社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

SERC

Quarterly Economy Tracker
(Apr-Jun 2022)

Malaysia Braces for A Bumpy Ride in 2H 2022

Lee Heng Guie
Executive Director
12 July 2022

Outline

Global Economic Outlook – Are We Heading into Recession?

How does Malaysia Confront the Perfect Storm?

Coping with High Inflation and Cost of Living

Special Focus: Securing Subsidy Reform

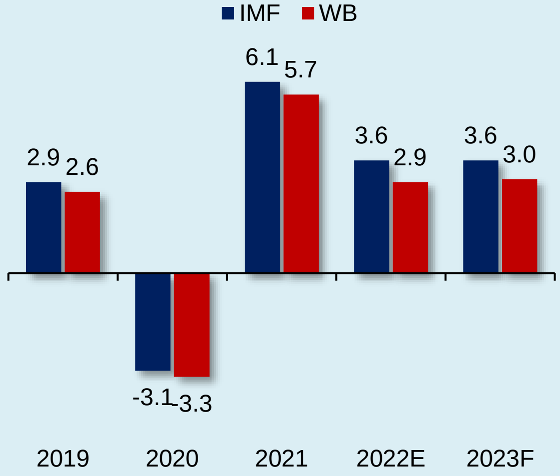
Global Economic Outlook

The risk of a global recession is rising by the day…

The growing threat of global recession

Global growth estimates

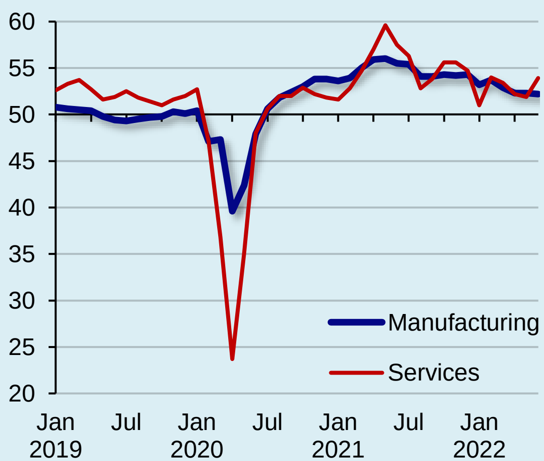
%



- **Global growth has been revised lower in 2022-2023**, primarily shaken by the war in Ukraine-inflicted energy and commodity shocks.
- The World Bank **warns that the global economy may suffer 1970s-style stagflation**. The IMF **does not rule out the risk of a global recession in 2023**.
- **Prospects for a soft landing in the US economy** for fighting inflation without denting growth look increasingly remote.
- **China is finding it increasingly difficult to sustain growth** in the face of draconian zero COVID-19 strategies.

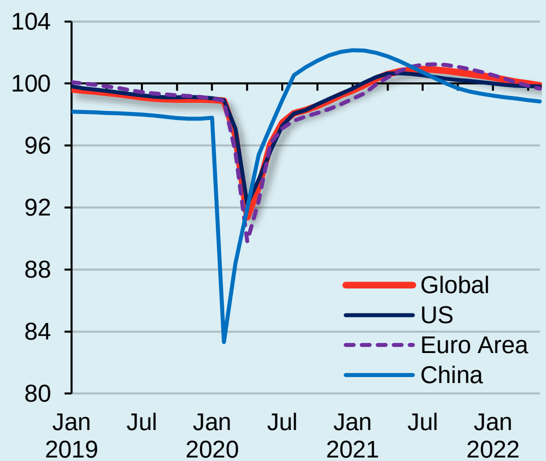
Global PMI for manufacturing & services

50=Threshold



OECD Composite Leading Indicators (CLI)

100=Long-term average

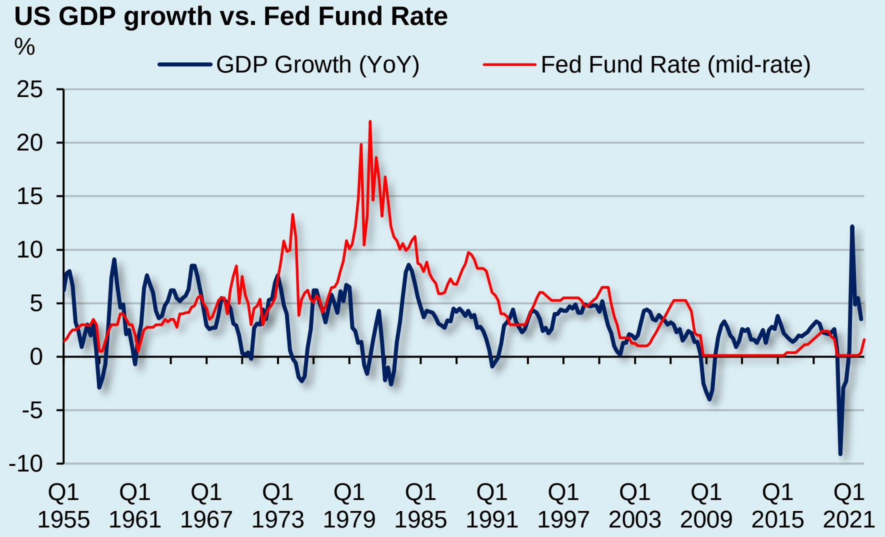


Global semiconductor sales

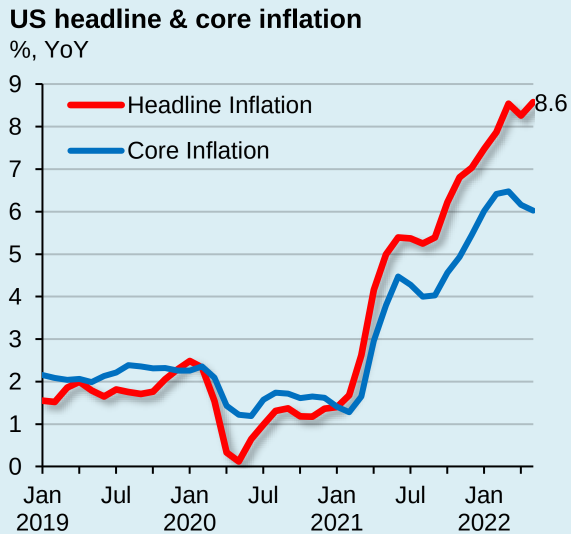
%, YoY

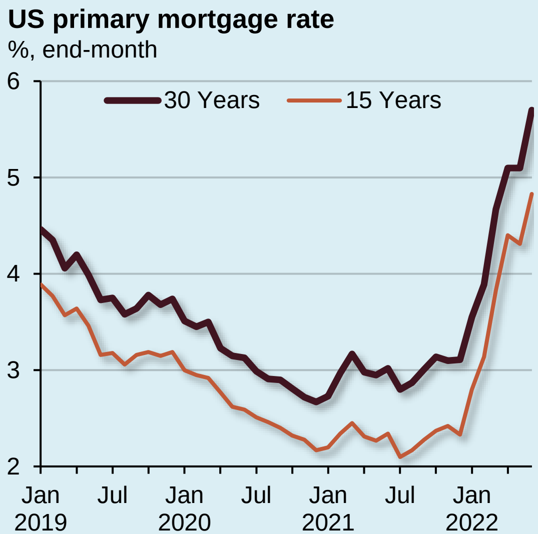
Source: International Monetary Fund (IMF); World Bank (WB); Markit; OECD; Semiconductor Industry Association (SIA)

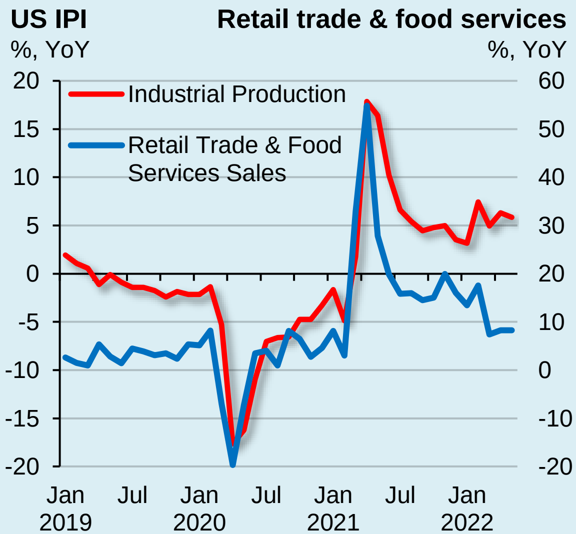
The risk of a US recession has surely soared, with the main uncertainties now being its timing and severity



- **Inflation vs. Recession –** The Fed is walking on a tight rope.
- **Soaring energy prices and inflation**, **a spike in interest rates**; and **Quantitative Tightening (QT)** are the main causes that trigger a recession.
- **Dampening effect on consumer demand and real activity.** This pressure has already reverberated through the financial markets and is also beginning to impact the housing market.

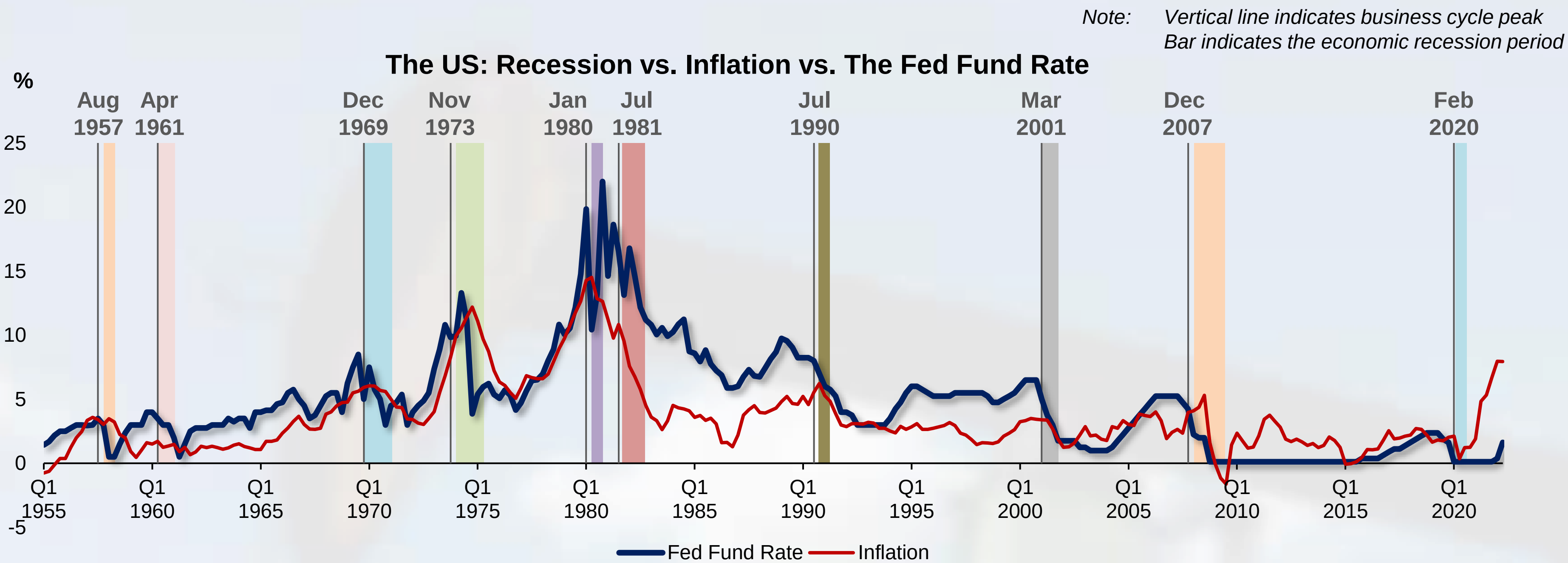






Source: US Bureau of Labour Statistics (BLS); US Bureau of Economic Analysis (BEA); Freddie Mac; US Census Bureau

The United States recession: Depth and Duration



Cycle Peak	Cycle Trough^	Recession Period*	Worst Contraction*	Related Event
Aug 1957	Apr 1958 (8 mths)	Q4 1957 – Q1 1958	-10.0% (Q1 1958)	Asian Flu; Eisenhower Recession
Apr 1960	Feb 1961 (10 mths)	Q2 1960 – Q4 1960	-5.0% (Q4 1960)	Rate Hike
Dec 1969	Nov 1970 (11 mths)	Q4 1969 – Q4 1970	-4.2% (Q4 1970)	Vietnam War; Rate Hike
Nov 1973	Mar 1975 (16 mths)	Q1 1974 – Q1 1975	-4.8% (Q1 1975)	The Oil Embargo; Rate Hike
Jan 1980	Jul 1980 (6 mths)	Q2 1980 – Q3 1980	-8.0% (Q2 1980)	Iranian Revolution; Rate Hike
Jul 1981	Nov 1982 (16 mths)	Q4 1981 – Q3 1982	-6.1% (Q1 1982)	Iran-Iraq War; Rate Hike
Jul 1990	Mar 1991 (8 mths)	Q4 1990 – Q1 1991	-3.6% (Q4 1990)	Persian Gulf War
Mar 2001	Nov 2001 (8 mths)	Q1 2001 – Q3 2001	-1.6% (Q3 2001)	Dot-com Bubble
Dec 2007	Jun 2009 (18 mths)	Q1 2008 – Q2 2009	-8.5% (Q4 2008)	Global Financial Crisis
Feb 2020	Apr 2020 (2 mths)	Q1 2020 – Q2 2020	-31.2% (Q2 2020)	COVID-19 Pandemic

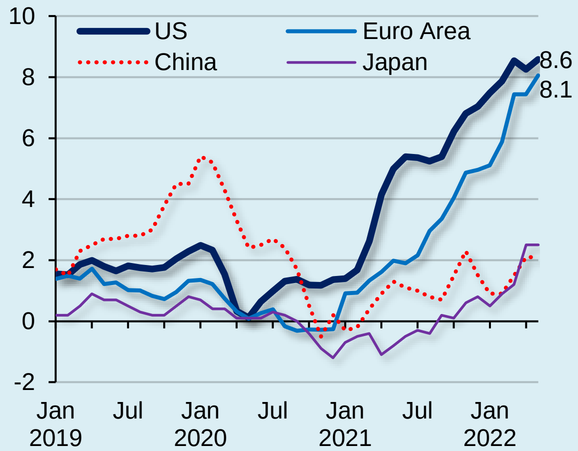
Source: US BLS; US Federal Reserve; US BEA; National Bureau of Economic Research (Cycle peak & trough)

^ Number of months in parenthesis indicates months from peak to trough

** Contraction based on annualised qoq basis, which included growing quarter within the related event*

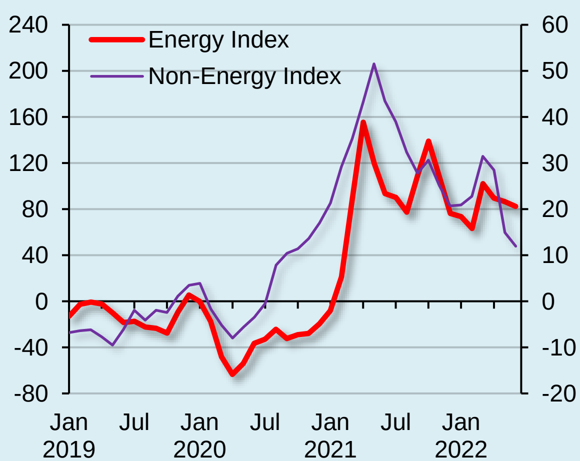
A battle of persistent inflation across most advanced and emerging economies

Inflation – Advanced economies
%, YoY

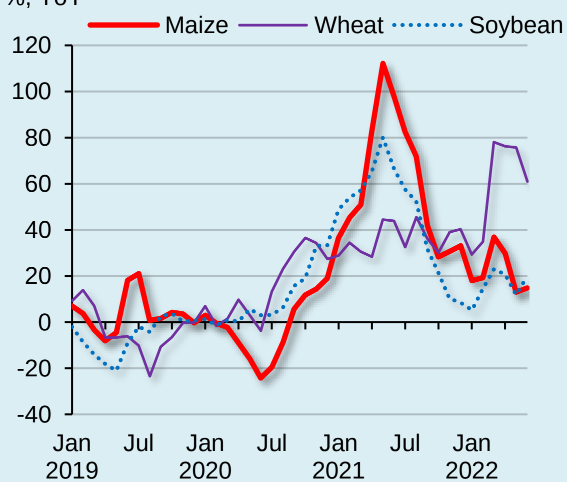


- **Headline inflation remains high and stays longer.**
- **Supply constraints and cost shocks inflation to wage-price spiral** due to tight labour market conditions and rising wage pressure.
- Some governments have resisted consumer price pressures through **subsidies, price ceilings, export restrictions and tariff reduction**.
- Many central banks had already moved toward **tightening monetary policy**.

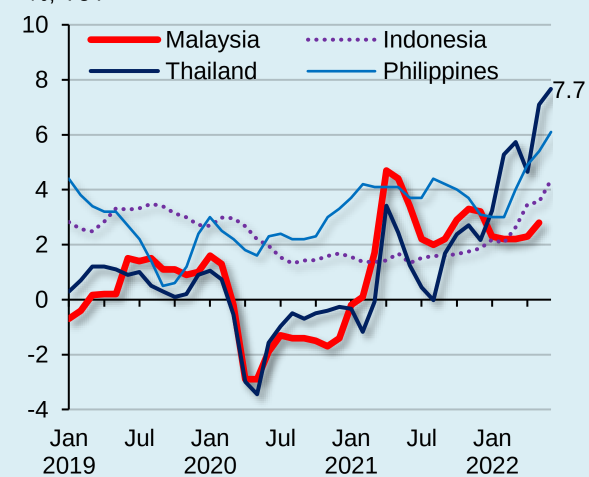
Energy index %, YoY | **Non-energy index** %, YoY



Selected global food prices
%, YoY



Inflation – Selected ASEAN economies
%, YoY



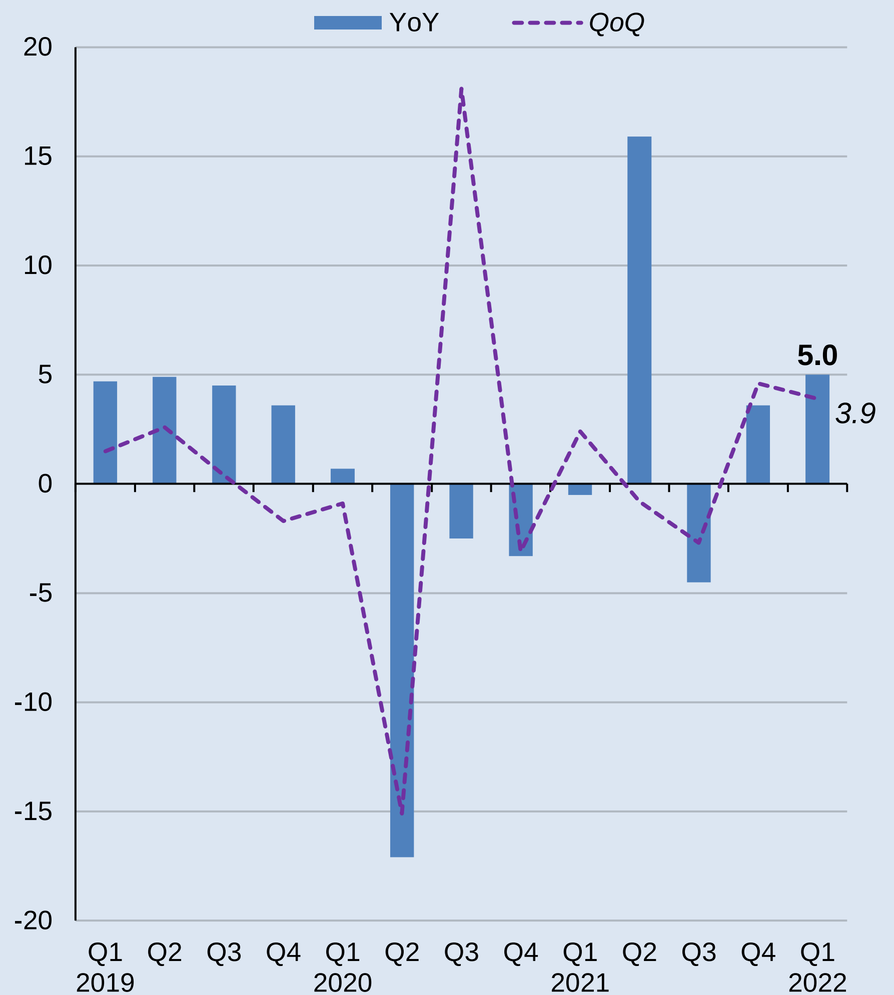
Source: World Bank; Various official for inflation data

Malaysia's recovery is hitting a soft patch in 2H 2022 ...

- **WEAKENING global growth**
- **RISING INFLATION AND COST OF LIVING bite into consumption**
- **INCREASED COSTS AND WORKER SHORTAGES affect productivity and output**
- **SYNCHRONISED GLOBAL MONETARY TIGHTENING induced capital flows and exchange rate volatility**

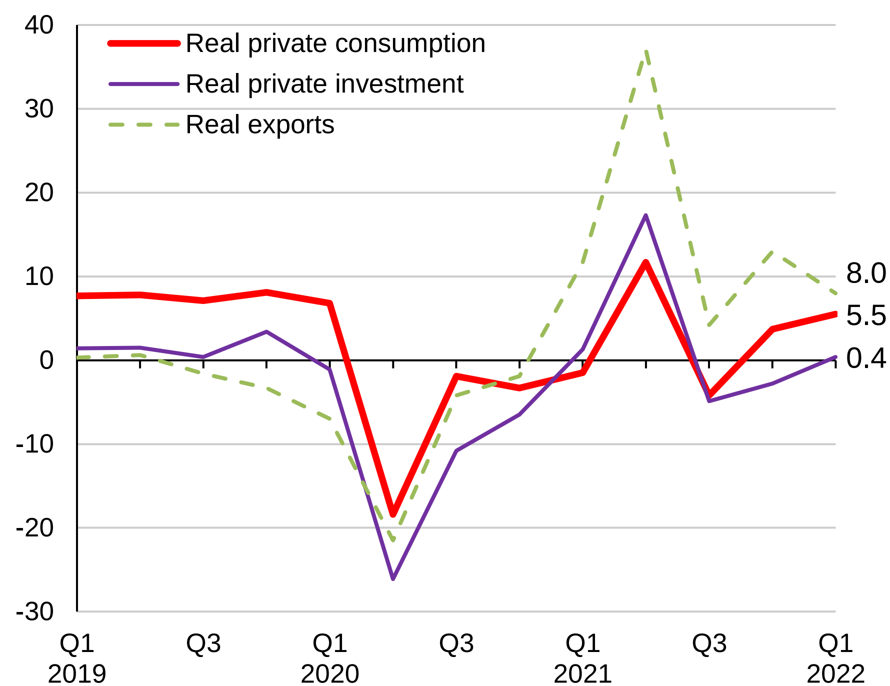
Higher growth in 1H 2022; slower in 2H 2022 (2022E: +5.2%; 2023F: +4.1%)

Malaysia's real GDP growth
%



- Expect real GDP to grow by **4.5%-5.0% in 2H** vs. 5.0%-6.5% in 1H 2022
- Restrained by cautious domestic demand, rising inflation and cost of living as well as moderate exports
- Dissipating consumer spending stimulus (the resumption of EPF rate contribution, end of ST exemption on passenger car, higher loan repayment)

GDP growth – Domestic demand and exports
%, YoY



Source: Department of Statistics, Malaysia (DOSM)

Malaysia’s economic growth: 1H vs. 2H 2022 and in 2023

Drivers and Risks

1H 2022

- Ukraine war in Feb inflicted new price and supply shocks
- Soaring inflation compelled an almost synchronization of interest rate hikes

- Reopening of domestic economy and international borders
- Revived consumer spending (EPF withdrawal; festive celebration)

- Supply chain disruptions; shortage of workers; increased costs

- Consumer inflation pressures started to build up, leading to high cost of living

2H 2022 and 2023

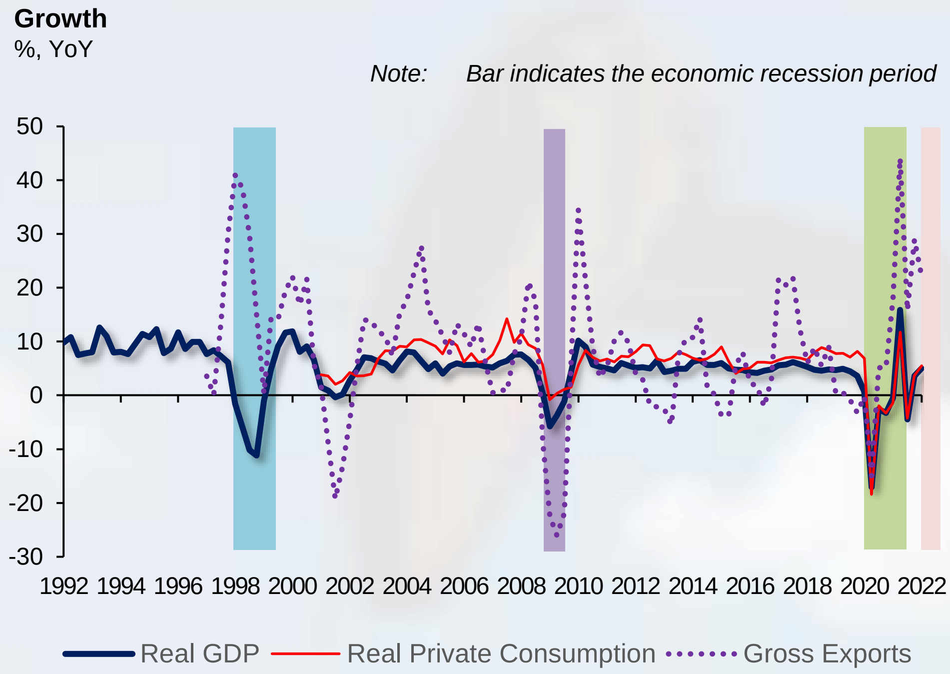
Weakening global growth – Global stagflation risk, continued Russia-Ukraine military conflicts, more aggressive monetary tightening, rising recession risk in the US economy

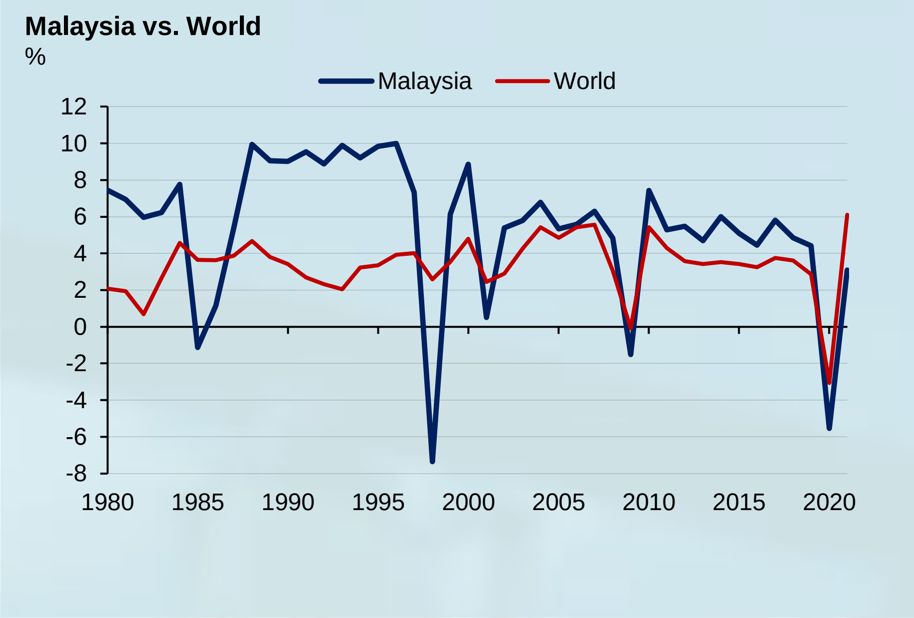
Domestic demand – Continued higher inflation and cost of living as well as interest rate increases crimp consumer spending power

Private investment remains cautious on increased costs, shortage of workers; external uncertainties and domestic political uncertainty

External sector – Moderate due to weakening global demand; easing prices of energy and commodities

Malaysia is not immune to a deep global recession





Recession Period*	Worst Contraction*	Related Event
Q1 1998 - Q1 1999 (5 quarters)	-11.2% (Q4 1998)	Asian Financial Crisis
Q1 2009 - Q3 2009 (3 quarters)	-5.8% (Q1 2009)	Global Financial Crisis
Q2 2020 – Q3 2021 (6 quarters)	-17.1% (Q2 2020)	COVID-19 Pandemic
2H 2022 - 2023?		War in Ukraine; Energy and commodity shocks; Recession risk in the US; the Fed's aggressive rate hikes

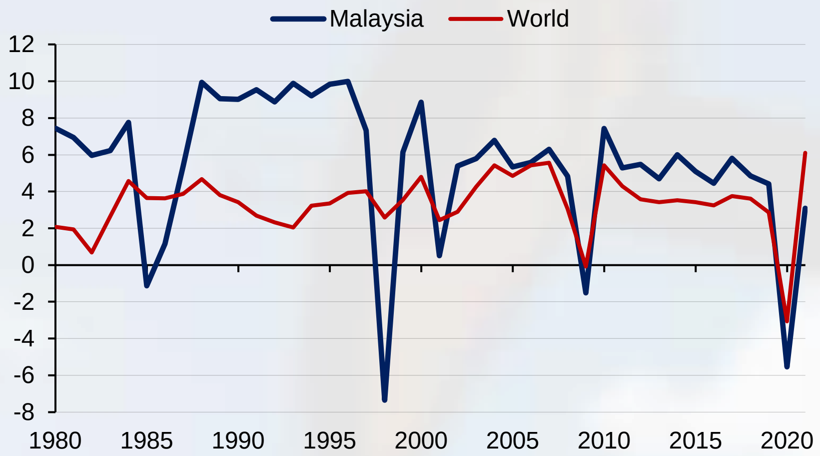
** Y-o-Y contraction*

Source: Economic Planning Unit (EPU); BNM

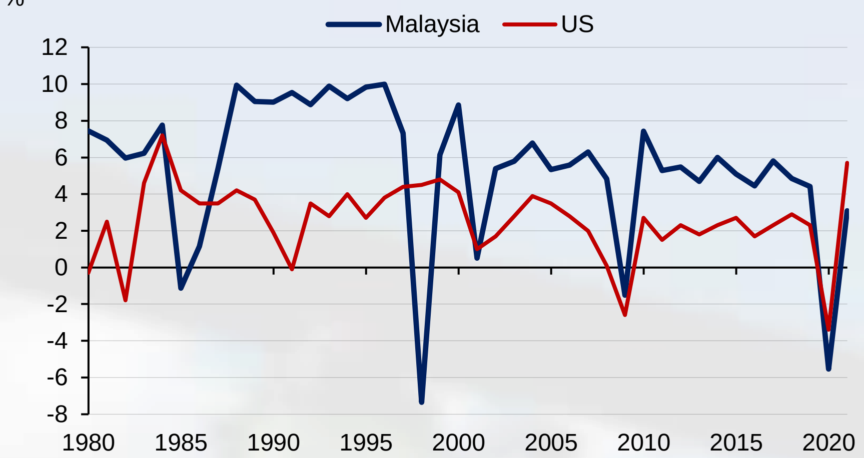
Malaysia's growth interdependent with the rest of the world

The growth correlation between Malaysia and global economy as well as major economies are getting stronger …

Malaysia vs. World



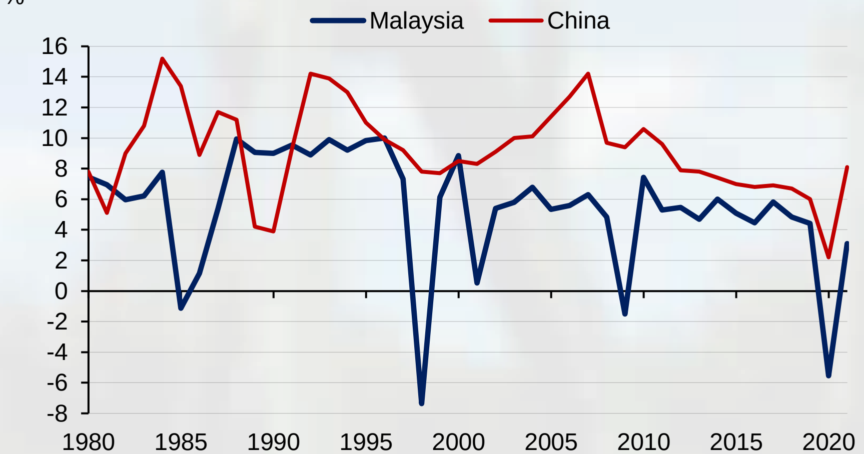
Malaysia vs. the United States



Growth correlation between Malaysia and…

Economy	Period	Value
World	1980 - 2021	0.43 (Moderate)
	2011 - 2021	0.85 (**Very Strong**)
United States	1980 - 2021	0.29 (Weak)
	2011 - 2021	0.73 (**Strong**)
China	1980 – 2021	0.28 (Weak)
	2011 - 2021	0.84 (**Very Strong**)

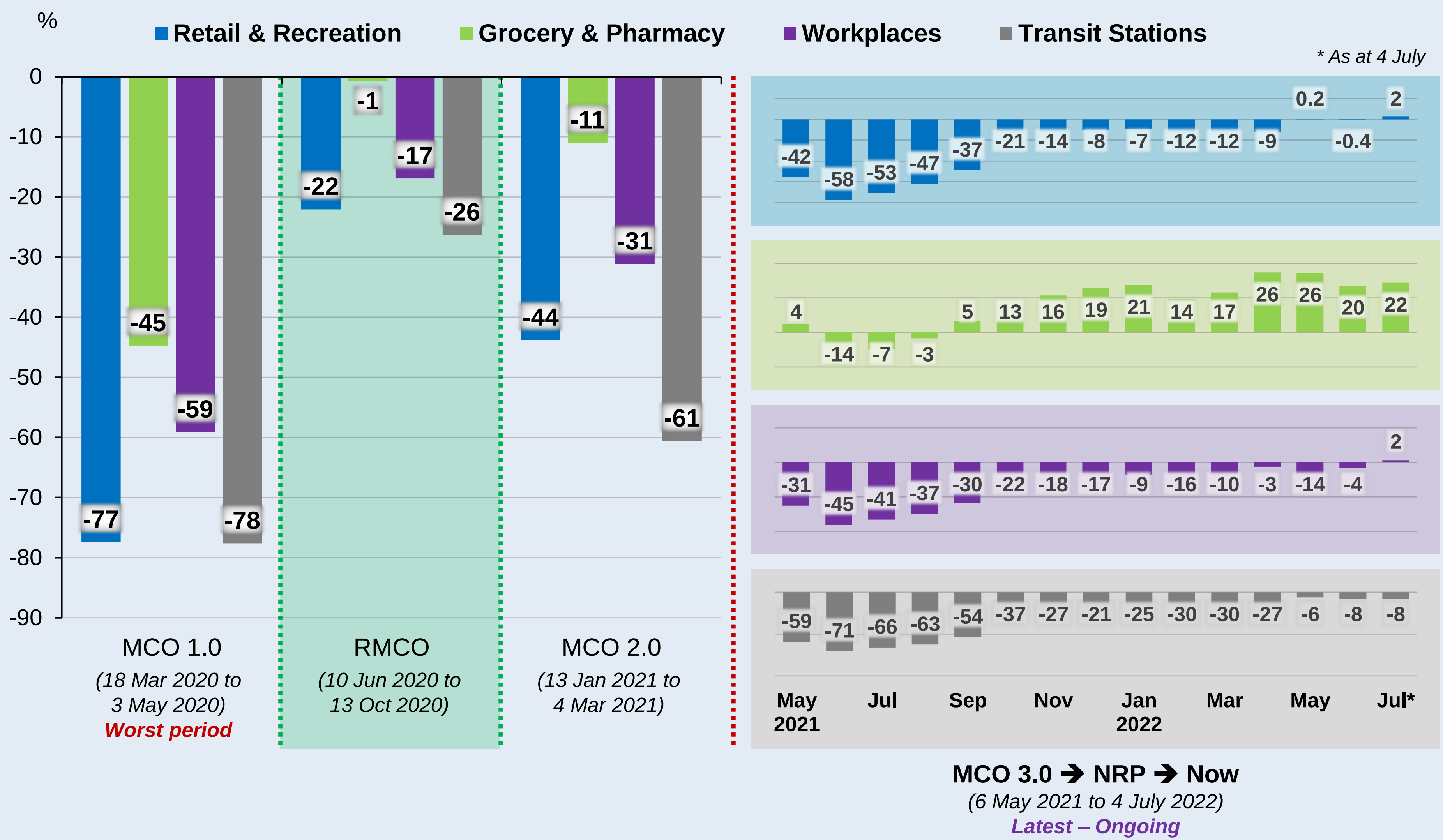
Malaysia vs. China



Source: Economic Planning Unit (EPU); IMF; US BEA; NBS China

People mobility & traffic indicators show revival in activities

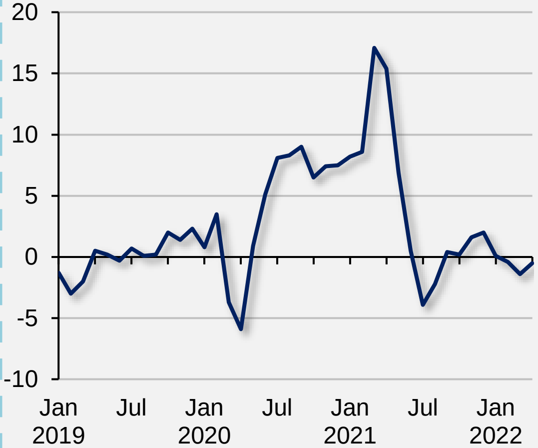
Average % change vs. baseline (median value for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020)



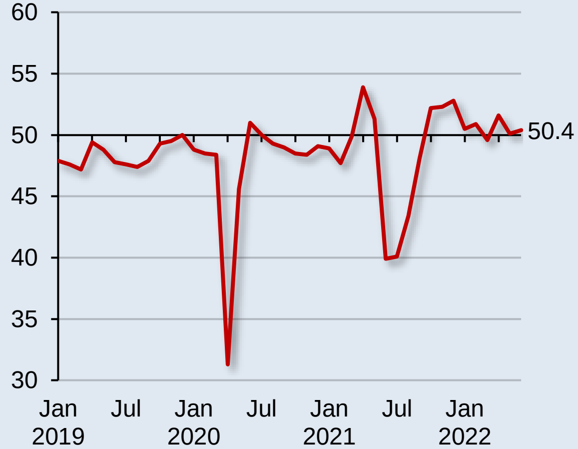
Source: *Google Mobility*

Malaysia: Leading and current economic indicators

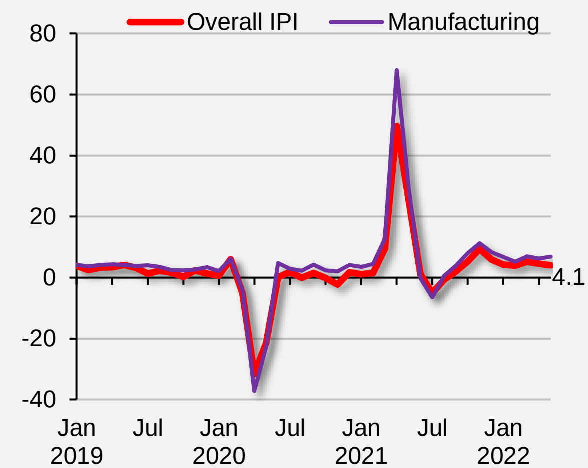
Leading indicators
%, YoY



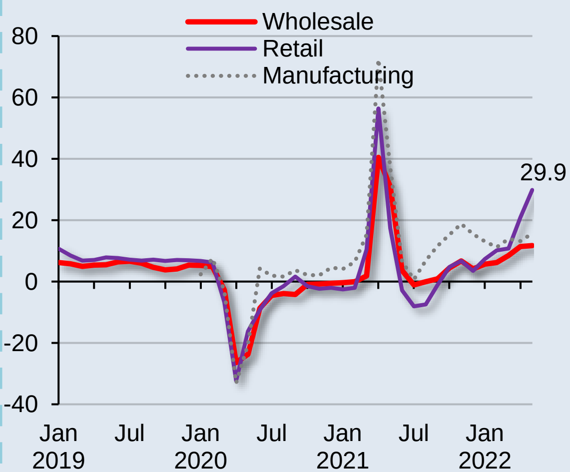
Purchasing Managers' Index (PMI)
50=Threshold



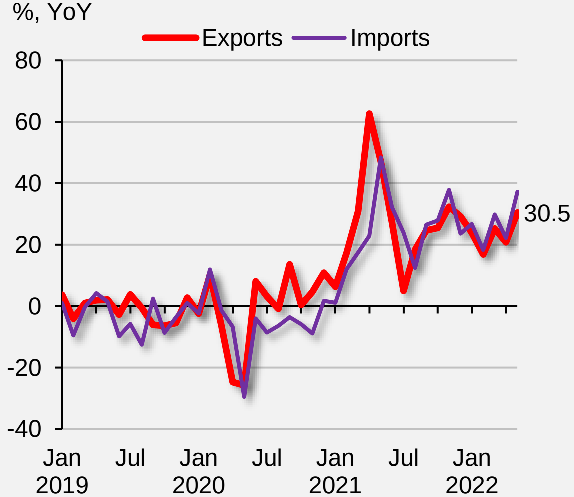
Industrial production index (IPI)
%, YoY



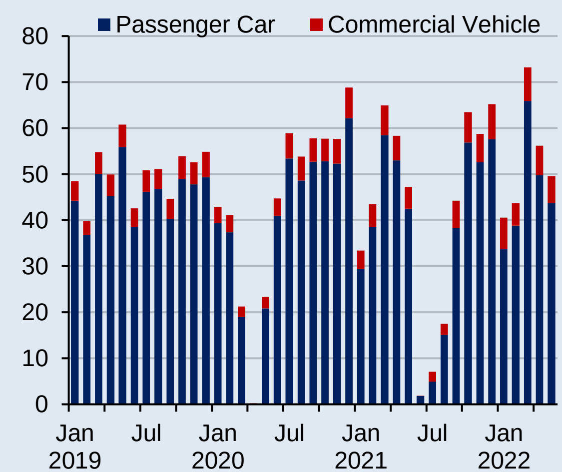
Wholesale, retail & manufacturing sales
%, YoY



External trade
%, YoY

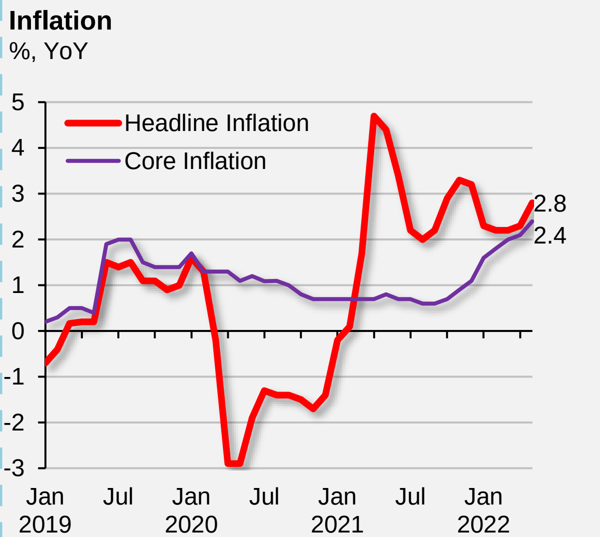


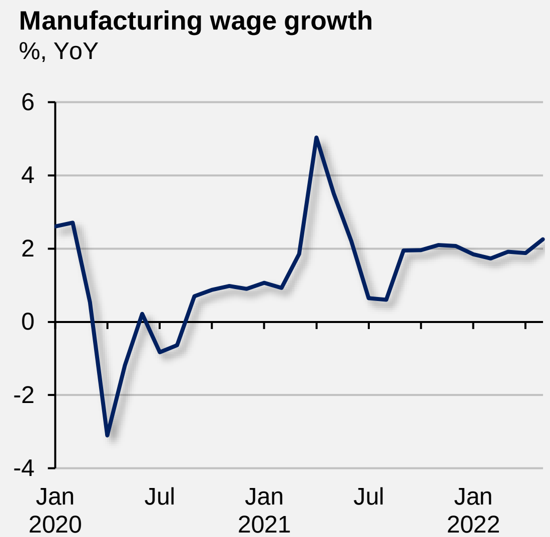
Sale of passenger & commercial vehicles
Thousand units

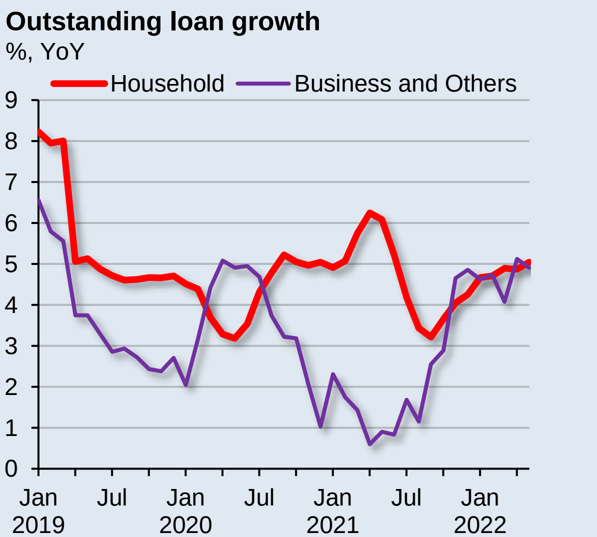


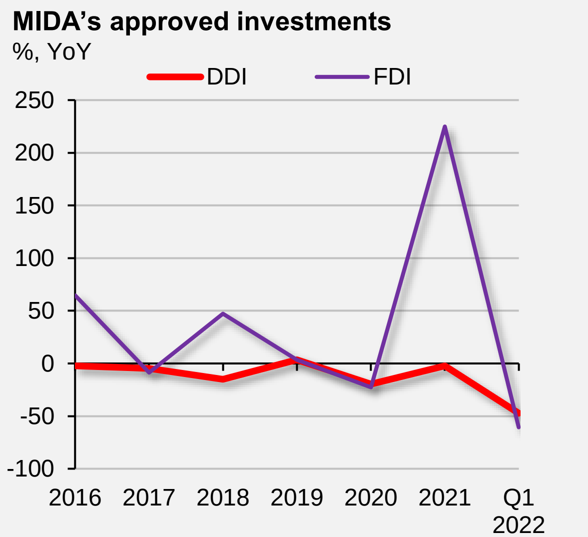
Source: Bank Negara Malaysia (BNM); Markit; DOSM; Malaysian Automotive Association (MAA)

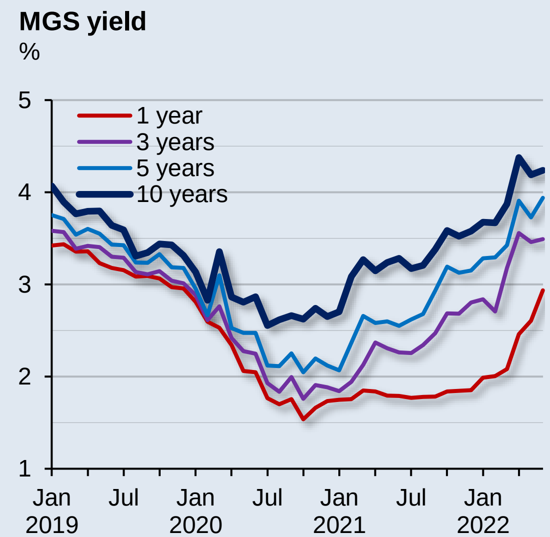
Malaysia: Leading and current economic indicators (cont.)











Source: DOSM; BNM; MIDA

Price increases are digging in and broadening

More goods have experienced higher magnitude of price increases …

CPI (Subgroup)	2019 / 2018	2020 / 2019	2021 / 2020	2022 5M / 2021
Food away from home	3.3%	1.7%	1.4%	3.6%
Rice bread & other cereals	0.3%	0.8%	0.5%	2.2%
Meat	-0.6%	1.0%	3.1%	5.5%
Fish & seafood	0.9%	0.8%	3.1%	3.0%
Milk, cheese & eggs	1.7%	-1.9%	2.3%	4.9%
Oil & fats	-0.4%	1.3%	3.3%	2.6%
Fruits	1.0%	1.0%	0.8%	1.9%
Vegetables	1.1%	4.1%	2.1%	5.1%
Sugar, jem, honey, chocolate & confectionery	-0.8%	-0.6%	0.3%	2.0%
Food products n.e.c	0.6%	2.5%	2.3%	2.7%
Coffee, tea, cocoa & non-alcoholic beverages	1.1%	0.5%	0.3%	1.1%
Alcoholic beverages	-0.1%	1.3%	2.0%	1.3%
Tobacco	2.0%	0.0%	0.0%	0.0%
Clothing	-1.3%	-0.4%	-0.4%	0.03%
Footwear	-4.7%	-2.6%	-0.9%	-0.2%
Actual rental for housing	2.2%	1.4%	0.5%	0.7%
Maintenance & repair of dwelling	0.9%	0.9%	1.7%	3.3%
Water supply & miscellaneous services relating to the dwelling	0.1%	0.6%	0.0%	0.0%
Electricity, gas & other fuels	0.9%	-21.4%	10.1%	5.4%
Furniture & furnishing, carpets & other floor covering	1.6%	0.4%	4.4%	5.8%
Household textiles	-1.8%	-0.1%	-0.4%	0.7%
Household appliances	0.8%	0.3%	0.9%	1.7%
Glassware, tableware & household utensils	-0.7%	-0.4%	0.05%	0.7%
Tools & equipment for house & garden	-1.1%	0.9%	0.9%	1.6%
Goods & services for routine household maintenance	2.1%	0.2%	0.5%	0.6%
Medical products, appliances & equipment	-0.1%	0.7%	-0.1%	-0.4%
Outpatient services	2.7%	2.8%	1.8%	2.3%
Hospital service / inpatient	1.4%	0.5%	1.3%	0.2%

CPI (Subgroup)	2019 / 2018	2020 / 2019	2021 / 2020	2022 5M / 2021
Purchase of vehicles	-1.0%	-0.9%	-0.6%	-0.02%
Operation of personal transport equipment	-3.8%	-12.5%	14.0%	4.2%
Transport services	3.3%	7.4%	-3.4%	-10.7%
Postal Services	0.0%	0.0%	0.0%	0.0%
Telephone & telefax equipment	-4.0%	-0.1%	0.1%	-0.1%
Telephone & telefax services	1.1%	1.3%	0.0%	0.0%
Audio-visual, photographic & information processing equipment	-1.6%	-0.7%	-0.01%	0.5%
Other major durables recreation & culture	0.1%	-0.5%	-0.1%	-0.8%
Other recreational items & equipment, garden & pets	-0.4%	0.3%	1.0%	3.0%
Entertainment, recreational & cultural services	1.1%	-0.2%	0.4%	1.2%
Newspapers, books & stationery	2.3%	4.4%	1.2%	1.5%
Packaged tour	1.0%	1.8%	0.0%	0.02%
Pre-primary & primary education	2.0%	1.5%	0.1%	1.3%
Secondary education	1.2%	0.7%	0.2%	0.5%
Post-secondary non-tertiary education	-0.1%	-0.1%	-0.7%	-0.8%
Tertiary education diploma level & above	0.5%	0.1%	0.0%	0.0%
Education n.e.c.	0.9%	0.8%	0.9%	0.9%
Expenditure in restaurants & cafés	1.5%	1.1%	0.9%	2.9%
Accommodation services	0.2%	-2.3%	-1.8%	1.4%
Personal care	0.6%	1.2%	0.6%	1.2%
Personal effects n.e.c	1.3%	12.8%	0.8%	2.8%
Insurance	-0.4%	-0.01%	0.02%	0.0%
Financial services	-2.1%	-0.1%	2.6%	7.6%
Other services n.e.c.	0.1%	0.3%	0.1%	0.4%
Price changes for 52 subgroups				
Increased	**33 (63.5%)**	**33 (63.5%)**	**36 (69.2%)**	**39 (75.0%)**
Remained Unchanged	**1 (1.9%)**	**2 (3.8%)**	**6 (11.5%)**	**6 (11.5%)**
Decreased	**18 (34.6%)**	**17 (32.7%)**	**10 (19.2%)**	**7 (13.5%)**

Source: DOSM

Supply-side and monetary measures to contain inflation and anchor inflation expectations

1. Gradual and Measured Pace of Interest Rate Increases

- Cost-push pressures on core inflation
- An area of policy concern - input cost pressures that could rapidly be transmitted to retail inflation as demand strengthens

2. Government's Policy Interventions

- Reduction in duties and tariffs as well as ease imports restriction
- Temporary price ceiling and controls
- Remove all the Approved Permits (APs) that protect and create a monopolistic and oligopolistic market
- Targeted social assistance to the vulnerable households
- Buy "Made in Malaysia" products

3. Staggered Price Increases

- Fuel subsidy rationalisation be implemented on a gradual and measured pace
- Moral suasion businesses and manufacturers to announce price increases on a stagger manner to avoid bunching prices increase
- Price surveillance, enforcement and check on price manipulators

4. Supply-sides Policies (medium- to long-term)

- Supply-side policies through freer market entry and deregulation would make firms more productive and competitive; stockpiling
- Reduce high imports dependency on agricultural commodities: Imports Dependency Ratio (IDR) exceeding 50.0%: cuttlefish (52.2%), fresh milk (53.5%), round cabbage (63.6%), chilli (72.4%), beef (78.1%), ginger (81.5%), mango (86.2%) and mutton (90.4%)
- Smart technology farming and large scale food production as well as downstream processing to reduce food imports
- Agricultural logistics and delivery system along the whole supply chains should be strengthened to curtail the influence of the middlemen

What can the Government do to ease cost of living?

For Bottom-40 household:

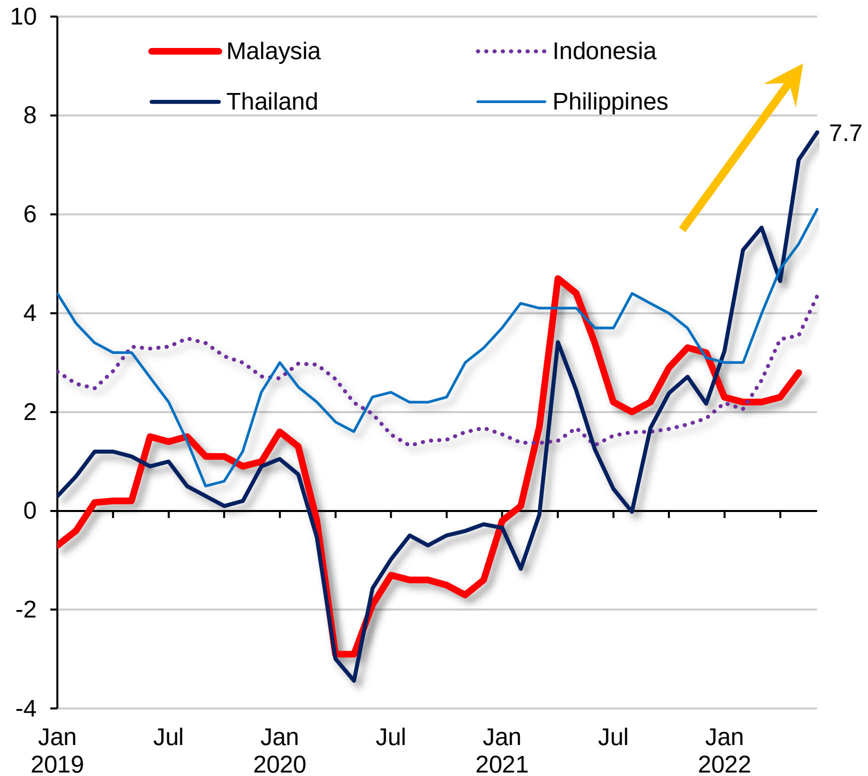
- Protecting the vulnerable households by **upgrading benefits or providing direct cash transfers to distressed households**, shielding them from price increases that are deemed inevitable in the short term due to rapidly rising costs.
- Provide a **one-off cost of living tax offset or a one-off cost of living cash payment** for the poor households in need.
- Explore to use MySejahtera Apps for the giving of voucher.
- **Reduce out-of-pocket expenses for elderly care** through higher tax allowance.
- **Reduce the cost of and increasing access to medicine** (drugs and health supplements).

For Middle-40 household:

- **Extend tax rebate of RM400 to individual taxpayers with chargeable income not exceeding RM70,000** to ease some tax burden.
- To **increase personal relief for contribution to the Employees Provident Fund to RM7,000 from RM4,000**; and to **RM5,000 from RM3,000 for life insurance premiums**.
- **Increase child relief to RM3,000 from RM2,000.**
- **Personal relief of RM3,000 for housing loan interest payment for YA 2022 and 2023.**
- **House rental payment to be given a personal tax relief of up to RM4,000 annually.**

How governments in selected ASEAN countries mitigate the impact of inflation and high cost of living?

Inflation – Selected ASEAN economies
%, YoY



Source: Various officials

Indonesia (Jun: 4.4%)

- Cash distribution:
  - 20.5 million low-income households
  - 2.5 million food stall operators to cope with high cooking oil prices
- Quota system on subsidised fuel to benefit targeted residents

Vietnam (Jun: 3.4%)

- 50% reduction on environmental protection tax rates on fuels to ensure affordable fuel prices
- Auction 100 million litres of gasoline from the national reverse to cope with a supply shortage
- 2% per annum interest subsidy on commercial loans for businesses, cooperatives, and households

Notes: Number in parenthesis indicates latest inflation rate in 2022

How governments in selected countries mitigate inflation and high cost of living? (cont.)

Thailand (Jun: 7.7%)

- A monthly subsidy to 3.6 million welfare card holders and about 5,500 vendors for cooking oil
- A monthly subsidy to 157 thousand motorcycle taxi drivers for the purchase of gasoline
- A reduction in variable tariff charges for users of not more than 200 electricity units per month
- A pegged retail price of compressed natural gas (NGV)

Philippines (Jun: 6.1%)

- Fuel cash subsidy for tricycle drivers and other public transport operators
- 10 kilos of rice and assorted groceries for at least 94,204 residents
- A distribution of cash subsidy for 1.2 million targeted households

Singapore (May: 5.6%)

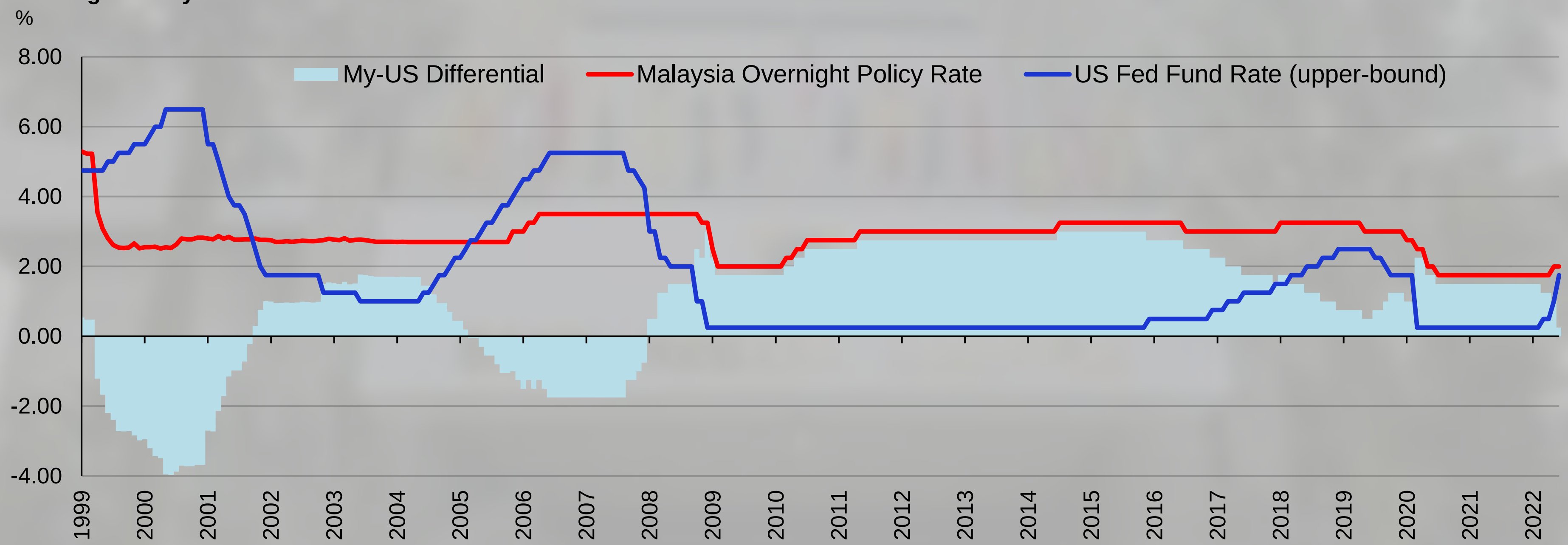
- Community Development Council (CDC) voucher of S$100 for all households
- GST Voucher U-Save rebates for households living in HDB flats, and utilities credit for every household to offset utility bills
- Public transport vouchers for targeted households to cover additional fares
- Assurance Package Cash Payouts to cushion the impact of increased GST

Notes: Number in parenthesis indicates latest inflation rate in 2022

How high will interest rates go?

- ✓ Balance between growth and inflation
- ✓ Remove accommodation to rebuild the buffer
- ✓ Anchor inflation expectations
- ✓ Prolonged period of low-interest rates can induce financial imbalances by reducing risk aversion of banks and other investors as well as borrowers
- ✓ Narrow monetary divergence on a synchronised global monetary tightening
- ✓ Baby step and not successive hikes so as not to temper the economic recovery path
- ✓ **Expect BNM's overnight policy rate (OPR) to reach 2.50% in 2022 and 3.00% in 2023**

Overnight Policy Rate vs. Fed Fund Rate



Source: BNM; Federal Reserve

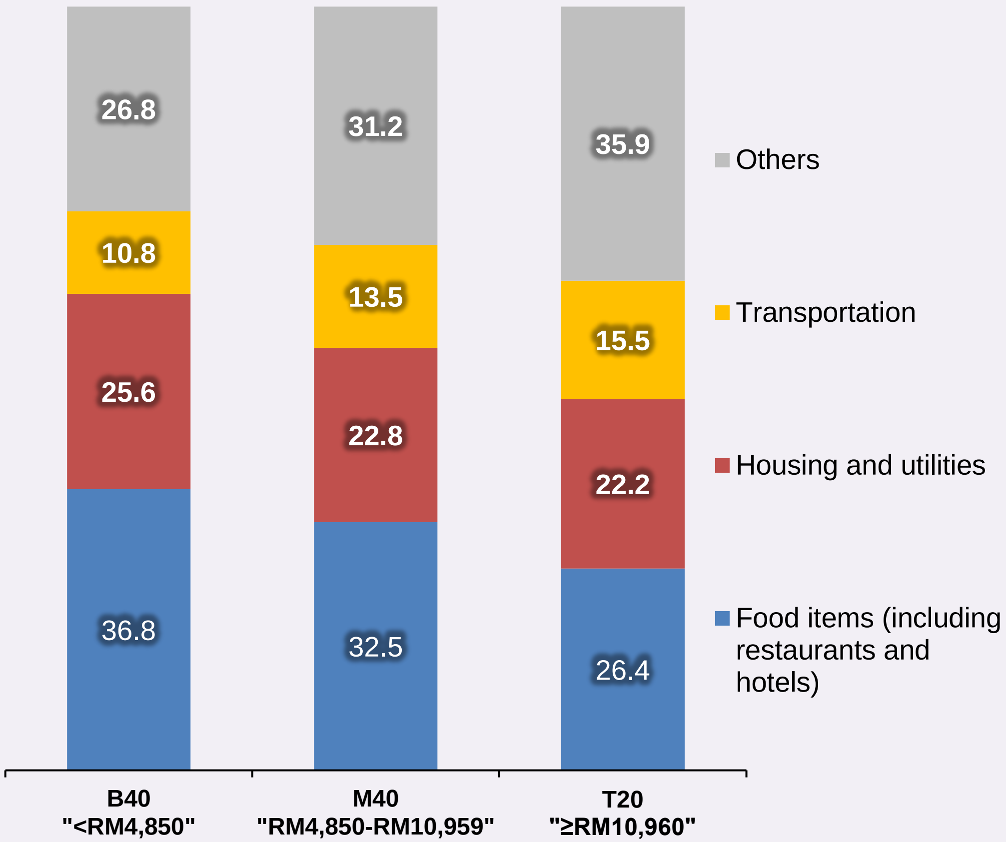
Note: BNM adopted Overnight Policy Rate (OPR) as policy rate since 2004.

The Myth of Subsidies

- Well-intended price subsidies and controls for consumer welfare but …
- Come with ECONOMIC DISTORTIONS AND OPPORTUNITY COSTS
- Principles for designing EQUITY AND EFFICIENCY in the reform of price subsidies

Household expenditure by income class

Share of household expenditure by category (%)



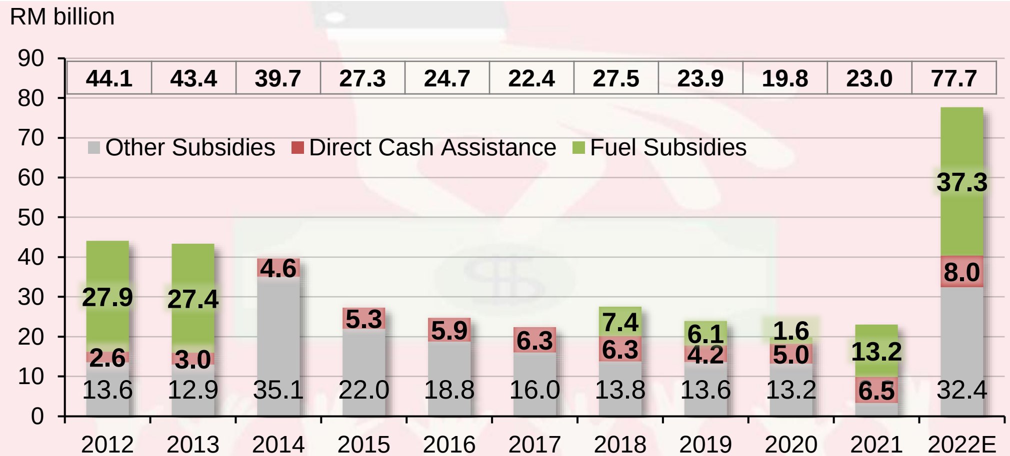
Source: DOSM

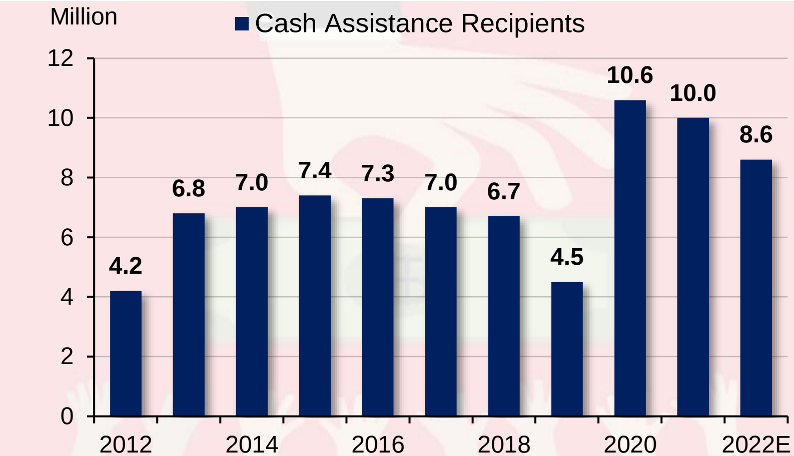
- Lower income households often facing **slow income growth and financial difficulties** in **meeting basic necessities** to catch up with rising cost of living.

- 2019 Household Expenditure Survey showed that:
  - **31.0% of household's total consumption expenditure** were spent on **food items, including restaurants and hotels**; and
  - **23.2% on housing and utilities**; **13.7%** on transport

- **B40 households** allocate **more than half of their expenditure (53.3%)** on basic necessities (food at home, clothing, housing and utilities).

Bloated subsidies raise concern about fiscal sustainability





Year	% of Operating Expenditure (OE)	% of Total Revenue	% of GDP
2012	**21.4** *(1.3)*	**21.2** *(1.3)*	**4.5** *(0.3)*
2013	**20.5** *(1.4)*	**20.3** *(1.4)*	**4.3** *(0.3)*
2014	**18.1** *(2.1)*	**18.0** *(2.1)*	**3.6** *(0.4)*
2015	**12.6** *(2.4)*	**12.4** *(2.4)*	**2.3** *(0.5)*
2016	**11.7** *(2.8)*	**11.6** *(2.8)*	**2.0** *(0.5)*
2017	**10.3** *(2.9)*	**10.1** *(2.9)*	**1.6** *(0.5)*
2018	**11.9** *(2.7)*	**11.8** *(2.7)*	**1.9** *(0.4)*
2019	**9.1** *(1.6)*	**9.0** *(1.6)*	**1.6** *(0.3)*
2020	**8.8** *(2.2)*	**8.8** *(2.2)*	**1.4** *(0.4)*
2021	**10.0** *(2.8)*	**9.9** *(2.8)*	**1.5** *(0.4)*
2022*	**26.4** *(2.7)*	**31.2** *(3.2)*	**4.6** *(0.5)*

Note:
Direct cash assistance schemes as per announcement made in the Budget for 2020-2021, excluding other cash assistance schemes.
Figure in parenthesis refer to % share of direct cash assistance over total operating expenditure (OE), total revenue and GDP.
** Adjusted OE upward by RM60,348 million as a result of higher subsidies (RM77.7 billion – budgeted RM17.4 billion); adjusted total revenue upward by RM15,000 million on potential additional petroleum-related revenue*

Source: Ministry of Finance (MOF); Inland Revenue Board (IRB); BNM; Various news

The myth of subsidies

Although well-intended price subsidies and controls offer some relief and protect consumers by keeping prices low, **they come with high economic and fiscal costs**

STRAINED THE FISCAL BUDGET. Unsustainable subsidies can deepen the budget deficit, forcing the Government to borrow more and increase debt.

- In 2022, the bloated subsidies of RM77.7 billion or more are estimated to make up 31.2% of total revenue and 4.6% of GDP, largely due to soaring energy and commodity prices.
- The share of subsidies to total revenue has been increasing from an average 14.3% per annum in 2012-2019 to 16.6% per annum in 2020-2022E.
- The share of subsidies to total GDP declined from average 2.7% per annum in 2012-2019 and 2.5% per annum in 2020-2022E.

CONSUMPTION-BASED SUBSIDIES SKEWED THE INCOME DISTRIBUTION. The intended benefit for the poor and lower-income households is typically regressive in nature as the bulk of subsidies benefits the high percentile of the income distribution.

- Ministry of Finance (MOF) has estimated that more than **half of total subsidies have benefitted the higher income or the T20 household income**.

The myth of subsidies (cont.)

SUBSIDIES COME WITH A HUGE "OPPORTUNITY COST" TO SOCIETY. It reduces the fiscal capacity as the huge financial resources spent on subsidies have **diverted the budget's allocation from other sectors such as education, healthcare, infrastructure and housing**.

SUBSIDY PROGRAMS ENCOURAGE WASTE AND CORRUPTION. When the products' prices are cheap and heavily subsidised below market prices, **it encourages excessive consumption and wastage as demand shifts toward subsidised products**. It perpetuates the misallocation of resources toward less productive economic activities and environmental impact.

SUBSIDIES FOSTER CORRUPTION as the profiteers take advantage of arbitrage on the price differential. This **creates hoarding, black market and smuggling activities** across the border.

CAPITAL SHIFTS AWAY FOR A BETTER RETURN. In a competitive market, when price subsidies and controls hold the prices below real market levels and below the producers' costs, producers' profit margin will be affected while investors' capital would leave the industry to seek a better return. There will be less investment, production and supply of products made available to consumers.

A plan for equity and efficiency subsidy reform

Many Governments have had difficulty reforming subsidies as they are **afraid of disrupting the political equilibrium – political backlash**.

When subsidy reforms are made, **consumers will feel the pinch** of rising prices; this has often led to widespread public protests.

Where there is a **lack of public confidence** in the government's governance of fuel subsidy savings to implement programs that compensate the lower- and middle-income households,

Public **will find the targeted spending less credible, and will resist to subsidy reform**.

The principles of subsidy reform

Drawing the countries' experiences of implementing the subsidy reform, the following **3 "Cs"** – **CREDIBLE, COMPENSATION and COMMUNICATION** are important principles:

CREDIBLE

- ✓ Shifting from a universal-access subsidy program to a targeted program
- ✓ A comprehensive and transparent mechanism with clear objectives to identify poor households and deliver benefits
- ✓ Introduction of automatic pricing mechanisms
- ✓ Phased-in price increases to smoothen adjustment

COMPENSATION

- ✓ Targeting by social category through targeted cash or near-cash transfers such as limiting benefits to the poor, children or pensioners, or to households in certain geographical regions
- ✓ Coupons to allow targeted households to consume a certain "lifeline" amount of subsidised food or fuel products
- ✓ Social safety nets are more cost-effective and more profound impact than generalised price subsidies.

COMMUNICATION

- ✓ Transparent and extensive communication
- ✓ Why shifting from products subsidy to targeted households will benefit the vulnerable households more?
- ✓ How the resources saved from a universal subsidy program will be redeployed for other priority spending such as infrastructure, caring for ageing population, better healthcare, better education; and to combat climate change.
- ✓ Publish regularly information on the size of targeted social assistance programs and how they affect the government's budget.

In conclusion …

NOTHING IS IMPOSSIBLE IF THERE IS A STRONG POLITICAL WILL

- **A strong political courage is needed to implement difficult subsidy reform.** Transparency and stakeholder dialogue is the cornerstone of subsidy reform in determining its design, passage, and implementation.

- A **well-handled removal of subsidies** and be replaced by **better targeted social spending for the poor and vulnerable households**, **plugging leakages and wastage**, and **productive investments** can promote sustainable fiscal management and equitable outcomes.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社会经济研究中心
SOCIO-ECONOMIC RESEARCH CENTRE

SERC

谢 谢
THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.
Tel : 603 - 4260 3116 / 3119
Fax : 603 - 4260 3118
Email : serc@acccimserc.com
Website : http://www.acccimserc.com