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Revenue cushion from US\$100 oil



RISING SUBSIDY COST

REVENUE CUSHION FROM US\$100 OIL

Government may gain up to RM350m for every US\$1 increase in price, says analyst

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THE government stands to gain RM300 million to RM350 million in revenue for every US\$1 increase in the world oil price, which will help cushion the expected heftier subsidy outlay this year.

The Brent crude oil price is expected to hit the US\$100 mark sooner rather than later. It rose further on Monday as investors focused on a tighter supply outlook after Moscow issued a temporary ban on fuel exports.

"If oil price exceeds US\$100 per barrel, the government will be able to bear a higher cost of subsidies," said economists, although they added that further interest rate hikes could dampen demand.

Late last week, Economy Minister Rafizi Ramli said the government might have to bear more than RM100 billion in subsidies annually if the world crude oil price hit US\$100 per barrel.

He was responding to a question from Datuk Seri Johari Abdul Ghani (Barisan Nasional-Titiwangsa) who wanted to know the political will required to implement targeted subsidies.

"For every US\$1 increase in world oil price, revenue will rise by an estimated RM300 million to RM350 million. With the (potentially) higher dividend from Petronas (Petroleum Nasional Bhd), the country will be able to cope with any sharp escalation in oil price," Sunway University economics professor Dr Yeah Kim Leng told Business Times.

But he added that the fuel subsidies were better spent on improving healthcare, education, transport and infrastructures that would have greater multiplier effects on the economy.

When asked how the government can balance its annual budget while providing subsidies, he said the implementation of targeted subsidies and the accompanying reduction of leakages and overconsumption as subsidised prices move closer to

ASSOC PROF DR AHMED RAZMAN ABDUL LATIFF
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market price would reduce the government subsidy outlay.

Being a net exporter of oil and gas, the increase in revenue will help to offset the high cost of fuel subsidy, which is needed to keep inflation at a manageable level.

Putra Business School economic analyst Assoc Prof Dr Ahmed Razman Abdul Latiff said the government would likely introduce targeted subsidies next year.

"This means the government can save money by giving subsidies only to people who really need them, such as the Bottom 40 households," said Latiff.

Tradeview Capital fund manager Neoh Jia Man pointed out that when the global oil price was around US\$100 per barrel last year, the government recorded an oil and gas-related income of RM92.4 billion, including the RM25 billion additional dividend from Petronas.

He believes that the national oil firm will be able to match the dividend payout should the oil price return to an average of US\$100 per barrel.

Independent economist Julian Suresh Sundaram said while the rising oil price would mean higher fuel subsidies, it also meant higher income that might exceed expenditure.

"It is also better to enact a targeted subsidy reduction now when conditions are generally positive. (The move) does not increase the burden among lower-income households while shifting it to the Top 20 households," he added.