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PM: Fuel subsidies are like opium

OXFORD: Fuel subsidies are "like opium" to the Malaysian economy and will have to be reduced gradually to bring the budget deficit under control, Prime Minister Datuk Seri

Najib Abdul Razak said on Monday.

He said his government had budgeted for fuel subsidies to cost the economy RM11 billion this year but the estimate had soared to

around RM18 billion because of high international crude oil prices.

"Subsidies as a whole are like opium. Once you take opium it's hard to kick the bad habit; once you provide subsidies it's hard to take them away without some political cost," he told an audience at Oxford University's Centre for Islamic Studies as reported by Reuters.

In March, Najib said he was committed to cutting subsidies long term and that the savings should be targeted to help the lower and middle income groups. "Good economic and macro-management entails you reduce subsidies on a gradual basis. Then you will allow market forces to allocate resources efficiently."

Najib said the need to withdraw subsidies gradually would have to be balanced against Malaysia's need to reduce its budget deficit as a percentage of gross domestic product.

The government aims to reduce the deficit this year to 5.4% from 5.6%, then down to 2.8% by 2015.

"We will have to increase the price (of fuels) gradually, we cannot do it overnight. There is a political cost in reducing subsidies," he added.

"I have to manage this between good governance and being able to be re-elected,

which is not unimportant," he said.

In IPOH, Bernama reported Domestic Trade, Cooperative and Consumerism Minister Datuk Seri Ismail Sabri Yaakob saying yesterday the government will review prices of all petroleum products next month, including the RON95 petrol.

He said the price revision to be conducted by the ministry and others such as Finance Ministry and the Performance Management and Delivery Unit (Pemandu) would determine whether prices would be maintained or increased, depending on the government's subsidies.

"According to Pemandu's subsidy rationalisation plan, there will be a revision every six months for subsidies on all products.

"The last revision we had for diesel, LPG and RON95 was in December last year.

"This means that a mid-year revision will be carried out this month or early June... I can't say what will happen but the revision will take place and the government's subsidy burden is high," he said after officiating the Ipoh Umno Division delegates meeting here yesterday.

He said this when asked on the price of RON95, following the increase in price of RON97 to RM2.90 per litre.