

Gov't under pressure to hike RON95 fuel price
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Following yesterday's increase in the price of sugar, the market is now speculating whether the price of RON95 petrol will follow suit or whether it will be delayed until after a snap general election.

Under the subsidy rationalisation plan proposed by Pemandu, the government should have increased the price of RON95 petrol to RM2.05 per litre now, after two adjustments - by 15 sen at the close of last year and 10 sen by the first half this year.

According to the plan, RON95 should go up again by 10 sen to RM2.15 later this year. However, the current price remains at RM1.90 a litre.

The RON95 price was raised twice last year - by five sen a litre each time, on July 16 and on Dec 4.

On the other hand, the price of the higher grade RON97 has increased four times this year alone and is now at RM2.90 a litre, which is at its historic high.

According to China Press, the price of RON95 petrol is now 80 sen cheaper than the market price - which means that it should cost RM2.70 a litre if the price is adjusted according to the market rate.

To sustain this price level, taxpayers will have to bear the cost of the petrol subsidy estimated at RM14 billion, which is 40% higher than the RM10 billion budgeted by the government.

Government gearing up for election

Although the bill is huge, Jupiter Securities research head Pong Teng Siew expects the government to delay any price hike on RON95 fuel until after a snap general election because petrol will have a much bigger impact on the market than sugar.

"For now, the government is creating a good environment for the election."

It is widely speculated that Prime Minister Najib Razak will call for an early general election - in the later part of this year or in the beginning of next year - as the economy is expected to be worsened in the coming months due to the devastating tsunami in Japan - Malaysia's third biggest source of foreign investments.

In addition, the growing instability in the Middle East has forced global oil prices above US\$100 per barrel in recent months and there is no sign of any reduction.

However, if fuel price rationalisation is delayed until after the general election, then the people will probably face an one-off price hike, which might further fuel inflation.

So far, the government has only met Pemandu's subsidy rationalisation target for sugar, for which the price is required to increase by 20 sen a kilo every half-year.

Other regulated items such as flour, cooking oil and natural gas are also under the subsidy reduction plan, but the government has yet to announce any price hike for these items this year.

Najib said on April 1 that the government would slow down on the implementation of the subsidy rationalisation scheme in order to help the people to reduce their burdens.

Cabinet discusses possible hike

But the government is under increasing pressure to slash petrol subsidy to reduce its budget deficit.

Nanyang Siang Pau today quoted a minister, who requested anonymity, as saying that the cabinet did discuss the petrol subsidy today but no final decision was made.

The cabinet however ordered the Finance Ministry to look into the issue further.

The Chinese newspaper reported that the price of RON95 petrol might increase by 10 sen in the near future.

According to another minister, the cabinet has agreed that there is an urgent need for the government to increase the price to reduce its growing financial burden.

He said the government is now paying RM11 billion every year to subsidise RON95 petrol and the cost might escalate to RM18 billion if the price is not adjusted soon.

Should there be a hike in the RON95 price this year, the general election will likely be put off to next year.

However, the government may decide to go for an early election sometime this year, and then increase the fuel price soon after.

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