

Budget 2026: A blueprint for workforce transformation in the age of AI and sustainability

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Malaysia's talent landscape is evolving rapidly, driven by technological advancements and changing industry skill demands. Despite that, persistent skills gaps, slow technology adoption, and intensifying global competition for talent are outpacing the workforce's ability to adapt, hindering productivity and challenging Malaysia's long-term growth. Guided by Ekonomi MADANI, Budget 2026's 'The People's Budget' charts a path toward inclusive and sustainable development, with RM470 billion allocated to strengthening a future-ready workforce.¹



**Driving national
growth**



**Improving living
standards**



**Advancing
institutional reforms**

Key priorities focus on high-value sectors such as green technology, digital innovation, and advanced manufacturing. These are supported by tax relief for middle-income earners, and SME incentives for AI training. Expanded social protection and increased investment in education and healthcare further strengthen the workforce. For businesses, the emphasis on public-private partnerships, sustainability, and digital transformation presents significant opportunities, reinforcing Malaysia's ambition to remain competitive within the ASEAN region.

**As these national priorities take shape, a critical question arises:
“How will they translate into real workforce outcomes?”**



This is where the workforce dimension of Budget 2026 becomes particularly relevant. By emphasizing digitalization, the green economy, and placing human talent at the center of national growth, the budget positions Malaysia to pursue a skills-driven growth model. With RM7.9 billion allocated to technical and vocational education and training (TVET) and skills development in high-growth sectors such as AI and renewable energy, aligned with the skills-driven national directives.²

RM7.9b
Allocation



1. The Edge Malaysia, [Talent: Building a competitive workforce](#), 24 February 2025.
2. Bernama, [RM7.9 Billion For TVET To Enhance Local Skilled Talent Development](#), 11 October 2025.

From policy to people: How Budget 2026 shapes real workforce impact

Against this backdrop, organizations play a pivotal role in **translating Budget 2026 into real workforce gains**. The shift toward digital, automated, and low-carbon industries requires organizations to rethink how they **hire, develop, and empower talent**. To turn these opportunities into tangible workforce outcomes, organizations should focus on the following key actions:

1

Revamp recruitment, training, and career pathways

Equip employees for **digital, automated, and low-carbon jobs**

2

Integrate sustainability into workforce strategies

Leverage **Green Investment Tax Allowance** and **carbon pricing**³

3

Boost workforce value, engagement, and retention

Turn skills development into measurable **career growth**

4

Attract and retain talent seeking impact and purpose

Focus on **growth opportunities** and **meaningful careers**

While these actions lay the foundation, Budget 2026 also broadens access to opportunity. Its focus on inclusive workforce growth supports gig workers, micro-entrepreneurs, and contract staff, creating pathways for flexible work, upskilling for informal workers, and competency-based hiring.⁴ Beyond national borders, the proposed ASEAN Business Entity (ABE) status would streamline talent movement across Southeast Asia, reduce regulatory hurdles, and strengthen cross-border leadership pathways for long-term workforce capability.⁵

These collective shifts establish a framework for converting policy incentives into measurable workforce outcomes. Rather than acting as isolated budget measures, they shape employee experiences where learning, mobility, and meaningful work are integrated into their everyday careers. To operationalize these initiatives, organizations can translate incentives into sector-specific workforce programs:⁶



Manufacturing

Reskilling technicians for smart-factory roles



Financial Services

Developing sustainable finance and risk capabilities



Services Sector

Building a digital-first customer engagement

Incentive highlight

Additional 50% tax deduction for MSMEs investing in AI training (2026–2027)⁷

Linked to structured learning pathways, these incentives foster clear progression. Paid learning days, ESG-linked career tracks, and internal mobility enable employees to apply new skills and step into higher-value roles.⁸ Complemented by the Ministry of Human Resources' "10 game-changer initiatives," companies can modernize HR operations with digital platforms and more transparent career pathways.⁴ Collectively, these measures translate national priorities into inclusive and equitable workforce outcomes.

3. KPMG in Malaysia, [Malaysia's commitment to green growth](#), October 2025.

4. Human Resources, [Malaysia 2026 Budget discussion: MoHR to table 10 game changer initiatives, including salary reform, flexible working, and more](#), 12 September 2025.

5. The Edge Malaysia, [Budget 2026: Business entity status will create more Malaysia-based Asean champions, says Nazir Razak](#), 11 October 2025.

6. KPMG in Malaysia, [2026 Budget Snapshots](#), October 2025.

7. Ministry of Digital, [Press Release: Allocations in Belanjawan Madani 2026 set to spur Malaysia's digital transformation](#), 11 October 2025.

8. World Economic Forum, [From obligation to motivation: why employee engagement is the key to ESG success](#), 9 December 2024.



Budget 2026 marks a decisive shift in how organizations develop and mobilize talent. The move toward digital, green, and skills-driven growth requires more than isolated training efforts. It calls for workforce strategies built around structured learning pathways, ESG-linked career tracks, and internal mobility. Together, these approaches close skills gaps, strengthen engagement, and build capabilities that support long-term competitiveness.

These shifts are interconnected: upskilling fuels innovation; internal mobility deepens leadership; and sustainability-focused roles attract talent seeking meaningful work. In a landscape of rapidly evolving job demands, organizations that act now will gain a human capital advantage and position Malaysia as a resilient, future-ready player in the global economy.

How KPMG can help

The shifts outlined in Budget 2026 signal a pivotal moment for organizations to reimagine how they build and deploy talent. The challenge is translating national priorities into targeted actions that strengthen capabilities, enhance mobility, and close emerging skills gaps.

Our People and Change professionals at KPMG are well-equipped to support organizations in translating these priorities into practical solutions that build a capable, resilient, and future-ready workforce. We help organizations focus on four key areas:



Organizational Design

Align structures, roles, and governance to support agile decision-making and future workforce needs.



Talent Management

Develop clear progression pathways, competency frameworks, and targeted programs that elevate employee value propositions.



Workforce Optimization

Use data-driven workforce planning to anticipate future skill demands and strengthen internal mobility.



HR Transformation and Change Management

Evolve HR into a strategic driver that integrates technology adoption, policy refinement, and change readiness.



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