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FUNDAMENTAL FLASH

Budget 2025 | Steady Progress

Prepared by AHAM Asset Management

Fiscal Consolidation Theme Continues

Budget 2025, totalling RM421 billion, continues to set the stage for fiscal consolidation while striking a balance with expansionary policies. With RM335 billion allocated for operating expenditure and RM86 billion for development expenditure, the budget would help lay the groundwork for sustainable growth.

The fiscal deficit is expected to narrow to 3.8% of GDP in 2025, down from 4.3% in 2024. Similarly, federal government revenue is expected to grow to RM340 billion, an improvement from the RM322 billion estimated for 2024.

Among the key measures to broaden the revenue base include:

- An expansion in the scope of the sales and service tax (SST) from May 2025.
- Introduction of a 2% tax on dividend income exceeding RM100,000.
- Hike in excise duty on sugar-sweetened beverages.
- Carbon tax will be introduced on the iron and steel, as well as energy industries by 2026.

Flashpoints

- In our view, Budget 2025 is market-neutral with a focus on fiscal discipline.
- GDP growth is projected at 4.5%-5.5% for 2025, alongside a reduced fiscal deficit of 3.8%.
- Absence of capital gains tax or inheritance tax is a relief to markets. The introduction of a modest dividend tax came as a slight surprise, though its impact is expected to be limited.
- Potential sector winners include Consumer (due to wage hikes, cash handouts) and Property (first-time homebuyer relief).
- A lower fiscal deficit will translate into a reduced supply of government bonds in 2025, providing a supportive technical backdrop for Ringgit bonds.

Market Implications

In our view, Budget 2025 is market-neutral, with an emphasis on the wellbeing of the Rakyat. GDP is forecast to sustain a healthy growth rate of 4.5% to 5.5% in 2025, supported by responsible fiscal management and higher revenue collection. The recalibration of subsidies, including RON95, is part of the broader strategy towards fiscal consolidation, although implementation details are not yet available.

Noteworthy is the RM86 billion allocated for development expenditure, which is evenly distributed across key national projects. These include the Johor-Singapore RTS link, Penang LRT, and critical flood mitigation programmes.

From a market standpoint, the absence of punitive tax measures like capital gains tax or inheritance tax is a relief. The introduction of a modest dividend tax came as a slight surprise, though its impact is expected to be limited.

Key sectors impacted by the budget include:-

Consumer	The minimum wage hike and larger cash handouts should boost private consumption, making the consumer sector a clear beneficiary.
Property	Tax relief for first-time homebuyers provides a small but meaningful catalyst for the property market, particularly in stimulating demand.
Plantation	On the downside, the plantation sector could see headwinds from higher export taxes and increased wage costs.

Equities and Fixed Income Outlook

On the equity side, we remain positive on the Malaysian market, supported by the optimistic macroeconomic outlook outlined in Budget 2025. The continuation of solid policy rollouts, sustained foreign direct investment inflows, a firmer Ringgit, and robust corporate earnings growth are expected to be the primary drivers for equities.

From a fixed income perspective, Budget 2025 is also neutral, with no major surprises on inflation. The government estimates inflation to rise to between 2.0% and 3.5% in 2025, compared to the revised forecast of 1.5% to 2.5% for this year. The upcoming subsidy rationalisation of RON95 could stoke inflationary pressures, though the overall impact is expected to be contained, as only around 15% of the working population will be directly affected.

Similarly, a lower fiscal deficit will translate into a reduced supply of government bonds in 2025, with net bond issuance expected to range around RM80 billion in 2025 compared to RM85 billion estimated this year. This reduction in supply will be supportive of technicals for the local bond market.

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