



### **[COLUMNIST] Moving away from price controls and subsidies**

ALTHOUGH food price inflation has been at the forefront of the national agenda in recognition of the tremendous pressures on the cost of living faced by the rakyat, recent statistics still witness an upward trend over the past three months.

Since April 2022, the food and non-alcoholic beverages category has risen from 4.1% to 5.2% in May and was 6.1% in June.

With the food and non-alcoholic beverages group (which on their own would constitute food price inflation) comprising the most weightage (i.e., 29.5%), the Consumer Price Index (CPI) – which measures the rate of change in the cost of purchasing a constant basket of goods and services by households in a specific time period – rose from 2.3% year-on-year (y-o-y) in April to 2.8% and 3.4% in May and June, respectively.

The higher CPI was also followed by higher core inflation – which measures changes in the price of all goods and services but excludes prices of volatile items of fresh food and goods controlled by the government – went up to 3% in June 2022.

Developed countries such as Singapore (5.6% as of May), Australia (5.1% as of March) and Norway (6.3% as of June) have higher CPI compared to Malaysia. However, it is noted that their food price inflation rates are relatively lower.

Singapore's food price inflation rate in May is at 4.5%, followed by Australia (4.3% as of March) and Norway (2.6% as of May).

In respect of the ongoing rise in the food inflation rate, many Malaysians might start to wonder: Why is Malaysia experiencing continuous increase in prices of necessities and across the board (which by the way is the actual and real definition of inflation)?

No doubt that the persistent (even if somewhat irregular) downward pressure on our ringgit and high dependence on imported raw materials as production and farming inputs such as fertiliser and chicken feed have triggered price spikes for agro-food produce.

Nonetheless, prolonged price controls and temporary export ban measures can be counterproductive in the efforts aimed at mitigating inflation.

Earlier, the government provided RM729.43 million of subsidy for chicken breeders to counterbalance the effect of the price ceiling measure for chicken and eggs till June 30.

In addition, the government enforced the export ban on commercial broilers, round chicken, chicken cuts and day-old chicks (DOC) effective June to ensure sufficient chicken supply within Malaysia. Singapore, a country that used to rely on about one-third (i.e., around 34%) of imported chicken supply from Malaysia, is actively looking at other countries as alternative sources.

Within two weeks after Malaysia announced an export ban on chicken from June 1 onwards, the Singapore Food Agency (SFA) sprang into action by going over to Indonesia to assess the feasibility of setting up chicken farms, slaughterhouses and processing facilities. After the visit, the SFA approved

Indonesia as a new source of frozen, chilled and processed chicken meat for Singapore. Indonesia joins the list of more than 20 accredited countries such as Brazil, Thailand and Australia.

Although the imposition of a price ceiling for chicken and eggs which lasted for almost five months (unprecedented so far) has proven ineffective, the current administration is still retaining the maximum price control measure by introducing a slightly higher price ceiling which started on July 1. Initially, the price ceiling for chicken between February 5 till June 30 was RM8.90 per kg. In contrast, the price ceiling for Grade A, B and C chicken eggs was RM0.43, RM0.41 and RM0.39 each, respectively.

With a new price ceiling from July, the standard round chicken in Peninsular Malaysia costs 50 sen higher – at RM9.40 per kg. On the other hand, the price ceiling for Grade A, B and C chicken eggs has risen by two sen – at RM0.45, RM0.43 and RM0.41 each, respectively.

The government's effort in setting different price ceilings in this current stage probably could have better reflected the living standard of respective areas or states. As it is, Sabah, Sarawak and Labuan continue to be vulnerable to higher prices compared to the Peninsula.

For chicken, Sabah, Sarawak and Labuan experienced at least a few ringgit increases when the new price ceiling was imposed – at RM11-RM11.30 per kg, RM9.80-RM12.90 and RM11.30, respectively. Similarly, the price of grade A egg is at RM0.47 each in Sarawak, except in Limbang and Lawas (RM0.49 each), grade B (RM0.45 to RM0.48) and grade C (RM0.43 to RM 0.46). The price of grade A, B and C eggs in Sabah is RM0.50- RM0.51 each, RM0.49 - RM0.50 and RM0.48 - RM0.49, respectively.

For Labuan, the grade A egg sets at RM0.51 each, for grade B (RM0.50) and grade C (RM0.49). Despite the current administration trying to balance expectations between chicken breeders, chicken sellers and consumers, government interventions such as price controls, subsidies and the export ban should only be intended for the short term.

EMIR Research has written an article titled "Thinking out of the box beyond price control measures" (Astro AWANI, June 8, 2022) which showed that price restrictions eventually would disincentive chicken breeders from producing more chickens.

A prolonged higher ceiling price might still not resolve the problems and challenges that producers face in relation to input costs, which includes labour shortages and, at the same time, with the removal of the subsidies.

As Malaysia is still dependent on imported raw materials from other countries for agro-food farming and production, the on-going inflationary pressure (from the costs of inputs for production and consumer items) will ensure inflation remains elevated, at least in the medium term.

However, global inflation may have peaked (e.g., according to IHS Markit – well-known for their Purchasing Manager's Index/PMI that measures business and industrial activities as indications of economic conditions).

But even though prices of commodities such as wheat are falling, intervening factors and dynamics such as logistical bottlenecks in one part of the supply-chain, for example, could still counteract or neutralise the gains alongside the "transmission mechanism" that is the exchange rate pass through (ERPT) via our currency – as is the case our local food production where the imported contents in the form of the inputs is very high both in terms of quantity and price.

This would explain why fertiliser, wheat and maize are among the raw ingredients that experienced price hikes by 84.7%, 60.9% and 14.8%, respectively, according to the **Department of Statistics Malaysia (DOSM)**.

Although price controls existed for months, the price of chicken still increased – from 13.4% in May to 17.2% in June. On the other hand, milk, cheese & eggs witnessed a price increase of 7.9% in June.

Moreover, pork, the common meat consumed by non-Muslims, recorded a price rise from 10.2% in May to 14.6% in June. The Penang Pig Slaughtering Association told Kwong Wah Yit Poh on July 6 that the price of pork has gone up for the seventh time this year and is now at RM1,300 per 100kg. Also, vegetables witnessed a price increase of 8%. Among all vegetables, tomato recorded the highest y-o-y average price increase by 24.6% – from RM5.33 per kg in June 2021 to RM6.74 in June 2022.

Meanwhile, bird's eye chilli, lady's finger and long bean experienced a price increase by 24.1% (from RM6.53 per kg in June 2021 to RM8.81 in June 2022), 20.5% (from RM7.40 per kg in June 2021 to RM9.31 in June 2022) and 17.1% (from RM6.83 per kg in June 2021 to RM8.43 in June 2022), respectively.

With regards to the continuous rising price of commonly consumed food items such as chicken, milk, eggs and vegetables, EMIR Research has several short- and long-term policy recommendations:  
Short-term:

☐ Introduce targeted food aid measures among the B40 and hardcore poor households and individuals in the form of vouchers – both paper and electronic/digital.

This will ensure the aid is used only to buy food and at the same time cutting logistical and distributions costs for the government.

Speeding up approvals on hiring foreign workers to counter the current labour shortage. In addition, the government could reduce the documentation required for foreign labour permit applications and shorten the approval process from five to two days.

Investigate the upstream and midstream food supply chain regularly. The Ministry of Domestic Trade and Consumer Affairs (KPDNHEP) should spot check whether, e.g., wholesalers mark up prices excessively before distributing the end product to retailers/sellers.

Long-term:

Shortening and localising the food supply chain by increasing self-sufficiency in inputs (raw materials like fertilisers, feedstock). This involves strategic partnerships with our Asean neighbours (following Singapore's example).

The long-term vision is to increase outputs (production, yield) across the board and thereby improve the self-sufficiency ratio (SSR) of essential food items such as rice, chicken, eggs, milk and vegetables. Rice, fresh milk, round cabbage and chilli are food items that recorded less than 100% of SSR in 2020 – at 63%, 65%, 37.5% and 30.9%, respectively.

- The government could provide more tax incentives, grants (e.g., matching ringgit for ringgit) and reskilling opportunities for farmers to improve the farming environment through modern technologies applications like the Internet of Things (IoT), Big Data and artificial intelligence (AI).

It would empower farmers to produce more high-quality food to feed the entire population in Malaysia.

☐ Introduce supplementary indexes of inflation to reflect the ground reality. Aside from the currently available CPI and Producer Price Index (PPI) findings, **DOSM** could also look into introducing the Wholesale Price Index (WPI), Retail Price Index (RPI), Import Price Index (IPI) and Food Price Index (FPI).

☐ Strengthen the public service delivery by applying the input-output-outcome-impact (IOOI) model (please refer to EMIR Research's article titled "Transforming Malaysia from third- to first-world country", Malay Mail, October 21, 2021).

Such a framework could identify the missing gaps whilst providing targeted fiscal support effectively. When the government mitigates food price inflation with effective policy measures, the B40 and struggling M40 would have the assurance that they can cope with the current pressures on the cost of living and have access to nutritious food on a sustainable basis.

<https://www.astroawani.com/berita-malaysia/columnist-moving-away-price-controls-and-subsidies-372990>