Government's Subsidy Reduction To Benefit Rakyat In The Long Term
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KUALA LUMPUR, Sept 5 (Bernama) -- The government's burden in providing subsidies, estimated at RM30 billion annually, cannot be allowed to continue in the long term as it will be costly for the country in more ways than one.

Malaysia's burgeoning debts and fiscal deficit would scuttle its competitiveness while investor sentiment would be bearish, which in the process, would further jeopardise the economy's international rating.

Also, a burgeoning national debt would prevent the coming onstream of new projects and that would impede revenue generation and job creation, ultimately making things harder for the ordinary Malaysian in time to come.

If done more earnestly, the subsidy rationalisation programme will free up more funds for productive development such as public transport, schools, scholarships, community development and improve health services.

Understandably, Malaysians would complain that things would become more expensive now.

But people need to bite the bullet now and be more prudent in their expenditure as excessive dependence on subsidies would only serve to jeopardise the country's economic future.

Although populist, dishing out subsidies cannot be allowed to continue freely because the economy just can't afford them, which is why the subsidy rationalisation programme must continue unabated.

In all honesty, the government has been holding back in reducing subsidies to ensure minimal effect on families so as not to overburden the people, especially those from the low-income bracket.

The government has done right in balancing public interest, ensuring that subsidies are given to those deserving and removing market distortions with the need to reduce national debt.

Reducing the petrol and diesel price by 20 sen Wednesday is a step in the right direction as the fuel subsidy comprises almost almost half of the subsidy payout.

One must bear in mind that a staggering 21.4 per cent, or more than one-fifth, of the operating expenditure in the national budget goes to financing subsidies, such as fuel, cooking oil, sugar, flour, rice, cement and condensed milk.

The government is mulling re-introducing RON92 to give motorists an option to get cheaper petrol.

However, logistical difficulties would have to be overcome such as having a separate pumps and extra underground storage tanks for RON92.

Reducing subsidies is good for the economy as it makes currency and equity markets more attractive and shows that the government means business in tackling the fiscal deficit.

Moody's Investors Service gave a thumbs-up to the government's move to reduce fuel subsidies, saying it is the first step in Malaysia's fiscal consolidation drive.

The ringgit reached a three-week high at 3.25 to 3.26 after languishing at 3.33 for several months, signalling the return of portfolio funds into the currency and equity markets.

Foreign funds and investor confidence are slowly but surely coming back as equity investors pick up selected stocks which they feel are attractively priced.

Already, the 20-sen increase in petrol and diesel prices will mean savings of RM1.1 billion for the rest of the year and RM3.3 billion for 2014.

Certainly, this will help the government achieve its budget deficit of four per cent of gross domestic product and reduce the national debt.

Part of the savings would fund the 1Malaysia People's Aid (BR1M) for the low-income group.

Some expect the BR1M amount to increase to RM1,200 for each household and RM600 for singles during the next five years, from the current RM500 and RM250, respectively.

Elsewhere, raising petrol and diesel prices would help curb smuggling, especially that of diesel, to neighbouring countries by unscrupulous Malaysians as the fuel is among the cheapest in the region.

There are those who question why Malaysia, as an oil-producing nation, could not use its oil reserves entirely for domestic consumption and by their own calculation, petrol would inevitably be cheaper.

Petronas says there is a common misconception that Malaysia will be able to produce cheaper petroleum products such as petrol and diesel if it were to produce and consume its own crude oil.

The Tapis blend of crude oil found in Malaysian waters is the most expensive crude feedstock.

As an illustration, its price on Aug 30, 2013 was US$122.96 per barrel while the commonly-traded Brent blend was at US$115.38.

By exporting its Tapis blend and importing the lesser quality sour crude for its own domestic consumption, Malaysia would benefit in terms of higher revenue.

Petronas also says that the current retail pump price of petroleum products in Malaysia does not reflect the real cost of producing the commodity due to the heavy government subsidies.

In the overall context, market-distorting subsidies must be removed to ensure the economy remains efficient and sustainable and the savings channelled to productive spending that will benefit the rakyat in the long term.

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