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Call for clear strategy on targeted fuel subsidies

KUALA LUMPUR: There must be a clear strategy to ensure that consumers and businesses will not be caught off guard should the government decide to implement a targeted fuel subsidy programme amid rising world crude oil prices.

"Timing is key but in reality, the exact or the right time to implement will remain unknown. At present, I do not think it is wise to cut the fuel subsidies. It will do more harm than good as the economic recovery is still at its nascent stage.

"However, the government should indicate a plan to reduce the subsidies so that everyone would know what to expect, going forward," Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid told *Bernama*.

In the Dewan Rakyat sitting yesterday, Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said the government would review the fuel and cooking oil subsidy mechanism so that it would be targeted towards aiding and subsidising the vulnerable groups.

The minister added that the implementation of the targeted subsidies was expected to optimise the government's financial resources and the savings achieved could be redistributed for more effective programmes to contribute to the well-being of the people.

According to Mohd Afzanizam, if the fuel subsidies are removed, it would have a significant impact on inflation.

"Our baseline forecast (for inflation) is 2.5% with no adjustment to fuel prices. If there is a reduction in subsidies to the tune of 10 sen to 20 sen, inflation rate could go higher to between 2.7% and 3% this year," he added.

In a research note recently, CGS-CIMB Securities Sdn Bhd said the increase in global oil prices would take a greater toll on expenditure instead of the gain in revenue.

On a net basis, the brokerage firm said for every US$1 (RM4.19) per barrel average increase in Brent oil of above US$60 (RM251) per barrel, the government would lose about RM410mil in net income, assuming the retail fuel prices remained unchanged.