

KERATAN AKHBAR

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'Expect govt to cut retail fuel prices'

LOWER BY 10 SEN

'EXPECT GOVT TO CUT RETAIL FUEL PRICES'

Firm predicts this will see headline inflation ease to 2.9pc this year

KUALA LUMPUR

MIDF Research anticipates that the government will cut retail fuel prices, particularly RON95 and diesel, to ensure price stability and ease living cost pressure.

If the government cuts the RON95 price by 10 sen to RM1.95 per litre next month, Malaysia's headline inflation is likely to ease to 2.9 per cent this year as non-food inflation moderates further towards 1.3 per cent, while transport price experiences a deeper contraction of -1.7 per cent, it said

in a note yesterday.

By year end, the 10 sen cut will bring the monthly headline inflation rate lower to +1.9 per cent year-on-year, it said, adding that this also meant that the government would have RM4.31 billion more for fiscal expenditure.

"The government will have even better fiscal space, given that fiscal debt-to-gross domestic product ratio has fallen to 59.3 per cent in the first quarter, and including contingent liabilities, the latest figure is 76.1 per cent," MIDF Research said.

According to the consumer

price index weightage, transport cost is the third largest burden after food, as well as housing and utilities.

"Considering the continuous elevated food inflation and downward income pressure, we anticipate the government to opt for slashing retail fuel prices, particularly RON95 and diesel in the near term.

"Structurally, being a net food importer and aggravated by depreciated ringgit, it will be hard for the government to contain food inflation," MIDF Research said.

During the first half, the Brent crude oil price averaged at US\$79.2 per barrel, slightly lower than government's estimate of US\$80 per barrel.

As such, MIDF Research esti-

mated the non-subsidised market price for RON95 to be RM3.10 per litre.

Last year, the RON95 price differential against market price widened to RML.86 per litre.

"Thanks to normalising global oil price, the fuel price differential is estimated to be lower at RML.05 per litre this year.

"With the lower price differential, the total subsidy expenditure will be lower than last year.

"From 2011 to 2013, the RON95 price differential was more than RM2 per litre as the global oil price hovered above US\$100 per barrel, while the retail price of RON95 was kept at RM1.90-RM1.95 per litre," it said.

In the first half of the year, food prices surged by 6.2 per cent year-

on-year (2022: 5.9 per cent), while non-food prices increased by 1.7 per cent year-on-year (2022: 2.2 per cent).

"We believe the continuous depreciation of the ringgit is among the contributing factors to the high food inflation."

CGS-CIMB Research said government intervention in items, such as chicken price and electricity, should contain inflation in the near term.

"The government has decided to continue subsidising chicken and eggs in the second half, and electricity tariffs for domestic users were also extended in same period, easing the risk of domestic-driven inflation.

"As such, we maintain our CPI forecast at 2.8 per cent y-o-y in 2023."