

Sugar subsidies more than doubled ahead of polls

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Niluksi Koswanage, Reuters

Malaysia has more than doubled subsidies on sugar, a government source said on today, a sign that Prime Minister Najib Abdul Razak may be delaying economic reforms to appease voters ahead of elections.

The source with knowledge of the decision, who declined to be identified, said subsidies were raised at the start of the year to 54 Malaysian sen per kilo, or 18 US cents, from 20 sen to offset higher prices for imported sugar.

While Malaysia's sugar imports are tiny compared to the likes of China, higher prices directly hit the pocket books of Malaysians at a time when the government is aiming to create an economic feel-good factor ahead of the elections.

"Election time is coming up, they are giving more sweets to the masses," said James Chin, a political analyst at Monash University in Malaysia. "I don't think they are concerned about the fiscal deficit right now."

Najib is widely expected to call a general election in the first half of 2012, about a year before his current mandate ends, as he seeks to secure a second term before slowing global growth hurts Malaysia's trade-dependent economy.

His goal is to restore the two-thirds parliamentary majority that the ruling Barisan Nasional coalition lost in the 2008 elections, but that looks difficult to achieve against an opposition alliance that made historic gains four years ago.

The government recently handed out cash payments of RM500 (US\$160) to households earning RM3,000 or less per month, and increased pay and pensions for civil servants.

"Government expenditure for sugar will have to go up because there has been tightness in global supplies," the government source said. "The idea is to keep sugar prices stable and affordable for Malaysians."

Najib has pledged to cut subsidies in the long term, with the savings aimed at helping the lower income group who are mostly from his ethnic Malay voter base.

The government has been slowly reducing subsidies since June 2010 but subsidies on sugar rose at the end of that year, and now again in January.

Subsidies as opium

Analysts say the government is more likely to implement major economic reforms if it receives a strong mandate in the snap polls.

"Sugar subsidies are minute compared to massive fuel subsidies so Najib has some fiscal space," said Kit Wei Zheng, an analyst with Citigroup in Singapore.

"Najib is trying to get some political goodwill and rightly so, although it does raise the questions in some investors' minds about his commitment to reform," he added.

An economist by training, Najib has called fuel subsidies "opium" to the Malaysian economy that are hard to remove without some political cost but which need to be reduced to bring the budget deficit under

control.

Last year, the government reduced its fiscal deficit to 5.4 percent of GDP and aims to cut it further to 4.7 percent this year as it holds back on development spending.

As part of that process, the government has taken tentative steps to cut back subsidies. In mid-2011, Malaysia raised power tariffs but stayed clear of touching politically sensitive petrol prices.

Government projections show subsidies will continue to rise and form a big part of spending. Subsidies on sugar, fuel and flour among others are expected to rise to a total of RM33.2 billion (US\$10.8 billion) this year from RM32.8 billion in 2011.

Malaysia imports about three million tonnes of raw sugar in three-year long term contracts that are handled by state-linked MSM Holdings.

MSM, which was floated on the stock exchange last year, has a monopoly on sugar processing and distribution in this South-East Asian country. It struck a deal of 17.5 US cents per pound in the last three-year import contract.

The firm, along with the government, is still negotiating with sellers for the current three-year contract that began this year. Given the high raw sugar prices, the government had to raise subsidies or lift the ceiling price to help MSM maintain its margins, analysts said.

Sugar prices are starting to trend up again. New York raw sugar futures, which set the tone for global prices, are trading near their highest level since mid-November.

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