

Economist: Brace for price hikes in the short-term

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According to an economist, the Najib administration's subsidy rationalisation plan would strengthen the macro-economy of the country but consumers should brace themselves for a short-term price rise in goods.

The chief economist for RAM Holdings Group Yeah Kim Leng argued that market forces should allow to set a new benchmark for prices.

Yes, (the subsidy cuts) will cause some trickle down effect (on consumers), depending on the profitability of the companies presently. If their business is already profitable, then there is less chance of the higher cost being passed to consumers.

"Some of the players are already (making big profits) so they may be able to absorb cost increase instead of passing it on to the consumers," Yeah said.

The government had announced on Monday that they will be abolishing fuel 'super subsidy' for commercial vehicles come June 1.

A Domestic Trade, Cooperatives and Consumerism Ministry statement had said that all the nine listed vehicles would no longer be allowed to purchase diesel price of RM1.481 per litre.

However, these vehicles can still enjoy a subsidised price for diesel at RM1.80 per litre which is set for ordinary vehicles.

The nine types of vehicles affected are prime movers, general cargo movers, luton box van, vans (panel van, semi-panel van and window van), rigid-lorry for bottled beverages, rigid tanker lorry for flour transport, rigid lorry for refrigerated goods, water tankers and limousine taxis.

Fuel subsidy for deep-sea fishing vessels in Zone 2 (over 30 nautical miles) will also be removed, according to Deputy Agriculture and Agro-based Industry Minister Chua Tee Yong as previously reported in The Star.

Zone C2 vessels operated under a commercial fishing licence where a licence holder could own more than one vessel and hire foreign workers. Some of the vessels are also operated by companies. There are currently 1,200 vessels with such licences.

A flurry of subsidy removals

Under the subsidy rationalisation plan, the price of RON 97 petrol jumped eight times since its previous price of RM1.80 per litre in Dec 16, 2008. Its most recent hike was from RM0.20 to RM2.90 on May 5 this year.

RON97 grade petrol was the standard used by consumers until September 2009 when RON95 was introduced at a price of RM1.75.

Domestic Trade and Consumer Affairs Minister Ismail Sabri Yaacob (in white shirt in photo) had said consumers must brace for a possible review of RON95 prices in June. RON 95 currently retails at RM1.90 a litre.

Household goods such as sugar also saw a 20 sen price hike to RM2.30 last week, reducing the government's subsidy for sugar from RM116.6 million to RM400 million per year.

Sugar prices went up three times last year with an addition of 20 sen in January, 25 sen in July and 20 sen in December.

Malaysia spent 15.3 percent of total federal government operating expenditure on subsidies in its 2009 budget when its deficit surged to a 20-year high of 7 percent of the GDP.

According to Ismail Sabri, the government's subsidy for petroleum products was RM8 billion annually.

However, DAP recently contended that the federal government spends RM19 billion in annual gas subsidies for Independent Power Producers (IPPs) and commercial power sectors.

Ridding subsidy like abandoning crutches

Yeah was also optimistic about the removal of subsidies, insisting that it will do the country a world of good in the long run.

"Businesses have to be self-sustaining and move without crutches. Crutches are subsidies and it should only be targeted at the low income group.

"For example, the prime mover companies can be highly profitable. Deep-sea fishing in Indonesia and the Philippines does not have fuel subsidies. Malaysia's difficulty in enforcement and the ease of abuse means a loss in taxpayer's money," he said.

However, he also agreed that the mechanisms of the subsidies in the first place had opened up opportunities for abuse.

"A monitoring mechanism is a problem. It's best to find other ways to subsidise, especially for the low income groups. As for commercial operators, their business could be profitable only because they are making profits from the subsidies...

"In the end, no subsidies means an efficient economy and consumers can benefit from it.

"If subsidised prices don't reflect cost of production, it could lead to over consumption and under investment. People would just need to cut down on their consumption," he said.