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Fuel subsidies threaten fiscal gains

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ECONOMY

Run-up to



PETALING JAYA: Malaysia's fuel subsidy bill could swell to as much as RM52bil this year as surging refining margins threaten to offset the fiscal windfall from higher oil prices, raising the prospect of greater contributions from Petroliaam Nasional Bhd (PETRONAS) to shore up government finances, BIMB Securities Research said.

The re-emergence of fuel subsidies as a major fiscal pressure point is a key risk to the Budget 2027 framework.

The research house estimates the fuel subsidy bill could rise to RM48bil to RM52bil versus the government's earlier assumption of about RM40bil.

"This may necessitate higher PETRONAS dividend contributions or delay further fiscal consolidation measures.

"Policy support is likely to remain focused on targeted cash transfers, healthcare, education, water security, energy transition and infrastructure maintenance rather than large-scale new mega projects," BIMB Research said in a report recently.

The higher subsidy burden comes as a sharp widening in refining margins has driven refined fuel prices higher even as crude oil prices rise, creating a mismatch between the government's petroleum revenues and subsidy costs.

"A key difference from previous oil price cycles is the divergence between crude oil prices and refined fuel prices.

"Government revenue benefits primarily from higher petroleum-related income linked to crude prices, whereas subsidy costs are determined by retail fuel prices derived from refined products.

"As refining margins widen, subsidy expenditure may increase at a faster pace

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Higher government support bill pressures Budget 2027

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than petroleum-related revenues, reducing the fiscal benefit traditionally associated with higher oil prices," BIMB Research said.

It added that at the same time, fuel demand has remained resilient despite higher energy prices.

It said continued consumption growth, alongside persistent leakages and cross-border arbitrage activities, has limited the natural reduction in subsidy costs that would normally occur when prices rise.

This, BIMB Research said, increases the risk of fuel subsidy expenditure remaining elevated for longer than expected.

"The implication for Budget 2027 is that expenditure management may become a more important challenge than revenue collection. Although stronger oil prices should support government revenue, a substantial portion of these gains could be offset by higher fuel subsidies, potentially constraining efforts to accelerate fiscal consolidation.

The research house said a higher group

payout could also increase attention on PETRONAS' cash generation from its listed subsidiaries. Over the past 10 years, PETRONAS has monetised minority stakes in MISC Bhd, Petronas Gas Bhd and Petronas Dagangan Bhd, including block trades in 2019, although these were described as portfolio optimisation.

"Higher oil prices are no longer an unambiguous positive for Malaysia's fiscal position. The interaction between elevated crude prices, wider refining margins and resilient fuel demand means that subsidy costs may absorb a significant portion of the additional petroleum-related revenues.

"This reinforces the importance of subsidy rationalisation and prudent expenditure management as key themes for Budget 2027," BIMB Research said.

Beyond the subsidy pressure, Budget 2027 is expected to remain supportive of infrastructure spending, although the research house does not expect a sharp increase in

federal development expenditure.

Instead, spending is likely to be concentrated on flood mitigation, water infrastructure, power-grid upgrades and existing transport projects, with public-private partnerships playing a bigger role in project delivery.

"Policy priorities are likely to remain focused on targeted income support, healthcare, energy security, renewable energy (RE), power grid expansion and water infrastructure.

"At the same time, adherence to the Public Finance and Fiscal Responsibility Act 2023 framework suggests large new fiscal commitments remain unlikely, increasing the importance of public-private partnership-led projects and government-linked investment company-driven investments," the research house said.

BIMB Research favours sectors most closely aligned to these priorities. Utilities, RE, water infrastructure, healthcare and selected consumer names offer the clearest earnings visibility from anticipated policy measures.

"Among infrastructure beneficiaries, Gamuda Bhd stands out as the strongest multi-theme exposure through water, transport, power and climate-resilience projects. Meanwhile, Tenaga Nasional Bhd remains the primary beneficiary of rising power demand from data centres and energy-transition investments.

"Consumer spending should remain supported by larger Sumbangan Tunai Rahmah and Sumbangan Asas Rahmah allocations, benefitting value-orientated retailers and staples names," it highlighted.