

**Subsidy cuts signal of push in economic reform**  
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The subsidy cuts in fuel, sugar and liquefied petroleum gas (LPG) by the government, are a signal that economic reform is pushing ahead, says OSK Research.

"We have never been supportive of subsidies and these implemented subsidy reductions are modest and thus, being more acceptable to the general public.

"We believe it indicates that the present administration is again willing to take the bull by the horns and push through further economic reform after a pause of seven months," it said.

OSK also said it remained bullish on the FBM KLCI, particularly for the fourth quarter, with an unchanged target of 1465 points at year-end.

azlanAccording to OSK, while it is not surprised by the quantum of subsidy cuts, which apart from sugar, are much smaller than originally proposed by Performance Management and Delivery Unit (Pemandu), it was however, taken by surprise by the speed of the implementation.

"We had felt that the government would resist making unpopular economic reforms for now. But we believe, it has made the right decision.

"As the cuts are small, we feel that gas prices and toll rates will also be adjusted in future, other than those for petrol and sugar," it added in a research note today.

Prime Minister Najib Abdul Razak announced the subsidy cuts yesterday, effective midnight today.

Benefit future generations

OSK said that the impact of the petrol price hike by 2.8 per cent only for now, is expected to have limited impact on the auto, toll road and retail sectors.

"The sugar price increase of 15 per cent should see some costs being passed on to consumers but again, the impact on disposable income should be mild," it noted.

OSK pointed out, if the more than RM750 million saved in 2010 from the cuts alone is put to good use such as reducing public debt, it would certainly benefit future generations of Malaysians.

However, if the savings are used to fund development projects, such as the proposed KL Mass Rapid Transit (MRT), tight controls and open tenders should preferably be implemented to avoid future accusations of leakage.

The research house also identified three potential beneficiaries, namely Tenaga Nasional Bhd, Gamuda and MMC.

Tenaga may secure its tariff hike while Gamuda and MMC, may lobby for subsidy savings to be used to fund the KL MRT project, which may then start earlier rather than later.

"We expect more subsidy cuts to materialise. Sugar price may well be adjusted six months down the road while subsidies on gas prices could also be cut in 2011," it stated.

- Bernama

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