

Headline	Greater retail fuel inflation to offset savings from zero-rated GST in		
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Greater retail fuel inflation to offset savings from zero-rated GST in June

KUALA LUMPUR: RAM Ratings expects Malaysia's headline inflation rate to inch up to 1.9 per cent in June, despite the zero-rating of GST the same month.

The latter is conservatively estimated to have brought headline inflation down 0.4 percentage points, but was overshadowed by a larger increase in transport fuel inflation.

The average price of RON95 fuel ascended 9.9 per cent in June, driven by significant low-base effects; prices had averaged RM2 per litre in June 2017 compared to RM2.09 in May 2017.

The price of RON95 is expected to stay unchanged at RM2.20 per litre amid the reinstatement of subsidies, until a more targeted system is introduced. Given that average prices had declined to RM1.96 per litre in July 2017, the stronger low-base effect is envisaged to again intensify the component's inflationary pressure in July 2018.

Non-residential consumers such as businesses, industrial sectors have been facing higher electricity tariffs since July 1 following the implementation of a surcharge (1.35 sen/kWh) on the average base tariff of 39.45 sen/kWh for July–December 2018.

Residential users will, however, not feel any impact as this surcharge will be funded by Kumpulan Wang Industri Elektrik (KWIE), a fund set up to manage the impact of electricity tariff on consumers.

As such, headline consumer inflation is not expected to be directly affected by this revision. "Nonetheless, there is a small chance that there may be second-round inflationary pressures from this tariff amendment if the increase in electricity costs for businesses is passed on," noted Kristina Fong, head of research.

That said, the impact of the surcharge would be moderated by the savings gleaned from zero-rated GST on electricity bills and their cost of doing business, thus alleviating the need for firms to raise prices.

Besides, the tendency of businesses to pass on the full cost to consumers appears low to date, as observed from the natural gas tariff hike and imposition of foreign workers' levy on employers this year.

For the full year, overall inflation is envisaged to average 1.5 per cent on the back of reinstated fuel subsidies, lower prices after the zero-rating of the GST and a persistently weak growth trajectory for food prices.

Nevertheless, uncertainties remain over the impact of the reinstatement of the Sales and Services Tax (SST), with respect to the rate and product and business coverage of this tax system.

We will closely monitor the developments on the imminent SST regime as and when details become available, to assess its eventual impact on the full-year inflation rate for 2018.