



ECONOMIC/THEMATIC RESEARCH:  
**IMPACT OF DIESEL  
SUBSIDY  
RATIONALISATION**

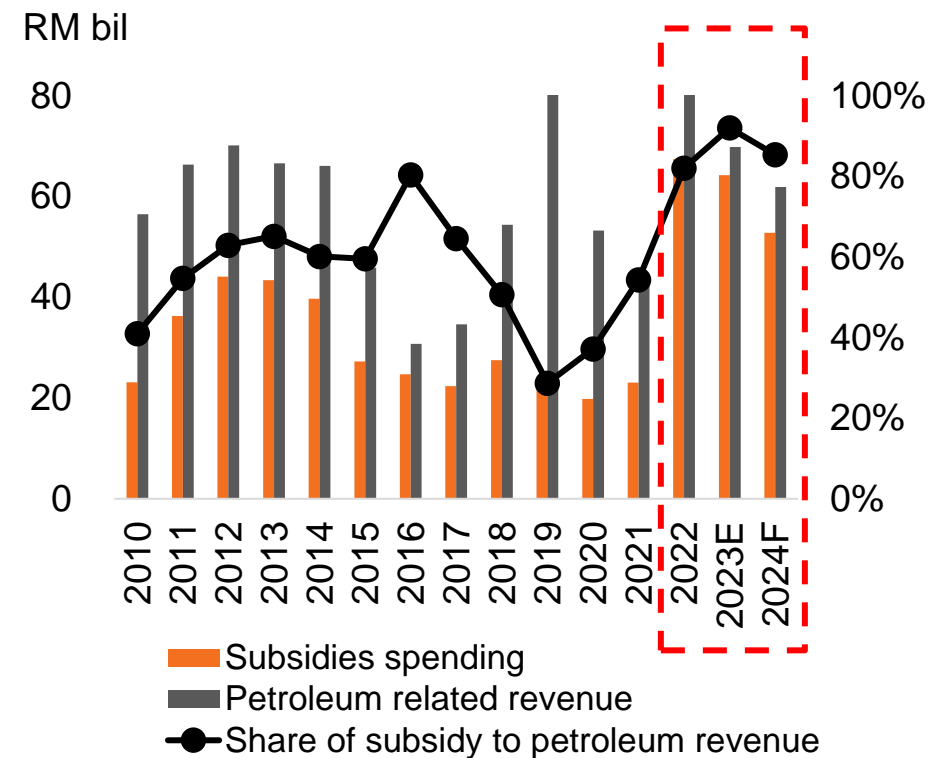


Prepared by:  
Mazlina Abdul Rahman  
Syed Mohamad Bukhari Syed Bakeri

[SMEBank-EconomicResearch@smebank.com.my](mailto:SMEBank-EconomicResearch@smebank.com.my)  
(603) 2615 2020

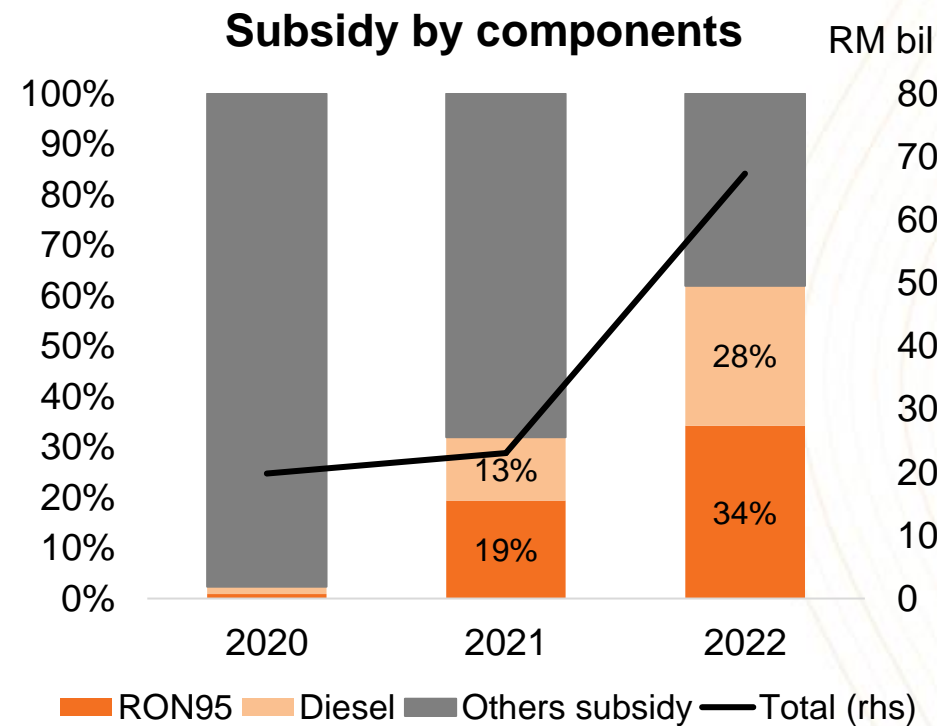


## 1 Subsidy spending nearly at par with petroleum related revenue



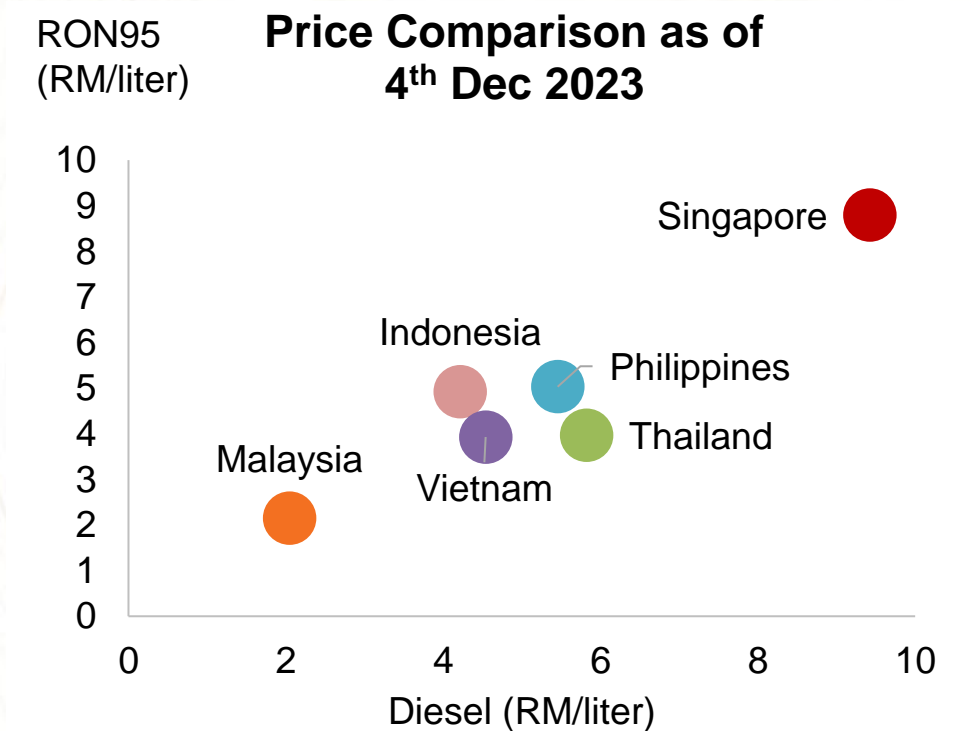
- **Subsidy spending** had enlarged >2x to RM67 bil in 2022 (average 2017-2019: RM25 bil), primarily **due to fuel subsidy**.
- In another context, **subsidy spending stood at 82% of petroleum revenue** in 2022, up to almost 2x from average 2017-2019 of 48%.
- Nonetheless, the subsidy is expected to be **reduced gradually** in 2023 to RM64 bil and RM53 bil in 2024 in tandem with Govt's agenda towards targeted ones but it remains above historical average.

## 2 Fuel accounted for more than 1/2 of national subsidy spending



- Fuel subsidy was only at 2% of total subsidy in 2020, before **bloated to 62%** within 2 years with the implementation of fixed prices of RON95 and diesel.
- In 2022, Govt spent RM41.7 bil for fuel subsidy in which RM23.1 bil was for petrol RON 95 and RM18.7 bil for Diesel.
- **Petrol and diesel accounted for 34% and 28% of total subsidy**, respectively.

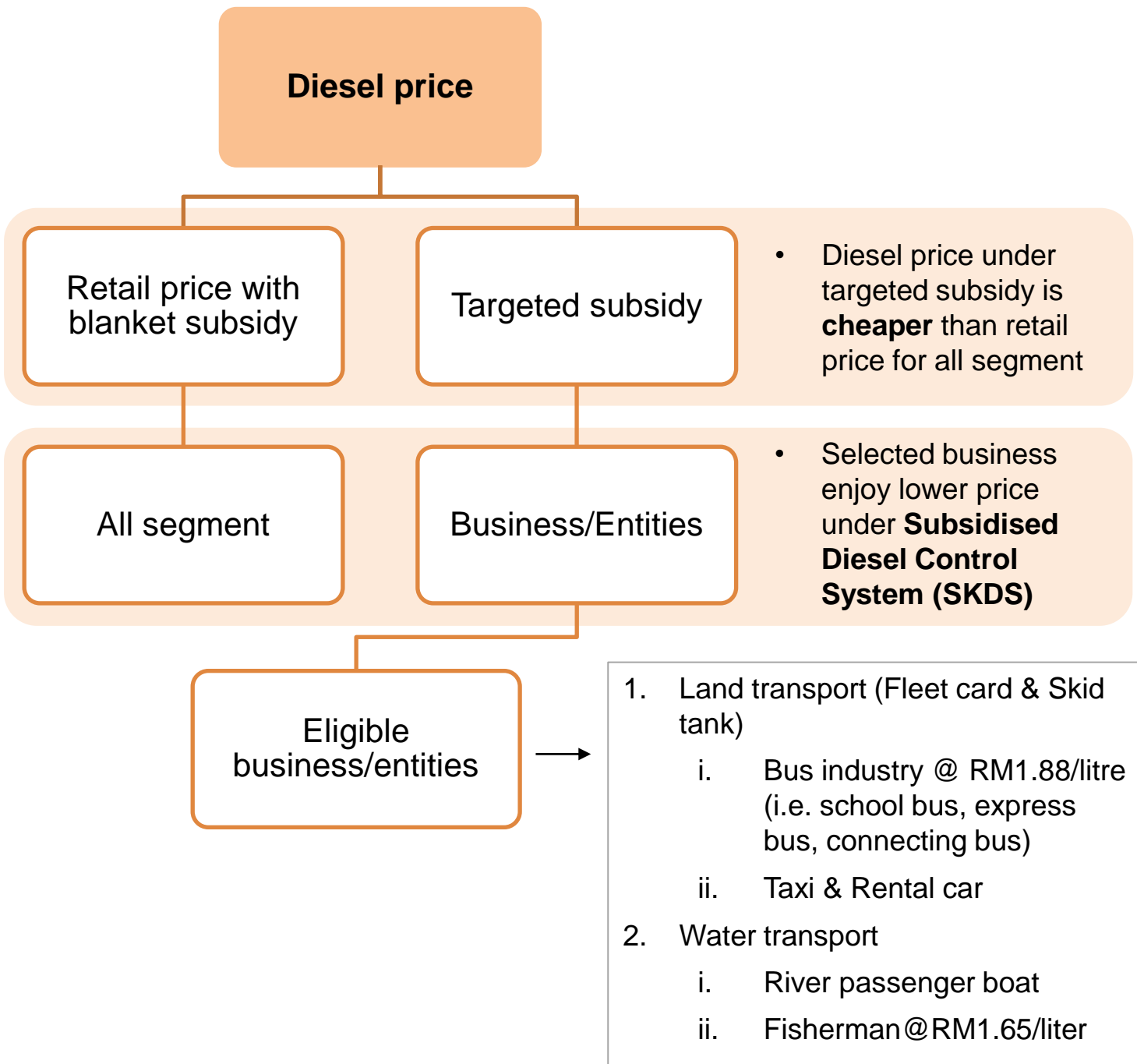
## 3 Malaysia's fuel prices are relatively cheap than regional peers



- Malaysia's petrol (RM2.05) and diesel (RM2.15) prices are **the cheapest in the region**, thanks to blanket subsidies.
- **Singapore has the expensive fuel** compared to peers in which RON95 is priced at RM9.43 and diesel at RM8.80.
- Due to this, Malaysian Govt suspected a potential **leakage of RM10 bil for diesel smuggling** in 2022.

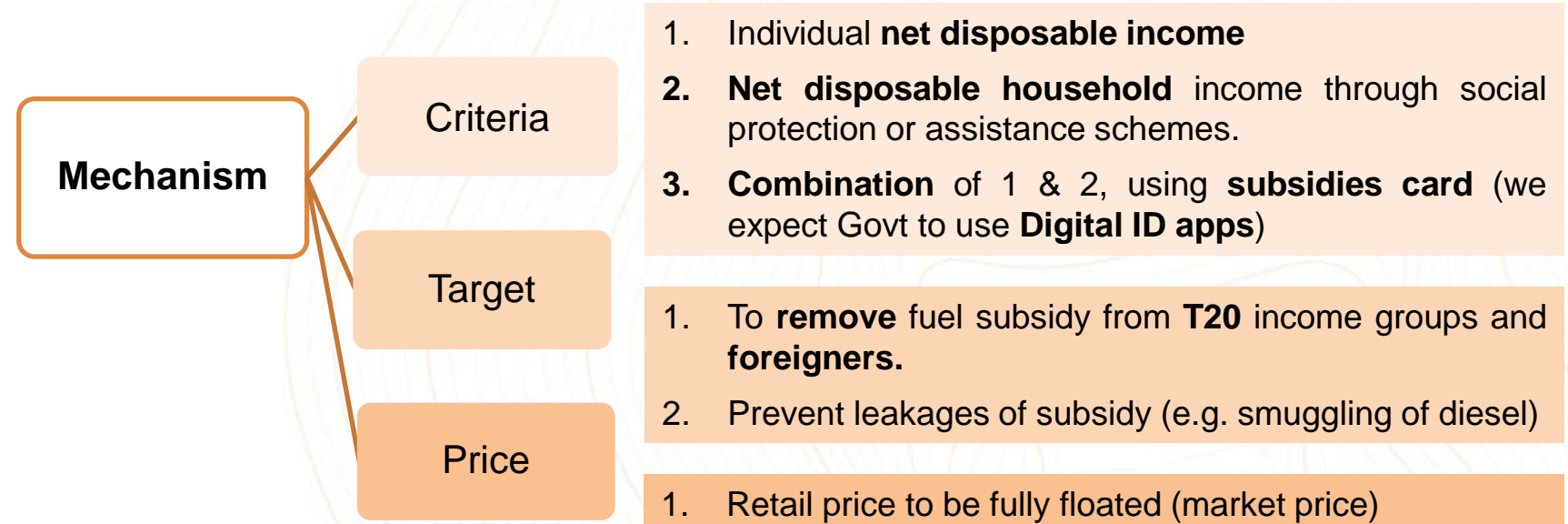
As announced in Budget 2024, Govt will implement targeted fuel subsidy next year, starting with Diesel.

## 1 Current Diesel mechanism

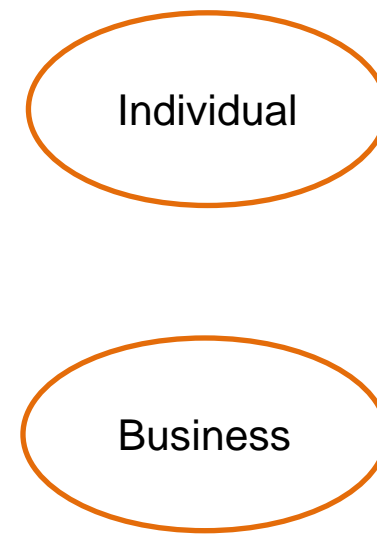


VS

## 2 New potential mechanism

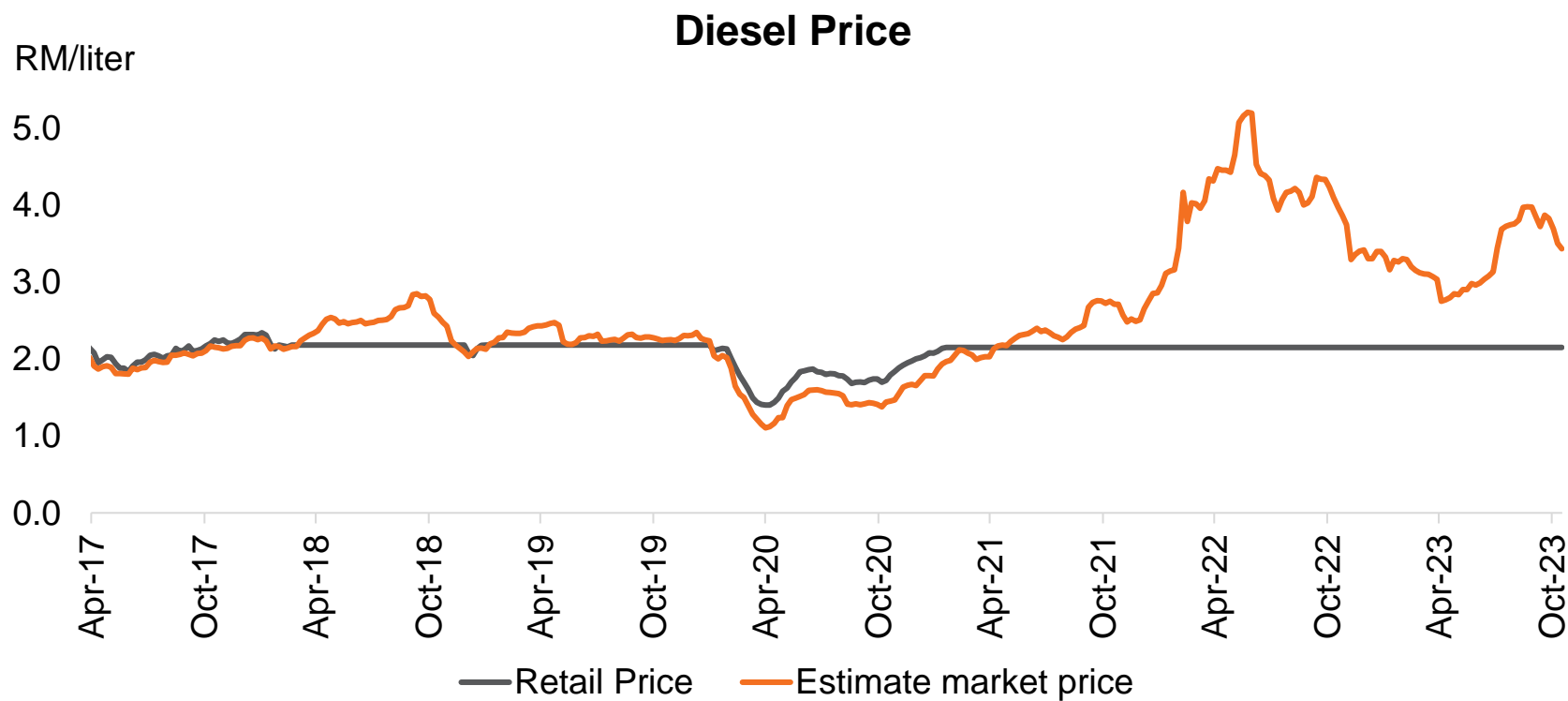
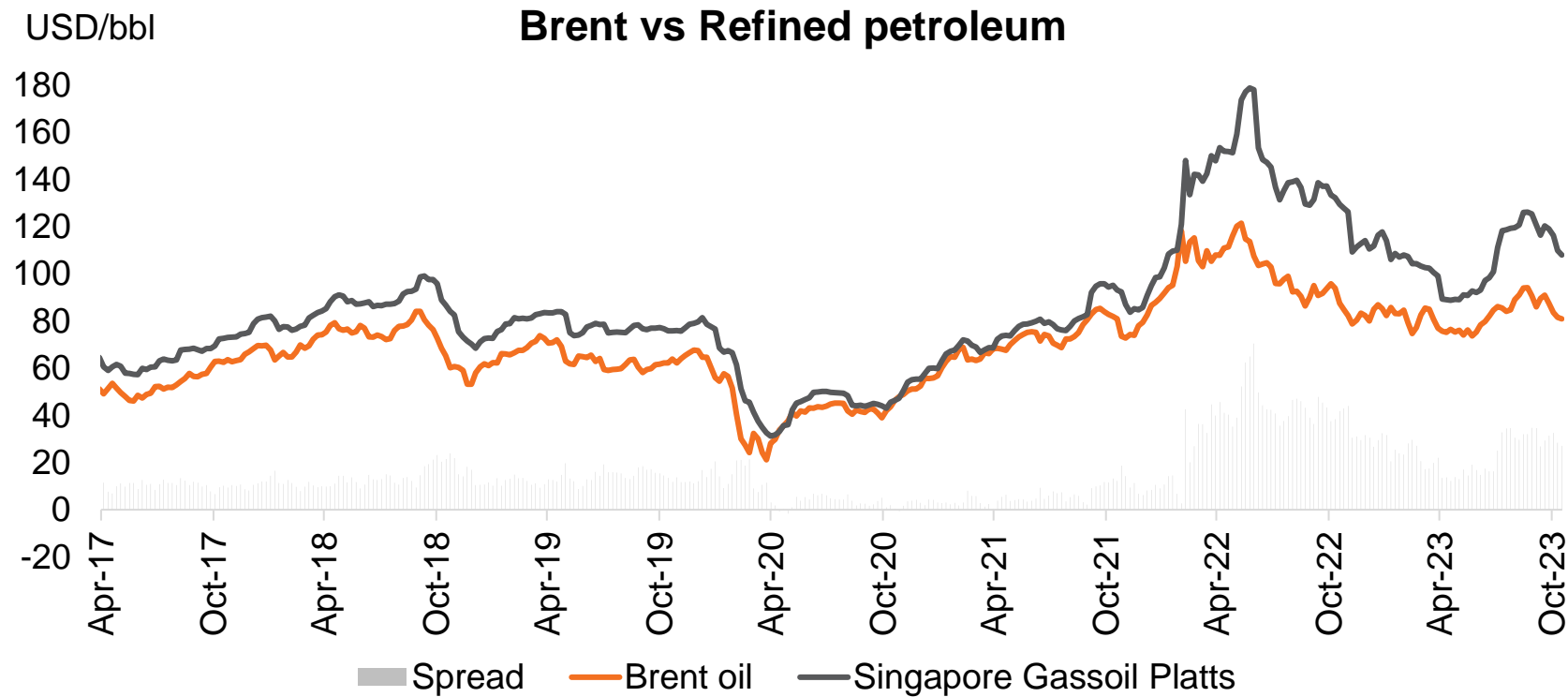


### Who will be involved?



Status	Income group	Subsidy	Current price	New price
Citizen	T20	Not eligible	RM2.15	Market price
	B40 & M40	Eligible	RM2.15	Subsidised
Non-citizen	All	Not eligible	RM2.15	Market price

- We expect govt to update a new list of business/sectors which entitle for subsidy under SKDS (likely to include **micro & small businesses**).
- Existing SKDS participants will likely **remain enjoying subsidy**.



1

## Govt subsidised about 44% of Diesel market price

- In Oct 2023, average market price of diesel was estimated at RM3.82 (unsubsidised), corresponding to average Brent oil price at USD89/bbl
- This means Govt **subsidised RM1.67/liter of diesel** which was **~44%** of market price.

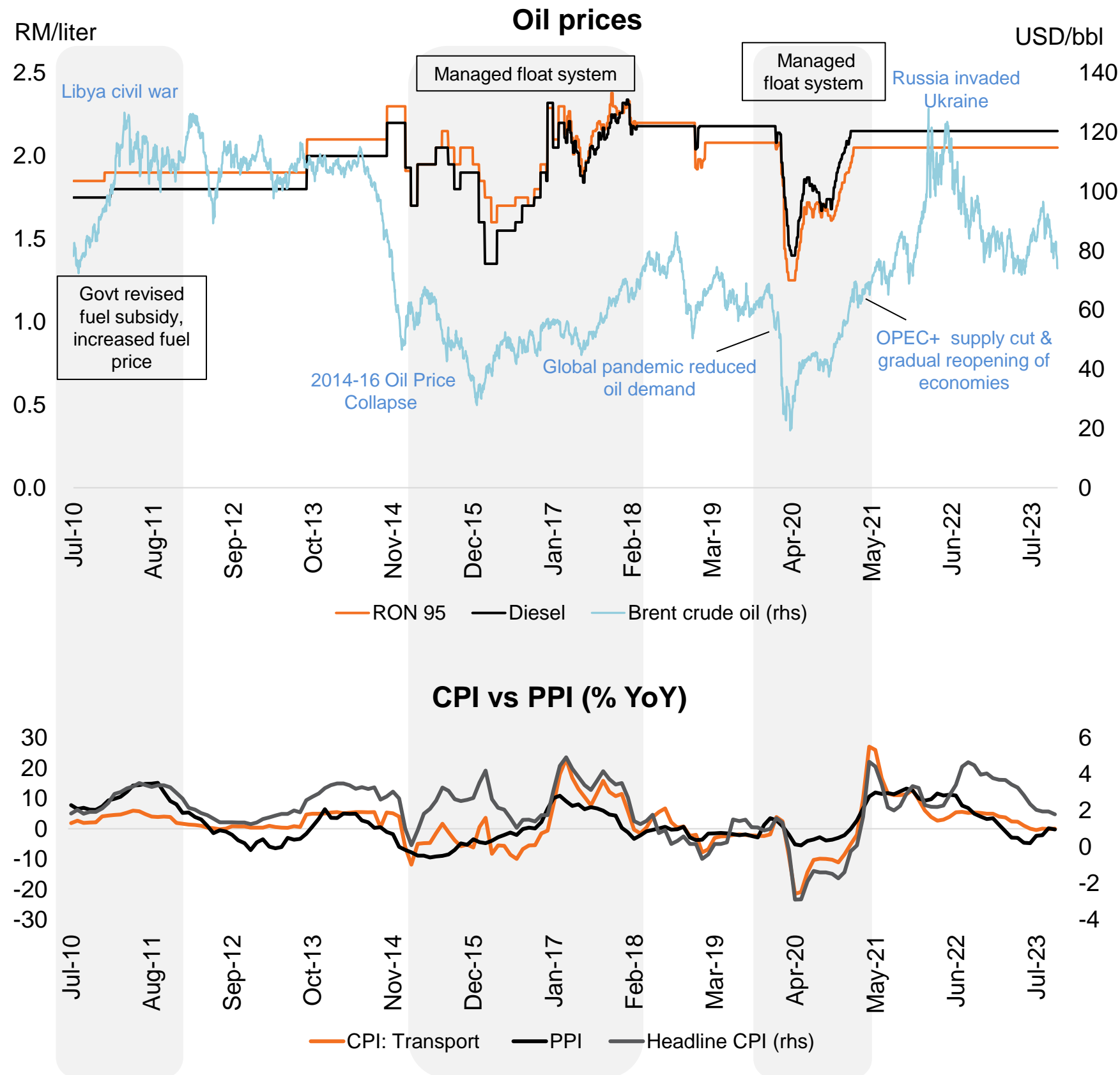
2

## Complete removal of Diesel subsidy will push price up to 71% from current price

- Oil prices are expected to remain high in 2024 (*refer table below*).
- Based on in-house Brent forecast of USD75 – USD85/bbl, we foresee the **market price of diesel in 2024** to average between **RM3.25-RM3.67** – up by 71% or **RM1.52/liter** from current price.



Brent oil forecast (USD/bbl)	2023e	2024f
SME Bank	75-85	75-85
Ministry of Finance	90	85
World Bank	84	81
US EIA	84.1	94.9



## 3 71% increase in Diesel price will increase headline inflation by 7.1ppt

- Historically, movement in Brent crude oil prices which were reflected in **domestic retail prices influenced inflation trajectory** – both consumer price index (CPI) and producer price index (PPI)
- For instance, when Govt revised fuel subsidy and increased fuel prices in Jul 2010, inflation CPI & PPI shoot up to 3.5% & 14.3% respectively within a year.
- Based on in-house Brent projection for next year, **a free-float mechanism to reflect market price will push costs up hence increase inflation**. To maintain diesel at current price (RM2.15), Brent oil price will need to reach ~USD56/bbl (Nov 2023 average: ~USD82/bbl)
- Based on our estimation, **1% increase in diesel price will increase CPI inflation by 0.1 percentage point (ppt)**. Hence, complete removal of the subsidy will **add 7.1ppt** to the inflation (Oct-23: 1.8%).
- Higher cost of doing business will eventually **affect individuals and businesses including MSMEs** across various sectors/ industries such as transportation, construction, retail, agriculture and manufacturing.
- Nonetheless, pre-existing contracts and existing stocks may delay businesses to alter prices. Some may also absorb the costs in earlier phase hence cost-pass-through may not happen immediately.
- Moreover, the **impact on inflation is anticipated to be gradual and limited** on the back of:
  - Partial removal instead of total** - current fuel subsidy will still be enjoyed by some groups (e.g B40, M40, logistic sector).
  - Applies to only Diesel users as of now** – diesel accounted 44% of total fuel oil consumption.
  - Peninsular only** – Sabah & Sarawak will be excluded from diesel subsidy rationalisation.
- In the previous normalisation of diesel price in 2010, govt gradually increased diesel price by **~10% in each hike** which is **1.0ppt increase to inflation**.

---

## DISCLAIMER

---

SME BANK has exclusive proprietary rights in the data or information provided herein. This document is the property of SME BANK and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without SME BANK's prior written consent.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Any opinion, analysis, observation, commentary and/or statement made by SME BANK are solely statements of opinion based on information obtained from sources which SME BANK believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. SME BANK does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. Analysts based in SME BANK offices produce research on macroeconomics, equities, fixed income, currencies, commodities and portfolio strategy.

SME BANK and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by SME BANK or any information contained therein. Anyone using and/or relying on SME BANK document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bounded by it.



**Small Medium Enterprise Development Bank Malaysia Berhad 49572-H**

Menara SME Bank, Jalan Sultan Ismail, 50250 Kuala Lumpur

**Tel:** 03-2615 2020 **Fax:** 03-2698 1748



 [www.smebank.com.my](http://www.smebank.com.my)

 [smebankmalaysia](https://www.linkedin.com/company/smebankmalaysia)

 [smebankmalaysia](https://www.facebook.com/smebankmalaysia)

 [@SME Bank](https://twitter.com/SME_Bank)

 [smebank\\_malaysia](https://www.instagram.com/smebank_malaysia)

 [smebank](https://www.tiktok.com/smebank)

