

Voluntary Report – Voluntary - Public Distribution

Date: March 03, 2026

Report Number: MY2026-0003

Report Name: Budget for Malaysia 2026

Country: Malaysia

Post: Kuala Lumpur

Report Category: Agricultural Situation

Prepared By: Mohd. Syafiee Mohd Sait

Approved By: Alicia Hernandez

Report Highlights:

Malaysia's Budget 2026 was tabled on October 10, 2025, in the Malaysian Parliament against a backdrop of moderate economic growth, stable inflation, and renewed attention on food security and supply chain resilience. For 2026, the Ministry of Agriculture and Food Security (KPKM) received RM6.87 billion / USD1.76 billion, an increase of seven percent from the RM6.42 billion / USD1.64 billion allocated for 2025. KPKM allocated RM2.62 billion / USD671 million for agricultural subsidies and incentives in 2026, and paddy growers will receive the largest share of this amount. Together, these programs position the paddy sector as the single largest beneficiary within KPKM's budget due to its role in national food security.

EXECUTIVE SUMMARY

Malaysia's Budget 2026 was tabled on October 10, 2025, in the Malaysian Parliament against a backdrop of moderate economic growth, stable inflation, and renewed attention on food security and supply chain resilience. The budget reflects the government's continued focus on balancing fiscal discipline with targeted development spending to support economic stability and long-term growth. With a total allocation of RM470 billion / USD120.36 billion, the budget continues to prioritize measures that protect household purchasing power while strengthening the country's agricultural base.¹ Development spending focuses on infrastructure, mechanization, and productivity improvements, while operating allocations support subsidies, smallholder incentives, and social programs across rural areas.

For 2026, the Ministry of Agriculture and Food Security (KPKM) received RM6.87 billion / USD1.76 billion, an increase of seven percent from the RM6.42 billion / USD1.64 billion allocated for 2025, underscoring the importance the government places on the sector for national stability. A significant share RM2.62 billion / USD671 million is channeled directly to agricultural subsidies and incentives, with paddy farmers receiving the largest portion. Adjustments to ploughing, pesticide, and harvest incentives will increase total support to approximately RM4,300 / USD1,101 per hectare, helping farmers manage higher costs and maintain planting cycles. Major irrigation and water-transfer projects, including the *Jeniang* scheme and upgrades within the [Muda Agricultural Development Authority \(MADA\)](#) region, highlight the government's commitment to long-term production capacity. Additional programs support fruit crops, new agropreneurs, agritech adoption, and state-federal collaboration initiatives, particularly in Sabah and Sarawak. The fisheries sector continues to receive allowances, diesel subsidies, and infrastructure upgrades to stabilize incomes among coastal communities.

The Ministry of Plantation and Commodities (KPK) oversees Malaysia's key commodity industries of palm oil, rubber, timber, cocoa, pepper, and kenaf. Under Budget 2026, the ministry places particular emphasis on three priority commodities: palm oil, rubber, and cocoa. These three received targeted support for replanting of oil palm and rubber for smallholders, cocoa rehabilitation initiatives, and the establishment of a Rubber Research Centre of Excellence. Mechanization initiatives led by the Malaysian Palm Oil Board (MPOB) together with industry partners help address labor shortages and raise harvesting efficiency. Farm-road development remains a priority and RM50 million / USD12.8 million is allocated in 2026 to improve logistics and market access for rural producers.

On the fiscal side, the budget introduced a 10 percent increase in the excise duty on alcoholic beverages beginning November 1, 2025. While import duty and sales tax remain unchanged, the new excise rates raise the overall tax burden on wine and spirits, resulting in higher retail prices and potential adjustments among importers, distributors, and consumers.

Overall, Budget 2026 positions Malaysia's food and commodity sectors for steady transformation balancing immediate support to producers with strategic investments that prepare the system for higher productivity, resilience, and competitiveness in the years ahead.

¹ Exchange Rate by Bank Negara Malaysia (USD3.905)

BACKGROUND

The Malaysian government tabled the 2026 budget, worth RM470 billion / USD120.36 billion, during a period marked by stable growth, moderate economic expansion, and increased focus on strengthening food security and supply chain systems. The allocation is comprised of RM338.2 billion / USD86.61 billion for federal operating expenditures and RM81 billion for federal development expenditures. The allocation also takes into account investments of RM30 billion by Government-Linked Investment Companies (GLICs), RM10 billion in public-private investments, and RM10.8 billion from Federal Statutory Bodies and Ministry of Finance Inc. companies.² The tabled 2026 budget is an increase over the 2025 budget by RM1.79 billion and aligns with the forecasted Gross Domestic Product (GDP) growth of 4.0 to 4.5 percent, while the inflation rate is projected at 1.3 to 2.0 percent in 2026.³

MADANI Budget Comparison: 2024 vs. 2025

The Fourth MADANI Budget	2025 (RM bil)	2026 (RM bil)
Operating Expenditure (OE)	332.1	338.2
Development Expenditure (DE)	80	81
GLIC Investments	25	30
Public-Private Investments	9	10
Investments by Federal Statutory Bodies and MOF Inc. Companies	6.1	10.8
Total	452.2	470.0

* Excludes contingency reserves of RM2.0b

[Source: Malaysia Ministry of Finance](#)

Within this fiscal framework, the agriculture and plantation sectors retain key strategic importance, receiving targeted funding designed to strengthen domestic production, improve infrastructure and mechanization, and reduce vulnerability to external shocks in food and commodity markets. The large operating share reflects continuing commitments to subsidies and social support. The development allocation indicates the government's push to upgrade systems, build resilience, and modernize sector performance.

For 2026, KPKM received RM6.87 billion / USD1.76 billion. A large share goes toward subsidies and incentives for paddy farmers, irrigation upgrades, fruit development programs, and agripreneur support schemes. KPK received allocations for replanting, mechanization, commodity Research and Development, and diversification efforts, including major investments in rubber, cocoa, and palm-oil-related initiatives.

MINISTRY OF AGRICULTURE AND FOOD SECURITY (KPKM)

The Ministry of Agriculture and Food Security received RM6.87 billion / USD1.76 billion for Budget 2026, an increase of about seven percent compared to 2025's funding of RM6.42 billion / USD1.64

² [Speech: Fourth Madani Budget by YAB Dato' Seri Anwar Bin Ibrahim](#)

³ [Economy Outlook: Ministry of Finance](#)

billion. The size of the allocation reflects the ministry's central role in keeping Malaysia's food system stable, affordable, and resilient. The government's aim is not only to increase production but also to strengthen the entire supply chain from farm inputs and irrigation to market access and food availability.

The ministry's work in 2026 focuses on several scopes⁴:

- **Strengthening domestic food production, with an emphasis on the paddy sector**
KPKM directs a significant share of its funding toward strengthening domestic food production, with particular emphasis on the paddy and rice industry. Key measures focus on raising paddy yields, improving irrigation and field rehabilitation, and reducing dependence on imported rice while safeguarding national food supply.
- **Reducing dependence on food imports through livestock and crop development**
Malaysia imports significant amounts of animal feed, fruits, ruminant meat, and processed foods. Budget 2026 prioritizes domestic production through expanded livestock programs with the aim of increasing meat output and raising the self-sufficiency ratio (SSR) for ruminant meat. The ministry also seeks to narrow the gap between domestic supply and demand.
- **Strengthening food security and downstream market resilience**
The allocation supports policies to make sure that food is available and affordable for consumers. Beyond production, KPKM focuses on improving downstream efficiency and market stability. This includes initiatives to reduce food loss and waste, strengthen post-harvest handling, and expand the role of agro-food hubs. These measures are intended to improve supply-chain efficiency, stabilize availability, and enhance value capture across the agro-food system. This includes price-stabilization efforts, food-security schemes, and targeted programs for vulnerable producers such as fishermen and small farmers.
- **Improving productivity across farming systems through mechanization and technology**
Budget 2026 places an emphasis on modern technology, mechanization, and better land management. The ministry aims to help farmers shift away from labor-intensive methods by expanding aggrotech grants, upgrading machinery support, and offering financing through Agrobank to increase yields and reduce production losses caused by outdated practices.
- **Upgrading critical agricultural infrastructure using a 3M approach**
Agricultural infrastructure development remains a core priority under the 3M approach- Build, Upgrade, and Maintain. Much of Malaysia's food-security challenges are tied to water reliability and irrigation gaps. The ministry continues to invest in irrigation channels, water transfer projects, and paddy field rehabilitation. Improving water management is essential to raise cropping intensity, reduce weather-related risks, and stabilize output in major granary areas.
- **Supporting smallholders and rural communities**
More than half of Malaysia's farmers operate on small plots. KPKM programs help them cope with rising input costs, low bargaining power, and market fluctuations. Subsidies, income

⁴ [Minister of Agriculture and Food Security Mandate's for 2026](#) - Bahasa

incentives, training, and extension services ensure that smallholders can maintain production and stay competitive.

Overall, the allocation reflects a multi-layered strategy which is to increase food output, modernize the agriculture sector, stabilize farmer incomes, build resilience against weather events and market volatility, and reduce the country's reliance on imported food. A series of programs has been designed to deliver these outcomes.

I. Paddy Subsidies and Incentives

KPKM allocated RM2.62 billion / USD671 million for agricultural subsidies and incentives in 2026, and paddy growers will receive the largest share of this amount. This reflects the government's continued focus on stabilizing domestic rice supply and supporting farmers facing higher input costs, labor shortages, and unpredictable weather. The allocation covers price support, input assistance, and targeted incentives designed to improve yields and raise farmers' net income.

Breakdown of Incentives per Hectare (Per Season)

- **Ploughing Incentive – RM160/ha**
Increased from RM100, this adjustment aims to help farmers manage rising soil-preparation and machinery costs during land preparation.
- **Pesticide Incentive – RM300/ha**
The incentive increases from RM200 to RM300/ ha to support weed and pest management, especially in areas with frequent outbreaks that directly reduce yields.
- **Paddy Harvest Incentive – RM50/ha**
Newly introduced in 2026, the incentive is designed to offset fuel and machinery expenses for combine harvesters, particularly for small and medium-scale producers.

When combined, these incentives bring the total estimated support for a paddy farmer to approximately RM4,300 / USD1,101 per hectare per season, compared with about RM3,790 / USD971 previously. The higher support level helps reduce production risks associated with input price volatility and operational costs. It also strengthens farmers' cash flow at the two most critical stages, land preparation and harvesting, improving their ability to maintain planting cycles and adopt better production practices.

The increase also complements the ministry's wider efforts to improve irrigation reliability, expand planting intensity, and rehabilitate paddy fields. Together, these programs position the paddy sector as the single largest beneficiary within KPKM's budget due to its role in national food security.

II. Fruit Crop and Horticulture Development

The government allocated RM55 million / USD14.08 million to strengthen Malaysia's fruit crop and horticulture subsector. The allocation responds to two key issues: Malaysia's continued reliance on imported fruits and the rising demand for higher-quality local produce. The program targets expansion

and upgrading of domestic fruit supply by focusing on high-demand tropical fruits such as pineapple, soursop, water apple, and pomelo.

The allocation supports a wide range of activities designed to improve productivity, quality, and market competitiveness. A major component is the rehabilitation of old and underperforming orchards, particularly those affected by disease, low-yield varieties, or poor irrigation. Historically, through the [Department of Agriculture \(DOA\)](#), farmers receive, planting materials and improved varieties that have been developed by research agencies such as [Malaysian Agricultural Research and Development Institute \(MARDI\)](#).⁵

The program also supports pest and disease management, including integrated pest-control training, provision of biological control agents, and monitoring of pests such as fruit borers, mealybugs, and fruit flies. These interventions help reduce crop loss and improve consistency in fruit quality.

Infrastructure is another area of focus. The infrastructure support described above represents a continuation of existing horticulture and orchard rehabilitation programs rather than a newly introduced initiative. Similar activities were supported in previous budgets through Department of Agriculture (DOA) development allocations, particularly for irrigation upgrades, pest management, and post-harvest facilities.

However, Budget 2026 provides clearer earmarking under the RM55 million / USD14.08 million fruit and horticulture allocation, which consolidates rehabilitation, infrastructure, and market-support components into a more defined funding envelope. Public budget documents do not indicate a substantial structural shift in program scope compared to 2025, suggesting policy continuity rather than expansion into new areas. While Budget 2026 specifies a RM55 million /USD14.08 million allocation for fruit and horticulture support, comparable program-level figures were not separately itemized in Budget 2025, limiting direct year-on-year numerical comparison. Budget 2026 reflects consolidation and clearer presentation of existing horticulture support measures rather than the introduction of new funding categories.

The funds are used to improve small-scale irrigation systems, fertigation units, drainage upgrades, and rain shelters, particularly for fruits that are sensitive to rainfall patterns. This helps farmers manage climate variability, increase production, and reduce post-harvest losses.

Post-harvest handling and market support are also part of the allocation. Farmers receive assistance for sorting, grading, packaging, and cold-room facilities, which strengthens compliance with food-safety and quality standards required by wholesale markets and exporters. Programs run jointly with [Federal Agricultural Marketing Authority \(FAMA\)](#) help connect smallholders to domestic markets, contract farming schemes, and value-added processing activities such as juice, puree, and dried-fruit products.

KPKM also uses this allocation to diversify income opportunities for rural communities. Extension officers promote cluster-based fruit development, farmer field schools, and training on best practices for commercial fruit production. These programs encourage farmers to shift from low-value crops to higher-value fruits, introducing better crop rotations and year-round supply planning.

⁵ Agencies under KPKM

Overall, the RM55 million / USD14.08 million allocation is designed to build a stronger fruit and horticulture ecosystem one that supports local farmers, reduces the reliance on imports, improves shelf-life and quality, and strengthens Malaysia’s position in both the domestic and export-oriented fruit sectors.

Table: Key Programs Under Fruit Crop and Horticulture Development

Program / Activity	Description
Orchard Rehabilitation	Upgrading old or low-yield orchards; replanting with improved, certified varieties; soil improvement and drainage work.
Certified Seedling & Planting Material Supply	Distribution of high-quality planting materials for pineapple, soursop, water apple, pomelo, and other tropical fruits; support from DOA and MARDI.
Pest & Disease Management	Integrated pest-management (IPM) training; fruit fly control; biological agents; monitoring of mealybugs, borers, and fungal infections.
Small-Scale Irrigation & Infrastructure	Installation or upgrading of irrigation lines, fertigation systems, rain shelters, and field drainage to support climate-resilient fruit production.
Post-Harvest Handling Support	Assistance for sorting, grading, packaging, cold-room storage, and quality-control practices; compliance with market standards.
Market Access & FAMA Linkages	Support for contract farming, wholesale market access, and participation in domestic fruit-supply programs; promotion of value-added products.
Training & Capacity Building	Farmer field schools, GAP (Good Agricultural Practices) training, cluster-based fruit development programs, and extension-service support.
Diversification Programs	Encouraging farmers to shift into higher-value fruit crops; support for community-based fruit clusters in rural areas.

III. Agropreneur, Agritech, and Agrobank Financing

KPKM continues to push modernization through technology and entrepreneurship support. Budget 2026 reflects a more consolidated and transparent approach to financing support for agro-entrepreneurs and farm modernization. The budget explicitly allocates RM20 million / USD5.12 million for the Agropreneur NextGen Grant, targeting young and first-time agro-entrepreneurs, and identifies RM1.1 billion / USD281.7 million in Agrobank financing to support technology adoption, mechanization, cold-chain facilities, and expansion of existing farms.

By contrast, Budget 2025 did not specify a single total allocation for agro-entrepreneur grants. Assistance in 2025 was channeled through multiple schemes and implementing agencies, with funding details typically presented at the program or per-applicant level rather than as an aggregated budget figure. Agrobank financing in 2025 was similarly presented through a range of revolving loan facilities

and sector-specific financing instruments, without a consolidated headline allocation in the federal budget.

Accordingly, Budget 2026 marks an evolution in budget presentation by consolidating previously dispersed support mechanisms into clearly defined financing pathways, improving transparency while maintaining continuity in policy direction. Budget 2025 program details were derived from budget documents, ministerial statements, and agency guidelines, which do not provide consolidated allocation figures directly comparable to Budget 2026 headline announcements.

To operationalize this consolidated approach, the ministry structures its modernization strategy around targeted grant and credit mechanisms. The two main financing pathways drive this effort are:

- **Agropreneur NextGen Grant – RM20 million / USD5.12 million**
This program targets young or first-time agro-entrepreneurs who are ready to adopt modern practices. Funding is used for start-up capital, purchase of equipment, pilot projects, and digital farming tools. The ministry aims to build a new generation of commercial farmers who can scale quickly and introduce innovation into traditional farming sectors.
- **Agrobank Financing – RM1.1 billion / USD281.7 million**
Agrobank remains a key channel for sector modernization. The allocation covers loans for farm automation, mechanization, cold-chain facilities, livestock housing, aquaculture systems, greenhouse structures, and expansion of existing farms. The financing also supports working capital needs, helping farmers manage cash flow as they adopt new technology. By combining grants with accessible credit, KPKM wants to reduce Malaysia's reliance on manual labor and move toward a more productive, technology-driven farming system.

IV. Programs for Sabah and Sarawak

The government allocated RM300 million / USD76.82 million for State–Federal Agricultural Collaboration Projects in Sabah and Sarawak. The program focuses on crops and activities with strong local potential such as corn, livestock, aquaculture, and paddy development. The allocation aims to close structural gaps between East and West Malaysia, especially in logistics, input supply, and extension services. Funding is channeled into upgrading community farms, improving feed resources, strengthening smallholder training, and developing cluster-based projects that match each state's comparative advantage. The ministry's intention is to increase market access for rural producers while supporting long-term food security in East Malaysia, where production costs are typically higher.

V. Fishermen Incentives and Support Programs

Budget 2026 maintains strong support for the fisheries sector, reflecting the ministry's commitment to stabilizing incomes for coastal communities and ensuring consistent fish supply. An increase in targeted and transparent support for the fisheries sector compared to 2025. The sharp rise in catch incentives, the introduction of gear and vessel funds and the continued provision of living allowances reflect a stronger commitment. The new support framework includes a mix of direct incentives, social assistance, and infrastructure improvement.

Key measures include:

- **Catch Incentive – RM160 million / USD41 million**
Provides direct payments based on landed catches. This incentive helps fishermen cope with fuel, ice, and maintenance costs while encouraging steady landings across seasons.
- **Cost-of-Living Allowance – Up to RM300 / USD77 per month**
A monthly allowance designed to support small-scale fishermen who face irregular income patterns. This allowance helps cushion household expenses in months with weaker catches.
- **Diesel Subsidy – RM1.65 / USD0.42 per liter**
Maintains subsidized fuel costs for fishing vessels, which is critical for reducing operating expenses and allowing fishermen to navigate further distances when near-shore resources are limited.
- **Fishermen Housing Program – RM10 million / USD2.56 million**
Supports the construction and repair of approximately 380 houses. These community projects improve living conditions and strengthen social stability in fishing villages.
- **Vessel Upgrade and Net Replacement – RM20 million / USD5.12 million**
Providing assistance for replacing old nets, upgrading vessels, and adopting more sustainable fishing gear. The funding helps improve safety at sea and reduce environmental impact, especially in coastal areas facing resource pressure.

MINISTRY OF PLANTATION AND COMMODITIES (KPK)

The Ministry of Plantation and Commodities (KPK) oversees Malaysia's major plantation and commodity industries, which include oil palm, rubber, cocoa, pepper, timber, kenaf, and emerging crop-based value chains. The ministry's main function is to develop these sectors through policy formulation, research and development, trade promotion, downstream expansion, sustainability certification, and smallholder support. Its work influences a large segment of Malaysia's rural economy and plays a central role in export earnings, domestic processing industries, and agricultural employment.

KPK operates through a network of specialized agencies that manage different components of the commodity supply chain. These include the Malaysian Palm Oil Board (MPOB), Malaysian Rubber Board (LGM), Malaysian Cocoa Board, Malaysian Pepper Board (MPB), and the Malaysian Timber Industry Board (MTIB). Each agency supports the sector through research, technology transfer, extension services, trade and market development, certification systems such as Malaysian Sustainable Palm Oil (MSPO), and programs aimed at upgrading productivity and ensuring sustainable practices among producers.

The ministry's mandate covers a broad set of responsibilities: strengthening upstream production, promoting mechanization, improving smallholder livelihoods, enhancing the competitiveness of downstream industries, and ensuring Malaysia maintains its position as a major global supplier of palm oil, rubber products, cocoa ingredients, timber-based products, and other emerging commodities. KPK also works closely with private industry, state governments, and international partners to expand market access and develop new sources of commodity-based revenue.

For 2026, KPK received targeted allocations to support replanting, technology advancement, crop rehabilitation, and strategic diversification. Funding priorities emphasize long-term productivity gains, improved sustainability standards, and the easing of labor shortages in the plantation sector. The allocation includes RM60 million / USD15.34 million for palm oil market promotion and global advocacy work, including initiatives to counter anti-palm oil campaigns and strengthen recognition of Malaysia's sustainability standards. The ministry is also placing greater focus on smallholder upgrading, particularly through enhanced replanting incentives for aging oil palm and rubber areas and expanding mechanization trials aimed at reducing dependency on foreign labor. Programs supporting downstream expansion such as value-added rubber products and high-quality cocoa ingredients are also expected to receive more attention under the 2026 allocation as the government pushes for stronger export competitiveness.

Overall, funding for the ministry increased from RM750.7 million / USD191.87 million in 2025 to RM810.1 million / USD207.05 million in 2026, reflecting a nearly eight percent rise in its total allocation. The increase allows KPK to scale up programs that were previously limited in scope, particularly in mechanization, replanting assistance, and market-access initiatives that did not receive similar emphasis in the 2025 budget. The ministry's budget supports both national priorities such as export strength and rural development and global demands for sustainably produced commodities.

To operationalize these goals, Budget 2026 outlines several flagship programs. The first is the creation of a Rubber Research Centre of Excellence, a major initiative designed to strengthen Malaysia's position in the global rubber industry and followed with some other programs.

I. Rubber R&D Centre of Excellence

KPK will establish a Rubber Research Centre of Excellence in 2026, valued at about RM600 million / USD153.35 million. The center is intended to strengthen Malaysia's leadership in rubber technology by focusing on high-yield clones, disease-resistant planting materials, advanced processing technologies, and the development of new rubber products, especially in downstream sectors like medical devices and engineered rubber applications. Collaboration between LGM, universities, and private firms will support rapid commercialization and wider adoption among smallholders.

II. Cocoa Rehabilitation and Technology Support

Under Budget 2026, the Malaysian Cocoa Board continues to implement the Cocoa Yield Production Stimulus Program (2024–2026) a multi-year initiative with a total allocation of RM19 million / USD4.86 million over the three-year period. The program supports rehabilitation of abandoned and low-yield cocoa areas through replanting, provision of improved seedlings, and field upgrading. It also provides technical training in fermentation, drying, grading, and small-scale processing. These interventions aim to revive Malaysia's cocoa footprint, strengthen domestic sourcing for local chocolate producers, and promote higher-value artisanal cocoa products.

Budget 2026 funding represents a continuation of funding under this multi-year program rather than a new single-year allocation. Public budget documents do not provide a year-by-year spending breakdown

for the Cocoa Yield Production Stimulus Program (2024–2026). Only the total three-year allocation RM19 million / USD4.86 million is publicly announced.

III. Smallholder Oil Palm Replanting and Rubber Incentive Programs

Smallholders account for almost 27 percent of Malaysia’s total oil palm planted area, representing over 300,000 smallholder farmers nationwide. Many of their trees are aging trees and well beyond peak productivity. Aging trees produce fewer fresh fruit bunches (FFB), require more fertilizer, and are more prone to pests and diseases. This reduces income stability and makes replanting a critical long-term investment.

Under Budget 2026, the government prioritizes replanting by providing financial assistance through MPOB’s smallholder schemes. Funds typically cover land clearing, felling of old palms, purchase of certified high-yield seedlings, early fertilizer costs, and field maintenance for the first few years until the trees mature. These costs are significant for smallholders, especially those managing one to four hectares of land.

For rubber, the Malaysian Rubber Board (LGM) supports approximately 150,000 to 180,000 rubber smallholders, most of whom operate in rural and interior areas. Incentive programs provide replanting grants, fertilizer support, disease-management assistance, and access to higher-yield clones. Training through field schools and advisory services helps smallholders adopt better tapping systems and reduce production losses caused by diseases such as white root rot.

Despite these measures, the overall structure of replanting incentives has remained broadly consistent with previous years, and uptake continues to be slower than expected. Smallholders often hesitate to replant because it requires a lengthy period without income, three to four years for oil palm and up to seven years for rubber. For households dependent on monthly harvests, this gap poses a significant challenge, even when grants cover seedlings and land preparation. Farmers still face rising labor costs, contractor fees for felling and replanting, and limited machinery access especially in Sabah and Sarawak.

Budget 2026 does not overhaul the replanting framework, but it does place stronger emphasis on upgrading aging plantations and consolidating support through MPOB and LGM. The increased allocation and clearer targeting reflect continued concerns that aging oil palm and rubber trees are holding back productivity. While incentives alone may not fully resolve structural issues, the enhanced focus in 2026 aims to encourage more smallholders to enter the replanting cycle and restore long-term yield potential.

Overall, these programs that were planned aim to help stabilize smallholder livelihoods, raise long-term yields, and reduce pressure for new land expansion. Replanting also aligns with national sustainability goals by improving productivity on existing land rather than opening new areas.

VI. Mechanization and Automation Program (MPOB and Private Sector)

Labor shortages remain one of the plantation sector's biggest constraints. Malaysia relies heavily on foreign workers for harvesting, yet stricter labor policies, higher labor costs, and global compliance requirements have made the industry more vulnerable.

KPK's mechanization and automation program, supported through MPOB and private-sector partners, aims to reduce dependence on manual labor by introducing practical technologies suited to Malaysian plantation conditions. The program benefits both estates and over 300,000 oil palm smallholders who often lack access to machinery due to cost.

Funding RM20 million / USD5.12 million is used for:

- Field trials and prototyping of mechanical cutters, motorized sickles, and semi-automated harvesters.
- Mechanized collection systems, including grabbers, mini-tractors, and FFB transporters for sloped terrain.
- Automation tools for loose fruit collection, pruning, and spraying.
- Training and demonstration sessions across key producing states (Sabah, Sarawak, and Johor).
- Co-investment schemes to help smallholders purchase equipment at reduced cost.

The program improves harvesting speed, reduces crop loss from delayed harvesting, and helps smaller producers overcome labor shortages. Mechanization also supports Malaysia's broader push toward higher sustainability standards, improved worker safety, and better compliance with international labor requirements.

MINISTRY OF FINANCE (MOF)

I. Tax and Excise Measures Affecting Agriculture and Food

Under Budget 2026, the government announced a 10 percent increase in the excise duty on alcoholic beverages, effective November 1, 2025. The revision applies to duty-paid alcohol entering the domestic market, including beer, wine, and spirits. Import duty and sales tax formulas remain unchanged, so the adjustment is targeted specifically at the excise component.

Policy Rationale and Structure

The government framed the increase around three main objectives:

- To reinforce public health messaging and discourage excessive alcohol consumption.
- To strengthen fiscal revenue without broad-based tax hikes on the wider population.
- To maintain the existing tariff structure (import duty and sales tax), avoiding disruption to trade agreements and tariff bindings, while still capturing additional revenue.

Excise duty in Malaysia is calculated on a specific basis, according to alcohol by volume (ABV) and volume in liters. In practice, this means:

- Higher-ABV products like whisky and other spirits face a larger absolute tax increase per liter.
- Lower-ABV products like wine and beer see a smaller increase per liter, but the effect at retail level is still noticeable once margins are added.

Import duty continues to be charged as a percentage of Cost, Insurance, and Freight (CIF) value (which varies by product type and origin), and sales tax is applied at 10 percent on the combined value of CIF, import duty, and excise duty.

Although these changes look modest in percentage terms, the increase becomes more visible once distributor, wholesaler, and retailer margins are added. For middle and high-priced products, even small tax movements can translate into noticeable price jumps at the shelf.

Impact on Consumer Prices and Demand

From the consumer perspective, some impacts may arise like:

- **Retail prices are expected to rise:**
Retail prices across wine and spirits are expected to rise among categories starting November 2025, with the exact amount depending on brand positioning, channel, and margins.
- **Premium and imported products may see a stronger impact:**
Premium and imported products (including U.S. wines and spirits) are likely to feel the impact more strongly, as their base prices are already higher and consumers are more price sensitive in that segment.

Implications for U.S. Exporters

For U.S. exporters, the measure does not change market access conditions or tariff rates, but it raises the cost of doing business in the higher-value alcohol segment:

- U.S. wines and spirits will face higher landed tax costs, which may require price repositioning or promotional support to maintain market share.
- The segment most at risk is premium, niche, or craft products, where price points are already high and volumes are relatively small.

Tax Calculations Before and After 1 Nov 2025 (1-liter bottle, CIF = RM100)

Item	Beer (5% ABV) Before 1 Nov 2025	Beer (4% ABV) Before 1 Nov 2025	Wine (12% ABV) Before 1 Nov 2025	Wine (12% ABV) After 1 Nov 2025	Whisky (40% ABV) Before 1 Nov 2025	Whisky (40% ABV) After 1 Nov 2025
Excise Duty	RM7.40	RM8.14	RM18.00	RM19.80	RM60.00	RM66.00

Import Duty	RM25.00	RM25.00	RM25.00	RM25.00	RM60.00	RM60.00
Sales Tax (10%)	RM13.27	RM13.31	RM14.30	RM14.98	RM22.00	RM22.60
Total Tax per Liter	RM45.67	RM46.45	RM57.30	RM59.78	RM142.00	RM148.60
Total After-Tax Cost (CIF + all taxes)	RM145.67	RM146.45	RM157.30	RM159.78	RM242.00	RM248.60

Fiscal Policy Outlook

The 2026 Budget has a total allocation of RM57.4 billion / USD14.67 billion for subsidies, incentives, and assistance. In 2025, long standing subsidies such as egg price control and chicken subsidies were removed. The Ministry of Finance projects that the government will save RM2 billion in 2026 from the removal of the two subsidies.

POLICY OUTLOOK

Budget 2026 signals Malaysia’s continued commitment to food security, rural livelihoods, and long-term sector resilience. The allocation structure shows strong alignment with national goals under the food security agenda. Support for paddy, fruit crops, aquaculture, and smallholders reflects a focus on improving domestic production capacity, while investments in infrastructure, mechanization, and research facilities indicate a shift toward higher productivity and reduced reliance on imports.

Several policy signals point toward future reform. The government is gradually steering toward subsidy rationalization, with a likely emphasis on better targeting and improved efficiency of support programs. Investments in irrigation, climate-ready infrastructure, and research centers highlight a stronger focus on sustainability, climate adaptation, and long-term resilience. Mechanization and digital agriculture programs suggest a continued push to modernize the sector, reduce labor dependence, and strengthen compliance with international sustainability standards.

Overall, Budget 2026 positions Malaysia’s agriculture and plantation sectors for steady transformation. The mix of subsidies, development spending, and structural reforms reflects a dual strategy: protecting vulnerable producers in the short term while preparing the system for higher-value, more resilient growth in the years ahead.

Attachments:

No Attachments.