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'Bank Negara to assess oil shock before raising rates'

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REINING IN INFLATION

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KUALA LUMPUR: Bank Muamalat Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid said policymakers will likely assess the situation before raising interest rates to contain the inflation resulting from the impact of the Middle East conflict.

He was responding to some quarters that said Bank Negara Malaysia should raise rates to contain inflation.

Bank Negara governor Datuk Seri Abdul Rasheed Ghaffour on March 5 said the central bank is monitoring global developments, including oil prices, potential supply disruptions and financial market volatility.

Bank Negara expects to disclose its assessments later this month.

"My sense is that Bank Negara would want to see whether current shocks have any material impact on growth or inflation. Some may argue that Bank Negara should raise the interest rate to keep inflation at bay. I believe Bank Negara will look into

the cause of inflation. The main issue here is whether there is going to be oil supply shortage and whether the government would adjust their subsidy mechanism."

He said Malaysia is in a relatively better position as it is an oil-producing country.

Malaysia recorded a trade surplus in the oil and gas industry totalling RM18.2 billion in 2025 compared with RM13.2 billion in 2024, largely underpinned by a surplus in refined petroleum and liquefied natural gas.

"It is a function of government subsidies to help cushion the impact on inflation."

Nonetheless, Afzanizam said the targeted fuel subsidy may need to be reviewed if the current situation persists.

"Perhaps, the next stage is to target the subsidy based on income level, where those in the high-income cohort can be exempted from receiving the subsidy."

The risk of higher inflation is becoming apparent and Afzanizam cautioned that rising prices could weigh on economic growth as households and businesses would curb spending.

"There is no one-size-fits-all solution. But we do think the downside to growth has become elevated. As such, we are not in the camp that calls for monetary tightening at the current juncture."

In 2022, total expenditure on petroleum subsidies amounted to RM23.1 billion, with the average Brent crude at US\$99 per barrel.

The expenditure on petroleum subsidies fell to RM19.7 billion in 2024 when the average Brent stood at US\$79.9 per barrel.

Finance Minister II Datuk Seri Amir Hamzah Azizan said the government's monthly petrol subsidy has increased to RM2 billion, while

the diesel subsidy has risen to RM1.2 billion per month, totalling RM3.2 billion per month, up from RM700 million previously.

Afzanizam said for now, crude oil prices are likely to stay elevated, and markets are grappling with the new reality where geopolitical risks have become more entrenched and governments are scrambling to find the right policy response.

Some economists are talking about crude oil hitting US\$200 per barrel, the same figure forecast by a Goldman Sachs analyst during the 2008 oil shock.

"So, higher crude oil prices are going to be the focus. Thus far, the United States-Israel and Iran have not indicated any signs of backing down. Therefore, elevated crude prices are here to stay."

Afzanizam said energy security is the heart of the problem, and measures to ensure sufficient oil supplies



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have become the priority.

While energy transition and sustainable economy have been discussed globally, he said recent developments highlight that the world remains vulnerable to oil supply shocks.

On that note, more needs to be done to accelerate the renewable energy share in the total energy mix, he said.

Based on Tenaga Nasional Bhd data, coal and gas accounted for 92.4 per cent of the total energy mix in 2025 versus 96 per cent in 2018, while

solar and hydro constituted 7.2 per cent in 2025 compared with 3.9 per cent in 2018.

At the same time, electric vehicle (EV) registration jumped 105.7 per cent in 2025 to 44,813 units versus a year ago, according to Road Transport Department (RTD) data. In the first two months of 2026, RTD reported that EV registration rose 156.4 per cent to 9,874 units versus the same period in 2025.

"Therefore, the progress is commendable. However, it needs to be accelerated," he said. **Bernamea**