



**PEJABAT PERDANA MENTERI  
MALAYSIA**

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### **Subsidy Rationalization Programme**

Beginning 16 July 2010, subsidies for fuel, specifically petrol, diesel and LPG, as well as sugar will be reduced as part of the gradual implementation of Malaysia's subsidy rationalization programme.

These measures will have minimal impact on individual families, but will result in an estimated figure of **more than RM 750 million reduction in government expenditure** between now and year's end.

#### **Several changes will take effect immediately**

- ***Reductions in fuel and sugar subsidies*** – effective 16 July 2010, fuel and sugar subsidies will be adjusted as follows (for a full outline of these changes, please see Chart 1 below):
  - RON 95 subsidy will be reduced by 5 sen per liter
  - RON 97 will no longer be subsidized. It will be subjected to a managed float, where the price will be determined by the automatic pricing mechanism
  - Diesel subsidy will be reduced by 5 sen per liter for all subsidized sectors
  - LPG subsidy will be reduced by 10 sen per kilogram
  - Sugar subsidy will be reduced resulting in a 25 sen per kilogram upwards price adjustment

#### **What is changing, and what will not change**

- ***Subsidies on important public goods like education and healthcare will remain*** – subsidies were introduced for a reason, to provide access to essential goods and services at affordable prices, and to provide for the health and future of the Malaysian people. As such, the government will not reduce subsidies on important public goods, including education and healthcare
- ***We are just rationalising*** – even with these reductions, the government will still be spending an estimated RM 7.82 billion in 2010 on subsidies.
- ***This is the first step in a gradual implementation of a broad rationalisation effort*** – moving forward, additional, gradual and reasonable changes will be made to our subsidy regime to ensure that Malaysia is able to meet its development goals while still providing for the needs of the Malaysian people

#### **There are many reasons why these changes are necessary**

- ***Current subsidy programme has become ineffective in helping those who need it the most*** – our subsidy programme has been ineffective in helping the most disadvantaged Malaysians, with too much of the benefits going to wealthier Malaysians, foreigners and big businesses
- ***This is a matter of fiscal responsibility – cuts will allow Malaysia to reduce the deficit and achieve development goals*** – Malaysia needs to manage or reduce the deficit. While we have the right policies in place to drive growth, policies that helped us achieve 10.1% growth in the first quarter of 2010, we must also reduce our spending to ensure that we have the necessary resources to invest in our future

- **Reduced expenditure will allow investment in Malaysia's future** – our subsidy spending has become a barrier to achieving our goal of becoming a high-income nation by 2020. This reduction in government expenditures will allow investment in the nation's future – in education, healthcare, infrastructure, community development, training and job creation – investments that will provide lasting benefits for current and future generations

#### **Subsidy rationalisation is an important component of our broader reform agenda**

- **These measures are part of our implementation of the New Economic Model and 10<sup>th</sup> Malaysia Plan** – subsidy rationalisation was one of several enabling measures included in the [New Economic Model](#) and the [10<sup>th</sup> Malaysia Plan](#). By enacting these subsidy rationalisation measures, which the Prime Minister said would “*improve competitiveness and market efficiency...and will ensure more optimal utilization of resources*”, Malaysia has taken a concrete step towards implementing these reform initiatives

#### **This was not an easy decision, but after extensive study and public input, we believe it is the right one**

- **This was a collective decision, made by government and the people** – this decision was unanimously agreed to by Cabinet, but it was not conceived of and made by the government alone. Through the labs and Open Day process, thousands of Malaysians provided input into this decision, as they have with other major initiatives including the [Government Transformation Programme](#) and now the [National Key Economic Areas](#), for which labs are currently underway

#### **Why Sugar and Fuel?**

We are reducing subsidies on sugar and fuel because reducing *fuel subsidies will have the greatest impact on government spending* and reducing *sugar subsidies will allow us to promote healthier lifestyles*.

Additionally, these subsidies were selected, because:

- **We need to better target our resources** – these subsidies have largely benefitted the wrong people, and have not done enough to support those most in need
  - Foreigners and the rich are benefiting equally, those driving luxury import cars are receiving the same subsidy as those driving motorbikes and Kancil
  - More than 2/3<sup>rd</sup> of fuel subsidies are going to middle and high-income earners and foreigners, while less than 1/3<sup>rd</sup> goes to those who most need the cheaper prices
  - Around 70% of subsidized LPG is being misused, by businesses instead of households, meaning that most of the government's spending on LPG is currently misdirected
  - Manufacturers are using twice as much subsidized sugar as households.
- **Our overconsumption of fuel and sugar is endangering our health and security** – we are, quite simply, using too much sugar and fuel, which is having a significant negative impact
  - Malaysia has the highest per-capita fuel usage in the region. At the current rate of consumption, we will become a fuel importer. This has significant implications for our energy, economic and national security
  - The low cost of sugar in Malaysia has led to overconsumption which has contributed to a 105% increase from 1996 to 2006 in the number of Malaysians who are overweight or obese, which now stands at more than 40% of the total population
  - We are seeing a 5% increase in diabetes cases year on year, 1.4 million Malaysians now have diabetes.

- ***Smuggling and other unintended uses of subsidized goods have diverted government resources*** – instead of helping those in need, the low cost of subsidized goods, in some cases, has been exploited by smugglers for profit
  - Prices for fuel and sugar in Malaysia are the cheapest in the region (see chart 2 for additional information)
  - Smuggling is a growing problem – law enforcement recovered more than 200 metric tons of sugar in 109 smuggling related arrests in 2009, and, in 2008, an estimated RM 628 million worth of fishermen diesel subsidy went to foreigners

*Pejabat Perdana Menteri  
Putrajaya*

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