

Malaysia's Nationwide Diesel Subsidy: Conditional Fiscal Gains

[In a nutshell:](#)

- **Malaysia's reintroduction of a nationwide diesel subsidy delivers a marginal near-term fiscal gain**, as tighter MyKad-based tightening and quota caps are expected to reduce leakages and offset much of the RM193-230m monthly cost.
 - **The policy reversal raises Malaysia's structural fiscal risks**, as reinstating a nationwide price ceiling increases exposure to oil price volatility and weakens earlier subsidy reform efforts.
 - **Macro impact is modest but directionally supportive for Malaysia**, with improved subsidy efficiency and limited disinflation offering slight support to the MYR, although external factors such as UST yields remain dominant.
- Malaysia will **reintroduce nationwide diesel subsidies** (BUDI MADANI Diesel) for its citizens from today, 1 July 2026.
 - Previously, diesel prices were floated in peninsular Malaysia and eligible individuals¹ received monthly cash assistance (BUDI MANDANI cash payments). Meanwhile, diesel prices were capped at RM2.15 per litre without any quota in Sabah and Sarawak.
 - Under the new policy, subsidised diesel will be priced at RM2.10 per litre with a **monthly quota of 200 litres** per eligible individual (up to 300 litres with approval) with eligibility determined through the MyKad system currently used for RON95 subsidies. This **quota will also apply in Sabah and Sarawak**.
 - We estimate the new scheme will **cost approximately RM193²-320³ m per month depending on consumption assumptions**.
 - That said, there will be **cost savings** from (i) the BUDI MADANI cash payments for diesel which will be scrapped, and this will amount to RM68m per month and (ii) the streamlining of diesel subsidy leakages to non-citizens in Sabah and Sarawak.
 - Admittedly, **the leakage was substantial following the US-Iran war** with government's reported spending reaching RM560-650m per month for diesel subsidies in Sabah and Sarawak in April to May 2026.
 - Nonetheless, in the absence of such oil shocks, diesel subsidies in Sabah and Sarawak are much milder averaging RM166m⁴ a month in 2025. In short, the aggregate expenditure in 2025 on diesel subsidies of RM 234m per month falls within our estimated range for the cost of this new scheme (RM193-320m).
 - **As such, the fiscal risks are being tilted to the upside** especially as average diesel prices at end-June remain 33% higher than in 2025.

¹ Private diesel vehicle owners with household income of RM100,000 or less, covers up to 80th percentile of households.

² Based on 700k qualifying private diesel vehicle owners with average monthly usage of 140 litres per month, and unsubsidised diesel prices as of 25 June.

³ Based on 700k qualifying private diesel vehicle owners, assumes 1 in 3 diesel users approved for a higher quota and all users maximising their quotas, and unsubsidised diesel prices as of 25 June.

⁴ The government reported spending RM2b on diesel subsidies for Sabah and Sarawak in 2025.

- For now, the policy is fiscally positive as it is expected to reduce government spending on fuel subsidies **due to reduction in leakages to non-residents** amid still elevated diesel prices.
- This move not only rolls back its earlier diesel subsidy rationalisation efforts which had been politically difficult to implement in 2024, it **increases Malaysia's fiscal exposure and vulnerability to fluctuations in global oil prices**, potentially undermining its fiscal consolidation efforts.
- Additionally, **the reversion to a nationwide price ceiling mechanism will accentuate fiscal vulnerabilities to future oil shocks**.
- Nonetheless, the silver lining is that the fiscal leakages will be more tightly mitigated, and this would **lend to disproportionate (relative to fiscal risks) support** of the MYR.
- In addition, **a small dampening effect on Malaysia's headline inflation is likely** given diesel's 0.2% weight in the CPI basket. In the near term, Malaysia's inflation is expected to remain broadly contained.

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