

**Inflation expected at 2.3% after pump price rise, says Putrajaya  
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BY TRINNA LEONG**

Malaysia's inflation rate is expected to spike to 2.3% this year due to the fuel hike effective today, Putrajaya's economic czar Datuk Seri Abdul Wahid Omar said today.

The Minister in the Prime Minister's Department's forecast was in tandem with several financial research houses that said Malaysia's current 2% inflation rate will trend higher due to pricier fuel.

Putrajaya said it was cutting subsidies that would save RM3.3 billion a year by raising fuel prices 20 sen with RON95 petrol at RM2.10 a litre while diesel is RM2.00 a litre. The higher quality RON97 is based on market prices.

Abdul Wahid also attempted to assuage fears that the likely implementation of the goods and services tax (GST) would raise the cost of goods by reiterating that there would be exemptions.

"Typically whenever countries implement GST, there would always be exempted items as well as zero-rated items," Abdul Wahid said in Kuala Lumpur today.

Talks about the government's plan to introduce GST have caused concern over increased price of goods, with the people's fears compounded after yesterday's announcement of a fuel price hike.

The minister, however, reiterated that the GST is "to replace the sales and services tax" and that the government would "make sure that the impact to the people is manageable".

The GST, if included in the nation's budget to be announced in October, would take effect in 2015.

Finance Ministry secretary-general Tan Sri Dr Mohd Irwan Serigar Abdullah said last week that the consumption tax is a "must, not an option".

Putrajaya had estimated that a 4% GST could contribute RM1 billion annually in revenue and would reduce dependency on state oil firm Petronas.

Abdul Wahid said the government's immediate concern is to reduce the fiscal deficit, manage the overall debt and address the current-account surplus.

The country's budget deficit, the amount the government spent over the amount it raised, was 4.5% of its gross domestic product (GDP) last year. Meanwhile, its debt to GDP is at 53.1%, drawing close to the government set ceiling of 55%.

Malaysia's current-account surplus dropped to RM2.6 billion in the second quarter from RM8.7 billion early this year when exports fell after news broke that the US Federal Reserve would taper the dollar.

The Najib government has also been criticised for spending lavishly before the 13th General Election in May by giving handouts to the people amidst the global financial crisis.

The government was given a reality check when Fitch Ratings, one of the three international ratings firms, downgraded Malaysia's credit outlook to negative in August over the government's poor management of its finances.

It was only last year when Malaysia was touted as one of the emerging markets to look out for after it achieved a milestone by listing several of 2012's biggest initial public offerings (IPOs) on its bourse. It also took 6th spot in the top 20 emerging markets listed by Bloomberg in January this year.

"Look at the situation we are in now. The global economic environment has completely changed from what it was last year," said Abdul Wahid.

"Last year there was a lot of optimism with the quantitative easing continuing but this year with the announcement of the reversal of the quantitative measures, we are seeing a reversal of the flows from the emerging markets back to the developed markets."

As the government scrambles to introduce immediate remedial measures to boost investors' confidence and improve the economy, it is also assuring Malaysians that while subsidies remain, it would no longer be a blanket policy.

"Instead of subsidising the entire population, the better thing (to do) is to make the subsidies more targeted and given to people more deserving," said Abdul Wahid. - September 3, 2013.

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