

# Malaysia's petrol price increase hits discordant note

Bt 23 OCT 2001

A RAISE in oil-rich Malaysia's subsidised petrol prices for a second year running will nudge inflation higher and undo some of the 2002 budget moves to boost consumer spending, analysts said yesterday.

Amid the tax cuts, salary increases for government servants, and spending boosts to counter a slowing economy, the 8.3 per cent rise in the petrol price announced in the budget by Prime Minister Datuk Seri Dr Mahathir Mohamad last Friday struck a discordant note.

"We did not expect this because crude oil prices have come down," said Pankaj Kumar, research manager at OSK Research.

As part of a move to reduce the Government subsidies on fuel, Dr Mahathir announced petrol prices would rise 10 sen to RM1.30 per litre, while diesel was raised by 14 per cent, or 10 sen, to 80 sen per litre.

"Such a move will have an impact on the whole economy as the rise in petrol and diesel would see the cost of doing business go up especially in public transportation, and for hauliers and forwarders," Kumar said. "Their margins could be eaten up and eventually the cost may be passed to consumers," he added.

Malaysia is a non-Organisation of Petroleum Exporting Countries oil producer and net exporter of crude oil, producing about 630,000 barrels per day (bpd). It consumes about 400,000 bpd of petroleum products.

The latest move follows an increase last year, which was the first in 17 years, and will save the Government around RM1.5 billion, which it would have had to pay oil companies for selling products at subsidised prices if prices had been left unchanged.

The Government paid out an estimated RM4.4 billion in subsidies, of which around RM2.0-RM2.2 billion was for subsidies on petroleum products. — Reuters