Rising prices hit Malaysia

Wan Ali
17 June 2008

As in other Asian countries, price rises are hitting Malaysia, raising concerns in ruling circles over the potential for social discontent and protests. Inflation, particularly for food and fuel, was a major issue in national elections held in March that resulted in a sharp reversal for the ruling Barisan National (BN) coalition. The government lost its two-thirds parliamentary majority for the first time in 34 years.

The latest official inflation data released on May 21 showed a 14-month high. The annualised figure for April was 3 percent—up from 2.8 percent in March and 2.5 percent in February. Food and beverages rose in April by 5.7 percent and prices for alcohol and tobacco jumped by 9 percent compared to the previous year. Bank Negara Malaysia estimated in March that inflation could reach 3.5 percent.

Rising oil prices have added to the problems facing the government. Second Finance Minister Tan Sri Mohamed Yakcop warned that the cost of oil subsidies would amount to Ringgit Malaysia (RM) 18 billion to RM 19 billion this year—a huge increase of RM 7 billion to RM 8 billion over last year ($US1=RM3.2). Overall, government fuel subsidies are predicted to cost more than RM 56 billion this year—up from an earlier prediction of RM 35 billion.

The government is already revising the current subsidies. Under the plan, Octane 92, usually used for motorcycles and Octane 97, for other vehicles, will be replaced by Octane 95 and Octane 99. Domestic Trade and Consumer Affair Minister Datuk Shahrir Samad said Octane 95 could be used in most vehicles while premium Octane 99, would be for luxury cars and sports utility vehicles. Most subsidies will be used to keep down the cost of Octane 95.

On June 4, the government lifted the price of petrol from RM 1.92 to RM 2.7, or 78 percent, and diesel from RM 1.59 to RM 2.54. While increases were scheduled for August, the rapid rise in global oil costs forced the authorities to act now, fearing that if they waited another two months the price hikes would be more dramatic and provoke social unrest. In order to placate the public, the government also announced a RM 600 per year subsidy for small vehicles.

The petrol and diesel price rises provoked several protests throughout the country. On June 5, about 200 people demonstrated in Ipoh, the capital of Perak, and 50 in Kuala Lumpur. The next day 50 people protested in Georgetown, Penang, and the protest group, Coalition against Inflation, announced that it would hold a major demonstration in July. The price of electricity has also risen in the past week with an 18 percent increase for households and 26 percent for commercial and industrial users.

London School of Economics professor Danny Quah last week called for even greater reductions in fuel subsidies. Quah, who was born in Malaysia, proposed a further cut of between 15 and 20 percent within the next six months. “Malaysians will need to get used to higher inflation of 3 to 10 percent given the extreme changes in the global economy,” he said.

The government announced a scheme last month to prevent citizens from neighbouring Singapore and Thailand buying subsidised fuel in Malaysia. The ban involves petrol stations within 30 kilometres of the borders with the two countries and is due to become fully operational on June 9.

Increases in rice prices are also affecting Malaysia. Annual consumption is 2.27 million tonnes, of which only 1.63 million tonnes is produced locally. The remaining 27 percent is imported from Thailand, Vietnam, Pakistan, India, Cambodia, Australia, China and United States. Prices have risen 10 to 20 percent and shortages have been reported in several areas.

A survey showed that the price for Super G15, the main local rice, has increased by RM 3 to RM 4 per kilogram in all urban areas in Malaysia, including the

Klang Valley. In Kedah, Malaysia's largest rice producing state, the consumer association reported an increase of between RM 1 and RM 2. In Penang, panic buying last month caused stocks to rapidly decline.

Agriculture Minister Datuk Mustapa Mohamed has stepped in to guarantee rice supplies. According to Padiberas Nasional Berhad (BERNAS), the national rice company, the country has a rice stockpile to cover demand for five to six months. Malaysia has also sought assurances from Thailand that it will continue to sell grain amid continuing concerns over shortages and sharply rising prices. At the same time, the government outlined a blueprint to boost domestic food by allocating RM 4 billion to boost the cultivation of fruits and vegetables in Sarawak and will for the first time subsidise imported rice.

The Flour Millers Association of Malaysia increased the price for both high and medium protein flour, starting from March 20. This was followed by a Malaysian Bakery, Biscuit, Confectionery and Mee Merchants Association decision to increase the price for various types of noodles from 20 to 70 cents, starting from April 10. The price of ground rice also rose by RM 22 for a 50 kilogram bag, while the price of other items like corn flour, sago flour, tapioca flour and high carbohydrate wheat flour has been fluctuating. Increasing costs for plastic (for packaging), petrol and cooking oil also pushed up noodle prices.

While inflation in Malaysia remains low compared to neighbouring countries, higher prices are still having a serious impact on the living standards of lower-paid workers and the rural poor. Last month, a small protest organised by the Malaysian Trade Union Congress (MTUC) outside parliament house called for a minimum monthly wage of RM 900. An article on the opposition Aliran web site pointed out that about 25 percent of workers earned RM 500 or less a month and the official poverty line for a family of five was RM 691 a month. Plantation workers earn less than RM 400 a month. The government has also rejected a demand by the Congress of Unions of Employees in the Public and Civil Services (CUEPACS) for a minimum wage, as well as its call for an honorarium of RM 2,000 to all civil servants regardless of their position.

While economic growth for the first quarter hit a higher than predicted 7.1 percent, most commentators expect an economic slowdown over the remainder of the year. Malaysia's trade surplus continued to shrink in March, down by 12 percent from February and 17.9 percent from January. Slowing sales of electrical and electronic goods to the United States, Malaysia's largest trading partner, were a significant factor. Lower growth will lead to job losses, higher unemployment and further discontent.

As witnessed in the March election, growing anger over declining living standards is setting the stage for a political confrontation with the autocratic BN regime that has dominated the country for more than half a century.