

Early polls unlikely as PM tackles subsidy cuts

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Malaysia's increase in power tariffs and the possibility of a similar move on fuel as global oil prices surge make any chance of an early general election extremely slim as Prime Minister Najib Abdul Razak will have to first tackle a public backlash.

The government yesterday announced a rise in electricity prices by an average of 7.1 percent as the country's subsidy bill doubled to nearly \$6.9 billion this year, but, as yet, there is no move to tinker with fuel subsidies which are much more sensitive but have a bigger impact on the fiscal deficit.

Analysts, however, said a fuel price increase was on the cards. The electricity tariff hike is a political trial balloon for Najib to gauge public unhappiness before he decides on a fuel price hike," said Bridget Welsh (left), a Malaysia specialist at Singapore Management University.

Najib in a recent speech likened Malaysia's fuel subsidies to opium but he has been wary of upsetting voters with steep fuel price increases as he tries to rebuild support for his ruling coalition which was hit by record losses in the last general election in 2008.

The next general election is not due until mid-2013 but many observers were expecting Najib to call for one as early as late this year on the back of strong gross domestic product (GDP) growth which hit a decade-high of 7.2 percent in 2010.

But DBS and JP Morgan said in research notes that timetable is now unlikely.

"Monday's announcement shows that the government is willing to make some politically unpopular but economically positive moves in the near term, which probably means elections will be postponed until 2012," HwangDBS said.

Opposition to gather strength

A delay in the elections gives more space to the opposition to gather strength. The opposition is not likely to win the next election but it could chip away at the ruling party's margin of victory, making reform more difficult.

Najib is seeking a strong election win to consolidate his own position within the ruling coalition, and a delay puts that off.

But delaying rationalising subsidies could imperil government finances and further disillusion investors already impatient with the slow pace of reform.

Since taking office in 2009, Najib has pledged to cut subsidies and widen the tax base to trim a fiscal deficit which hit a 20-year high of 7 percent of GDP in 2009.

The deficit was at 5.6 percent in 2010 and is officially targeted to be 5.4 percent this year, which analysts say will be easily met target if prices for fuel and electricity are raised, even incrementally.

The government estimates that the electricity tariff increase will raise inflation by 0.27 percentage point. That signals average inflation through 2011 will be within the government's 2.5-3.5 percent target, with annual inflation in April coming in at 3.2 percent.

A US6 cents increase in the price of the popularly used RON95 gasoline blend which is now priced at US63 cents a litre, on the other hand, will increase inflation by an additional 0.5 percentage point, said Kit Wei Zheng, an economist with Citigroup.

"From a fiscal perspective, if the government chooses to do nothing other than raise electricity tariffs, then it would just be a hedge and a poor substitute to a fuel price hike," said Kit.

Risky for the government

Analysts say that while cutting subsidies further ahead of the general election is risky for the government, it could try to offset anger by increasing spending next year on social safety net programmes for the poor.

Analysts say it will be a choice that the government will have to make soon.

A deputy minister was quoted on Thursday last week saying the government would review fuel prices if the price of oil hit \$110-\$120 per barrel. Crude oil was trading 0.5 percent higher at \$101.05 per barrel as of 0414 GMT.

The opposition, led by former deputy prime minister Anwar Ibrahim, has promised to lower fuel prices if it is voted into power.

The opposition scored historic wins in the last general election, in 2008, winning five of the country's 13 states and denying the ruling coalition a two-thirds control of parliament.

But the opposition coalition has since been marred by infighting, with Anwar tied up in court on a charge of sodomising a male aide in a case which he says is a political conspiracy.

While Najib has seen support from the country's majority ethnic Malays rise since he took power, his coalition suffered a setback in elections in April in the state of Sarawak, where it won a majority but got the fewest number of seats in 24 years.

That would make a decision to raise the fuel price more difficult.

"With elections at least six months away or longer, the effect of inflation could yet shift the political terrain away from him," said Welsh.

- Reuters