

## **Malaysia Says It May Subsidize Fuel for 10 More Years**

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July 30 (Bloomberg) -- Malaysia's government may subsidize gasoline at the pumps for another decade in an attempt to regain public support, limiting its ability to cut the budget deficit.

"If we can fix the economy and make the turn, then 10 years is reasonable," Domestic Trade and Consumer Affairs Minister Shahrir Samad said in an interview yesterday. Before that, the Southeast Asian nation may reduce gasoline prices after raising them in June as crude falls from records, he said.

Asian countries from India to Indonesia have raised fuel prices as crude oil rose 63 percent over the past year, swelling subsidies. Malaysia's Prime Minister Abdullah Ahmad Badawi, whose ruling coalition had its worst electoral performance in March, has backed off from a plan to allow local fuel prices to track international market rates since announcing a 41 percent increase in gasoline costs in June.

"The 10 years is maybe just to soothe public sentiment," said Joanna Tan, an economist at Forecast Singapore Pte. "They're trying to get a grip on their support. It's up to the government whether they have the political capital" to increase prices, Tan said.

Abdullah has promised to avoid another fuel-price increase this year after the June move, which pushed inflation to a 26-year high of 7.7 percent last month. The premier's ruling coalition lost five states to the opposition alliance in the March 8 elections.

### May Cut Prices

The government may cut gasoline prices should crude oil drop below \$125 a barrel for at least three weeks, said Shahrir, who tracks the crude price daily. Such a reduction may come as early as this year to enable the government to keep its pledge of maintaining a 30 sen (9 cents) subsidy on every liter of gasoline, he said.

"Why not?" the minister said. "It would be good news, right?" He declined to provide a specific oil price that might trigger a cut in domestic fuel prices, though he said crude oil price stability must be "sustained."

Additional years of subsidies, after a decade of budget deficits, would force the government to seek funds from the bond market, said Tan at Forecast Singapore.

The government may revise its target of cutting the budget deficit to 3.1 percent of gross domestic product in 2008, Second Finance Minister Nor Mohamed Yakcop said June 30. Malaysia has posted a budget shortfall every year since 1998 and reduced the figure to 3.2 percent of GDP last year.

## Higher Bill

Malaysia spent 8.8 billion ringgit keeping gasoline, diesel and liquefied petroleum gas, which is used by many taxies, below market prices in 2007, Shahrir said. Assuming crude oil averages \$140 a barrel this year, the subsidy would balloon to 29 billion ringgit, he said. At \$125, the government would have to part with 26 billion ringgit, he said.

The government was unable to set gasoline prices closer to market rates in June because it didn't have a system to deliver cheaper fuel to the poor, Shahrir said.

“If you're going to subsidize anything, or control anything, ensure it goes to the right people, rather than subsidize and leave it to distribution,” he said.

The minister, who started his job in March, also rejected calls by some manufacturers to scrap food subsidies. Nestle SA, the world's largest food producer, on June 15 said subsidies are causing price increases and heightening a global supply crisis.

“When you have a choice, it's quite good for food producers like Nestle to say no subsidies,” Shahrir said. “But what about those who don't have a choice? If they are faced with declining disposable incomes, an alternative way may be soup kitchens, but is that an effective way?”

The government caps the price of a range of foods such as flour and cooking oil. Shahrir said most Malaysians need food and fuel subsidies because 70 percent of the working population earns 3,000 ringgit or less a month.

**Source:** Ranjeetha Pakiam & Angus Whitley



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