SECTION 6

Consolidated Public Sector

197 OVERVIEW

197 CONSOLIDATED PUBLIC SECTOR

198 GENERAL GOVERNMENT

199 STATE GOVERNMENTS

200 NON-FINANCIAL PUBLIC CORPORATIONS

201 CONCLUSION

SECTION 6

Consolidated Public Sector

Overview

This section provides an overview of the financial position of the consolidated public sector (CPS), encompassing both the General Government and Non-Financial Public Corporations (NFPCs). By adopting the Government Finance Statistics Manual (GFSM) 2014,[1] the CPS framework offers a broader perspective on Malaysia's fiscal landscape. This approach ensures that intra-public sector transactions including intergovernmental grants, state-level allocations and dividend transfers are appropriately eliminated, thereby illustrating a representation of the public sector's collective fiscal stance and total capital investments.

Consolidated Public Sector

The CPS financial position summarises the financial performance of the General Government and NFPCs, reflecting the public sector's fiscal position and its capital outlay. In 2026, the CPS revenue is estimated to increase to RM375.2 billion supported by continuous efforts to broaden the tax base by the Federal Government, coupled with an increase of oil-related revenue in the NFPCs. Similarly, operating expenditure (OE) is expected to expand due to higher fuel subsidies, resulting in the current surplus moderating to RM49.6 billion.

TABLE 6.1. *Consolidated Public Sector Financial Position, 2025 – 2027*

	RM MILLION			CHANGE (%)		
	2025	2026[1]	2027[2]	2025	2026[1]	2027[2]
Revenue	356,248	375,230	402,673	*4.8*	*5.3*	*7.3*
Operating expenditure	384,286	419,127	434,325	*3.6*	*9.1*	*3.6*
Current balance	-28,038	-43,897	-31,652			
NFPCs current balance	87,337	93,485	60,939			
Public sector current balance	**59,299**	**49,588**	**29,287**			
Development expenditure	146,417	181,476	191,386	*-21.3*	*23.9*	*5.5*
General government	87,461	89,423	91,200	*-2.5*	*2.2*	*2.0*
NFPCs	58,956	92,053	100,186	*-38.8*	*56.1*	*8.8*
Overall balance	**-87,118**	**-131,888**	**-162,099**			
% of GDP	***-4.3***	***-6.0***	***-7.0***			

[1] Revised estimate

[2] Budget estimate, excluding Budget 2027 measures

Note: The consolidated public sector financial position after eliminating transactions between public sector entities, including grants, allocations to state governments and dividend transfers.

Source: Ministry of Finance, Malaysia

[1] Refers to the IMF's framework in the GFSM 2014.

Simultaneously, public sector's capital outlays are projected to surge by 23.9% to RM181.5 billion, driven by increased capital spending from NFPCs to fund key initiatives in energy, utility services, digital networks and public transport infrastructure. After the netting off of intra-public sector transactions, the CPS deficit is estimated at RM131.9 billion, equivalent to 6.0% of GDP.

General Government

The consolidated general government financial position comprises the Federal Government, state governments, local governments and federal statutory bodies. It measures economic activities and functions undertaken collectively, including the provision of public goods and services, as well as the redistribution of income and wealth. In 2026, consolidated general government revenue is projected to increase to RM436.1 billion, primarily driven by stronger tax collection by the Federal Government, following by improved tax policy and administrative measures.

The consolidated OE is projected to increase by 9.1% to RM419.6 billion in 2026, primarily reflecting higher fuel subsidy. Consequently, the general government current surplus is estimated to narrow to RM16.5 billion. Meanwhile, higher outlays by the Federal Government, state governments and federal statutory bodies is anticipated to increase the consolidated development expenditure (DE) by 1.3% to RM90.6 billion. After netting-off intra-government transfers and net lending, the consolidated general government overall deficit is expected to amount to RM74.1 billion, equivalent to 3.4% of GDP in 2026.

Borrowings from the Federal Government remain the primary source of financing for the general government. Under Article 111 of the Federal Constitution, state governments may only borrow from the Federal Government, while Article 112B allows the state governments of Sabah and Sarawak to raise funds in accordance with the respective state laws, subject to the approval of Bank Negara Malaysia (BNM). Meanwhile, under Section 41 of the Local Government Act 1976 [Act 171], local authorities are empowered to raise loans for development purposes, subject to the approval and conditions stipulated by the respective state authorities to ensure coordination of fiscal management at the state level. Likewise, federal statutory bodies are permitted to secure financing with the approval of the Federal Government.

TABLE 6.2. *Consolidated General Government Financial Position, 2025 – 2027*

	RM MILLION			CHANGE (%)		
	2025	2026[1]	2027[2]	2025	2026[1]	2027[2]
Revenue	413,869	436,120	452,223	*3.0*	*5.4*	*3.7*
Operating expenditure	384,717	419,636	434,778	*3.6*	*9.1*	*3.6*
Current balance	**29,152**	**16,484**	**17,445**			
Development expenditure	89,457	90,594	92,737	*-2.3*	*1.3*	*2.4*
Overall balance	**-60,305**	**-74,110**	**-75,292**			
% of GDP	***-3.0***	***-3.4***	***-3.2***			

[1] Revised estimate

[2] Budget estimate, excluding Budget 2027 measures

Note: The consolidated public sector financial position after eliminating transactions between public sector entities, including grants, allocations to state governments and dividend transfers.

Source: Ministry of Finance, Malaysia

This centralised framework for borrowing approvals enables the Government to maintain effective oversight of public sector borrowings and ensures that the general government's credit risk exposure remains effectively managed at the Federal Government level.

State Governments

The consolidated financial position of state governments is expected to remain resilient in 2026, supported by the continued current account surplus despite expansion in expenditure. Consolidated revenue is estimated to decline by 2.2% to RM39 billion, with state-generated revenue accounting for RM28.1 billion or approximately 72.2% of the total. In contrast, Federal Government transfers and grants are projected to increase by 8% to RM10.8 billion. The continued commitment of the Federal Government in providing sufficient support highlights the importance of intergovernmental fiscal transfers in sustaining the financial capacity of states, particularly amid fluctuations in own-sourced revenue.

In terms of revenue-generation capacity, Sarawak, Sabah, Selangor, Perak and Johor collectively contributed 80% of consolidated own-sourced revenue, reflecting the relative size of the economies and availability of natural resources. Tax revenue is estimated to edge up by 0.7% to RM12.9 billion, accounting for 33.2% of the total. The increase is driven by direct tax, which is projected to grow by 3.9% to RM9.3 billion, mainly comprising land-based taxes. Meanwhile, indirect tax is expected to moderate by 6.7% to RM3.6 billion, primarily supported by sales taxes collected in Sabah and Sarawak. Non-tax revenue, specifically from investment income and land premiums, is projected to decline by 1.5% to RM15 billion.

On the expenditure front, consolidated OE is forecast to expand by 10.5% to RM20.7 billion. The increase reflects higher expenditure requirements, particularly emoluments, following the second phase of salary adjustment for civil servants under the Public Service Remuneration System (SSPA), as well as allocations for supplies and services. With growth in OE increasing at a faster pace than revenue, the consolidated current surplus is expected to narrow to RM18.3 billion. Meanwhile, development spending is also expected to remain elevated, with net DE increasing by 4.7% to RM15.9 billion during the same period. The continued increase reflects ongoing spending in key infrastructure developments and public facilities, including road and bridge upgrades; water treatment and distribution; drainage and flood mitigation projects; as well as infrastructure for agriculture, industry and community facilities. The simultaneous expansion in both OE and DE indicates that state governments are continuing to balance the provision of essential public services with investment in infrastructure development. Consequently, the consolidated overall surplus of

TABLE 6.3. *Consolidated State Governments Financial Position, 2025 – 2026*

	RM MILLION		CHANGE (%)	
	2025	2026[1]	2025	2026[1]
Revenue	39,901	39,010	*-3.0*	*-2.2*
Operating expenditure	18,726	20,698	*15.2*	*10.5*
Current balance	**21,175**	**18,312**		
Gross development expenditure	15,456	16,122	*10.0*	*4.3*
Development Fund	15,211	16,031	*10.2*	*5.4*
Water Supply Fund	245	91	*-1.1*	*-62.8*
Less: Loan recovery	254	201	*-10.8*	*-20.9*
Net development expenditure	15,202	15,921	*10.5*	*4.7*
Overall balance	**5,973**	**2,391**		
% of GDP	***0.3***	***0.1***		

[1] Estimate

Source: Ministry of Finance, Malaysia and state governments

state governments is expected to narrow to 0.1% of GDP in 2026 from 0.3% in 2025. The moderation reflects the faster expansion in both OE and DE relative to revenue growth.

Non-Financial Public Corporations

The NFPCs remain an integral component of the CPS, contributing to national development and broader socioeconomic priorities. Despite persistent geopolitical uncertainties, the NFPCs are expected to maintain financial resilience in 2026, underpinned by stronger revenue performance and continued investment in strategic sectors. Aggregate revenue of the NFPCs is projected to grow by 8.2% to RM475.8 billion in 2026, supported by strong performance from the energy sector, benefiting from elevated global oil prices. In addition, revenue derived from the utility sector is expected to be driven by strong electricity demand from the continued expansion of hyperscale data centres. Meanwhile, OE is projected to increase by 8.2% to RM440.9 billion, reflecting higher operating requirements amid expanding business activities and evolving cost structures. Nevertheless, revenue growth is expected to more than offset the increase in OE, raising the current surplus to RM34.9 billion. This continued surplus will provide the NFPCs with greater internal funding capacity to support strategic investments while maintaining financial sustainability.

Capital expenditure is projected to increase significantly to RM92.1 billion, indicating continued infrastructure investment across the energy, utilities, telecommunications and public transport sectors. In the energy and utilities sectors, capital deployment remains focused on strengthening energy security and accelerating the transition towards cleaner energy sources, including the expansion of gas infrastructure and upstream activities; carbon capture and storage capabilities; renewable energy capacity; as well as electricity generation and grid infrastructure. These investments continue to support the Government's broader development priorities and enhance the productive capacity of the economy. Consequently, the overall deficit of the NFPCs is projected to widen to RM57.2 billion in 2026, reflecting the higher capital outlays associated with ongoing strategic investments.

As at end-2025, the NFPCs maintained a broadly sound balance-sheet position, with total assets amounting to RM1,525.2 billion and total liabilities at RM694.9 billion, resulting in net worth of RM830.3 billion. The sizeable asset base provides ample capacity to support ongoing investment and fulfil financing requirements. Nevertheless, continued monitoring of the NFPCs' performance remains important to ensure that strategic investments are undertaken within financing capacity and to minimise exposure to fiscal risks.

TABLE 6.4. *Consolidated Non-Financial Public Corporations Financial Position, 2025 – 2026*

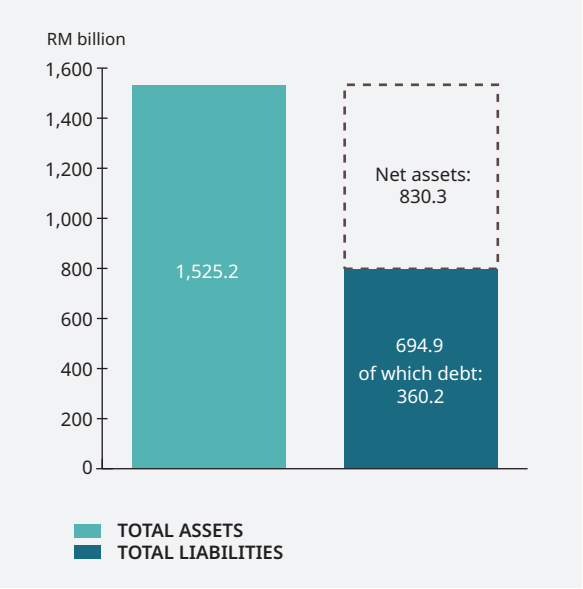
	RM MILLION		CHANGE (%)	
	2025	2026[1]	2025	2026[1]
Revenue	439,677	475,824	*-8.3*	*8.2*
Current expenditure	407,534	440,922	*-9.3*	*8.2*
Current balance	**32,143**	**34,902**		
Capital expenditure	58,956	92,053	*-38.8*	*56.1*
Overall balance	**-26,813**	**-57,151**		
% of GDP	***-1.3***	***-2.6***		

[1] Estimate

Note: Refers to 31 major NFPCs

Source: Ministry of Finance, Malaysia and non-financial public corporations

FIGURE 6.1. *Non-Financial Public Corporations Assets and Liabilities*



Note: End-2025

Source: Ministry of Finance, Malaysia and non-financial public corporations

Conclusion

The overall financial position of the CPS remains sound and well-managed, driven by ongoing public finance reforms and disciplined fiscal management at all levels of government. Through the institutionalisation of the Public Finance and Fiscal Responsibility Act 2023 [Act 850] as well as the proposed legislation on goverment-owned entities, the Federal Government continues to enhance fiscal transparency while strengthening its governance and oversight role across public sector entities. Each layer of government is responsible for contributing to national development through strategic investment in critical infrastructures and social programmes to ensure the well-being of the rakyat. In this regard, balancing mandate delivery with prudent public financial management will provide a strong foundation for the nation to prosper and benefit future generations.