isentia
AUTHOR: AKMARANNUAR SECTION: CORPORATE NEWS PAGE: 1,4 PRINTED SIZE: 1337.00cm²
REGION: KL MARKET: Malaysia PHOTO: Full Color ASR: MYR 18,503.00 ITEM ID: MY0062058696

06 JAN, 2025

Electricity tariff hike: Economic impact vs sustainability goals

The Malaysian Reserve, Malaysia

Electricity tariff hike: Economic impact vs sustainability goals

Supporters say the hike ensures stable power and supports RE transition. Critics fear it will strain small biz with higher costs and inflation

by AKMAR ANNUAR

THE decision to raise electricity tariffs by 14.2% starting July 2025 continues to fuel intense debate among economists, business leaders and public policy experts.

Multiple stakeholders have raised concerns that this development could have far-reaching effects on Malaysia's economic landscape, including foreign direct investment (FDI) inflows, manufacturing supply chains, small-scale enterprises and even the country's compliance with various international trade agreements.

Several economists and industry observers emphasise that the government's key objectives include greater transparency in tariff-setting, incentives for Tenaga Nasional Bhd (TNB) to modernise the national electricity grid and a gradual transition towards renewable energy (RE).

Yet, experts also warn that these laudable goals must be balanced against short-term economic headwinds and longer-term implications for Malaysia's competitiveness.

Main Drivers Behind Hike

One of the principal arguments supporting the electricity tariff hike is the need to maintain a stable and reliable power supply.

SEE PAGE 4

Electricity tariff hike: Economic impact vs sustainability goals

• FROM PAGE 1

Bank Muamalat Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the tariff structure is designed to establish a transparent framework that urges TNB to invest in both capital expenditure (capex) and operational expenditure (opex).

"I think we need to understand the big picture of such a move. The main idea is to ensure that tariff setting is transparent and incentivises TNB to incur capex and opex that would make the electricity supply uninterrupted, possibly with zero or extremely minimal downtime.

"Not to mention that the transition towards RE would require sizeable capex by TNB," he told *The Malaysian Reserve (TMR)*.

Mohd Afzanizam further pointed out that under the Incentive-based Regulation (IBR) framework, TNB is afforded a regulatory rate of return of 7.3%.

This mechanism is crucial for making critical electricity infrastructure investments viable.

The IBR guides the regulatory rate of return of 7.3%, ensuring that investment by TNB in relation to electricity infrastructure remains feasible. All this should translate into efficiency and reliability in the electricity supply, which would attract both foreign and domestic investment.

While acknowledging the logic behind the tariff hike, Mohd Afzanizam underlined the importance of providing more detailed explanations to businesses and households.

He believed that thorough communication could ease uncertainties regarding how the new tariff will affect energy costs and what benefits it might yield in the future.

"I suppose these measures need to be explained in greater detail, and it must be emphasised how they would benefit businesses and consumers," he said.

His view reflects a common sentiment among economists, who generally agree that transparent public discourse is vital for securing stakeholder buy-in, especially when policy changes may affect the cost of living.

Impact on FDI

A central question concerns whether or not the higher electricity tariffs could deter new FDI, especially in sectors that rely heavily on stable and affordable energy sources, such as steel manufacturing, petrochemicals and advanced technology.

These industries traditionally seek locations offering cost efficiencies in energy as part of their investment decisions.

Williams Business Consultancy Sdn Bhd founder and director Prof Geoffrey Williams adopts a measured stance on this issue.

He warned that a tariff hike could impact overall living costs, yet he also observes that Malaysia may still retain an edge relative to regional competitors.

"It is not advisable to raise base tariffs under current conditions. Any increase would have an impact on the cost of living directly, through household bills, and indirectly, as businesses pass on higher costs to consumers.

"However, it would not particularly affect FDI because electricity prices in Malaysia are still generally lower than those of other competitors," he told *TMR*.

Additionally, Mohd Afzanizam emphasised that international investors look not only at energy costs but also at the infrastructure's dependability and resilience.

An uninterrupted, quality power supply could therefore mitigate some concerns regarding higher base tariffs.

Pic by Muhd Amin Naharul

TNB has limited options if it intends to fund the rising costs of electricity generation and upgrade infrastructure in rural areas

TMRpic

Afzanizam points out that under IBR, TNB is afforded regulatory rate of return of 7.3%

Source: Putra Business School

Everyone will be impacted, whether they are businesses or residential users, says Ida

Meanwhile, Crewstone International Sdn Bhd chairman Datuk Jalilah Baba highlighted that TNB has limited options if it intends to fund the rising costs of electricity generation and upgrade infrastructure in rural areas.

"In my opinion, TNB has no choice but to raise the tariff rate, given the increasing costs of electricity generation across the country.

"There are also rural areas that require enhanced electricity supply. This involves modernising those areas," she told *TMR*.

Jalilah, who is also PKT Logistics Group chairman, stressed that while these endeavours are critical for inclusive development, they inevitably increase TNB's operating costs, potentially necessitating a tariff adjustment.

Another major area of focus is how heightened electricity tariffs will affect manufacturing supply chains and production costs.

Williams warned that any rise in operational costs for manufacturers is likely to be transferred throughout the supply chain. The result could be upward pressure on wholesale and retail prices, creating potential inflationary tendencies.

"It will affect domestic businesses, especially in manufacturing, making operations costs more expensive, which would be passed on through the supply chain," he said.

The knock-on effect could be significant for exporters, too, as higher production costs might erode the competitive advantage Malaysian goods currently hold in international markets.

Larger corporations, with more robust capital structures, might be able to absorb these additional costs temporarily, but smaller firms with narrower profit margins could face more immediate challenges.

Micro, small and medium enterprises (MSMEs) are the bedrock of Malaysia's economy, representing a large swath of its industrial base.

Many operate on slim margins, making them especially susceptible to cost spikes. Williams singled out MSMEs, freelancers and the gig economy as particularly vulnerable.

He noted that many in the informal and gig economies rely heavily on keeping overheads to a minimum. The slightest hike in electricity bills can therefore be financially destabilising, particularly since small operators often lack the capacity to raise their own prices in tandem.

"It will particularly hit MSMEs, freelancers and home workers, and those in the informal and gig economy," he said.

On the other hand, Putra Business School Society Engagement, Alumni and Endowment manager Assoc Prof Dr Ida Md Yasin observed that smaller-scale enterprises typically consume less electricity in absolute terms.

Consequently, the nominal increase for them may be lower than for factories or large commercial facilities. However, the impact could still be significant relative to their overall cost base.

"Everyone will be impacted, whether they are businesses or residential users. However, when the business is small-scale, the electricity usage may not be that high, so the impact in absolute terms is also small compared to, for instance, a business or a factory that uses a large amount of energy — like iron and steel.

"So, the increase in cost will be much larger in percentage terms for bigger users," she told *TMR*.

Although the percentage-based disparity may suggest smaller operators fare better, those working on tight budgets may find that even a minor absolute increase can disrupt their already delicate financial equilibrium.

Implications for Trade Agreements

On one hand, a gradual reduction in electricity subsidies is consistent with several trade agreements that promote transparent market-based pricing.

On the other, if the subsidy reductions appear to be reallocated in ways that distort costs across different user segments, concerns could arise among Malaysia's trading partners.

However, Malaysia's pivot towards RE aligns with global sustainability initiatives, which can be synergistic with the terms of certain international accords.

Mohd Afzanizam explained how RE-related investments could improve Malaysia's credibility on the international stage.

"The transition towards RE would require sizeable capex by TNB, and the IBR ensures that investment relating to electricity infrastructure is feasible. All these investments, if successful, can also strengthen Malaysia's credibility as a trade partner that is committed to sustainability," he said.

If framed effectively, the tariff hike could be presented as part of a broader environmental and fiscal reform strategy, potentially mitigating concerns from trading partners who prioritise transparent and sustainable energy practices.

Subsidy Reductions vs Energy Reforms

Much of the public discourse revolves around the government's ongoing subsidy rationalisation plan.

Williams indicated that the government saved some RM4 billion, leaving around 85% of users unaffected, but the perception that TNB might be seeking to recoup these lost subsidies has fuelled scepticism.

"It looks as though TNB was trying to claw back this lost subsidy by passing on the cost to households and businesses, and this could damage its reputation."

Another central government objective is the advancement of RE. Malaysia allocated nearly RM2 billion for electricity subsidies in 2024 alone, and reining in these subsidies may free up additional capital for RE infrastructure and other green initiatives.

Ida observed that historically low electricity prices have stunted the uptake of clean energy.

"If electricity is too cheap, nobody will move towards RE. However, if the price of electricity is not extremely low, businesses might look at solar or other renewables as a viable option," she said.

Over the long term, enhanced adoption of RE sources could align Malaysia's energy policy with global sustainability goals while also reducing dependence on fossil fuels.

Although many households may not immediately feel the pinch — particularly if they qualify for subsidised electricity rates — secondary effects from production cost increases can still trickle down.

Manufacturers and retailers, dealing with higher overheads, might inevitably raise the prices of goods and services, further fuelling inflationary concerns.

Williams said given that there may be inflationary effects from subsidy rationalisation of RON95 later in the year, this will not be welcomed.

This interconnectedness of energy prices, consumer goods and inflation underscores why households remain alert to changes in electricity tariffs, even if their own monthly bills do not skyrocket.

Tariff hikes often ignite public debate about the government's broader commitment to stabilising living costs.

Jalilah emphasised that part of the justification behind the rate hike is extending the grid to rural areas and modernising overall systems to improve nationwide reliability.

"This involves modernising rural areas. If the public sees genuine improvements in the reliability of supply and service quality, they might be more willing to accept the tariff increase," she said.

Reconsideration and Policy Clarity

Several industry players, including Williams, advocated a more cautious approach. They argue that the economic recovery remains fragile and that a sharp tariff hike could undermine growth just as businesses are regaining momentum.

Williams urged policymakers to recalibrate the scale of the proposed increase or consider phasing it in over a more extended period.

"In line with industry and consumer representative groups, the proposal should be reconsidered," he said.

Proponents, however, argue that Malaysia can no longer delay structural reforms. They claim that heavily subsidised electricity has contributed to inefficiencies and hindered the adoption of green technologies.

Ida believed that a market-oriented approach to energy pricing can prompt innovation and boost productivity.

"From an economist's perspective, we should not provide too many subsidies. The government has tended to subsidise electricity for households more than businesses.

"Ultimately, removing or reducing these subsidies can force businesses to innovate and could enhance productivity," she said.

As electricity tariffs rise, businesses in Malaysia will face pressure to optimise operations and maintain competitiveness by producing more output with minimal additional input.

Ida added that at the end of the day, business is about who can be productive — meaning producing more output with the same input.

This may prompt firms to invest in advanced machinery and adopt more efficient processes, including RE solutions.

Historically cheap electricity has hindered widespread adoption of RE, but higher tariffs could accelerate that shift. Such a move would align with the government's climate commitments and reduce exposure to global energy price fluctuations.