

Malaysia's tiered fuel subsidy idea panned by critics
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Malaysia has followed up on two fuel subsidy cuts in the past year with a proposal for a tiered subsidy system that sceptics say will be hard to execute and looks more like an attempt to placate voters griping about living costs.

In recent years, Malaysia has shielded its citizens from the full brunt of surging crude oil prices with fuel subsidies of around RM24 billion annually. That has exacerbated the government's budget deficit, one of the region's biggest as a proportion of gross domestic product.

To shore up its finances, Malaysia cut the subsidies in September 2013 and then again this month. That raised the price of petrol and diesel, stirring public debate on inflation and living costs.

The subject is growing ever more tender as Malaysia heads towards implementing a 6% goods and services tax in April next year.

Economists say a window has opened up for Southeast Asia to consider dismantling subsidies as global crude prices sink to multi-year lows. But instead of biting the bullet and pledging more market-oriented fuel prices, Malaysia earlier this week proposed tweaking its subsidy system.

Second Finance Minister Datuk Seri Ahmad Husni Hanadzlah said on Monday that the government is considering implementing a three-tier fuel subsidy mechanism next year under which some of the population will be fully subsidised and some not at all, depending on how much people earn a month.

Critics of Prime Minister Datuk Seri Najib Razak's economic stewardship say it is a tactic to ensure that the majority of society continues to be subsidised, especially poor but politically important states, such as Sabah.

"The whole idea of subsidies is you target the lower income, and the sad thing is subsidies are also a reward programme," said James Chin, a professor of political science at the Malaysian campus of Australia's Monash University.

Under the proposed tiered mechanism, individuals earning less than RM5,000 a month will be eligible for a full subsidy. Those earning between RM5,000 and RM10,000 would get a partial subsidy and those earning more than that would get nothing.

But the median monthly salary for Malaysia's 9.3 million workers stood at RM1,500 last year, according to a government report published in August. That suggests at least half of the population will continue to get fuel subsidies.

"The high thresholds and low median income suggest that this scheme will not materially reduce the fuel subsidy bill," said Chua Hak Bin, a Singapore-based economist at Bank of America Corp.

"There is also considerable scope for cheating, such as asking friends or family to fill up petrol, and difficulties in enforcement."

A direct fuel price hike would be more effective, with some of the fiscal savings then re-packaged as handouts to the poor, Chua said.

Although the next national elections are not due until 2018, Najib has shown he is conscious of voter support. The prime minister recently said he would cut individual income taxes by between 1 and 3 percentage points next year.

"According to voting patterns, most of the poor people tend to vote Barisan Nasional (national coalition), so there is a political angle to it," Chin said of the multi-tier subsidy system.

Some consumer groups are also concerned about data security, as the tiered subsidy scheme might involve embedding personal income information onto the chips of identity cards, which Malaysians must carry by law.

"It is going to be a lot of issues regarding implementation," said Lim Guan Eng, chief minister of Penang state, adding that the federal government should conduct full consultations with all parties if it persists with the tiered mechanism.

The office of Second Finance Minister Ahmad Husni could not immediately comment.
– Reuters, October 29, 2014.

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