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Govt taking pragmatic approach on fuel subsidies

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KUALA LUMPUR: The Malaysian government, under Prime Minister Datuk Seri Anwar Ibrahim's leadership, is seen to be handling the current surge in oil prices wisely through various measures despite the West Asia conflict entering its fourth week with no signs of easing.

Bank Muamalat Malaysia Bhd chief economist Mohd Afzanizam Abdul Rashid believes the MADANI government has been pragmatic, especially regarding fuel subsidies, where the current structure has been retained to minimise the impact of the oil shock.

He recalled that in 2008, when Brent crude prices hit US\$148 per barrel, Malaysia implemented sharp subsidy cuts, leading to significant fuel price hikes that caused inflation to surge rapidly from 3.8 per cent to over 8 per cent within a few months.

"The subsidies rationalisation was quite dramatic, where RON92, RON97 and diesel were raised by 72 sen, 78 sen and RM1.00 on June 5, 2008. Consequently, the inflation rate shot up from 3.8 per cent in May 2008 to 7.7 per cent, 8.5 per cent, and 8.5 per cent in June 2008, July 2008, and August 2008, respectively.

"The government has learnt that subsidy rationalisation has to be precise. The targeted subsidy regime, with MyKad, is precise, which minimises the impact on middle and low-income individuals



from higher fuel prices," he told Bernama.

Mohd Afzanizam noted that Anwar suggested the current subsidy structure, under which all Malaysians with valid driving licences, regardless of income level, enjoy fuel subsidies, is not sustainable if global oil prices remain elevated for a protracted period.

He emphasised it is important not to jump the gun, as the prevailing situation is highly fluid.

"We can see United States President Donald Trump is keen for a ceasefire, although the signalling

is still vague.

"It seems there is an incentive for the Trump administration to stop the war, as the oil shock is taking a negative toll on the cost of living among Americans. This shock might not go well, as the present administration will go into the mid-term elections in November this year," he said.

Meanwhile, Mohd Afzanizam said key institutions such as Petrolia Nasional Bhd (Petronas) have developed a robust business network across the globe, with a presence in 100 countries, and can procure oil and gas from other

sources such as Canada, Latin America, Balkan countries, and Africa, among others. Tenaga Nasional Bhd has also built a strong ecosystem for the energy sector, especially in procuring the energy mix, including coal and gas, which account for 92 per cent of the total energy mix. I suppose they can procure more coal should there be a disruption to gas supplies.

"The point here is these government-linked companies have matured, and they have the means to navigate the supply shock, creating an enabling environment to minimise the risk of disruptions

to economic activities," he said.

Recently, Finance Minister II Datuk Seri Amir Hamzah Azizan said that the government's monthly petrol subsidy has increased to RM2 billion, while the diesel subsidy has also risen to RM1.2 billion per month, totalling RM3.2 billion per month, up from RM700 million previously.

At 3.27 pm yesterday, the price of Brent crude had risen 2.70 per cent to US\$105 per barrel.

IPPFA Sdn Bhd director of investment strategy and country economist Mohd Sedek Jantan said the MADANI government's response to the recent oil price surge has been effective in cushioning households in the near term, particularly through targeted measures such as BUDI95, but the broader policy stance is becoming increasingly difficult to sustain.

"While subsidies can still play a stabilising role, they should be recalibrated in line with global pricing dynamics rather than fixed at an artificially low level.

"Without a credible transition path, what is currently a short-term inflation management tool risks evolving into a structural fiscal constraint, raising the likelihood of a more abrupt and disruptive policy adjustment down the line," he said.

Mohd Sedek said the current measures have been effective in stabilising near-term conditions, but they remain insufficient when assessed against the scale and persistence of the shock.

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