The rising subsidy bill quandary and its implications

KUALA LUMPUR (Feb 19): Without a doubt, inflation is here and its presence is clearly felt — regardless if one wears a blue collar or a white one — with the country's inflation rate in 2021 increasing by 2.5%, compared to a decline of 1.2% in 2020.

The two biggest contributors to this — according to the **Department of Statistics Malaysia** — were the ceiling price set for RON95 petrol in the country at RM2.05 effective from March last year and an increase in chicken prices above their 2020 average.

When prices of certain goods increase, the solution from the government has always been to impose price controls on those goods to ease the burden of consumers, and to grant subsidies to ease cost pressures on producers.

The 2022 Economic Report stated that the estimated expenditure for subsidies and social assistance in 2022 — excluding measures announced during the tabling of the Budget — stands at RM17.35 billion, rising from RM16.7 billion in 2021.

Fuel prices have for long been subsidised in Malaysia, but it was only early this month — and for the first time since 2008 — that the government agreed to subsidise poultry players.

While these measures would help to alleviate cost burdens for the rakyat and keep inflation in check, they would further strain government coffers.

We take a look at the implementation of subsidies for fuel and for the poultry industry, and what their implications could be.

In our accompanying story, we also look at the plight of poultry producers, who have been grappling with the rising cost of feed and the imposition of price controls on the industry.

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