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YBhg. Datuk Johan Mahmood Merican
Secretary General of Treasury
Ministry of Finance Malaysia,
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BY EMAIL

CPA Australia's submission to the Malaysian Government's 2027 Budget

CPA Australia represents the diverse interests of more than 176,000 members in over 100 countries and regions around the world, including more than 10,500 members in Malaysia. We make the following suggestions for possible inclusion in Budget 2027 on behalf of our members and in the broader public interest. As an organisation with a presence of 70 years in Malaysia, CPA Australia is invested in contributing to the nation's long-term success.

Based on the priorities outlined in the Pre-Budget Statement, we offer the following policy suggestions for Budget 2027. These suggestions draw on feedback from our members in Malaysia, CPA Australia's research and experience across the Asia-Pacific region:

- Raise productivity by strengthening management capability, workforce development and programme effectiveness.
- Help businesses realise value from technology through digital transformation, AI adoption and cyber resilience.
- Improve financing pathways for productivity-enhancing and intangible investments.
- Support households through structural reform by combining targeted assistance with stronger retirement preparedness.
- Strengthen fiscal sustainability through better tax administration and revenue resilience
- Improve business competitiveness through practical sustainability support and participation in low-carbon supply chains.
- Focus on implementation by improving coordination, transparency and accountability across government programmes.

We provide details of each of these suggestions in the attached.

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ATTACHMENT

CPA Australia's policy suggestions for Budget 2027

The Government may wish to consider the following policy suggestions when developing its 2027 Budget:

Raising productivity and strengthening business capability

1. Raising productivity to strengthen economic resilience

Malaysia has made substantial progress in restoring fiscal discipline, attracting investment and maintaining resilient economic growth. However, the next stage of Malaysia's development will increasingly depend on productivity growth.

Future improvements in living standards cannot rely indefinitely on labour-force expansion, higher public expenditure or continuing increases in investment alone. Population ageing, fiscal constraints and intensifying international competition mean that Malaysia must generate greater value from its existing labour, capital and technology resources.

Productivity is a key driver of wage growth, competitiveness, fiscal sustainability and living standards. MSMEs will play an important role in meeting this challenge. They contribute 39.7 per cent of GDP and employ 48.7 per cent of the workforce[1]. Improving productivity within this segment of the economy could therefore deliver significant national benefits.

CPA Australia's Asia-Pacific Small Business Survey found that high-growth small businesses were significantly more likely to focus on strategic planning, management capability and professional advice than other businesses. This suggests that business capability may be an important contributor to stronger business performance. Productivity policy should extend beyond access to finance and technology and focus on helping businesses strengthen management capability, improve planning and derive greater value from the investments they already make.

Malaysia already has an extensive ecosystem of grants, financing schemes and business-support programmes. Budget 2027 therefore presents an opportunity to focus less on creating new programmes and more on ensuring that existing programmes contribute to measurable improvements in productivity, competitiveness and business capability.

[1] DOSM, *Micro, Small and Medium Enterprises (MSMEs) Performance 2025*

Key initiatives to consider in Budget 2027:

- Review existing MSME programmes against measurable productivity and business-capability outcomes.
- Strengthen support for management capability, strategic planning and workforce development alongside technology and automation initiatives.
- Improve access to qualified professional, technical and advisory services that help businesses improve decision-making, operational efficiency and growth planning.
- Publish outcome measures for major business-support programmes, including improvements in productivity, value added, wages, export participation and private-sector investment.

2. Enabling digital transformation, artificial intelligence adoption and cyber resilience

Malaysia has made significant progress in encouraging business digitalisation. Online sales, digital payments, cloud services and digital business systems are now widely used by Malaysian businesses. The challenge is no longer technology adoption but generating meaningful value from technology investments.

The Asia-Pacific Small Business Survey found that high-growth small businesses were significantly more likely to invest in technology, integrate technology into their operations and seek professional advice than other businesses. This suggests that successful technology adoption depends not only on access to technology itself, but also on implementation capability, business processes and management practices.

Malaysia's digitalisation initiatives should therefore evolve beyond supporting the acquisition of software or equipment. Greater emphasis should be placed on helping businesses integrate systems, redesign processes, use data more effectively and build workforce capability.

Artificial intelligence (AI) forms part of this transition. While AI has significant potential to improve productivity, decision-making and customer service, many businesses continue to face challenges in identifying practical use cases and implementing solutions that deliver measurable commercial outcomes. Smaller businesses may be particularly affected due to capability constraints and limited access to specialist expertise.

Support for AI should focus on readiness, implementation and measurable business outcomes. An AI initiative should be considered successful only where it improves productivity, customer outcomes, revenue growth or operational efficiency.

Cybersecurity should also be treated as an essential component of digital transformation. CPA Australia's survey found that 34.8 per cent of Malaysian small businesses lost time or money due to a cyber incident in 2025, while only 38.7 per cent had reviewed their cybersecurity protections within the previous six months. As businesses become increasingly dependent on digital systems, cybersecurity preparedness will play an increasingly important role in operational resilience and business continuity.

Key initiatives to consider in Budget 2027:

- Expand existing MSME digitalisation programmes to support systems integration, process improvement and workforce capability.
- Ensure existing AI support programmes place greater emphasis on readiness assessments, implementation capability and workforce training.
- Link technology support to measurable business outcomes rather than technology adoption alone.
- Improve access to technology advisers and implementation specialists.
- Integrate cybersecurity assessments, employee awareness training and incident-response planning into existing digitalisation programmes.
- Provide practical guidance on responsible AI governance, privacy, data management and human oversight.
- Consider having an industry-focused technology framework that promotes the most impactful AI solutions for specific sectors, which could help businesses prioritise investments with clear commercial outcomes.

3. Financing productivity

Malaysia has developed an extensive SME financing ecosystem supported by commercial banks, development financial institutions, government guarantee programmes, equity crowdfunding and peer-to-peer financing platforms.

Outstanding SME financing increased by 5.9 per cent in 2025, reflecting continued support for the sector[2]. However, the Asia-Pacific Small Business Survey found that only 30.2 per cent of Malaysian small businesses seeking finance considered the process easy or very easy. This suggests that the remaining challenge may increasingly be one of accessibility and suitability rather than overall financing availability.

Many of the investments required to improve productivity today are intangible. These include software, artificial intelligence implementation, workforce capability development, management advice, intellectual property and sustainability-related investments. While these investments can generate significant long-term value, they may be more difficult to finance through traditional lending models than physical assets such as machinery and property.

Younger businesses, sole proprietors and micro-enterprises may face additional barriers due to limited collateral, shorter operating histories or lower awareness of available financing programmes. The challenge is not increasing financing volumes, but ensuring businesses can access financing suited to modern investment needs.

Malaysia should continue strengthening financing pathways that support productivity-enhancing investments while ensuring businesses can navigate existing programmes efficiently. Financial capability remains important, as businesses with stronger planning and financial management are generally better positioned to access and utilise financing effectively.

[2] Bank Negara Malaysia, Annual Report 2025

Key initiatives to consider in Budget 2027:

- Review whether existing financing and guarantee programmes adequately support productivity-enhancing intangible investments.
- Periodically review guarantee-based support to ensure it remains aligned with the needs of viable but underserved businesses
- Improve navigation across existing government, development-finance and guarantee programmes.
- Strengthen SME financial capability and investment-readiness support.

Supporting household resilience

1. Protecting household welfare while continuing subsidy reform

Subsidy rationalisation remains one of Malaysia's most important structural reforms. Better targeted subsidies can improve the effectiveness of public expenditure, reduce leakages and create fiscal space for other priorities. The success of subsidy reform will ultimately depend not only on the fiscal savings achieved, but on whether those savings contribute to stronger public services, more productive investment and improved living standards.

Households experience cost-of-living pressures through food, housing, transport, healthcare, utilities, education and childcare. While targeted subsidies are generally more efficient than broad-based subsidies, households will judge reform based on whether their living standards improve over time.

Businesses face a similar challenge. Higher fuel, energy and transport costs can affect operating margins, particularly for smaller firms that have limited ability to absorb cost increases. However, long-term competitiveness is unlikely to be achieved through continued operating subsidies. Instead, businesses must increasingly improve productivity, energy efficiency and operational effectiveness.

This illustrates why subsidy reform, and productivity reform should be viewed together. Fiscal savings generated through subsidy reform can help fund investments in skills, healthcare, infrastructure and productivity-enhancing initiatives that strengthen long-term economic resilience.

Public confidence will therefore depend on transparency. Households are more likely to support reform where they can clearly see how savings are being redirected towards improving essential services, supporting vulnerable groups and creating future economic opportunities.

Key initiatives to consider in Budget 2027:

- Continue subsidy rationalisation through clear, sequenced and well-communicated reforms.
- Maintain targeted support for vulnerable households using reliable administrative data.
- Publish clear information on subsidy savings and how those savings are redeployed.
- Prioritise healthcare, education, public transport, skills and productivity-enhancing investment when reallocating fiscal savings.
- Support business adjustment through energy-efficiency and productivity-enhancing initiatives.
- Regularly assess the impact of policy changes on vulnerable households and small businesses.

2. Strengthening retirement preparedness and social protection

Malaysia's demographic transition is becoming one of the country's most significant long-term economic challenges. The proportion of Malaysians aged 60 years and above is expected to reach approximately 15 per cent by 2030[3], while labour-market participation is becoming increasingly diverse through self-employment, gig work and other non-traditional work arrangements.

An ageing population has implications for labour-force participation, healthcare expenditure, long-term care needs, household finances and public expenditure. Individuals who retire with insufficient savings may become increasingly reliant on family support, public healthcare systems and government assistance.

The challenge is compounded by changes in the labour market. Malaysia's retirement system has traditionally worked best for employees receiving consistent wages and making regular contributions throughout their careers. However, many workers now derive income through self-employment, platform work, freelancing and other arrangements that may result in lower or less consistent retirement contributions.

The EPF's Retirement Income Adequacy Framework highlights the scale of this challenge by establishing savings benchmarks of RM390,000 for basic retirement needs and RM650,000 for an adequate standard of living. As of October 2024, only 36.2 per cent of active formal EPF members had achieved the age-adjusted Basic Savings benchmark under the previous framework[4], illustrating the challenge many Malaysians face in building adequate retirement savings.

Workers need the capacity and incentives to contribute consistently throughout their working lives. Existing voluntary contribution mechanisms provide a useful foundation and should continue to be strengthened, particularly for self-employed and gig workers. The objective should not simply be increasing participation but encouraging sustained contribution behaviour over time. Financial literacy also plays an important role. Retirement planning requires individuals to understand how long savings may need to last, how inflation affects

[3] Ministry of Finance Malaysia, Pre-Budget Statement 2027
[4] Ministry of Finance Malaysia, Parliamentary Written Reply (December 2024)

purchasing power and how different withdrawal decisions affect long-term retirement income.

Budget 2027 presents an opportunity to strengthen retirement preparedness before the impacts of demographic change become more pronounced. Improving retirement outcomes today will help strengthen household resilience, support healthier ageing and reduce future pressures on public finances.

Key initiatives to consider in Budget 2027:

- Review the effectiveness of existing retirement-saving arrangements for self-employed, gig and informal workers, with a focus on increasing long-term participation and contribution consistency.
- Strengthen existing voluntary contribution mechanisms and incentives that encourage sustained retirement savings behaviour.
- Improve enrolment, recurring-contribution and digital contribution options to encourage regular retirement saving throughout working life.
- Expand practical retirement-planning and financial-literacy initiatives that focus on retirement income, longevity risk and the effects of inflation on retirement savings.
- Provide members with clearer information on projected retirement income outcomes rather than account balances alone.
- Better integrate retirement preparedness with healthcare, long-term care, housing and active-ageing policies to address the broader economic impacts of population ageing.

3. Strengthening fiscal and revenue resilience

Malaysia's fiscal position has improved significantly in recent years. The fiscal deficit narrowed from 6.4 per cent of GDP in 2021 to 3.7 per cent of GDP in 2025[5], reflecting continued fiscal-consolidation efforts and expenditure reforms. However, long-term expenditure pressures remain substantial. Maintaining a resilient revenue base will be critical if Malaysia is to continue investing in healthcare, education, infrastructure and economic transformation while preserving fiscal discipline.

Population ageing, rising healthcare expenditure, climate adaptation, infrastructure investment and social protection demands are likely to place increasing pressure on public finances over time. At the same time, the Government must continue investing in education, skills development and economic transformation to maintain competitiveness.

Fiscal sustainability cannot therefore depend solely on expenditure restraint and subsidy reform. It also requires a resilient and sustainable revenue base. The immediate challenge is strengthening the efficiency and integrity of the existing tax system.

Better tax administration can improve compliance, reduce leakages and lower unnecessary compliance costs for businesses. Greater digitalisation and data sharing can also help simplify interactions between businesses and government.

The Government should continue reviewing whether existing tax incentives and concessions remain aligned with national priorities. Incentives should be periodically assessed to ensure they continue generating measurable economic benefits.

[5] Ministry of Finance Malaysia, Pre-Budget Statement 2027

Over the longer term, stronger productivity growth, business formalisation and higher-value economic activity will provide the most sustainable source of revenue growth.

Key initiatives to consider in Budget 2027:

- Continue improving tax administration, digitalisation and compliance systems.
- Review major tax incentives against measurable economic outcomes.
- Simplify compliance requirements for smaller businesses.
- Avoid duplicate information requests across government agencies.
- Consult publicly on significant future tax reforms.

Supporting energy-transition and sustainability readiness

Malaysia's energy transition should be viewed as both an economic opportunity and a competitiveness challenge.

Global customers, investors and supply-chain partners are increasingly incorporating sustainability considerations into commercial decisions. Exporters, suppliers and service providers are facing growing requests for emissions data, sustainability disclosures and evidence of responsible business practices. As a result, sustainability is no longer solely an environmental issue. It is increasingly a competitiveness issue.

Businesses that successfully adapt may improve access to customers, financing and investment opportunities. Businesses that fail to adapt risk becoming less attractive suppliers and investment destinations.

Sustainability readiness should not be viewed solely as a reporting obligation. Increasingly, multinational corporations, listed entities and international customers are placing greater sustainability expectations on suppliers and value-chain participants. For many businesses, the challenge is having the capability, systems and data needed to respond to these expectations.

Malaysia already has a range of sustainability frameworks, disclosure guidance and sustainable-finance initiatives. The policy challenge increasingly lies in implementation and readiness rather than framework development. Government support should therefore focus on practical capability building, helping businesses understand stakeholder expectations and supporting participation in emerging low-carbon and sustainable supply chains.

For many smaller businesses, however, sustainability adoption remains challenging. Limited expertise, implementation costs, fragmented reporting requirements and uncertainty regarding stakeholder expectations continue to be significant barriers. CPA Australia has consistently highlighted the importance of proportionate implementation pathways that reflect an organisation's size, resources and level of sustainability maturity[6].

Energy efficiency deserves particular attention. Unlike many compliance-related expenditures, investments that reduce energy consumption can directly improve competitiveness through lower operating costs and reduced exposure to future energy-price volatility.

[6] CPA Australia, Submission to the Companies Commission of Malaysia (SSM) on the Proposed Amendments to the Companies Act 2016 on Sustainability Reporting

Policy should remain proportionate. Smaller businesses should not be expected to reproduce the reporting systems of listed companies. Requirements and support measures should reflect the size of the business, its sector, supply-chain role and level of environmental impact.

Key initiatives to consider in Budget 2027:

- Build on existing sustainability guidance through practical implementation support.
- Provide sector-specific sustainability and supply-chain readiness assistance.
- Improve awareness, accessibility and uptake of existing sustainability-related financing and technical advice.
- Review whether energy-efficiency incentives are accessible to SMEs.
- Maintain proportionate reporting expectations for smaller businesses.

Strengthening policy implementation and delivery

Malaysia already has a substantial range of programmes supporting productivity, financing, innovation, digitalisation and sustainability.

The challenge is increasingly ensuring that existing programmes are coordinated, accessible and effective. Businesses often need to navigate multiple agencies, application processes and reporting requirements. Similar initiatives may overlap, creating complexity and reducing effectiveness.

Before introducing additional programmes, the Government should consider whether existing initiatives can be expanded, consolidated or improved. Programme performance should also be assessed using meaningful economic outcomes rather than participation or expenditure measures alone. The key question should be whether programmes improve productivity, competitiveness, investment, business capability and economic resilience.

Consultation also plays an important role. Major reforms involving taxes, subsidies, regulation or reporting requirements are more likely to succeed where implementation issues are identified early through meaningful engagement with stakeholders. Effective implementation requires clear accountability, transparent timelines and measurable outcomes.

Key initiatives to consider in Budget 2027:

- Improve coordination across business-support programmes and agencies.
- Reduce duplicated application and reporting requirements.
- Evaluate programmes against measurable economic outcomes.
- Publish implementation milestones and progress updates for major reforms.
- Strengthen consultation on significant policy changes.

Conclusion

Malaysia has made important progress in strengthening fiscal discipline, attracting investment and building economic resilience. Budget 2027 provides an opportunity to build on these achievements by supporting stronger productivity growth, more capable businesses and sustainable improvements in living standards.

The recommendations in this submission do not depend on establishing a large number of new programmes. In most areas, Malaysia already has strong policy foundations. The priority should be improving the effectiveness, coordination and outcomes of existing initiatives.

Population ageing, changing patterns of work and ongoing cost-of-living pressures mean that retirement preparedness, social protection and fiscal sustainability should be viewed as interconnected policy challenges. Similarly, sustainability and the energy transition should be approached not only as environmental objectives, but as increasingly important drivers of competitiveness and participation in global supply chains.

Across these areas, the challenge is increasingly one of implementation rather than policy design. The effectiveness of Budget 2027 will ultimately depend on how successfully existing programmes and reforms improve productivity, support economic participation and create long-term opportunities for Malaysians.

CPA Australia supports the Government's commitment to raising national growth, improving living standards and strengthening governance. Budget 2027 can advance these objectives by directing public resources towards measures that build long-term capability, resilience and economic opportunity.