

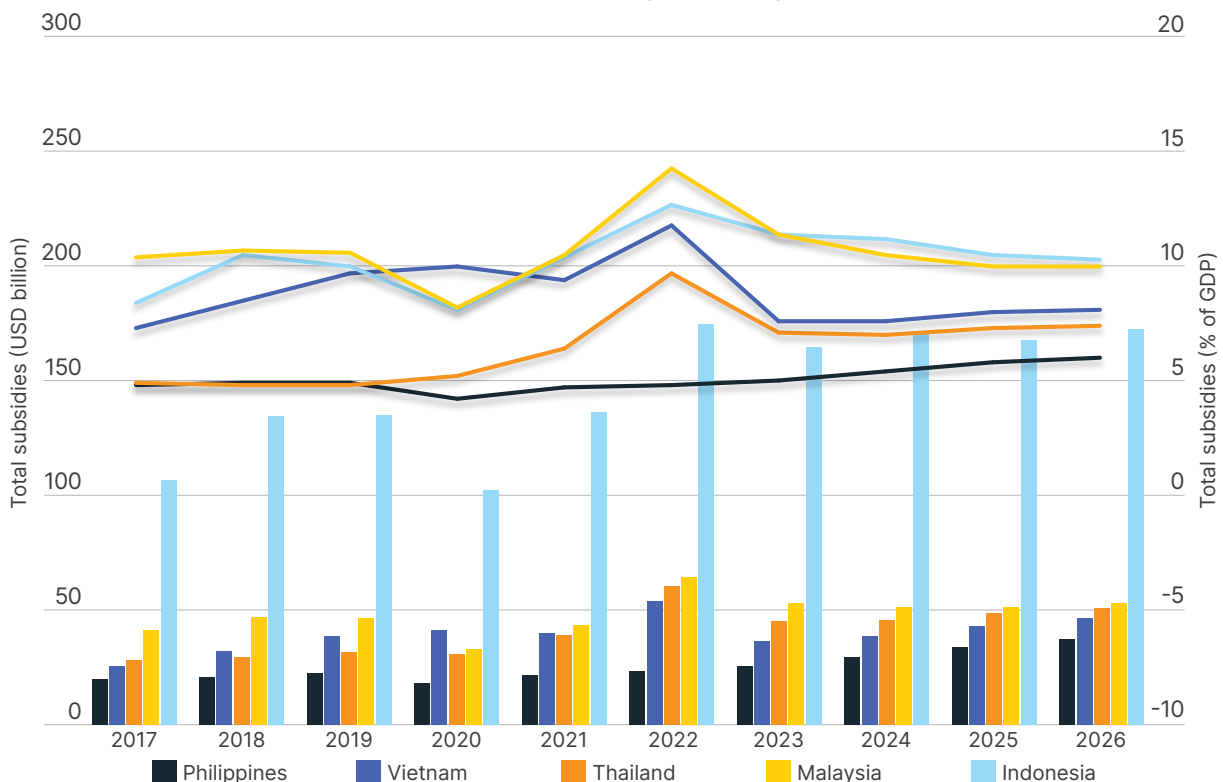
Fact sheet

Elevated oil prices compound Southeast Asia's fossil fuel subsidy challenge

The closure of the Strait of Hormuz in early March 2026 has pushed crude oil prices to multi-year highs. With over 80% of crude oil and liquefied natural gas (LNG) transiting the Strait bound for Asia, Southeast Asian nations are bearing the brunt of the disruption. Efforts to keep retail prices in check have led to soaring subsidy bills, placing mounting pressure on fiscal budgets and dedicated stabilization funds. This has renewed scrutiny of fossil fuel subsidies as governments balance energy security with fiscal sustainability.

In 2024, fossil fuel subsidies in Southeast Asia reached **USD353.1 billion**, or **8.1% of the region's gross domestic product (GDP)**. This support included explicit price and producer subsidies (USD55.9 billion), as well as implicit subsidies (USD297.2 billion). Indonesia, Malaysia, Thailand, Vietnam, and the Philippines accounted for 97% of explicit and 94% of implicit subsidies.

Trends in total subsidies by country (USD billion)



Source: IMF; IEEFA.

Note: Total subsidies represent the sum of explicit, implicit, and producer subsidies. Producer subsidies are present only in Indonesia.

Data for 2025 and 2026 are IMF estimates.

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Import dependence and policy frameworks

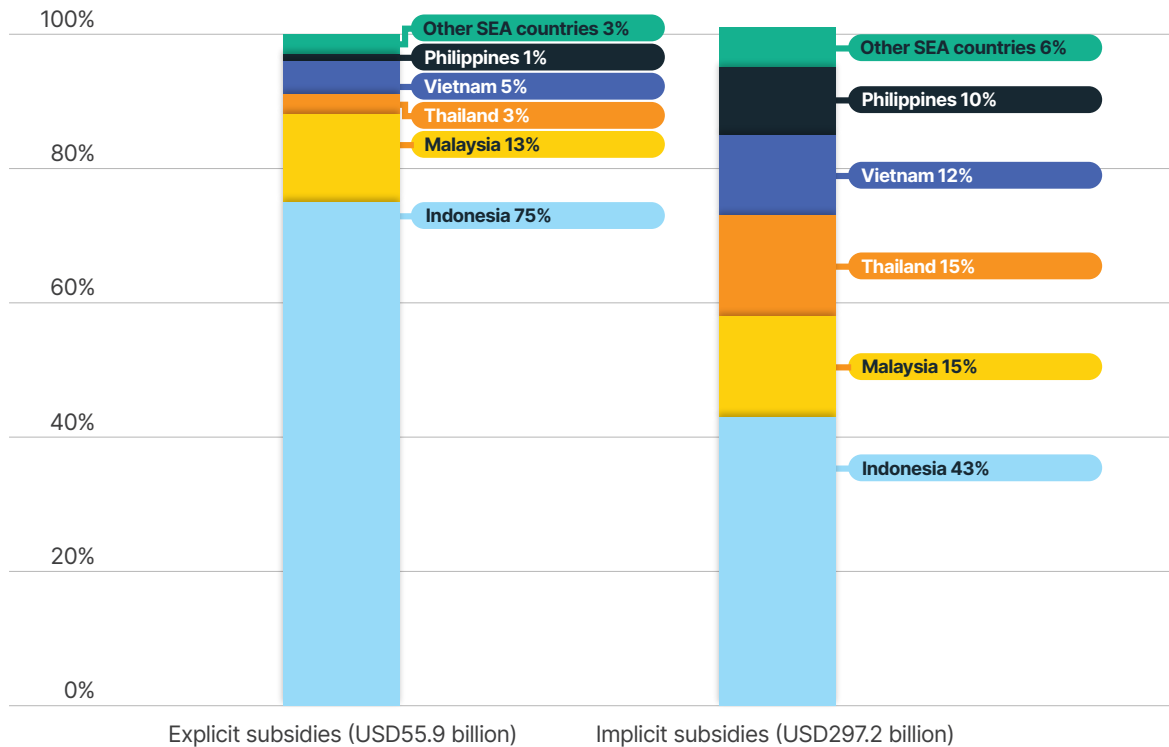
Middle Eastern imports account for a substantial share of crude oil imports across Indonesia, Malaysia, Thailand, Vietnam, and the Philippines, with some countries also relying on the region for liquefied petroleum gas (LPG), LNG, or refined petroleum products.

Imports from the Middle East in 2025

Indonesia	25% of crude oil ~30% of LPG	Vietnam	92% of crude oil 42% of LPG
Malaysia	36% of crude oil ~8% of refined petroleum products	The Philippines	97% of crude oil
Thailand	58% of crude oil ~24% of LNG		

Geopolitical tensions and global price volatility have repeatedly exposed Southeast Asia to supply disruptions. Most governments have limited strategic reserves — generally below 30 days of supply — and weaker fiscal buffers than advanced economies, leaving them vulnerable to external shocks.

Breakup of Southeast Asia's explicit and implicit subsidies in 2024



Source: IMF database; IEEFA's calculations.
Note: SEA = Southeast Asian.

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Total fossil fuel subsidies in 2024

Indonesia	Malaysia	Thailand	Vietnam	The Philippines
USD170 billion (11.2% GDP)	USD51.3 billion (10.5% GDP)	USD45.5 billion (7.0% GDP)	USD38.7 billion (7.6% GDP)	USD29.3 billion (5.4% GDP)

Government responses and fiscal implications

Country	Policy measures	Fiscal implications
Indonesia	<ul style="list-style-type: none"> Fuel prices remain subsidized Purchase caps introduced (April 2026), including limits for petrol and diesel by vehicle type 	<ul style="list-style-type: none"> IDR381 trillion (USD22.5 billion) allocated for subsidies and compensation is likely to be exceeded amid the ongoing Middle East conflict Rising pressure on fiscal deficit, which stood at IDR695 trillion (USD40.1 billion), or 2.9% of GDP in 2025
Malaysia	<ul style="list-style-type: none"> Fuel prices remain subsidized Purchase caps introduced (April 2026), including reduced limit of RON95 (a commonly used grade of petrol in Malaysia) 	<ul style="list-style-type: none"> Monthly petrol and diesel subsidies surged from MYR700 million before the supply disruption to MYR7 billion (USD1.7 billion) Growing pressure on fiscal deficit, which widened to MYR99.5 billion (USD25.2 billion), or 5.6% of GDP in 2022, during the Russia-Ukraine war
Thailand	<ul style="list-style-type: none"> Diesel prices managed through the Oil Fuel Fund Retail price caps adjusted multiple times Fuel tax reductions and biofuel incentives introduced 	<ul style="list-style-type: none"> Oil Fuel Fund moved from a THB2.5 billion (USD70 million) surplus to a THB62.4 billion (USD1.9 billion) deficit between March and April 2026 THB20 billion loan (USD617 million) was approved in April 2026 to bolster fund liquidity THB30 billion (USD840 million) in debt incurred during the Russia-Ukraine war remains outstanding
Vietnam	<ul style="list-style-type: none"> Fuel Price Stabilization Fund used to contain prices E10 biofuel rollout accelerated alongside tax adjustments (import tariffs, environmental tax, value-added tax reductions on selected fuels) 	<ul style="list-style-type: none"> Government advanced VND8 trillion (USD303 million) to support the fund Tax measures expected to reduce state revenue by VND7.2 trillion (USD295 million) monthly
The Philippines	<ul style="list-style-type: none"> No universal fuel subsidies or price caps Oil companies to roll back fuel prices by a minimum required amount set by the government Targeted support for transport, farmers, and fisheries 	<ul style="list-style-type: none"> PHP2.5 billion (USD40.4 million) allocated for transport fuel subsidies PHP150 million (USD2.4 million) allocated for farmers and fisheries support

IEEFA's policy recommendations

1. Remove blanket subsidies and introduce targeted support measures.

Replace universal fuel subsidies, which are inherently costly, inefficient, and regressive. Governments should expand targeted social protection measures to safeguard vulnerable groups.

2. Redirect subsidy savings toward better targeted programs.

Fossil fuel subsidies crowd out higher-priority public spending. Reinvestment in healthcare and education yields greater social and economic returns than broad-based fuel subsidies.

3. Invest in infrastructure and public transport.

Strengthening mass transit systems provides affordable and reliable mobility alternatives. It also reduces congestion, air pollution, and energy consumption, while supporting national decarbonization pathways.

4. Make cleaner alternatives more affordable.

Accelerate transport electrification by implementing policies such as purchase incentives, tax reductions, and financing support for electric vehicles.

5. Invest in energy-efficient technologies.

High-performance systems and smart energy management technologies would reduce energy consumption and reliance on fossil fuels, particularly as urbanization and rising cooling demand drive electricity consumption across the region.



Read more:

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