

Najib, revise Budget 2015 for oil price drop
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MP SPEAKS I would like to welcome the latest statement by Deputy Finance Minister Ahmad Maslan who just did a U-turn on the price of RON95 petrol. More importantly, Prime Minister and Finance Minister Najib Abdul Razak must present a revised Budget 2015 to take into account the likelihood of lower oil revenue.

Ahmad Maslan (left) now claims that if the crude oil price falls to the level between US\$70 and US\$75 per barrel, he would propose that RON95 be sold at a price lower than the current RM2.30 per litre.

This is a far cry and a massive U-turn from his earlier position on Oct 31, 2014 in Pontian, Johor, when he claimed that the government would maintain the RM2.30 pump price by imposing a petroleum sales tax in the event of falling oil price.

Nevertheless, the U-turn is still welcome.

We have been urging lower pump prices if the crude oil price falls below the current price to prevent 'stagflation' - inflation caused by fuel hike and the introduction of the goods and services tax (GST) which depletes the already meagre disposable income of Malaysians and depresses demand for goods and services.

This is the same reason why Japanese Prime Minister Shinzo Abe is likely to postpone the increase of the sales tax. When growth is fragile globally, governments should be extremely careful not to tax away any residual disposable income and end up with a recession.

I also urge Najib to present a revised Budget 2015 or at least present the Parliament with contingency plans if faced with three scenarios, namely, when crude oil price is at US\$80, US\$70 and US\$60 per barrel.

The government had estimated its 2014 revenue with the crude oil price at US\$110 per barrel and US\$105 per barrel for 2015.

Petroleum income tax

Petroleum income tax constitutes 21 percent of the federal direct tax revenue and it does not include other forms of revenue contributed by Petronas. It is widely estimated that petroleum income constitutes about 30 percent of total revenue.

According to an estimate reported by The Edge Financial Weekly, every US\$1 per barrel drop in crude oil prices would cost the government about RM650 million in revenue. In other words, a decline of crude oil price by US\$25 (from the US\$105 estimated for 2015) to

US\$80 per barrel will result in a reduction of revenue of RM16.25 billion (6 percent); at US\$70 per barrel, it would mean a loss of RM22.75 billion (8.3 percent); at US\$60 per barrel, a loss of RM 29.25 billion (10.6 percent).

Anyone following international financial news would by now agree that these are possible scenarios that we have to grapple with.

Last week, when Deputy Finance Minister Chua Tee Yong (left) wrapped up the committee stage debate on the Treasury's budget, he said that the declining trend of crude oil prices would have very little impact on the deficit in 2014 as "relatively the average crude oil price is not far off from the original estimation for 2014" and "can be mitigated by the low fuel subsidy".

He even said that the government could not provide the estimated crude oil prices for the next few weeks and month as he "did not know if the price would be going down or maintain".

Chua was plainly wrong. The government and Najib must have a contingency plan and a revised Budget 2015 for the scenarios of crude oil price at US\$80, US\$70 and US\$60 as crude oil price was already below US\$80 per barrel at US\$79.41 last Friday.