



## Malaysian government set on overhauling its food subsidies to balance its 2025 Budget

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The Malaysian government, under the premiership of Datuk Anwar Ibrahim, is serious on overhauling the current subsidy system on staple food products that include cooking oil, eggs, rice, sugar and poultry amongst others.

The government is reviewing the subsidy for chicken eggs as ending it will add RM100 million (US\$22.5 million) a month to the state coffers which can be redirected to other critical areas within the Agro-Food Sector.

The ending of the subsidies certainly will affect businesses directly involved in the trade, however many are also supportive of removing the subsidies as it will also lead to the abolition of price controls in the market which will lead to competitive prices. A representative from Leong Hup International, a major poultry and egg supplier, mentioned that it is the right time to remove the subsidies now given that the prices of raw materials and the local currency (Ringgit) have stabilised.

For major local sugar refinery MSM Malaysia Holdings Bhd, the removal of subsidy is considered a 'blessing' as this will allow a floating price mechanism. According to MSM group CEO Syed Feizal Syed Mohammad, "The current retail price of sugar in Malaysia at RM2.85 (US\$0.64) per kg is the lowest in Asia, and capping the sugar price without the present incentive creates a serious anomaly in the economics of refining, losing 88 sen (US\$0.20) per kg." The sugar industry has received an incentive of RM1 (US\$0.23) per kg for coarse grain sugar and fine sugar since November 2023, with MSM entitled to 24,000 tonnes per month. "Compared to the actual production cost, the incentive of RM1 per kg is just enough to break even to sustain the sugar refining operation. The best alternative without the incentive will be a price float."

Overall, the removal of subsidies and price control is a good move to plug leakages in the current system that is aimed at helping the low income group. As an example, some wholesalers are selling subsidised cooking oil to micro traders at inflated prices – at a time when Malaysian households are having difficulty buying the product off the shelf.

Meanwhile, the removal of price subsidies will have a minimal impact on industrial users such as food and beverage manufacturers as most have already been buying ingredients – for instance, sugar and flour – at commercial contract rates that are currently not being subsidised.

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