

# Inflation rise unlikely: Analysts

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MALAYSIA is set to raise petrol prices for the first time in nearly two decades. but analysts say the move is unlikely to stoke inflation or derail the economy's recovery from recession.

Analysts and industry sources expect an increase of 5 to 10 cents per litre.

Malaysia, a major non-Opec oil producer and a net crude oil exporter, has kept pump prices of unleaded petrol unchanged at RM1.10 a litre since 1983 despite a sharp depreciation of the ringgit currency during the period. Even at RM1.20 per litre, Malaysian petrol would still be the cheapest in the region apart from Indonesia.

Analysts said an increase in pump prices appears inevitable given the sharp rise in world crude oil prices, which have more than doubled to US\$30 (US\$1 = RM3.80) a barrel since last year.

Prime Minister Mahathir Mohamad said last month the Government was studying the possibility of reducing its petrol subsidies in view of the costlier crude oil.

A pump price rise would shift some of the burden of higher crude oil prices to the public. The Government controls prices of petroleum products by using an automatic

pricing mechanism (APM).

Through the APM, the Government first determines a long-run retail price level based on market conditions and cost of production and crude oil, as well as dealers' commission.

If the calculated market price is lower than the long-run price level as determined by the Government, a tax is imposed. But if the calculated price is higher than the pre-determined price, oil companies are given a subsidy and tax exemption.

"As the long-run retail price for petroleum products in Malaysia was determined a long time ago, it no longer reflects the right price of the products," said Mr Azmi Setapa, a senior researcher at the Malaysian Institute of Economic Research.

He said a rise in the price of petroleum products of not more than nine per cent per litre would be reasonable, adding that a 10-cent increase would result in a government saving at least RM1.6 billion a year in subsidies. The figure also includes additional tax revenues from the move.

At current prices, the Government has to pay a subsidy of nearly 46 cents for every litre of unleaded petrol. — Reuters