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PRIME NEWS

PM: Subsidy savings to fund growth projects

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PLUGGING LEAKS: Gains from rationalisation to be also used for social safety net

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PRIME Minister Datuk Seri Najib Razak yesterday said savings from subsidy rationalisation initiatives will be channelled to development programmes that benefit the people.

He said such gains would also be used for supplementary projects, particularly in Sabah and Sarawak.

"When the revenue base expands, many projects, including infrastructure development, can be implemented. The government is committed to carrying on with subsidy rationalisation to boost the economy."

Speaking at Dewan Rakyat, Najib said the annual development allocation was now RM46 billion, while subsidies had reached RM43.3 billion.

He said such figures showed it was clearly an inequitable budget and this could not continue.

"As such, it is only proper for the government to implement sustainable subsidy rationalisation," he said, adding subsidy rationalisation would ensure only targeted groups enjoyed subsidies while leakages were reduced.

Najib, who is also finance minister, was replying to a supplementary question from Datuk Ahmad Hamzah (BN-Jasin), who wanted to know whether the government would continue with its subsidy rationalisation and what measures had been taken to that effect.

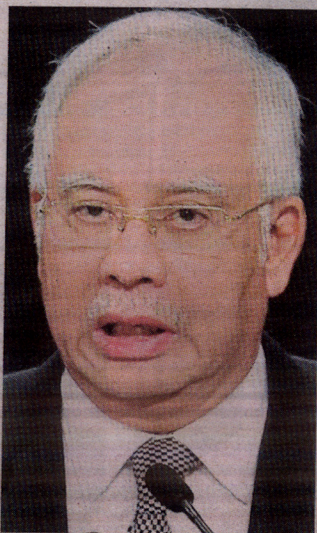
Najib said subsidies given before the rationalisation were offered in bulk and this had led to much wastage and leakage, with the high-income group benefiting more than low-income and lower middle-income groups. As such, he said, the government now gave subsidies targeted at needy groups, such as the 1Malaysia People's Aid (BR1M), and was looking to improve this.

To a question from Tan Seng Giaw (DAP-Kepong), Najib said in implementing subsidy rationalisation, the government must ensure consolidation of the social safety net so that the low-income group did not feel the pressure from the higher expenses they faced.

Najib said part of the savings from subsidy rationalisation would be used for the social safety net to improve economic growth and ensure the people's wellbeing.

He added that part of the savings would be used to finance development that could raise the national productive capacity, such as infrastructure development including rural and urban roads, hospitals and housing.

The savings would also enable



Datuk Seri Najib Razak says the government is committed to carrying on with subsidy rationalisation to boost the economy

the government to build more schools and educational institutions and provide training for human capital development, he said.

Najib added that many countries had opted to undertake drastic measures to reduce their fiscal deficits, but Malaysia would take the gradual approach in managing its fiscal deficit for sustainable economic growth.

He said subsidy rationalisation was necessary as subsidy expenditure was increasing because of rising price of world crude oil and an

increase in the number of vehicles.

Citing an example, he said, in 2010, the government spent RM23.1 billion or 15 per cent of the operating expenditure to finance subsidies, aid and incentives.

"Last year, after three years, the amount rose to RM43.4 billion or 21 per cent of operating expenditure. Too large a subsidy will undermine the country's financial position and render it not sustainable for the long term."

As such, Najib said, fiscal reform was important to strengthen the financial position and ensure that the targeted fiscal deficit remained at 3.5 per cent of Gross Domestic Product (GDP) this year and three per cent next year and a balanced budget was achieved in 2020.

Najib said the government was committed to ensuring that the national debt did not exceed 55 per cent of GDP.

"Subsidy rationalisation has been implemented with care to ensure minimum burden on the people, particularly those in the low-income and lower middle-income groups.

"It also took into account various aspects, including the rate of inflation, cost of living and global economic position as well as the target mechanism."

Najib said that overall subsidy rationalisation and direct aid reflected the government's serious intent to implement reforms to ensure that the country achieved a high-income developed nation status and the people enjoyed a better quality of life.