RM33.7 billion or 78.8%, is earmarked for pension payments, reflecting the Government's ongoing obligation to provide for a growing number of retirees and the subsequent impact of SSPA implementation. The remaining allocation will be used for gratuity payments and cash awards in lieu of accumulated leave.

Subsidies and social assistance, which constitute 14.5% of OE, is projected to decrease by 14.1% to RM49 billion in 2026. This decline is mainly due to lower global commodity prices and subsidy rationalisation efforts, which include implementation of the BUDI95 programme. Currently, the Ministry of Domestic Trade and Cost of Living is developing the nationwide Cooking Oil Price Stabilisation Scheme System to curb leakages of subsidised packet cooking oil and ensure it reaches the targeted group. Of the total allocation, 56% is directed towards social assistance and incentives to support vulnerable groups, particularly the implementation of STR and SARA.

An allocation of RM58.3 billion is designated for *DSC*, representing 17.2% of OE. Of this amount, RM57.6 billion, or 98.8%, is meant for domestic loans, while the balance is for offshore loans. An effective and prudent debt management strategy, coupled with active investor engagements, has contributed to optimisation of the Government borrowing cost.

Supplies and services, which represent funds required to maintain and operate public facilities and institutions, is projected to decrease by 5.2% to RM40.3 billion, accounting for 11.9% of total OE. Of this allocation, a substantial 86.2% is channelled to material supplies, cleaning and security services, repairs and maintenance, as well as telecommunication and utilities. The largest beneficiaries of this allocation are the MOE and MOH, primarily allocated for the maintainance of approximately 10,000 schools and 150 hospitals nationwide.

Meanwhile, an allocation of RM15.8 billion is provided for *grants to statutory bodies*. A significant portion of this funding, amounting to 69.4%, is designated for 20 public universities and nine teaching hospitals. Additionally, RM9.8 billion of the total OE is allocated for *grants and transfers to state governments*, with RM7.7 billion budgeted for constitutional transfers, of which Sabah and Sarawak continue to be the main recipients.

Marking the first year of the Thirteenth Malaysia Plan, 2026 – 2030 (Thirteenth Plan), RM81 billion is allocated for **DE** in 2026, with approximately 2,300 newly approved programmes and projects. The economic sector continues to account for the largest share at 45.4%, followed by the social (35.3%), security (14.5%) and general administration (4.8%) sectors. As stipulated under Act 850, the Government is steadfast in providing sufficient resources of at least 3% of GDP to support development infrastructure, with priority given to initiatives that generate high economic impact, sustain growth momentum and enhance the quality of life.

A total of RM36.8 billion is allocated for the *economic sector* with the aim to enhance national competitiveness by expanding strategic infrastructure and supporting investment initiatives. The largest allocations are channelled to the transport, environment as well as trade and industry subsectors. Accounting for RM17.5 billion, or 47.7% of the sector, the transport subsector will focus on boosting nationwide connectivity and alleviating traffic congestion. New projects include road construction from Kalabakan to Simanggaris, connecting Malaysia and Indonesia borders; development of the Air Traffic Control Centre in Kota Kinabalu, Sabah; and construction of two interchanges on the Lebuhraya Utara Selatan in Nilai, Negeri Sembilan and Kerian, Perak.

A sum of RM3.8 billion is allocated for the environment subsector to support the nature preservation and climate change agenda. This allocation covers flood mitigation projects, among others, in Kubang Pasu, Kedah; Kuala Nerus, Terengganu; Segamat, Johor and Seremban, Negeri Sembilan, as well as the construction of a new drainage system in Kota Bharu, Kelantan. To further enhance flood protection, the Government will implement the River Conservation Project to Reduce Flood Risk nationwide, including Kuala Lumpur, Johor and Kelantan, alongside the construction of the National Flood Forecast and Warning Centre in Kuala Lumpur.

In steering Malaysia's future industrial growth and advancing the transition towards a sustainable economy, RM3 billion is budgeted to the trade and industry subsector in 2026. The allocation will support strategic initiatives, including the Flagship Project in Special Tourism Investment Zone, PROSPER Growth Financing Programme and High Impact Project Fund. In addition, financial resources will be directed towards infrastructure developments, such as the Perak Halal Industrial Park as well as the air cargo logistics and industry warehouse hub in Pulau Pinang. Collectively, these efforts aim to attract quality investments, stimulate economic development and strengthen Malaysia's competitiveness in high value-added industries.

A total of RM28.6 billion is allocated to the *social sector*, representing a 2.9% increase from RM27.8 billion in 2025. The education and training subsector continues to receive the largest share at RM14.5 billion, aimed at enhancing learning facilities, strengthening ICT infrastructure to narrow the rural-urban divide as well as modernising teaching and learning environments. The Immersive Learning and Agricultural Technology Advancement Centre for Food Security at Universiti Putra Malaysia is provided the highest allocation under this subsector.

An allocation of RM7 billion is provided for the health subsector to improve healthcare delivery, upgrade medical and non-medical equipments as well as to enhance service quality. Allocation will be channelled to key initiatives, among others, the construction of the Northern Region Cancer Centre in Kedah and the development of new rural clinics, particularly at Mukah, Sarawak; Kubang Semang, Pulau Pinang and Nabawan, Sabah.

The housing subsector is allocated RM1.5 billion to finance existing and new projects. This includes projects under the Program Bantuan Rumah and the Program Rumah Mesra Rakyat. These initiatives are designed to provide affordable and quality housing for low- and middle-income households, narrow the rural – urban housing gap and enhance standards of living.

The *security sector* will receive an allocation of RM11.7 billion, comprising RM8 billion for the defence subsector and RM3.7 billion to the internal security subsector, aimed at strengthening national defence and safeguarding public safety. A substantial share of this allocation supports the acquisition of defence and security assets, as well as the construction of a new Sarawak Police Contingent Headquarters. In addition, the welfare of security personnel and families will remain a priority, with the development of new quarters.

In line with efforts to enhance public service delivery, RM3.9 billion is allocated to the *general administration sector.* The allocation will support the improvement of ICT systems across government departments, in line with the Government's digital transformation agenda. It will also be used for the refurbishment and maintenance of government buildings and facilities to provide a more conducive work environment for public servants.

Federal Recoverable Loans

As at end-December 2024, total outstanding Federal Recoverable Loans[1] under the Development Fund stood at RM40.6 billion, or 2.1% of GDP. Companies hold the largest share of these loans, amounting to RM25.9 billion, followed by state governments (RM9.4 billion), Federal Statutory Bodies (RM5.2 billion) as well as other organisations and cooperatives (RM51.3 million).

The loan disbursements through DE in 2025 are estimated at RM1.4 billion. State governments remain the largest recipient totalling RM1 billion, followed by Federal Statutory Bodies (RM248 million), companies (RM156 million), as well as other organisations and cooperatives (RM3 million). In contrast, the Government is expected to receive RM1.3 billion in loan repayments. Of these, the highest repayment is anticipated from companies at RM707 million, followed by state governments at RM510 million. The remaining repayments are expected from Federal Statutory Bodies (RM75 million) as well as other organisations and cooperatives (RM29 million).

[1] The Federal Recoverable Loan is part of the Federal Government Financial Assets, which consists of loan facilities due from state governments, local governments, Federal Statutory Bodies, companies, cooperatives and various organisations.

In 2026, the Government will provide a total of RM1 billion in loans through DE to improve infrastructure and enhance the quality of life of the rakyat. State governments will remain the largest recipient, amounting to RM475 million, followed by companies (RM405 million), Federal Statutory Bodies (RM135 million) as well as other organisations and cooperatives (RM4 million). Meanwhile, loan repayments are projected at RM1.5 billion. Of these, the highest repayments are anticipated from companies at RM851 million, followed by state governments at RM527 million. The remaining repayments are expected from Federal Statutory Bodies (RM116 million) as well as other organisations and cooperatives (RM6 million).

Conclusion

The Federal Government's expenditure strategy adopts a forward-looking approach, which balances fiscal discipline with high-impact investments, in line with the Ekonomi MADANI framework. By reinforcing its commitment to fiscal consolidation, the Government creates fiscal space to channel public funds strategically toward key priorities, including strengthening social protection, sustaining economic growth and developing critical infrastructure. Supported by robust governance reforms through various acts, fiscal planning is becoming more transparent, data-driven and focused on rakyat-oriented spending. This comprehensive approach plays a catalytic role in enhancing the nation's resiliency, equitability and long-term prosperity.

INFORMATION BOX

BUDI MADANI: Balancing Fiscal Reform and Social Protection

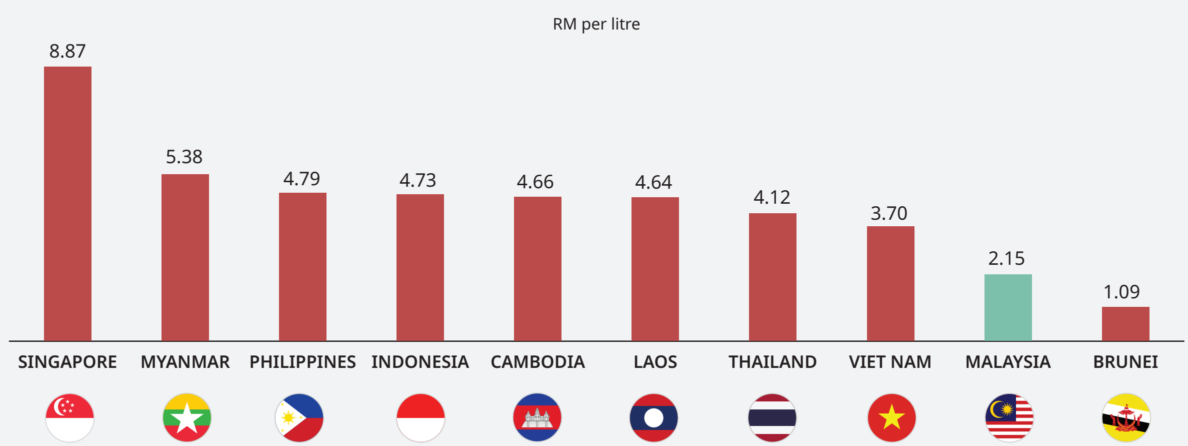
Introduction

The Government is undertaking strategic reforms to rationalise subsidies towards a more targeted and fiscally sustainable fuel subsidy framework. In 2024, the Government implemented the diesel subsidy rationalisation programme to address leakages and wastages of the subsidy allocation as well as to curb smuggling activities. In this regard, the Government introduced the BUDI MADANI programme to provide and streamline assistance to targeted diesel users. This initiative represents a strategic shift from universal subsidies, which have contributed to inefficient fiscal allocation and economic leakage, to a more sustainable approach.

Rationale for Fuel Subsidy Reform

Malaysia's subsidised pump prices, among the lowest regionally, created a price disparity, as reflected in Figure 1. This price gap led to widespread misuse, with subsidised diesel diverted to unauthorised commercial activities and smuggling across borders, causing significant economic distortions and fiscal costs. Between 2019 and 2023, diesel car registrations grew modestly by 15%, yet subsidised diesel consumption ballooned by 73%, leading to a nearly tenfold increase in the Government's subsidy bill. This blanket subsidy mechanism has proven to be fiscally unsustainable, highlighting the urgent need for a reformed policy framework. Since the introduction of rationalisation measures, positive outcomes have been observed. Diesel smuggling activities have significantly declined from 992 cases in 2023 to 655 cases in 2024 and further decreased to 261 cases as of July 2025.

FIGURE 1. *Country Comparisons of Diesel Prices as of 20 May 2024*



Source: https://www.globalpetrolprices.com/

In 2023, fuel subsidy expenditure was recorded at RM36 billion, surpassing the allocation for the Ministry of Health and placing immense pressure on public finances. This significant cost limited the Government's ability to expend investment in priority sectors such as education, healthcare and infrastructure. Moreover, broad-based subsidies were shown to disproportionately benefit high income households, which consumed more fuel. The subsidy rationalisation initiative, coupled with the BUDI MADANI programme, aimed at correcting these imbalances by reprioritising Government resources and ensuring assistance is channelled to targeted groups.

BUDI MADANI Beneficiaries

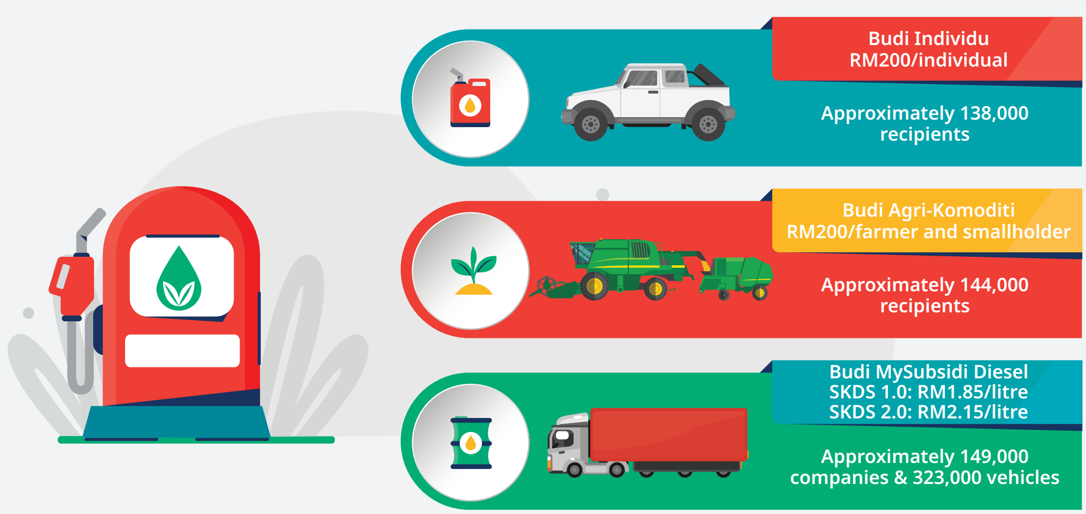
BUDI MADANI is not a one-size-fits-all solution but a multi-pronged programme, encompassing three categories of recipients. As of August 2025, the total number of recipients is presented in Figure 2, with details for each category as follows:

- **BUDI Individu:** Provides a direct monthly cash transfer of RM200 to eligible individual diesel vehicle owners. The amount is calculated to reflect average daily diesel consumption, ensuring users are not financially burdened by market price adjustments.

- **BUDI Agri-Komoditi:** Targets small-scale farmers, livestock breeders, aquaculture operators and commodity smallholders. Recipients receive a monthly cash transfer of RM200, recognising the sector's challenges and supporting continuity of agricultural production.

- **BUDI MySubsidi Diesel:** Allocated quotas of subsidised diesel through fleet cards for selected land transport operators and logistic companies. This measure helps stabilise consumer prices by preventing a significant increase in transport and operational expenses for businesses.

FIGURE 2. *BUDI MADANI Beneficiaries as of August 2025*



Note: Subsidised Diesel Control System (SKDS)

Source: Ministry of Finance, Malaysia

Fiscal Impact and Implementation Challenges

The transition to a targeted subsidy programme has yielded significant financial benefits for the Government. While initial estimates projected annual savings of RM4 billion from the diesel subsidy rationalisation, the actual impact has been significantly higher. Since its implementation in June 2024, the programme has generated savings exceeding RM7 billion over the year, easing fiscal pressure and creating space for priority development expenditure.

The programme adopts an online self-registration approach via the one-stop, in-house BUDI MADANI portal, enabling real-time verification and approval. This approach helps reduce risks of inclusion and exclusion error while enabling continuous updates of beneficiary status. However, challenges remain for applicants with limited internet access and low digital literacy. To mitigate these issues, the Government has introduced several outreach measures, including the establishment of physical counters at Inland Revenue Board of Malaysia (IRB) offices and dedicated customer support call centres. Furthermore, an appeal mechanism is available for rejected applications, supported by an automated monthly central database review to ensure recipient eligibility is constantly updated.

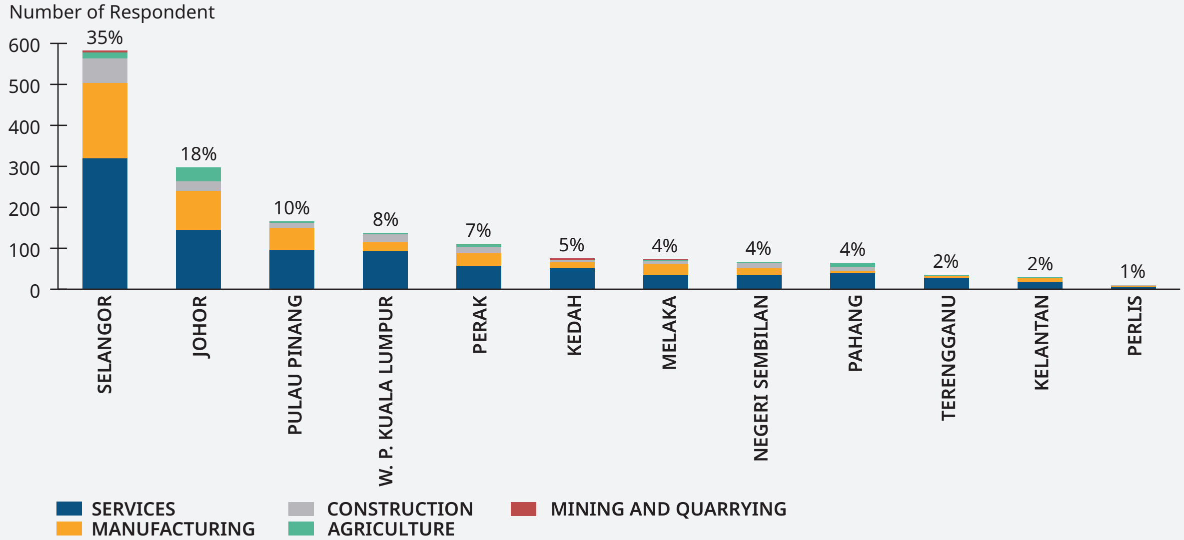
Fraud prevention is another critical challenge, encompassing risks such as false claims, multiple registrations and organised fraud schemes. To mitigate these issues and maintain the integrity of the programme, the BUDI MADANI portal incorporates strict user verification and cross-references applicant details against multiple Government databases. The portal also serves as the central hub for payment processing and programme management, while ensuring the security and privacy of user data.

Assessment of the Communication Strategy of the BUDI MADANI Programme

The Government has undertaken an assessment of the BUDI MADANI initiative through a survey conducted by the Malaysia Government Call Centre involving more than 17,000 respondents. The assessment was intended to evaluate beneficiaries' perceptions of the Government's communication and outreach efforts for the programme. The survey sample primarily concentrated in Selangor and Johor, which accounted for the majority of the total respondents, with the remainder drawn from other states across Peninsular Malaysia. The profile of respondents by state and sector is shown in Figure 3.

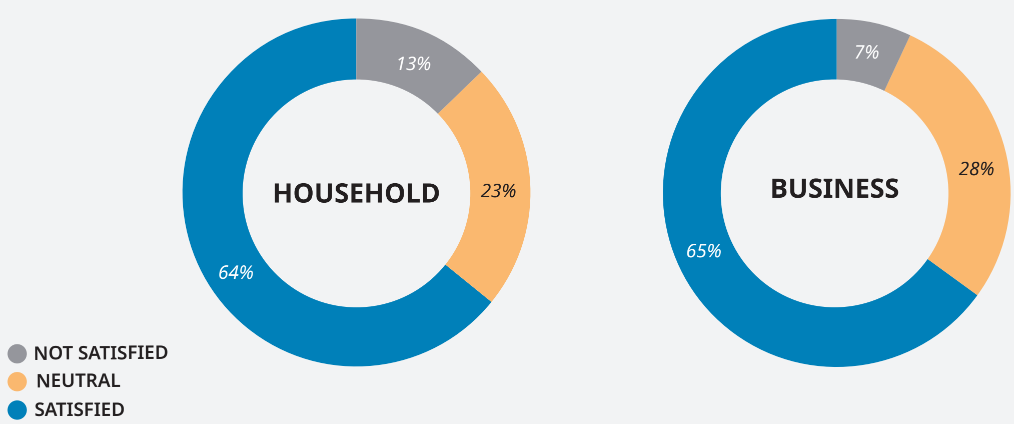
Based on the survey result, more than 60% of respondents expressed satisfaction with the Government's communication strategy through the information dissemination efforts. Satisfaction level stood at 65% among business respondents and 64% among household respondents, as illustrated in Figure 4, reflecting the effectiveness of the Government's outreach in communicating the programme's objectives.

FIGURE 3. *Profile of Respondents by State and Sector*



Source: Malaysia Government Call Centre surveys, 2025

FIGURE 4. *Satisfaction Levels on Government Communication Strategy*



Source: Malaysia Government Call Centre surveys, 2025

Lessons Learnt and a Template for Future Reforms

The BUDI MADANI programme offers valuable insight for shaping future policy reforms, with several key lessons:

- **Comprehensive stakeholder engagement:** The programme's successful implementation reflected the concerted effort of multiple ministries, supported by extensive stakeholder consultations that were crucial in building understanding and acceptance.

- **Leveraging technology:** The extensive utilisation of technology throughout the process has smoothed the implementation of the BUDI MADANI programme from application until disbursement of assistance. In addition, the internally developed system facilitates various processes among multiple ministries as well as ensuring data security and keeping operational costs low.

- **Path to fiscal health:** Fiscal reforms through the BUDI MADANI programme demonstrate a targeted approach without eroding social protection and set a precedent for future subsidy reforms.

- **Clear communication of policy outcomes:** As fiscal reforms are implemented, it is imperative that the Government effectively communicate their benefits to the public. Leveraging the most impactful platforms, particularly social media, will ensure key messages reach intended audiences and foster greater public understanding.

Introduction of BUDI95

Building on the success of BUDI MADANI, the Government introduced BUDI95, a targeted subsidy scheme for RON95, which commenced on 27 September 2025. Under this programme, Malaysian citizens with a valid driving licence are entitled to purchase RON95 at a subsidised price of RM1.99 per litre, while non-citizens will pay at an unsubsidised price. Each citizen receives a monthly quota of 300 litres, with exemptions for e-hailing drivers who may apply for additional quotas to safeguard their livelihoods.

The subsidy mechanism is seamlessly integrated with MyKad verification at fuel stations, complemented by digital support via e-wallets and mobile applications. To ensure smooth implementation, the rollout was conducted in phases, starting with early access provided to 300,000 armed forces and police personnel on 27 September 2025, followed by STR recipients from the B40 group on 28 September 2025, before the programme was extended nationwide to 16 million eligible Malaysians on 30 September 2025. BUDI95 is projected to generate savings that will be directed towards strengthening targeted social assistance, including STR and SARA, thereby ensuring that fiscal resources are channelled more effectively to the vulnerable group.

Conclusion

The diesel and RON95 subsidy rationalisation programmes mark a bold reform in Malaysia's journey toward more responsible fiscal management. By transitioning from a universal subsidy to a targeted framework, the Government has addressed long-standing economic distortions while safeguarding the welfare of the rakyat through the BUDI MADANI and BUDI95 programmes. These initiatives have reflected positive outcomes, including reduced leakages, increased resource efficiency and fiscal savings. With well-designed policy, a systematic approach, and effective communication, the Government can smoothly implement the subsidy rationalisation programme towards strengthening fiscal health and sustaining social protection.

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FIGURE 3.1. *Total Expenditure by Sector*

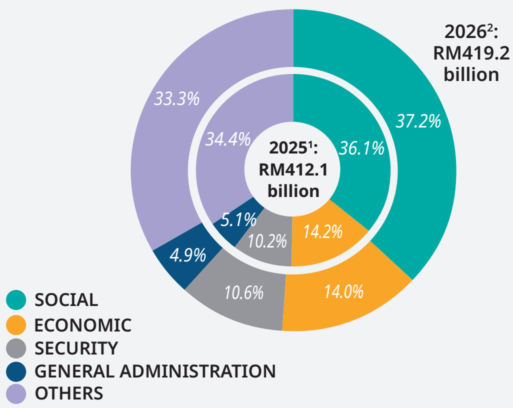


FIGURE 3.2. *Total Expenditure by Ministry and Agency*

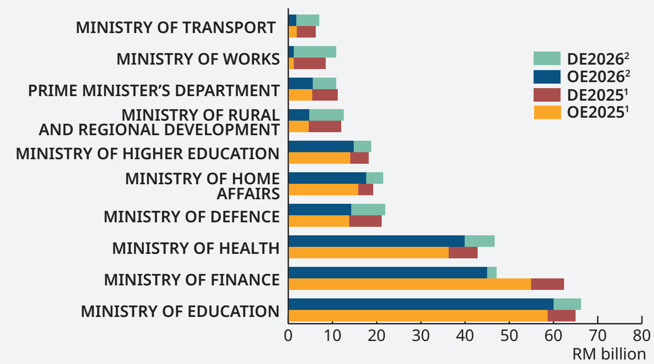


FIGURE 3.3. *Operating Expenditure by Sector*

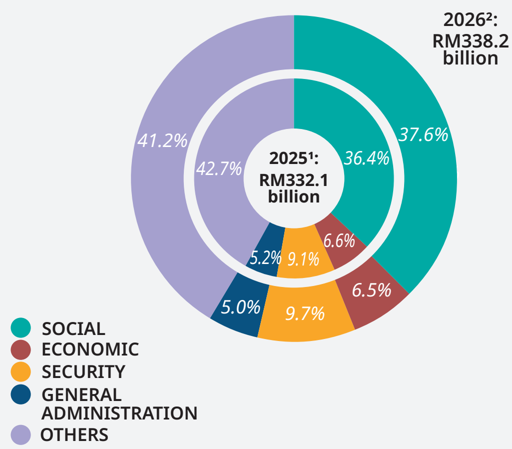


FIGURE 3.4. *Operating Expenditure by Component*

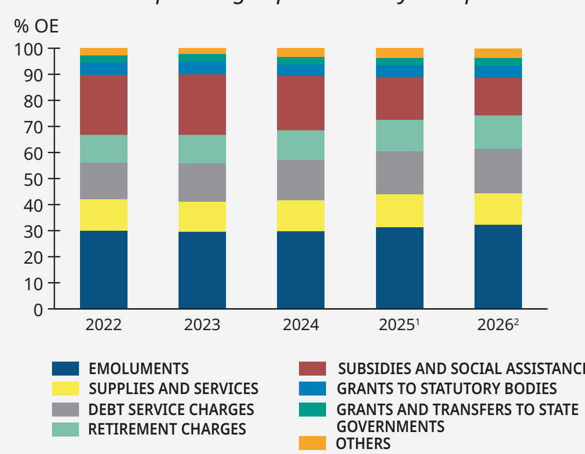


FIGURE 3.5. *Development Expenditure by Sector*

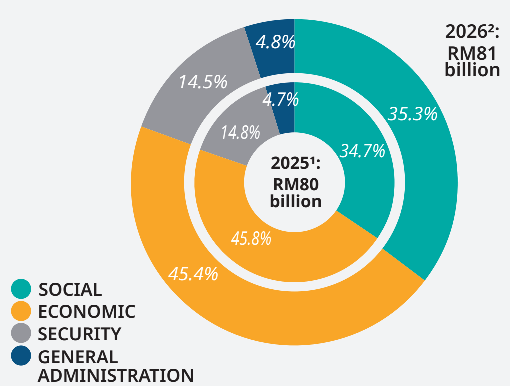
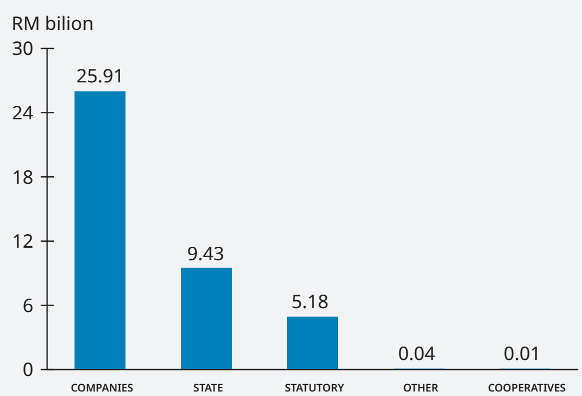


FIGURE 3.6. *Federal Recoverable Loans by Debtor[3]*



[1] Revised estimate
[2] Budget estimate, excluding Budget 2026 measures
[3] Total outstanding as at end-2024

Source: Ministry of Finance, Malaysia