PRESERVING SPENDING POWER

# 'TARGETED RON95 SUBSIDY WILL KEEP INFLATION STEADY'

Experts say it will spare cash-strapped households from being squeezed by higher fuel costs

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Manfaat Rakyat
BUDI MADANI RON95

THE government's targeted RON95 subsidy will serve as a brake on inflation and steady consumer spending amid ongoing price pressures.

Economists said the move would spare cash-strapped households from being squeezed by higher fuel costs, preserving their spending power for daily needs.

Universiti Putra Malaysia head of Social and Development Sciences at the Faculty of Human Ecology Assoc Prof Dr Nik Ahmad Sufian Burhan said in the short term, the RON95 subsidy would control inflation by lowering transport costs.

"Fuel prices affect many other goods and services because almost everything depends on transport, from food to household items. By protecting people from sudden jumps in global oil prices, the subsidy helps families maintain their spending power.

"At the community level, stable fuel prices give some breathing space for shops and traders, as transport costs are not rising too fast," he told "Business Times".

From Sept 30, Malaysians holding a valid driving licence will be able to buy Budi Madani RON95 petrol at RM1.99 per litre, regardless of income.

Prime Minister Datuk Seri Anwar Ibrahim said the plan would benefit around 16 million people.

Foreign residents, however, will pay the unsubsidised rate, estimated at RM2.60 per litre.

### WHO NEEDS IT MOST

Nik Ahmad Sufian said a universal subsidy for RON95 was a fuss-free method and ensured everyone enjoyed similar benefits.

However, he said a more targeted approach would ensure support reached those who needed it most, such as lower- and middle-income families, small-time farmers and hawkers who rely on affordable fuel for their livelihood.

"This will reduce waste, save government resources and create a fairer system. For social development, targeted subsidies can help struggling households improve their quality of life and allow the government to focus more on projects that benefit communities as a whole," he added.

UniKL Business School economic analyst Assoc Prof Aimi Zulhazmi Abdul Rashid said the two-tier pricing of RON95 was expected to have minimal impact on the country's headline inflation rate.

He said the subsidy, which is capped at RM300 litres per month, was a "realistic" move and the volume is sufficient for the Bottom 40 B40) and Middle 40 income groups.

"For the Top 20 (T20) group that use more petrol and have many vehicles, it is fairer for them to pay the market price after exceeding the monthly limit.

"The T20 group is a major contributor to the country's income, especially in terms of tax payments. They can still enjoy the benefits up to a certain limit," he said.

"While concerns of petrol smuggling and subsidy abuse persist, the likelihood of such issues can be significantly reduced.

"It will take time to ensure full transparency and efficiency in implementing this subsidy. It is something that could not be achieved overnight through government enforcement only.

"The public and private sectors must collaborate with the government to achieve the targets."

### EASING INFLATIONARY PRESSURES

Analysts said the RON95 subsidy rationalisation should have minimal or even disinflationary effects on overall inflation.

Hong Leong Investment Bank Bhd (HLIB Research) anticipated a disinflationary impact, citing reduced petrol costs for the median household as the key driver.

Factoring in the latest RON95 announcement, HLIB Research has lowered its consumer price index (CPI) forecast to 1.5 per cent from 2.0 per cent.

The research firm said in the 2025 Budget, the government planned to achieve savings of RM8 billion by retargeting the RON95 petrol subsidy to cover 85-90 per cent of households.

"However, due to the rising cost of living, the government has decided to target foreigners while allowing Malaysians, irrespective of income, to enjoy further subsidy."

HLIB Research said assuming 16.3 million users fully utilised the monthly 300 litre RON95 fuel subsidy, the government would set aside up to an additional RM0.3 billion per month.

"Nevertheless, we think the government will maintain the 2025 fiscal deficit at 3.8 per cent of gross domestic product, narrower than the previous year of 4.1 per cent of gross domestic product (GDP) due to savings from lower oil prices and a stronger-than-expected ringgit, as well as the Sales and Services Tax (SST) expansion," it added.

The government will roll out the BUDI95 subsidy programme with tiered pricing: RM1.99 per litre for eligible Malaysians, special rates for 100,000 transport companies and RM2.60 per litre for others, including foreign vehicles.

The phased launch starts on Sept 27 for uniformed personnel, Sept 28 for 8.6 million B40 and Sumbangan Tunai Rahmah recipients, and nationwide from Sept 30, covering about 16 million people.


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*Assoc Prof Dr Nik Ahmad Sufian Burhan*

*Assoc Prof Aimi Zulhazmi Abdul Rashid*

Each eligible Malaysian will receive 300 litres of subsidised RON95 fuel monthly, with verification via MyKad readers and applications like Setel, CaltexGo and TNG.

E-hailing drivers can apply for quota exemptions pending Finance Ministry's clarification.

CIMB Securities Sdn Bhd viewed the measure as broadly neutral to inflation, highlighting the benefit of lower fuel costs for consumers.

The research firm said this was consistent with Bank Negara Malaysia's guidance that domestic reforms would have limited inflationary impact.

CIMB Securities expected the Statistics Department to adopt a volume-weighted approach in incorporating RON95's tiered pricing, implying a slight deflationary effect on the CPI of -0.10 to -0.15 percentage points.

It said inflation had remained modest, averaging 1.4 per cent year-to-date.

"We forecast headline inflation at 1.5 per cent in 2025 and 2.0 per cent in 2026, underscoring price stability and keeping real rates in positive territory.

"With inflation risks already low, the policy leaves room for potential monetary policy easing if warranted, should GDP growth slip below Bank Negara's lower-bound forecast of 4.0-4.8 per cent (CIMB Securities: 4.3 per cent for 2025, 4.1 per cent for 2026)," CIMB Securities said.

On the fiscal side, it said the impact of the tiered RON95 subsidy mechanism would be marginal this year, with total outlay estimated at RM8 billion-RM9 billion annually (assuming oil at US$65-US$70 per barrel).

CIMB Securities noted that excluding foreign vehicles saved RM1 billion-RM2 billion per annum (0.05-0.10 per cent of GDP), with fourth-quarter 2025 pro-rated savings of RM250-RM500 million, which is negligible for the 2025 deficit target of 3.8 per cent of GDP.

Subsidy sensitivity, however, remains high, around RM1.7 billion per annum for every 10 sen per litre deviation from the automatic pricing mechanism.

"Additional fiscal space could be unlocked if high-income households are phased out from eligibility in 2026," it said.