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'Readjust subsidy allocation'

2024 BUDGET

'READJUST SUBSIDY ALLOCATION'

But excessive austerity measures should also be avoided, says analyst

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THE 2024 Budget should advance adjustments in subsidy allocation with a specific focus on rationalising electricity and diesel subsidies, said economists.

However, they warned against undertaking excessive austerity measures as Malaysians were still struggling with the high cost of living.

Malaysian Institute of Economic Research economist Dr Shankaran Nambiar told the *New Straits Times* that adjustments would likely be required in the upcoming national budget in relation to subsidy rationalisation.

"We will need to fully commit to this rationalisation process and it will be best to start with targeted subsidies.

"Electricity, which has been subsidised for a long time, is a

good choice. What the commercial users pay now can be brought closer to the market price, while those in the Bottom 40 households can be exempted from tariff increases."

Nambiar said the other option would be to reduce the subsidy and go with cash handouts or other compensations for those in targeted income groups.

But it would be unwise to undertake excessively restrictive austerity measures, he cautioned.

He noted that although inflation was easing, the price levels of food and cost of eating out remained high.

"Under these circumstances, subsidy reductions will have to be made judiciously. There is no reason for those in the higher in-



Dr Shankaran Nambiar

come brackets to benefit from subsidies, such as that for petrol. But we must have the right mechanisms for that."

Bank Muamalat Malaysia Bhd chief economist and social finance head Dr Mohd Afzanizam Abdul Rashid concurred that the government should advance subsidy rationalisation.

However, he said the biggest issue was that high-income earners were the ones benefiting the most from existing subsidies, including petrol.

"More importantly, as prices are being kept artificially low, it will distort the price discovery mechanism and result in misallocation of resources."

Afzanizam expects more cash transfer programmes from the government in the 2024 Budget



The government has been urged to advance subsidy rationalisation as in the case of petrol subsidies, the high-income earners are benefiting the most from them. BERNAMA PIC

for eligible recipients to help them face the rising cost of living.

Malaysia University of Science and Technology economist Dr Geoffrey Williams said subsidy rationalisation should continue to be a priority.

He noted that a lot of progress had been made on utility prices, but the biggest area was still petrol and diesel.

"Subsidies on food production and price controls should also be cut now. There have been some subsidies sneaking in through the Rahmah programmes but they are not too significant to distort the markets," he said.

Williams said cutting subsidies on products and price controls should be replaced by assistance in raising incomes through reverse tax credits and cash transfers.

He emphasised that these methods directly benefited the recipients while eliminating the

middlemen.

Income support was also cheaper than subsidies, besides being more efficient and direct in helping those in need, he added.

Centre for Market Education chief executive officer Dr Carmelo Ferlito believed that the government should initiate a process of subsidy rationalisation, starting with electricity and diesel, in the 2024 Budget, albeit at a gradual pace.

"Subsidies distort demand and the production structure, impacting the price system and hide real inflation. They should also not be replaced by other distortionary tools," he said.

On that note, Ferlito said the government should foster economic growth through institutional reforms and by assuming a less involved role in the economy.

"That is the best way to create wealth and help the poor," he added.