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Targeted subsidies necessary for sustainability

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BY CINDY YEAP

When the Pakatan Harapan government kept its 14th general election (GE14) promise by capping retail prices of RON95 and diesel at RM2.05 and RM2.15 a litre from June 2018, it only had to spend about RM3 billion in fuel subsidies for the rest of that year.

Because Brent crude oil prices averaged even lower at about US$65 per barrel in 2019 and US$42 per barrel in 2020, the amount needed to keep the fuels subsidised at the pumps were even lower, according to figures released by the Ministry of Finance earlier this year.

The strain on government coffers only began to show in late 2021, when oil prices shot above the US$100 mark, shoring up subsidies for fuel to RM13.2 billion in 2021 and a whopping RM37.3 billion in 2022 — accounting for nearly half of the government's outsized RM77.7 billion subsidy bill this year.

More than half of the RM37.3 billion in subsidies for petrol, diesel and liquefied petroleum gas (LPG) may be going to the country's top 20% of earners (T20 — 53%) rather than the bottom 40% (B40 — 15%) or middle 40% (M40% — 32%), former finance minister Tengku Datuk Seri Zafrul Abdul Aziz told reporters in May.

Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said in a Dec 13 statement that more than 50% of electricity subsidies are going to conglomerates and those in the top 10%, or about one million of Tenaga Nasional Bhd's 10 million customers. That 50% could easily work out to RM4 billion to RM5 billion a year, going by previous indications of electricity subsidies being RM8.9 billion of the total RM77.7 billion.

Anwar has directed the relevant agencies and ministries to work out ways to better target subsidies.

Direct cash transfers to vulnerable groups would ensure the right people get aid. Some of that money could also come from a gradual reduction in subsidies to minimise shock and potential second-round inflationary effects.

Every 20 sen reduction in subsidies for RON95 petrol and diesel should yield RM5 billion in savings per year, or RM416.7 million per month, UOB Bank Malaysia senior economist Julia Goh told *The Edge* in July, a number that still applies today.

While global oil prices had retreated to US$80 per barrel levels, the prevailing retail price of RM3.35 for RON97 (unsubsidised) is still easily RM1 above the price ceiling for RON95 and diesel.

As acknowledged in the 2023 Economic Outlook report, blanket subsidies have "encouraged leakages and abuse of subsidised goods", and "continuous inefficient allocation of subsidies will adversely affect the long-term fiscal sustainability". A gradual move towards targeted subsidies not only ensures a more equitable distribution of resources but also increases the government's ability to spend on enhancing productive capacity, including public infrastructure in the health and education sectors. ■

Almost RM20 bil of the **RM37.3 bil** projected petrol-based subsidies for 2022 goes to the top 20%