VIEWS 10/26 | 05 MAY 2026

Beyond the Pump: How Malaysia Can Weather Oil Price Spikes

Rachel Gong and Muhammad Najib Abu Hassan Alshari

Views are short opinion pieces by the author(s) to encourage the exchange of ideas on current issues. They may not necessarily represent the official views of KRI. All errors remain the authors' own.

This view was prepared by Rachel Gong and Muhammad Najib Abu Hassan Alshari, researchers at the Khazanah Research Institute (KRI). The authors are grateful for valuable input and comments from Adam Manaf Mohamed Firouz, Azfar Hanif Azizi and Syafa Sakinah Mohd Mustaffa.

Corresponding author's email address: **rachel.gong@krinstitute.org**

The Hormuz crisis is driving prices up

Around a quarter of the world's seaborne oil passes through the Strait of Hormuz[1]. The crisis in this shipping route following hostilities in West Asia has greatly disrupted global energy shipments and broader commercial shipping and supply chains. The immediate consequence has been a large and sustained rise in global crude oil prices, exceeding USD100 per barrel at its peak, in comparison to the USD65 per barrel projections underpinning Malaysia's Budget 2026[2].

Malaysian citizens have thus far been largely insulated from this shock through the BUDI95 fuel subsidy. Under the subsidy scheme, eligible Malaysian citizens pay RM1.99 per litre for RON95 petrol. The unsubsidised market rate rose

[1] IEA (2025)
[2] MOF (2025a)

58% from RM2.54 per litre in mid-February to RM4.02 per litre by mid-April[3]. The difference in price, absorbed by the government, has risen from RM0.55 to RM2.03 per litre, more than tripling in nine weeks.

However, this subsidy is not a permanent solution as it puts a lot of pressure on government spending. In this article, we assess the consequences of the rise in global oil prices for Malaysians, in light of the government's petrol subsidy programme and limited fiscal space. In particular, we consider the potential impacts on e-hailing drivers and propose long-term strategies to reduce the country's risk to spikes in oil prices.

Malaysia's petrol subsidies cushion the blow…

Across Southeast Asia, prices at the pump have increased. The Philippines, Viet Nam and Thailand are extremely dependent on oil from the Gulf and face both higher petrol prices and shortages in their supply as they lack oil reserves[4]. News reports of long queues at petrol stations that are running out of petrol paint a dire picture of the crisis around the region[5].

Figure 1 shows how petrol prices in six ASEAN countries have increased following the Hormuz Crisis. In mid-February 2026, pump prices ranged from USD0.75 per litre in Viet Nam to USD2.15 per litre in Singapore. By late April 2026, petrol prices in the Philippines had increased by 58%, Thailand by 28%, Viet Nam by 20%, and Singapore by 12%. Consumers in each of these countries pay the market price, while Malaysia's subsidised price allows consumers to still pay RM1.99 per litre or USD0.50 for RON95 petrol.

The situation is slightly more complicated in Indonesia where the government subsidises a lower grade of petrol. While the price of higher grades of petrol have increased in line with market rates, Indonesia's state-owned oil and gas corporation, Pertamina, is currently maintaining the prices of mid-range petrol grades such as RON92 to prevent customers shifting to the cheaper subsidised petrol, which could overstrain government finances[6].

[This space intentionally left blank]

[3] Bernama (2026a)
[4] Strangio (2026)
[5] Michael Sullivan (2026), Alena Mae S. Flores, Ram Superable, and Jimbo Gulle (2026)
[6] Addin Anugrah Siwi (2026)

Figure 1: Percentage change of petrol prices in selected ASEAN countries between February–April 2026, RON95 unless stated

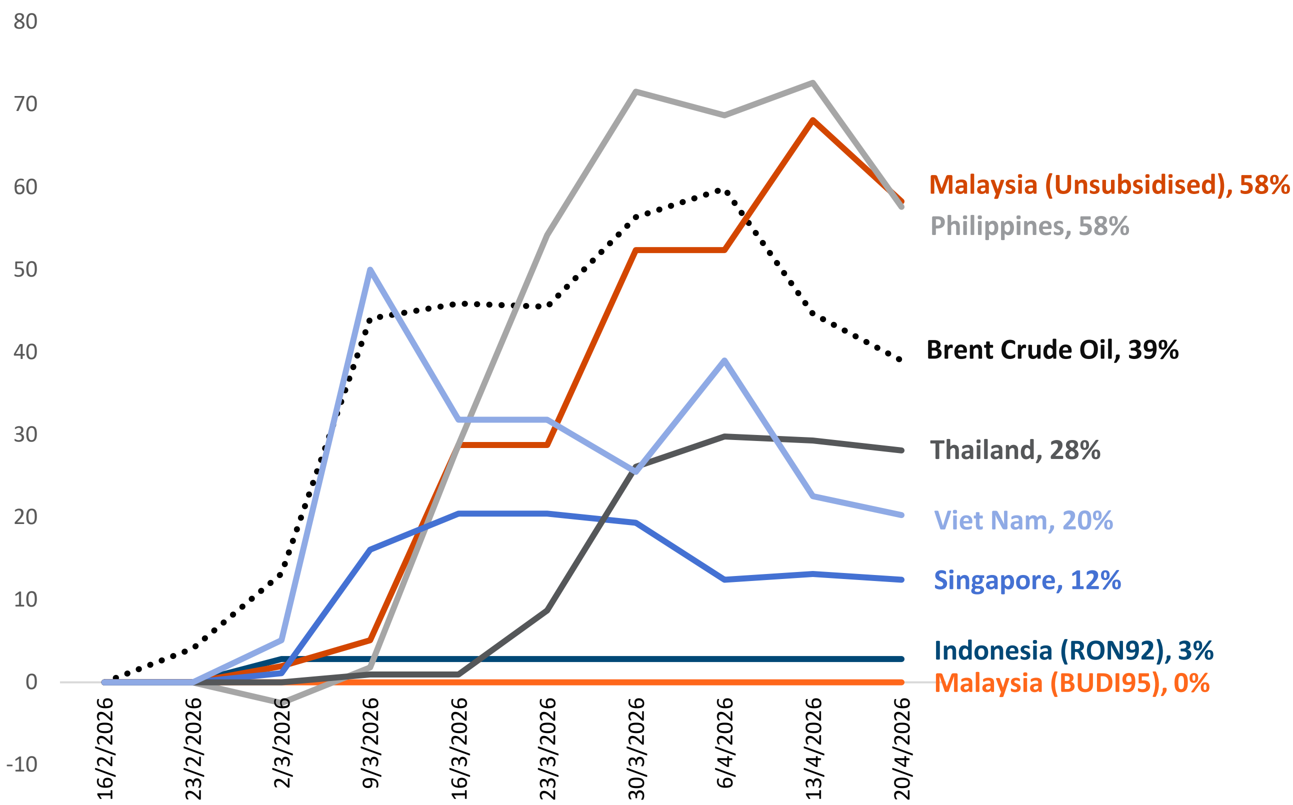

Table 1: Selected petrol prices between February–April 2026, per litre RON95 unless stated

Country	16 Feb 2026		20 Apr 2026		% Change
	USD	Local currency	USD	Local currency	
Brent Crude oil per barrel	68.69	USD 68.69	95.48	USD 95.48	+39%
Malaysia (Unsubsidised — market)	0.64	MYR 2.54	1.02	MYR 4.02	+58%
Malaysia (Subsidised — BUDI95)	0.50	MYR 1.99	0.50	MYR 1.99	0%
Philippines (market)	0.93	PHP 55.90	1.47	PHP 88.10	+58%
Thailand (market)	1.29	THB 41.37	1.66	THB 52.99	+28%
Viet Nam (market)	0.75	VND 19,743	0.90	VND 23,743	+20%
Singapore (market)	2.15	SGD 2.74	2.42	SGD 3.08	+12%
Indonesia (RON92)	0.70	IDR 12,050	0.72	IDR 12,390	+3%
United States (market)	0.86	USD 0.86	1.16	USD 1.16	+35%

Note: Exchange rates used to convert local currencies to USD are based on rates as of 20 April 2026

Source: GlobalPetrolPrices.com (n.d.), Trading Economics (n.d.)

…but petrol subsidies are not a long-term solution

For Malaysia, the key takeaway from Table 1 is that the government is subsidising approximately 50% of the market price of petrol. Since consumers don't yet feel the pinch, they are largely unincentivised to reduce demand and continue to consume petrol as usual. That puts significant fiscal pressure on the government and supply pressure on petrol suppliers.

Government subsidies related to petrol and diesel stood at RM0.7 billion per month in January 2026. As crude oil prices exceed USD100 per barrel, the subsidy was estimated as at March 2026 to be around RM4 billion per month[7]. If prices stay at this elevated level, fuel subsidies will cost around RM48 billion per year. For comparison, the total Budget 2026 allocation was approximately RM419.2 billion and the amount allocated for all subsidies and social assistance was RM49 billion[8]. At this trajectory, the BUDI95 scheme may consume the entire amount allocated for all subsidies and crowd out other spending, making the current rate increasingly difficult to sustain.

The Prime Minister has committed to maintaining the RM1.99 price through May 2026, while continuing to explore all options beyond that period[9]. To reduce the burden of BUDI95 on expenditure, the government has also reduced the subsidy quota from 300 litres to 200 litres, effective from 1 April 2026[10]. At the time of writing, the Ministry of Finance has proposed cutting government operating expenditure to make more fiscal room for subsidies[11].

To relieve the fiscal pressure on the government while not completely eliminating subsidies, one possible option is to raise the price of subsidised petrol. The World Bank has suggested raising the BUDI95 price from RM1.99 to RM2.05 per litre[12].

Another alternative proposed by economists is a proportional pricing model where a percentage discount is applied to the price of petrol instead of setting a fixed price[13]. This means that the subsidy would be a pre-determined share of the market price instead of the government covering whatever price difference is needed to maintain a fixed consumer price.

Subsidising a percentage of the market rate would allow the government to reduce some of the consumer burden without itself being overburdened. Additionally, consumers would be more aware of market fluctuations, which could lead them to adjust their demand accordingly.

---

[7] MOF (2026)
[8] MOF (2025b)
[9] Ahmad Mukhsein Mukhtar (2026)
[10] Ahmad Mukhsein Mukhtar (2026)
[11] Alzahrin Alias and Fahmy A Rosli (2026)
[12] Luqman Amin (2026)
[13] Lee Hwok-Aun (2026)

Another strategy, as this crisis is fundamentally a supply constraint, is to implement policies that prioritise managing existing supplies so they last longer[14]. This could include measures to reduce consumption, such as work-from-home policies and incentives to use less energy. However, such measures could have immediate impacts on the livelihoods of workers, such as e-hailing drivers.

E-hailing drivers are sandwiched between higher costs and lower demand

E-hailing is a significant cog in Malaysia's urban transport infrastructure, serving as a complement to taxis or filling the last-mile connectivity gap for public transport users. As e-hailing drivers are not employees in the traditional sense nor do they necessarily work regularly or full-time, it is difficult to estimate how many drivers are active in Malaysia.

According to the Ministry of Human Resources, there are approximately 1.6 million gig workers in Malaysia in 2025, some of whom are e-hailing drivers[15]. For comparison, as of December 2025, there were 17.7 million people in Malaysia's labour force[16]. In 2019, over 90,000 e-hailing drivers were reported to have obtained their public service vehicle license[17]. It seems likely that this number would have increased since then, but no official statistics are publicly available.

Although comprising a relatively small proportion of Malaysian workers, e-hailing drivers are a good example of workers whose livelihoods are directly impacted by the rise in oil and petrol prices.

Fuel is an occupational necessity for e-hailing drivers. An increase in the price of petrol translates into additional costs that eat into net earnings. The government's petrol subsidies are an important mechanism to offset driver costs and protect their livelihoods. Recognising this, the government has maintained a tiered subsidised fuel quota for eligible e-hailing drivers of up to 800 litres per month contingent on distance driven[18].

To illustrate the impact of rising fuel costs on e-hailing drivers, consider that in 2025 e-hailing drivers were estimated to need at least 700-800 litres of petrol per month to keep up with work requirements[19]. At the current subsidised rate of RM1.99 per litre, a driver consuming 700 litres per month would spend approximately RM1,393 on fuel. Without the government subsidy, this monthly cost of fuel jumps to RM2,814 at a market rate of RM4.02 per litre. A 2026 estimate corroborates this calculation, suggesting that e-hailing drivers can earn RM4,000 to RM7,000 per month and about RM1,200 to RM1,600 of those earnings is spent on fuel.[20].

[14] Bernama (2026b)
[15] Bernama (2026c)
[16] DOSM (2025)
[17] Malay Mail (2019)
[18] Bernama (2026d)
[19] Bernama (2025)
[20] Benjamin Lee and Khoo Jian Teng (2026)

On one hand, e-hailing drivers face the threat of increasing costs due to the rise of petrol prices. On the other hand, they also face the threat of decreasing demand as people minimise traveling. Drivers who rely on long-distance airport transfers to boost their income have seen demand fall as international travel declines in the wake of the crisis, reporting weekly earnings falling by 15–20% as a result. To compensate, they work extra hours, focusing on shorter trips in the Klang Valley, which are more fuel-intensive because of traffic[21].

In the short-term, the government's tiered petrol subsidy system offers some relief to e-hailing drivers, but long-term solutions are needed to reduce Malaysia's risk and exposure to spikes in oil prices.

Long-term resilience includes reducing fossil fuel dependence

Government subsidy programmes are currently holding the rising costs of living in check for Malaysians. However, large subsidies, particularly in times of crisis, add fiscal pressure to the national budget and are not sustainable. In the long-term, alternative solutions that mitigate the risks of global supply chain shocks should be developed. We need to reduce our fuel dependencies and shift to more sustainable energy sources and use.

One way this can be done, first in the Klang Valley and other urban areas, is to accelerate the process of reducing private car dependency in favour of public transport. Besides expanding light rail networks and last-mile connectivity, public transport could be improved by increasing bus services in terms of routes and frequency and reintroducing dedicated bus lanes, this time with stricter traffic enforcement.

KRI's research on mobility in Greater Kuala Lumpur finds that bus reliability remains uneven, reducing public confidence in buses as a mode of transport[22]. Nonetheless, near-term improvements in reliability can be achieved with operational improvements such as real-time schedule updates[23].

To properly assess the feasibility and benefits of any long-term, large-scale strategy requires critical analysis of the costs of introducing, maintaining and upgrading new infrastructure as well as the existing and potential public appetite for such alternatives. Implementing lasting solutions requires strong commitment, thorough planning and high investment but the lesson of this crisis should be that short-term relief needs to be accompanied by long-term resilience.

[21] Tarrence Tan (2026)
[22] Kelvin Ling Shyan Seng and Gregory Ho Wai Son (2025)
[23] Kelvin Ling Shyan Seng and Gregory Ho Wai Son (2025)

References

Addin Anugrah Siwi. 2026. "Non-Subsidized Fuel Prices May Rise Again if Oil Stays High, Minister Says." *Jakarta Globe*, April 21. https://jakartaglobe.id/business/nonsubsidized-fuel-prices-may-rise-again-if-oil-stays-high-minister-says.

Ahmad Mukhsein Mukhtar. 2026. "Anwar: Govt to Explore All Options to Keep RON95 Subsidy Beyond May." *New Straits Times*, March 27. https://www.nst.com.my/news/nation/2026/03/1404689/updated-anwar-govt-explore-all-options-keep-ron95-subsidy-beyond-may.

Alena Mae S. Flores, Ram Superable, and Jimbo Gulle. 2026. "Panic Buying on Fuel: Gas Stations Shutter." *Manila Standard*, March 8. https://manilastandard.net/news/314713034/panic-buying-on-fuel-gas-stations-shutter.html.

Alzahrin Alias and Fahmy A Rosli. 2026. "Treasury Proposes RM54.5 Billion Budget Cuts in Health, Higher Education." *New Straits Times*, April 29. https://www.nst.com.my/news/nation/2026/04/1429258/treasury-proposes-rm545-billion-budget-cuts-health-higher-education.

Benjamin Lee and Khoo Jian Teng. 2026. "Not Easy for E-Hailing Drivers." *The Star*, March 10. https://www.thestar.com.my/news/nation/2026/03/10/not-easy-for-e-hailing-drivers.

Bernama. 2025. "RON95 Subsidy Ceiling Exemption Timely Boost for Gig Economy." September 24. https://www.bernama.com/en/general/news.php?id=2470935.

Bernama. 2026a. "BUDI95 Price Remains, Unsubsidised RON95, RON97 Down 25 Sen, Diesel Drops 75 Sen." April 15. https://www.bernama.com/en/general/news.php?id=2545372.

Bernama. 2026b. "Malaysia Must Shift Towards Managing Supply, Reducing External Dependence — Economist." https://www.bernama.com/en/news.php?id=2547790.

Bernama. 2026c. "Act 872 Provides Greater Protection to 1.64 Million Gig Workers." March 31. https://www.bernama.com/en/general/news.php?id=2539439.

Bernama. 2026d. "Maintaining 800-Litre BUDI95 Limit for E-Hailing Helps Stabilise Costs." March 26. https://www.bernama.com/en/news.php?id=2538016.

Department of Statistics Malaysia (DOSM). 2025. *Labour Force Report Malaysia: December 2025*. Putrajaya: Department of Statistics Malaysia. https://storage.dosm.gov.my/labour/lfs_month_2025-12_en.pdf.

IEA. 2025. *Strait of Hormuz – Oil Security and Emergency Response*. International Energy Agency. https://www.iea.org/about/oil-security-and-emergency-response/strait-of-hormuz.

Kelvin Ling Shyan Seng and Gregory Ho Wai Son. 2025. "Assessing Bus Performance in Greater Kuala Lumpur." Discussion Paper. December 30. Khazanah Research Institute. https://www.krinstitute.org/publications/assessing-bus-performance-in-greater-kuala-lumpur.

Lee Hwok-Aun. 2026. "Malaysia's Oil Shock Absorption: Adding Agility to the Subsidy Regime," *Fulcrum*, March 26. https://fulcrum.sg/malaysias-oil-shock-absorption-adding-agility-to-the-subsidy-regime/.

Luqman Amin. 2026. "World Bank Economist Suggests RON95 Hike to RM2.05 to Curb Rising Fuel Subsidies." *The Edge Malaysia*, April 9. https://theedgemalaysia.com/node/799197.

Malay Mail. 2019. "Nearly 92,000 E-Hailing Drivers Have Obtained PSV Licence, Says Transport Minister." December 4. https://www.malaymail.com/news/malaysia/2019/12/04/91978-e-hailing-drivers-have-obtained-psv-licence-says-transport-minister/1815993.

Michael Sullivan. 2026. "Southeast Asia Is Being Hit Hard by Iran's Cutoff of Oil and Gas." *NPR*, March 26. https://www.npr.org/2026/03/26/nx-s1-5760763/southeast-asia-is-being-hit-hard-by-irans-cutoff-of-oil-and-gas.

Ministry of Finance Malaysia. 2025a. *Fiscal Outlook and Federal Government Revenue Estimates 2026*. Putrajaya: Ministry of Finance Malaysia. fiscal_outlook_2026.pdf

Ministry of Finance Malaysia. 2025b. "Budget 2026: Total Allocation of RM419.2 Billion." October 10. https://belanjawan.mof.gov.my/pdf/belanjawan2026/revenue/section3.pdf

Ministry of Finance Malaysia. 2026. *Press Statement on BUDI95 and BUDI Diesel Subsidy Burden*. Putrajaya: Ministry of Finance Malaysia. https://www.mof.gov.my/portal/en/news/press-citations/subsidies-under-ron95-budi-diesel-hit-rm4-bln-monthly-mof

Sebastian Strangio. 2026. "Southeast Asia Reels from Middle East Oil Supply Shortages." *The Diplomat*, March 12. https://thediplomat.com/2026/03/southeast-asia-reels-from-middle-east-oil-supply-shortages/.

Tarrence Tan. 2026. "E-Hailing Drivers Brace for Fewer Airport Trips." *The Star*, March 20. https://www.thestar.com.my/news/nation/2026/03/20/e-hailing-drivers-brace-for-fewer-airport-trips.