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‘Subsidy rationalisation vital to help low-income groups’

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PETALING JAYA: The government needs to decide on rationalising subsidies in order to benefit the marginalised community, said Malaysia University of Science and Technology former Provost for Research and Innovation Prof Geoffrey Williams.

He stressed the importance of protecting low-income households while rationalising subsidies.

He added that rationalising subsidies does not mean eliminating subsidies for the vulnerable but aims to make the system more efficient and better targeted.

“Low-income groups will continue to receive the necessary support, ensuring that the reform does not disproportionately impact those who rely on these subsidies the most.”

Williams emphasised that the current economic situation and household spending underscore the need to review and

Current economic situation, household spending underscore need to review assistance, says professor

rationalise subsidies.

He said high subsidies limit the government’s ability to allocate funds more effectively, often necessitating increased borrowing.

Citing a Reuters report on June 9, Williams said the cost of the diesel subsidy alone has risen tenfold from RM1.4 billion in 2019 to RM14.3 billion in 2023.

It said in total, Malaysia is expected to spend RM52.8 billion on subsidies and social assistance this year, down from about RM64.2 billion in 2023.

“The reduction in spending on subsidies and social assistance this year could be considered a positive trend.

“By reducing or eliminating these subsidies, significant savings

can be redirected towards essential services such as health, education and social protection, benefiting the broader population.”

His comments were in response to Prime Minister Datuk Seri Anwar Ibrahim’s statement on Saturday, that the government has not yet made a decision on rationalising the RON95 subsidy.

Anwar had said Economy Minister Rafizi Ramli’s statements last Saturday primarily addressed targeted diesel subsidies, which the government is currently assessing for effectiveness.

He also said individuals affected by the recent diesel subsidy rationalisation could appeal for subsidy assistance.

Williams said it is better to

implement the RON95 rationalisation as it aligns with broader fiscal policies and economic development goals by promoting efficient resource allocation and fiscal discipline.

RON95 is currently priced at RM2.05 per litre in Peninsular Malaysia and RM2.15 per litre in Sabah and Sarawak, whereas the non-subsidised market price at specialised stations ranges from RM3.19 to RM3.35 per litre.

He said current petrol subsidies predominantly benefit wealthier individuals who can afford the full price and fail to effectively support low-income groups.

“Such subsidy schemes are prone to wastage, leakages, and corruption, with subsidised petrol often resold across borders at higher prices, resulting in substantial financial losses for the government.”

Global Labour Organisation Southeast Asia Lead and economist Prof Niaz Asadullah emphasised the need for more precise aid at this juncture as the government has finished setting up the Central Database Hub.

“The government should consider reducing regressive fiscal allocations such as the RON95 subsidy through the database.”

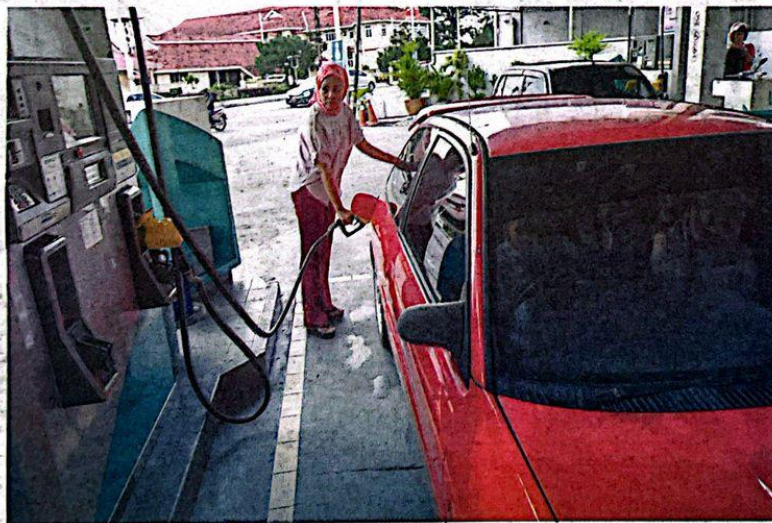
“By better targeting and wisely using saved funds from subsidy cuts, the government can ensure that those who need it most benefit, easing the cost of living.”

Nusantara Academy for Strategic Research senior research fellow and geostrategist Dr Azmi Hassan said subsidies for diesel and petrol are straining the nation’s finances annually, placing a significant burden on economic resources.

He said the annual allocation towards these subsidies continues to grow, presenting a challenge that cannot be overlooked.

“It is clear that such a substantial policy change necessitates careful consideration and strategic planning.”

He said while there is a need to eventually phase out subsidies, the process must be approached cautiously to avoid sudden shocks to the economy and the public.



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