



ECONOMIC/THEMATIC RESEARCH: IMPACT OF FUEL SUBSIDY RATIONALISATION: RON95 AND DIESEL

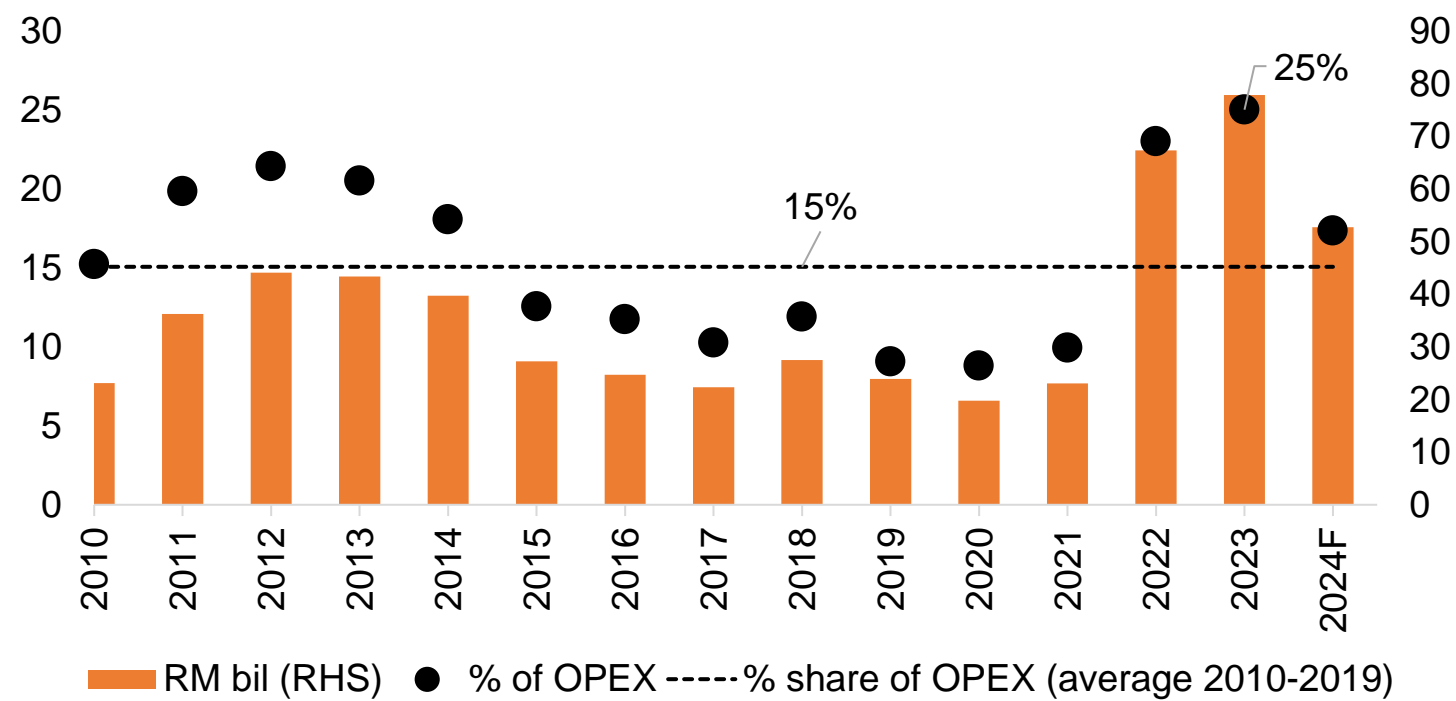
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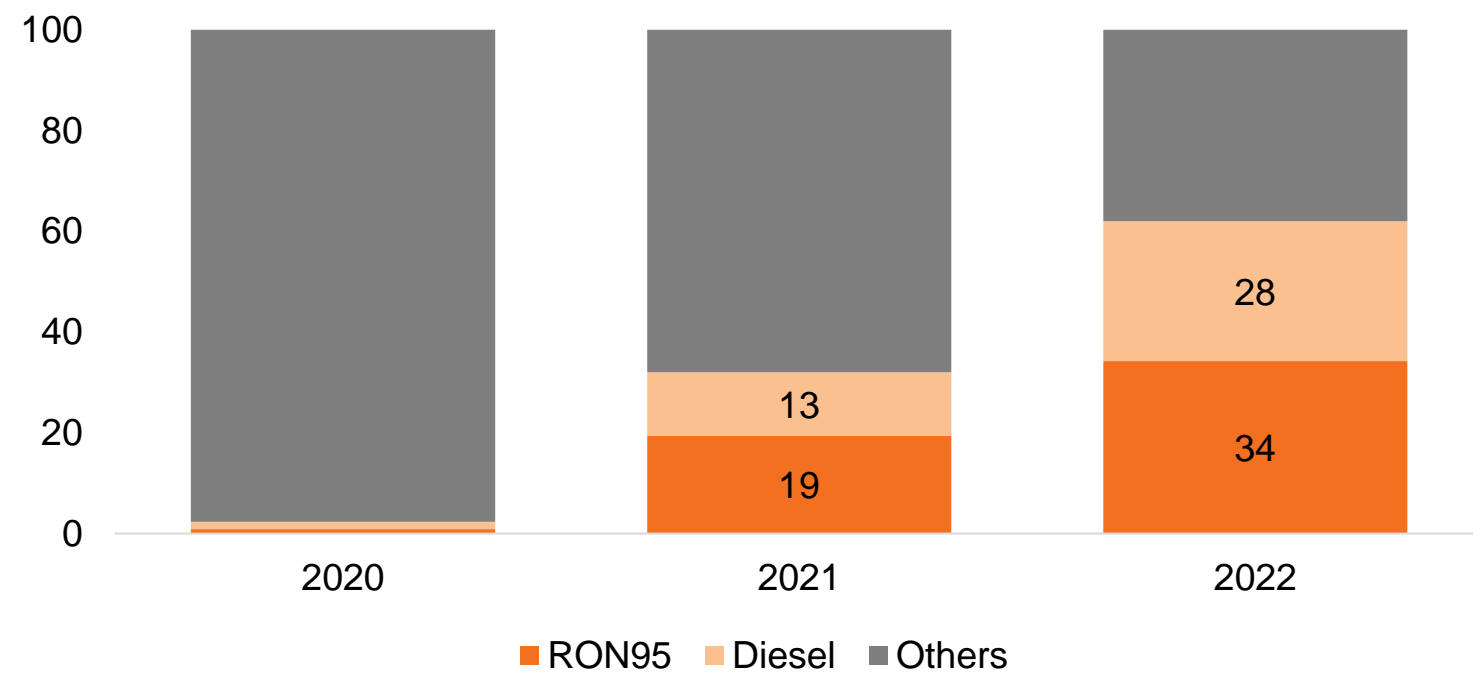
Malaysia: Subsidies & social assistance expenditure



1 Subsidy spending are still above historical average

- **Subsidy spending** had enlarged >2x to **RM77.9 bil** in 2023 (average 2010-2019: RM31.2 bil), primarily **due to fuel subsidy**.
- The subsidy surged above historical average in 2022 and climbed up further in 2023 to reach 25% of government's total operating expenditure (OPEX) (avg. 2010-2019: 15.1%).
- While it is still expected to remain elevated in **2024 at 17.4% of OPEX**, the share will now be closer to the historical average as the government expects to reduce the subsidy amount by RM25.1 bil to **RM52.8 bil** (2023: RM77.9 bil), in line with fiscal deficit reduction to 4.3% of GDP in 2024 (2023: -5.0%).
- However, the **YTD subsidy reduction** only amounted to **RM7.2 bil** (i.e electricity, egg & chicken, diesel). Thus, **another RM17.9 bil saving is needed** to achieve 2024's target.

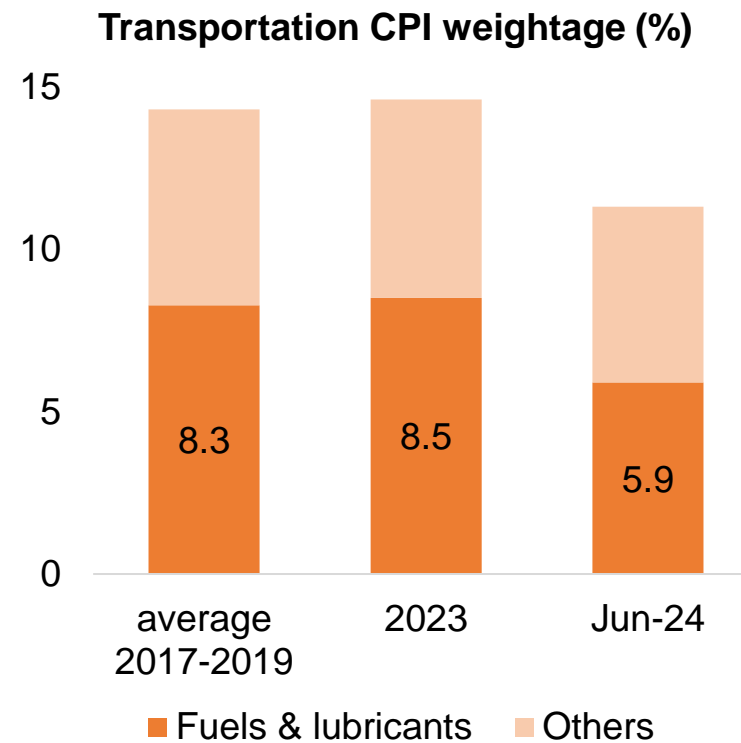
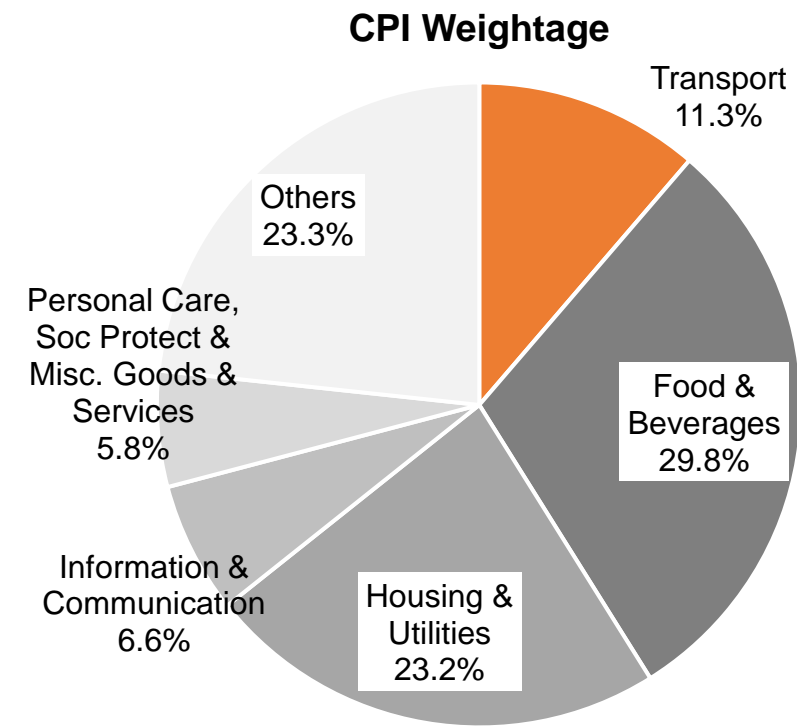
Malaysia: Subsidy expenditure by components (% share)



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

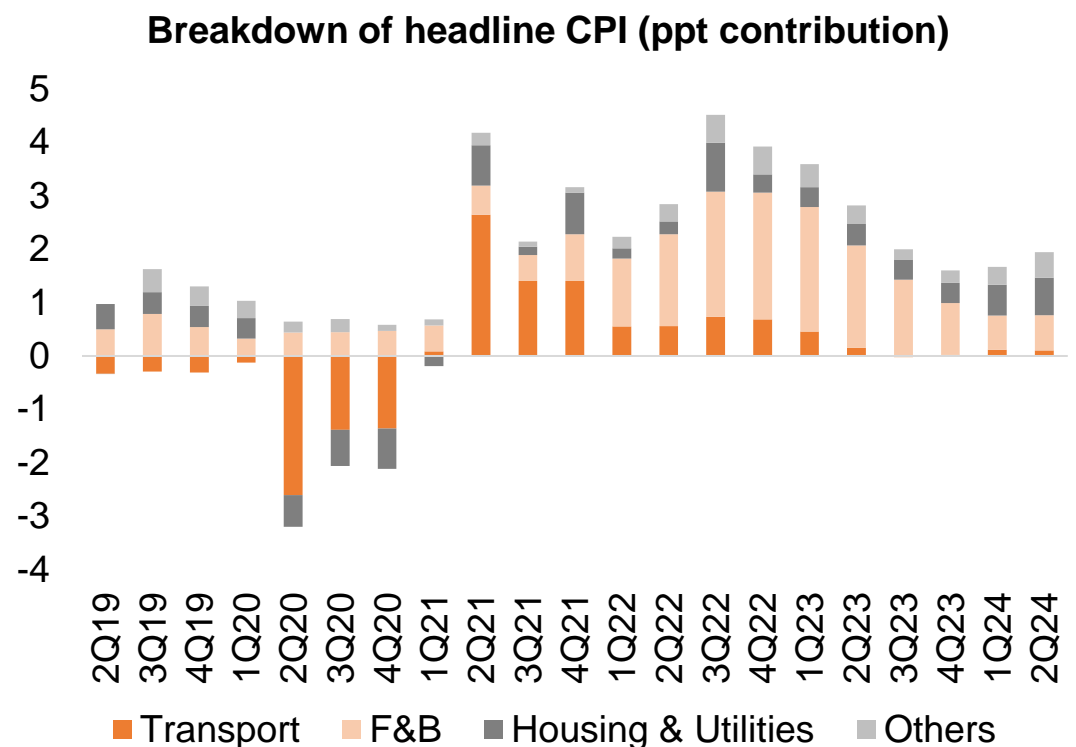
- In 2022 (latest available breakdown), Govt spent a total of **RM67.4 bil for subsidy and social assistance (23% of OPEX)** where subsidy for:
 1. **Petrol RON95** stood at **RM23.1 bil** (34% of total subsidy or 7.9% of OPEX)
 2. **Diesel** was at **RM18.7 bil** (28% of total subsidy or 6.4% of OPEX)
- We assume the fuel share to total subsidy to **stay elevated in 2023 and 2024** as Brent price stood above USD80pb. Nonetheless, following Govt's diesel subsidy rationalisation on June 10, total annual subsidy borne by the government has reduced, with **diesel subsidy savings of ±RM2 bil for 2024 (RM4 bil annually)**.
- Moreover, there have been talks on **extending** diesel subsidy rationalisation to **Sarawak and Sabah** by end of this year. With annual subsidy allocation of RM3.3 bil (quarterly: RM0.8 bil) for diesel users in Sabah and Sarawak – this may **add ±RM0.3 bil (4Q) to savings** for this year, if we apply the same mechanism (1/3 of total subsidy is reduced) which was used in Peninsular.

3 Lower fuel and lubricants weightage to overall CPI basket may offer some flexibility for RON95 rationalisation

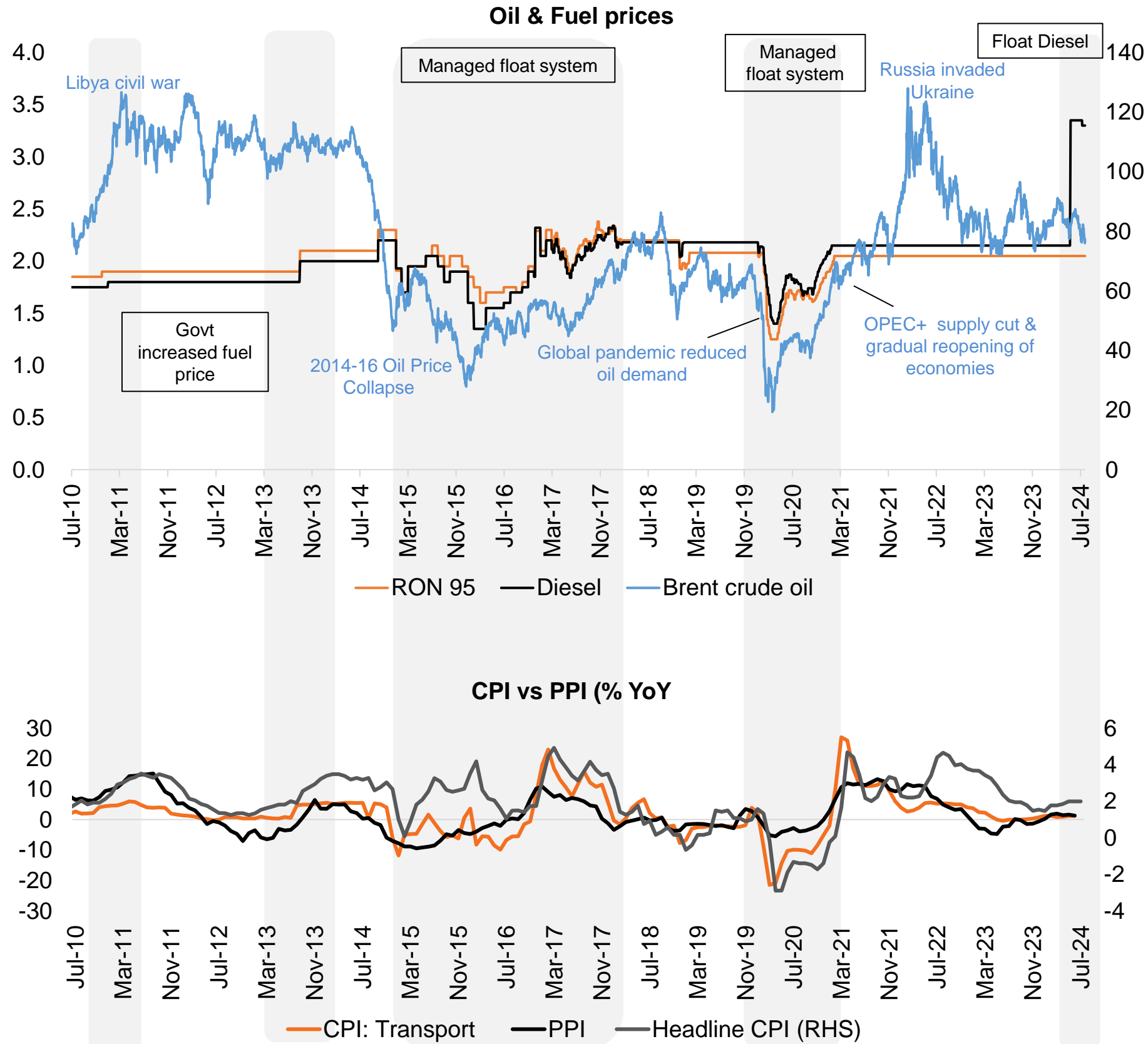


- Transportation (11.3% share) is the **3rd largest component** of CPI basket after F&B (29.8%) and housing & utilities (23.2%).
- While **transportation** position remains the 3rd largest component, its **weightage has reduced to 11.3%** starting this year (2023: 14.6%). By sub-components, the **largest reduction** was observed in **fuels & lubricants to 5.9%** (2023: 8.5%) where **petrol's weightage makes up 5.5%, diesel (0.2%) and lubricants (0.2%)**.
- The lower weightage of fuel may offer a more **comfortable space** for Govt. to implement RON95 subsidy rationalisation as the **impact to overall CPI will be less** now.

4 Transport inflation may return as one of the main inflation drivers in 2025



- Headline inflation averaged at 1.8% YoY in 1H 2024 (2023: 2.5%), mainly driven by Housing & Utilities – contributed 0.7ppt (2023: 0.4ppt) to 1H's inflation.
- Generally, **Transport drove** the changes in **overall inflation when domestic fuel prices were floated** (managed system) to market prices, due to its nature of high volatility.
- For instance, in 2Q 2021, transport inflation contributed 2.6ppt to 4.2% YoY headline inflation, surpassed F&B (0.5ppt) and housing & utilities (0.8ppt).
- Hence, with **potential rationalisation of RON95 subsidy beginning** next year, **transport inflation** may increase and **return** as one of the **main inflation drivers in 2025**.



5 Govt currently subsidised about 35% of RON95 market price

- In Aug 2024, average market price of RON95 was estimated at **RM3.17/liter** (current subsidised price: RM2.05/liter), corresponding to average Brent oil price at USD78.9/bbl
- This means that Govt **subsidised RM1.12/liter of RON95** which translates to **~35% of market price**.
- Based on in-house Brent forecast of USD80/bbl for **2025** (US EIA: USD86; median Bloomberg: USD80), we foresee the **market price of RON95 in 2025** to hover at **RM3.21/liter**. Under a free-float mechanism, price will be pushed up by 57% or RM1.16 from the current RM2.05/liter.

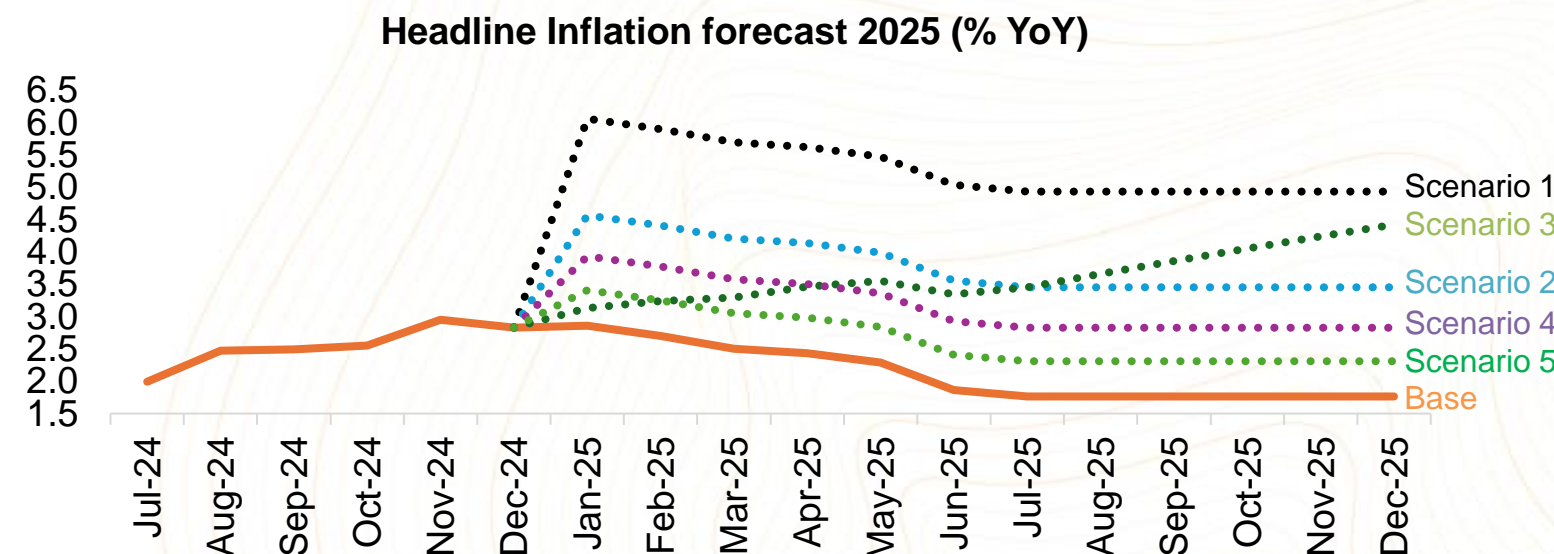
6 10 sen increase in RON95 price will increase CPI directly by 0.27 ppt

- So far, any movement in Brent crude oil prices which were reflected in domestic retail prices has influenced the trajectory of consumer price index (CPI).
- For instance, when Govt revised fuel subsidy and increased fuel prices by **+20 sen in Sep 2013**, CPI inflation shoot up to an average of **3.2%** within 12 months – transport inflation contributed **+0.8ppt** (Aug 2013's CPI inflation: 1.9%; transport contribution: 0.1ppt).
- Based on our estimate, the direct impact of a **10 sen** increase in RON95 price will increase CPI inflation by **0.27ppt**. Hence, a complete removal of the subsidy will add 3.1 ppt to the inflation in 2025.

7

Government is unlikely to fully float retail RON95 price to market price due to significant impact to consumer inflation

Scenario	Mechanism	Δ to RON95 price	Subsidy saving	CPI 2025F (% YoY)	Diff. from 2.1% base (ppt)
1	Full float to market price	+116 sen	RM18.6 bil	5.2	+3.1
2	To obtain min. RM10 bil in subsidy saving – to offset expenditure on revised civil servants' salary	+62 sen	RM10 bil	3.8	+1.7
3	Gradual monthly increase in price	+10 sen (+120 sen by 12 th month)	RM10.5 bil	3.6	+1.5
4	Based on 1/3 subsidy saving mechanism implemented for Diesel	+39 sen	RM6.2 bil	3.2	+1.1
5	Managed float (Historically)	+20 sen	RM3.2 bil	2.6	+0.5



- We assessed the potential impact of RON95 subsidy rationalisation on inflation via **5 scenarios** (on the left). General assumptions that apply to all 5 scenarios are as below:
 - In-house Brent forecast of USD80/bbl in 2025.
 - Market price of RON95 at RM3.21/litre in 2025.
 - Base CPI inflation forecast (without rationalisation) of 2.1% YoY in 2025.
 - RON95 subsidy rationalisation will be implemented **starting Jan 2025**.
 - RON95 subsidy (without rationalisation) is forecasted to reach **RM18.6 bil** in 2025, assuming no change in consumption pattern from 2022's RON95.
 - Direct impact of a **10 sen** increase in RON95 price will raise CPI by **0.27 ppt**.
- Scenario 2 to 5 are likely to be implemented** if Govt decides keep **average annual inflation target of between 2.8% to 3.8%** for 2023 – 2025 (2023: 2.5%; 2024e: 2.4%) as underlined in the Mid-Term Review of the 12th Malaysia Plan.
- If **scenario 1** is preferred, impact to headline inflation can be minimised if subsidy rationalisation is implemented towards the later part of the year.
- It is important to note that these scenarios only measures the **first round / direct impact**. Govt may need to consider some room for the **second round / indirect / spillover** impact which can push inflation even higher.

Cross-check Analysis between Eligible Vehicles for Subsidised Diesel Fleet Card Listed under the Ministry of Domestic Trade & Costs of Living (KPDN) and Vehicle Registration Number Plate

✓

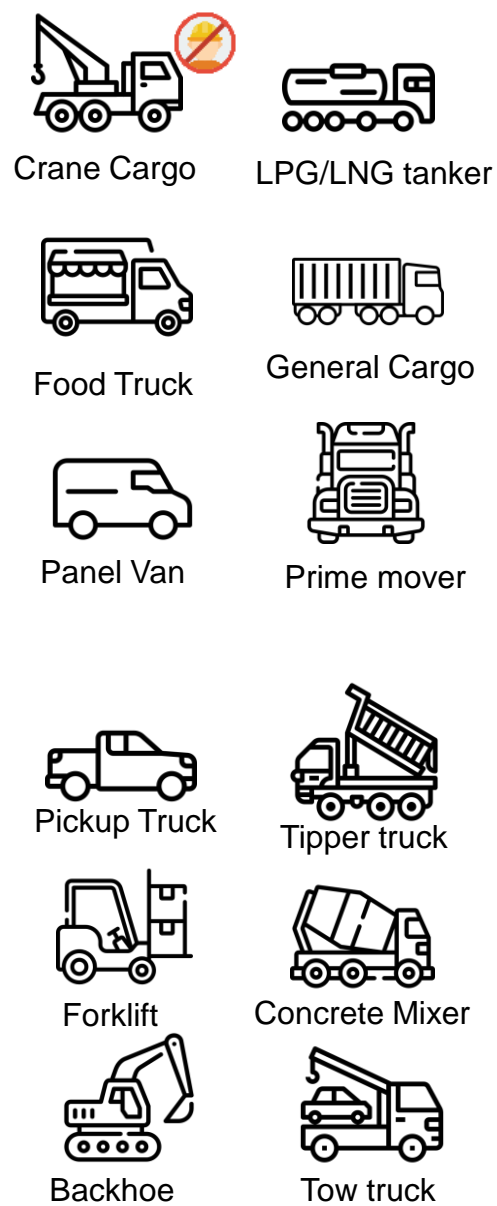
Elegible Vehicles for Diesel Fleet Card

- Rigid lorry- Curtainsider, open platform, general cargo, bottled water, luton/box, refrigerated, agriculture products, livestock, garbage, mobile services & combination
- Rigid tank lorry- Water, wheat Flour, drinking water
- **Articulated vehicle (prime mover)**
- Bus- **Mini**, express, feeder, stage & **school**
- Taxi
- Ambulance (by voluntary body)
- Firetruck (by voluntary body)
- Funeral lorry/van
- Semi panel van
- Panel van
- Food catering van/lorry/bus
- **Window van (school)**

✗

Non-eligible Vehicles

- **Rigid lorry- Tipper**
- **Prime mover – Tipper**
- Tow truck
- Forklift
- Concrete mixer
- Travel mini bus/bus
- **Camper truck/ van**
- Backhoe loader
- Automobiles carrier truck
- **All pick-up truck**
- Excavator
- **Crane cargo (construction)**
- **Other window van**
- Sewage lorry
- **White school van**



Sector	Sub-sector	Type of Vehicle
Services	<ul style="list-style-type: none"> • Retail & Wholesale • Administrative & Support Activities (e.g. safeguard, pest control) • Event production • Food Services Activities • Logistic & courier • Oil tanker • Automobiles carrier • Towing Services • Excursion/ tourist bus/van • Electricity, Gas, Steam Services • Water supply • Sewerage, waste management • Healthcare • Interior Design 	Rigid lorry • Curtainsider, open platform, general cargo, bottled water, luton/box, refrigerated, mobile services & combination Bus • Mini, express, feeder, stage & school Sewerage lorry, tow trucks, panel Van, articulated truck (prime mover), automobiles carrier truck, food catering van/lorry/bus, taxi & ambulance
Manufacturing	<ul style="list-style-type: none"> • Food Products • Chemicals & Chemical Product • Other Food Products • Basic Metal • Glass • Steel 	Rigid lorry • Luton/box, refrigerated & general cargo Cement tanker, articulated truck (prime mover) with wooden + steel cargo
Construction	<ul style="list-style-type: none"> • Construction of buildings • Specialised construction (e.g. air-condition install/repair, water proofing) 	Rigid lorry • general cargo (mostly specialized construction) Tipper truck/lorry, crane cargo, forklift, backhoe, excavator & concrete mixer
Agriculture	<ul style="list-style-type: none"> • Forestry and logging • Animal production • Palm oil 	Livestock rigid lorry, tipper truck/lorry, articulated truck (prime mover)

■ Eligible ■ Not eligible

Based on our analysis with >150 sample size, we found that certain types of vehicles are NOT eligible when cross-checked with their vehicle registration number, which includes some that are thought to be generally eligible under KPDN's list. For instance:

- **Mini bus is eligible** but mini travel/tour bus (in form of van) is not eligible.
- **Window van is eligible for school van** but not for other purposes.
- **Only yellow coloured and licensed school van is eligible** but not white coloured.
- All pickup trucks are not eligible – most probably they get individual RM200 subsidy

- Construction vehicles are mostly not eligible but those used for **air-condition repair/ installation and water proofing works (under specialised construction) are eligible**
- **Crane cargo for hardware businesses is eligible** but not those for construction
- **Cement tanker is eligible** but not concrete mixer truck
- Camper van used for food servicing is not eligible
- Tourist bus/van are not eligible but **express bus is eligible**

Sector	Subsector	Diesel consumption purpose			Company	2022 Consumption (th Litre)	Consumption Cost (RM th)		Increase in Cost (RM th)
		Generator	Vehicle	General			Before rationalisation	After rationalisation	
Services	Retail & Wholesale		✓		MR D.I.Y Group Berhad	25.7	55.2	83.5	28.3
					7-Eleven Malaysia Holdings Berhad	357.6	768.8	1,162.1	393.3
					Senheng New Retail Berhad	690.2	1,483.8	2,243.0	759.2
	Logistic		✓		Pos Malaysia Berhad	16,612.5	35,716.8	53,990.6	18,273.8
			✓		FM Global logistic Berhad	2,295.8	4,936.0	7,461.3	2,525.3
	Healthcare	✓	✓		KPJ Healthcare Berhad	823.9	1,771.3	2,677.5	906.2
Manufacturing	E&E		✓		Inari Amerton Berhad	1.9	4.1	6.2	2.1
			✓		Vitrox Corporation Berhad	6.9	14.8	22.3	7.5
			✓		GUH Holdings Berhad	116.6	250.6	378.8	128.2
	Food & Beverages		✓		Ajinomoto Malaysia Berhad	34.0	73.1	110.5	37.4
	Steel/Aluminium		✓		Press Metal Aluminium Berhad	9.8	21.1	32.0	10.9
	Plastics		✓		RGT Berhad	2.3	5.0	7.6	2.6
	Pharmaceuticals		✓	✓	Duopharma Biotech Berhad	479.4	1,030.8	1,558.2	527.4
Agriculture	Palm oil	✓	✓	✓	Boustead Plantation Berhad	5,475.4	11,772.1	17,795.0	6,023.0
Construction	Construction of buildings	✓	✓	✓	Kerjaya Prospek Group Berhad	2,170.0	4,665.5	7,052.5	2,387.0
					Benalec Holdings Berhad	97.9	210.5	318.2	107.7

1 Diesel subsidy rationalisation raised consumption cost by 51%

- Under diesel subsidy rationalisation, diesel price rose by 51% from RM2.15/litre to RM3.25/litre (retail price in Aug). Hence, cost for businesses that are not eligible for the subsidised diesel price should surge by 51%.
- Businesses with high diesel consumption will be most significantly impacted. Based on some examples of large companies' diesel consumption (*refer left table*), it shows that logistics related companies that use many vehicles (e.g. Pos Malaysia; FM Global logistic) have high diesel consumption.
- In general, **businesses use diesel for vehicles**. Besides that, it is also being used for **electric generator** which are commonly used in subsectors such as healthcare, agriculture, and construction.
- Businesses that use diesel for vehicles may be eligible for the subsidised **diesel fleet card, cushioning the overall impact**.
- Businesses that use transportation/distribution services from logistic companies should not have significant direct impact as most of the logistic vehicles are eligible for the fleet card, unless logistic companies revised pricing due to the **quota limitation of subsidised diesel**.

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