

Reducing subsidies key challenge for Malaysia, says ADB
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KUALA LUMPUR, April 11 — Reining in subsidies remains a policy challenge for Malaysia in the near future, even as the subsidy bill continues to eat into federal spending, according to the Asian Development Bank (ADB).

It noted in a report published today that the total cost of subsidies for fuel, staple foods, electricity, health and education has steadily climbed to 14.3 per cent of government spending last year, from 1.3 per cent in 1990.

ADB's Asian Development Outlook 2012 pointed out that fuel subsidies alone amounted to 4.7 per cent of government spending in 2010, and was responsible for the high per capita fuel consumption of 450 litres each year.

This was 4.5 times as much as the Thais and nine times more than Indonesians, it said.

"Subsidies suppress inflation, but also contribute to the chronic fiscal deficit, reduce budget funding available for social and economic development, and distort resource allocation.

"The vast bulk of the subsidies benefit consumers, students, and companies in general, rather than the poor, because of inadequate targeting," the report said.

ADB added that it was unclear when the phase-down plan would resume following its suspension this year to tackle rising inflation.

The Najib administration announced the first round of subsidy cuts in July 2010 to help slash fiscal deficit, which hit a two-decade high of over seven per cent in 2009.

The subsidy rationalisation programme was aimed at lowering the fiscal deficit to near-balance by 2020, by which time the government intends for Malaysia to have achieved high-income status.

But Putrajaya told The Malaysian Insider last month subsidy cuts have been put on hold to help alleviate rising cost of living after inflation hit a 27-month high of 3.5 per cent last June.

The last round of subsidy cuts was at the end of June last year, which led to price hikes to fuel, electricity and sugar.

Analysts expect the cost of living to be a major issue in next general election, which must be called by April next year.

A survey conducted by Merdeka Center in February found that support for Prime Minister Datuk Seri Najib Razak surged following a recent RM500 cash handout to families earning under RM3,000 per month.

Najib's approval rating rose by 10 percentage points to 69 per cent, helped largely by the 78 per cent approval rating from households earning less than RM1,500 per month, a key demographic which makes up 40 per cent of the population.

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