

Malaysia could see budget cut if oil stays at US\$41 per barrel



Pic by Muhd Amin Naharul

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'If oil prices stay at this level or drop further, there will likely be budgetary adjustments'

by ALEXANDER WINIFRED

THE country's national budget could be under pressure if the crude oil price stays at US\$41 (RM174.66) per barrel in 2016 after global oil prices continued to be battered over over-production worries, say analysts.

Oil prices plunged to six-year lows yesterday, trading at US\$41 levels (Brent) and US\$37.95 (West Texas Intermediate; WTI) after the Organisation of Petroleum Exporting Countries (OPEC) decided to maintain output levels as it tries to eliminate shale production competitors in the US and Russia.

"If oil prices stay at this level or drop further, there will likely be budgetary adjustments similar to what was seen

this year," said Wellian Wiranto, an economist at the Global Treasury department at the Oversea-Chinese Banking Corp in Singapore.

"The bank present forecast is US\$55 for WTI and US\$60 for Brent in 2016," Wiranto said.

Malaysia's position in the region is unique as low oil prices benefit most Asian countries, Wiranto said.

Malaysia cut its 2015 operating expenditure (opex) by RM5.5 billion in January after oil prices started to slip since tabling the 2015 budget. It had originally forecast that the prices of oil to average at US\$100 a barrel, but the prices halved dramatically — slashing oil revenues from the national oil company Petroliaam Nasional Bhd.

"This year, if oil stays at current levels, adjustments will be centred on capital expenditure spending with cutbacks likely on infrastructure projects," Wiranto said.

However, he said Malaysians would enjoy a lower pump price and able to

spend more money on other items.

"A few countries especially in the Middle East have started fiscal adjustments where oil prices have a more pronounced effect on national finances," Wiranto noted.

In October, the Saudi Arabia government banned official purchases of cars and furniture, slashed travel budgets and infrastructure spending — doing so through highly confidential, internal government orders.

"Due to the OPEC's persistence in fighting production in the US and Russia, oil prices are likely to be lower for a longer time," said Bernard Aw, a market strategist at IG Asia Pte Ltd in Singapore.

"There is a possibility US and Russia's governments will step in to help local producers," the strategist said.

Therefore, the recovery in oil prices will not come as a result of policy changes on the supply side, Aw told *The Malaysian Reserve*.

"Unless the world sees a growth in

demand, prices are unlikely to return to the US\$50-US\$60 levels in the next six to 12 months," said the strategist.

A US\$40 oil price will roughly translate into an RM8 billion shortfall in revenue from oil dividends, said Prof Dr Hoo Ke Ping, a prominent economist based in Kuala Lumpur.

"The government's forecast of US\$48 per barrel is optimistic, but not overly optimistic," Hoo said.

"Prices will recover after OPEC finally succeeds in killing off US and Russian shale production which I think may happen towards the end of next year," the economist said.

The RM8 billion shortfall could be made up through the improved Goods and Services Tax (GST) collection in 2016, Hoo said.

In October, the government revised upwards its GST collection target for next year to RM39 billion from an earlier target of RM31.4 billion announced during the tabling of the 11th Malaysia Plan.