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Redirecting fuel subsidy savings toward electric vehicle adoption

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While greater EV adoption will add to consumption, its effect on electricity rates will hinge on how the grid absorbs the additional load. — Xinhua photo

Redirecting fuel subsidy savings toward electric vehicle adoption

MALAYSIA'S fuel subsidies have long skewed energy consumption patterns, keeping petrol prices artificially low and discouraging the transition to cleaner alternatives.

Kenanga Research said the planned rationalisation of RON95 subsidies in the second half of 2025 will present an opportunity to channel a portion of these savings into targeted EV incentives.

"A well-calibrated support mechanism – such as direct subsidies for locally assembled EVs – could improve affordability, particularly for lower-income groups," it said in its analysis.

"This approach would accelerate EV adoption while reducing the government's fiscal burden through lower fuel consumption; facilitate a gradual phase-out of broad-based subsidies; and strengthen Malaysia's EV manufacturing ecosystem.

"A phased strategy would allow for a smoother fiscal and industrial transition, ensuring long-term economic and environmental sustainability."

Tenaga National Berhad (TNB) attributes the 14.2 per cent increase in the Fourth Regulatory Period (RP4) from mid-2025 to 2027 base rate to a projected 24 per cent rise in coal prices and a 34 per cent surge in LNG prices. Together, these fuels made up 90.0 per cent of Peninsular Malaysia's power generation in 3Q24.

Meanwhile, electricity demand is climbing, driven by data centres and the shift to EVs. While greater EV adoption will add to consumption, its effect on electricity rates will hinge on how the grid absorbs the additional load.

On one hand, Kenanga Research said households may spend less on fuel and diesel (5.7 per cent), reducing their weight in the Consumer Price Index (CPI). On the other, electricity expenses are likely to rise, potentially increasing the CPI weight for electricity (2.7 per cent).

"To assess inflationary impact, several factors must be weighed. The American Council for an Energy-Efficient Economy suggests that increased EV charging could lower per kWh rates by spreading fixed utility costs across more users.

"However, widespread EV adoption may require major grid upgrades, especially in residential areas. Still, higher electricity consumption could offset these costs. If fuel savings outweigh higher electricity costs, overall household expenses could decline, exerting downward pressure on inflation."

However, the research house forewarned that should electricity prices rise due to infrastructure investments or increased consumption, inflation could remain neutral or even tick higher.

One way to offset this lies in renewable energy, as Kenanga Research suggests scaling up hydro, solar, biofuels and potentially nuclear power generation to reduce reliance on fossil imports and enhance price stability.

"For example, excess solar energy can be stored and channelled to EV charging, dampening volatility," it proposed.

"By adopting these measures, Malaysia can facilitate a smoother transition to electric mobility, optimising economic benefits while mitigating inflationary pressures.

"If fuel savings from reduced petrol usage exceed higher electricity costs, EV adoption could be disinflationary over the long term.

"However, in the near term, electricity inflation may rise, particularly if grid investments are front-loaded without efficient demand management. This reinforces the need for a coordinated policy response from both the government and utility providers."