

Opinion Piece – Subsidy Rationalisation by

YB Dato Sri Idris Jala and the Lab (as published in the media in June 2010)

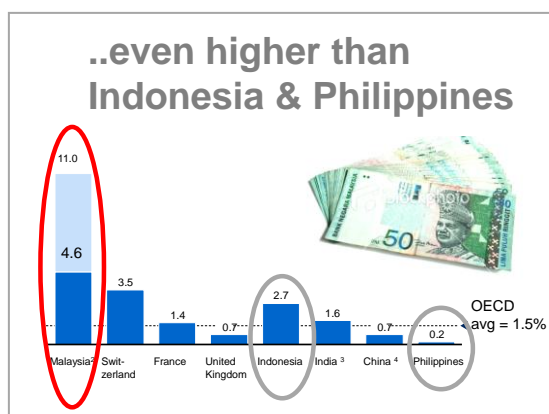
(Preamble – These are the views and recommendations solely of PEMANDU and the Subsidy Rationalisation Lab, and not necessarily that of the Government. All slides below are shown during the Subsidy Rationalization Open Day on the 27th May 2010. Assumptions are made based on the findings from the Subsidy Rationalisation Lab in 2010)

After the Subsidy Rationalisation Open Day, we received a lot of feedback either through emails, SMS, alternative media seeking clarification and challenging the facts and analysis of the subsidy lab which we presented. We thought it would be useful to provide a public response so that those who were not in attendance and were unable to ask questions would benefit from our response.

The frequently asked questions that were channelled to us with our responses are as follow:

1. Why did you say that Malaysia will go bankrupt in 2019? Have you misled us?

During the Open Day, I presented some salient facts about the economy. For the last 10 years, we have been running a fiscal deficit which has been growing progressively from RM 5 billion in 1998, to a record high of RM 47 billion in 2009. This was due to the fact that Government expenditure including subsidies has been escalating, whereas Government revenue has not kept pace as our economy / GDP grew at only 3% per annum. Consequently, the Government has to borrow a lot of money to cover for the short fall. Our Government debt in 1997 was RM 90 billion and has grown at a rate of 12% per annum to reach a record of RM 362 billion in 2009. In addition, as a proportion to GDP, Malaysia is one of the world's highest subsidized countries with 4.7% of GDP compared to Indonesia 2.7% , Philippines 0.2% and OECD countries at 1.5% on average.



To be clear, I said we could go bankrupt IF, and I repeat the word IF we continue with the same trends as in the past 10 over years; based on an annual increase of 12%, our debt will reach 100% of GDP in 2019 (a staggering RM 1.158 trillion) and we could potentially go bankrupt then. Together with escalating fiscal deficit exceeding 10%, we could end up in a similar economic situation like Greece and other similar countries.



All economists make assumptions and I did not say Malaysia will go bankrupt without qualifying it with certain assumptions. These assumptions are based on Malaysia's historical trends in the last 10 over years:

- The economy / GDP continues at a rate of 3% per annum
- Our deficit continues at a rate of 23% per annum
- Our Government debt continues to increase at rate of 12% per annum

The outcome of this projection is that by the year 2019, our debt will be 103% of GDP and our fiscal deficit will reach RM 449 billion (38% of GDP).

According to studies conducted by Boston Consulting Group (BCG), countries get into sovereign crisis (bankruptcy) when :

- Government debt is > 100% of the GDP
- Fiscal deficit is > 10% of GDP

This is because :

- Government revenue is not enough to service its debt
- Government does not have any money to operate

Unfortunately, some of the reports about PEMANDU's bankruptcy projections did not state these assumptions and therefore can be taken out of context. Some people question whether our assumptions are realistic. I think it is fair to make projections into the future based on our historical trends over the last 10 years. It is on this basis that PEMANDU made its assumptions and therefore its projections.

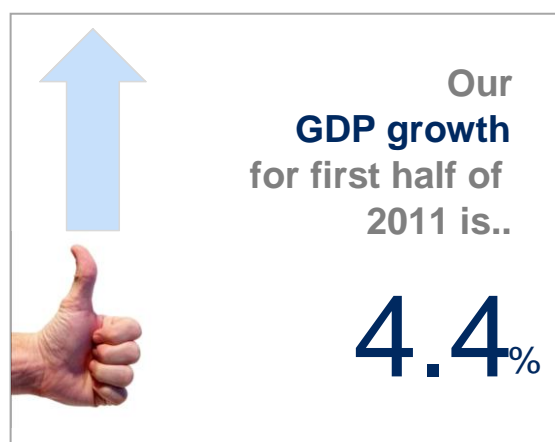
These assumptions are used by PEMANDU to make forecast about the future. In reality, as a country, we will have to do everything we can to avoid this from happening. The Prime Minister has laid out 4 strategic pillars which make up the country's roadmap to achieving Vision 2020 ; i.e

- 1 Malaysia, People First, Performance Now
- Government Transformation Programme
- Economic Transformation Programme
- 10th Malaysia Plan

The future is clearly in our hands. And if all of us Malaysians work together, we can achieve Vision 2020. This involves concerted effort to grow our economy and be prudent in our spending.

2. Surely there must be some positive things that are happening in our economy? Why are you not highlighting them?

I actually highlighted those positive aspects of the economy. Firstly, I said that our economy is rebounding in the first quarter of this year by 10.1%. This is the highest quarterly result in a decade. Our international competitiveness ranking by World Bank has improved from 26th to 21st position. The main contributors behind the improvement in ranking are improvements in economic performance and positive perception from survey respondents. This should give us, as Malaysians the comfort that we can shape a better future for our country. See slides below.

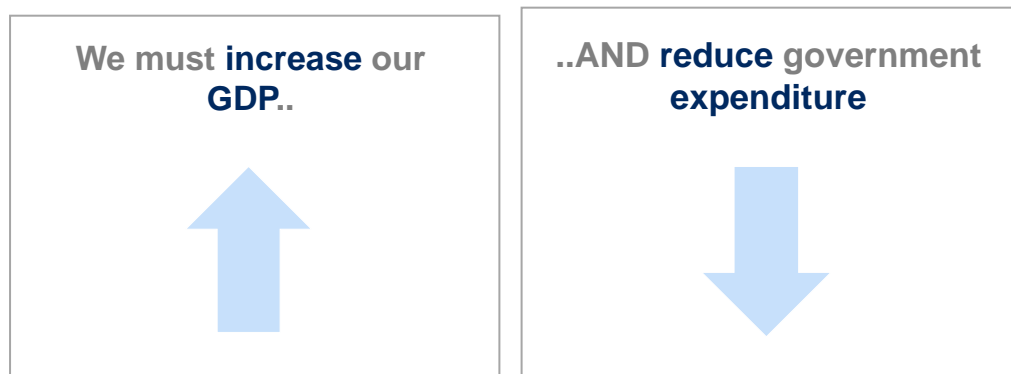


3. The Government should focus on growing the economy (thereby increasing Government revenue / GDP) rather than cutting the subsidies.

As I explained during the presentation, the Government will conduct 12 laboratories on National Key Economic Areas (NKEAs) to recommend ways for us increase our economic growth (GNI per capita) from USD 7,000 to USD 15,000 by the year 2020. This will help to potentially increase Government revenue in the next 10 years. These laboratories, which run from 1st June until end of July 2010, comprise more than 400 representatives from the private and public sector, facilitated by PEMANDU. See slides below.



The Subsidy lab's view is that growing the economy is necessary, but not sufficient. We have to take a holistic approach by addressing both economic growth as well as expenditure / subsidy reduction. At the Open Day, I showed the following slides to demonstrate this holistic approach. See slides below.



4. The Government should cut its expenditure rather than focus on subsidy reduction.

Through the Strategic Reform Initiatives (SRI) Public Finance Reform Lab, the Government has come up with initiatives to reduce its expenditure and increase its revenue. Marked improvements were shown in budget deficit reduction by achieving the targeted 5.6% deficit in 2010 from 2009's 7.4% and remain confident to achieve target of 5.4% deficit for 2011. The Prime Minister has also emphasized that all Government projects deliver "value for money". Going forward, the Government will continue to adopt a prudent approach in terms of its spending and this will be apparent in the 10th Malaysia Plan.

5. Why didn't the Government conduct independent polls from the rakyat to gauge the public feedback on the subsidy rationalisation?

That was exactly what we did. Before the Open Day, we asked Maxis to send sms blast to their phone subscribers asking whether Malaysia needs to reduce its subsidy bills. 190,152 people responded and Maxis counted the responses which showed that 115,246 people (61%) agreed for Malaysia to reduce subsidies and 123,557 people (67.5%) suggested to reduce subsidies gradually over 3 to 5 years. During the Open Day, 1,899 people who attended the Open Day responded. Of which, 1712 people (90%) agreed that we should reduce subsidies and only a small minority (187) opposed the subsidy reduction.

6. Why are we not protecting the poor and the low income in this Subsidy Rationalisation proposal?

For every subsidy reduction proposal, the lab has recommended mitigation measures to protect the rakyat, particularly the poor.

For example, in the case of increases in the electricity tariff, the mitigation measures are as follows. For those whose electricity consumption is less than 100 kWh per month, the Government will continue with the current practice of giving it free of charge. For those who consume between 101 - 200 kWh per month, the existing tariff apply (no change). Based on our statistics, these two categories constitute 56% of all consumers.

In the case of fuel price increase, the mitigation measures include cash rebate of RM 126 per year for car owner less than 1,000 cc and RM 54 per year for owner of motorbikes less than 250 cc. Car and bike capacity is used as a proxy to determine the low income and the poor category.

In the case of flour, sugar and cooking oil & LPG cooking gas, the mitigation measure will include a cash rebate of RM 20 per person per year. For a family of 5, they will receive RM 100 cash per year.

7. We should not remove subsidy on Education, Health and Agriculture.

The lab agrees. Education is indeed an investment on Human Capital. We will continue to spend to provide subsidies on education such as scholarship, text book assistance, food, etc. However, we will remove wastages and abuse, eg: we abolish the subsidized fee for foreign students. For Health, we will continue provide subsidies but with nominal outpatient fee of RM 3, which incidentally is one of the lowest outpatient fee in the world. For Agriculture & Fisheries, we continue the subsidies but we will improve implementation so that the subsidies will reach the target audience.

8. Instead of subsidy reduction, the Government should focus on fighting corruption, removing wastage and improving efficiencies.

Under the Government Transformation Programme (GTP), one of the 6 NKRA's is fighting corruption. To date, we have implemented several key initiatives to address this. For example, since January this year, we have passed the Whistleblower Protection Act in the Parliament, we have convicted and published 97 offenders in the MACC website, in the spirit of transparency, we have published 2,665 Government contract awards in the procurement portal and we have issued clear guidelines to prevent supporting letters from being abused. In addition, we are implementing the Integrity Pact as recommended by Transparency International in Government procurement contracts. The Government is following up on the findings and recommendations of the Auditor General's report.

9. The Government should appoint a high powered team to renegotiate the existing contracts with the Independent Power Producers (IPPs) and Highway Toll Concessionaires

This is a fair suggestion and the Government is in the midst of re-negotiating the contracts with the respective parties.

10. Don't you realise that this is a very unpopular action by the Government that will cause Barisan Nasional to lose votes and people are also very angry.

During the Open Day, we acknowledged that this is the most unpopular action that the Malaysian Government would have to take since independence and understandably, people will be shock and angry. The lab is of the opinion that we should not be partisan in addressing the issue of subsidy rationalisation. Indeed, in our panel discussion during the Open Day, we also invited DAP representative (YB Tony Pua) as a panellist.

However, we have to face realities and now we have to make the sacrifice for our future and for future generation. If we ask all the Malaysians who are not yet born to participate in a public vote, we are sure that all of them would ask all of us to implement subsidy rationalization now and they will condemn us for not having the courage and foresight to take this bold step. The lab's view is that we must take into account the views of both the existing and future generation of Malaysians.