REFSA

Research For Social Advancement

#ProjekMuhibah

STRATEGY 3: CONTINUED AND TARGETED ECONOMIC ASSISTANCE

to employers and employees (including those in the informal sector)

Dr Ong Kian Ming
BSc (LSE), MPhil (Cantab), PhD (Duke)

Frederik Paulus
Economic Advisor, REFSA

Jaideep Singh
Researcher, REFSA

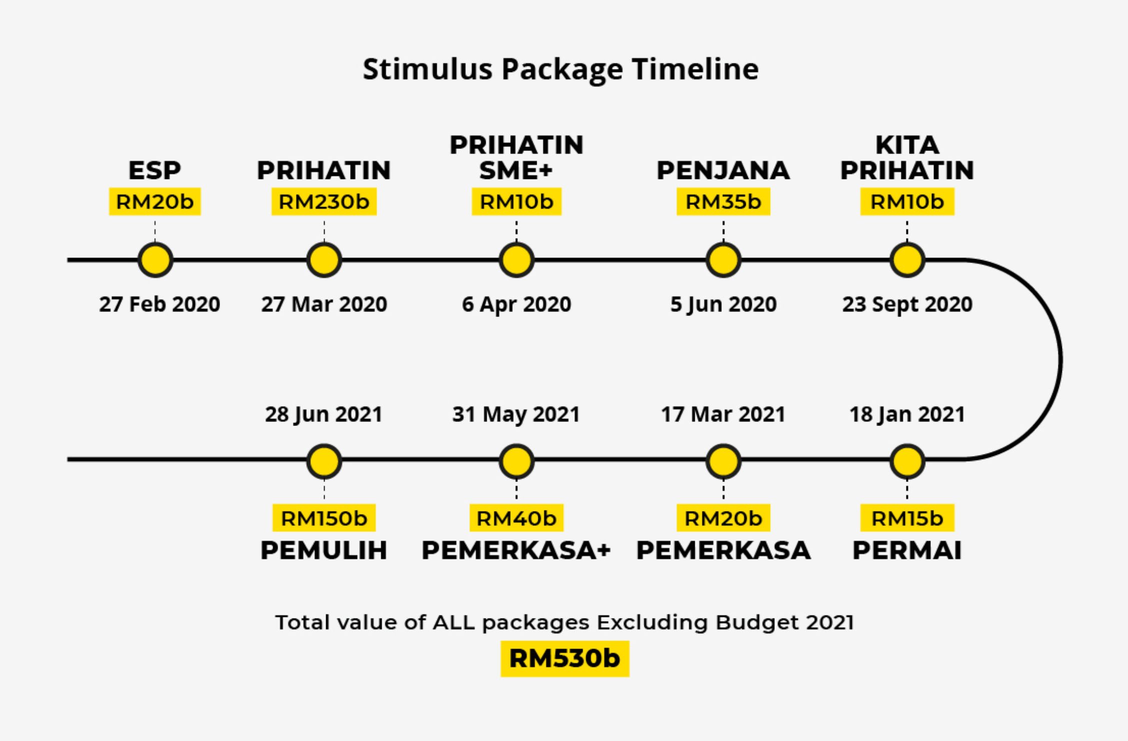
July, 2021

#ProjekMuhibah introduces ten strategies to address the socio-economic challenges caused by the COVID-19 pandemic in Malaysia. Our analyses and proposals will help Malaysia build back better, towards a more resilient and equitable economy, a more economically secure workforce, and a stronger and more supportive community.

EXECUTIVE SUMMARY

Since the start of the first Movement Control Order (MCO) in March 2020, the government has introduced a number of assistance packages for individuals and businesses. It started off with the PRIHATIN assistance package focusing on individual assistance on the 27th of March 2020 followed by an enhanced PRIHATIN package which included assistance to companies, especially the Small and Medium Enterprises (SMEs) on the 6th of April 2020. On the 5th of June 2020, an economic stimulus package amounting to RM35 billion was announced under the PENJANA programme, complemented by KITA PRIHATIN on the 23rd of September 2020.

Towards the end of 2020, just as it seemed that the COVID-19 situation had turned the corner and we were heading for a recovery in 2021, the number of cases increased and MCO 2.0 was announced on the 13th of January, 2021. This necessitated another financial assistance package called PERMAI. With the gradual reopening of the economy towards the end of MCO 2.0, the Prime Minister felt confident enough to announce an economic recovery program called PEMERKASA on the 17th of March 2021. This was followed by a further package called PEMERKASA+ announced 4 weeks after the start of MCO 3.0 on the 31st of May 2021. Recently, when it became clear that MCO 3.0 would not end in the next few weeks, another financial assistance package called PEMULIH was announced on the 28th of June 2021.



The government should be given some credit for being somewhat responsive to the public demands of greater assistance packages whether it is for families, individuals or businesses in the past one and a half years. Some of the processes, precedents and structures which have been established as a result of these financial assistance and stimulus packages were helpful and will continue to be helpful for future governments. For example, the data collected via the Wage Subsidy Programme (WSP) as well as the Hiring Incentive Scheme via Penjana 2.0 will be useful, including for big data analytics (BDA), to measure the response of various companies in different sectors to the COVID crisis. Even though we, like many other think tanks and associations, are **critical of the insufficiency of these various programmes, we should not throw the baby out with the bathwater but instead try to use the response to these programmes as a means to improve future stimulus and assistance packages**.

This being said, REFSA has publicly stated our position on the various government assistance packages and budget stimulus programmes many times including asking for spending to be ramped up, not slowed down; stating that PEMERKASA is "more of the same"; calling the PEMERKASA+ package a "band-aid" and a "drop in the ocean"; and drawing attention to the "missing link" in the recently announced PEMULIH programme.

The **critique of these various assistance programmes** can be summarised according to the following points:

The majority of the allocation in these programmes are not direct fiscal spending but are funds sourced from deferred payments (via the loan moratoriums), from loan guarantees provided by government agencies such as SJPP, loan facilities provided by Bank Negara Malaysia (BNM) and from individuals via the various EPF withdrawals (I-Sinar previously and now I-Citra). **The direct fiscal spending is low relative to the total announced figures** under these programmes.

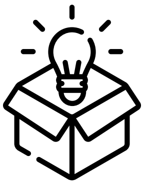
The amount of **support given to businesses, especially SMEs** in the hardest hit sectors such as tourism, travel and retail, **is grossly insufficient**.

The amount of **support given to individuals and families**, especially for those in the informal sector, **is grossly insufficient**.

Our **recommendations** to overcome these gaps which have been identified are the following:

Raise the arbitrary debt to GDP ratio and also the interest service ratio of 15% of the total budget to a higher level for at least 5 years during this COVID crisis period and through the economic recovery period when the pandemic is under control

Increase the level of spending especially direct cash injections to individuals and small business owners who have been worse hit by this pandemic



Find "out of the box" ways to increase revenue collection in ways which would not hurt small businesses and individuals

Use this opportunity to **enhance social protection** especially for those in the informal and gig sectors of the economy

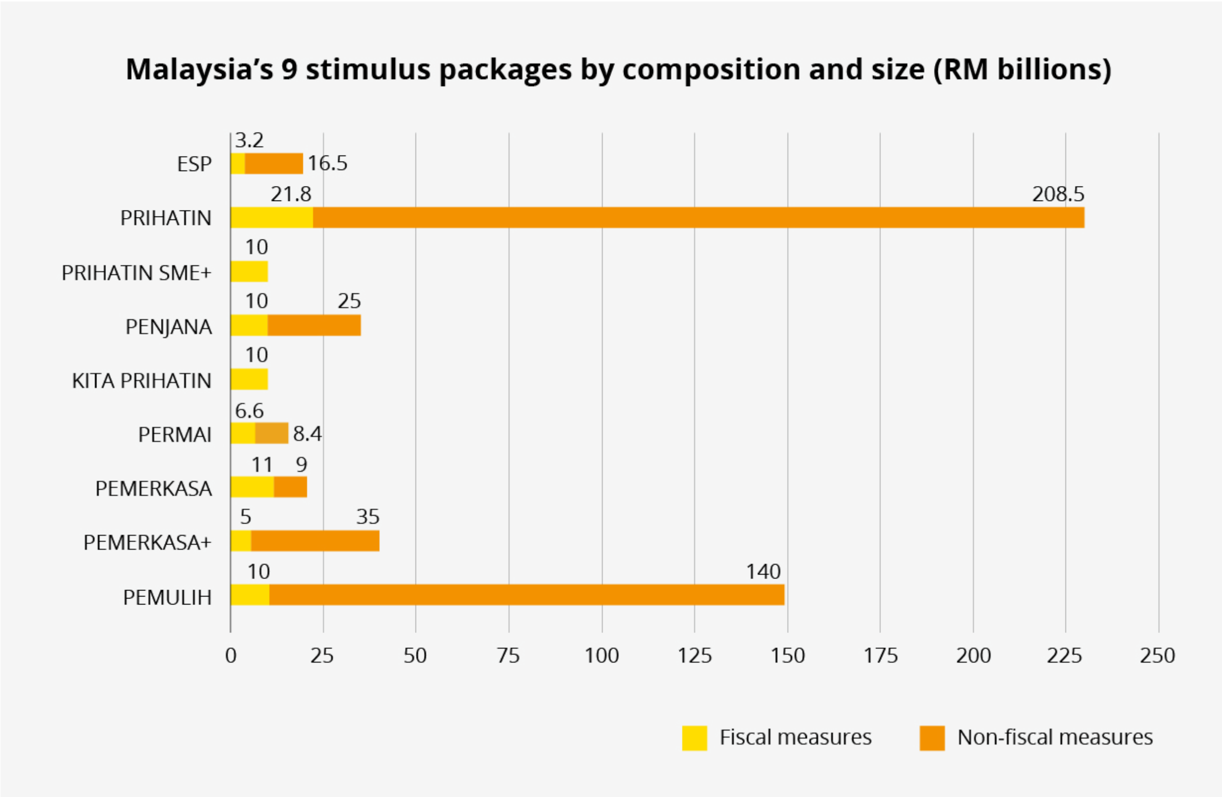
MAJORITY OF THE ALLOCATION IS NOT DIRECT FISCAL SPENDING

In general, stimulus packages include fiscal and non-fiscal measures. **Fiscal measures** are initiatives that involve direct government spending through the budget, which include cash transfers, wage subsidies and healthcare spending. **Non-fiscal measures** do not directly come out of the budget, covering financing through loans from the government and credit guarantees.

Both categories of measures aim to provide economic support, but they are not equal in effect. A paper by the Bank for International Settlements highlights that the nature of the pandemic – characterised by a sudden and prolonged induced decline in household income and business profitability – requires decisive fiscal action first and foremost to keep livelihoods afloat, with non-fiscal measures acting as a complement to stimulate recovery, especially in the longer run.

Therefore, an important distinction has to be made between the total size of the packages and the direct fiscal expenditure therein. To date, the majority of the allocation has not taken the form of direct government spending as Figure 1 below shows.

Figure 1: Breakdown of the country's nine stimulus packages from February 2020 to June 2021 by the size of fiscal and non-fiscal measures in RM billions



Source: REFSA's tabulations based on MoF (2020), BERNAMA (2021), PMO (2021a and b) and MoF (2021)

To date, out of the RM530 billion in measures announced across all nine packages since February 2020, only RM87.6 billion or 16.5% of the total takes the form of direct government spending. The remaining RM442.4 billion comes from non-fiscal sources.

The most crucial forms of direct economic assistance, including **cash handouts and grants**, are part of the fiscal component of the packages. It is these measures that **act as a lifeline for vulnerable and affected households as well as SMEs**. The RM87.6 billion in government spending includes the following key measures:

Measure	Description	Estimated amount (RM bn)
Wage Subsidy Programme (WSP)	A monthly subsidy of RM600-RM1,200 per worker for at least 3 months provided to eligible employers to retain their employees (see next section)	26.2[1]
Bantuan Prihatin Nasional (BPN) / Rakyat (BPR)	One-off cash payment of RM300-RM1,600 (BPN) and RM100-500 (BPR) for B40 and M40 households and single individuals under 21	21.5[2]
PRIHATIN Special Grants (GKP)	One-off payment to eligible MSMEs of RM3,000 (GKP 1.0 and 2.0), RM500-1,000 (GKP Plus) and RM1,000 (GKP 3.0 and 4.0).	5.1[3]
Bantuan Khas COVID-19	3 payments of RM100-500 for the hardcore poor, B40 and M40 households (under PEMULIH)	4.6
Other measures	All other measures (including piecemeal and/or package-specific initiatives) under the COVID-19 Fund, such as healthcare spending, small-scale infrastructure projects, food security programmes, internet connectivity and grants for selected individuals and sectors	30.2

Source: REFSA's tabulations based on MoF (2020) and the Prime Minister's package announcements (see endnotes 1-3)

The RM442.4 billion in non-fiscal measures covers the following (with loan moratoriums alone accounting for 47% of all non-fiscal measures):

Measure	Description	Estimated amount (RM bn)
Loan moratoriums	A conditional or automatic moratorium on the repayment of loans for 3-6 months for individual borrowers and businesses	210[4]
Danajamin PRIHATIN Guarantee Scheme	A guarantee scheme that covers up to 80% of the total loans of selected companies	50
EPF withdrawal (i-Lestari, i-Sinar and i-Citra)	Giving EPF members the option of withdrawing RM500-1,000 per month from Accounts 1 and/or 2 for a maximum of RM5,000-6,000	80[5]
Microfinancing	Funding programmes for micro-entreprises and SMEs at a reduced interest rate of 2-3.5% from BSN, TEKUN, MARA, SME Corp and YAPEIM among others	11[6]
Other measures	All other measures, including fuel subsidies, tax exemptions for selected sectors, electricity bill discounts and other forms of SME support	91.4

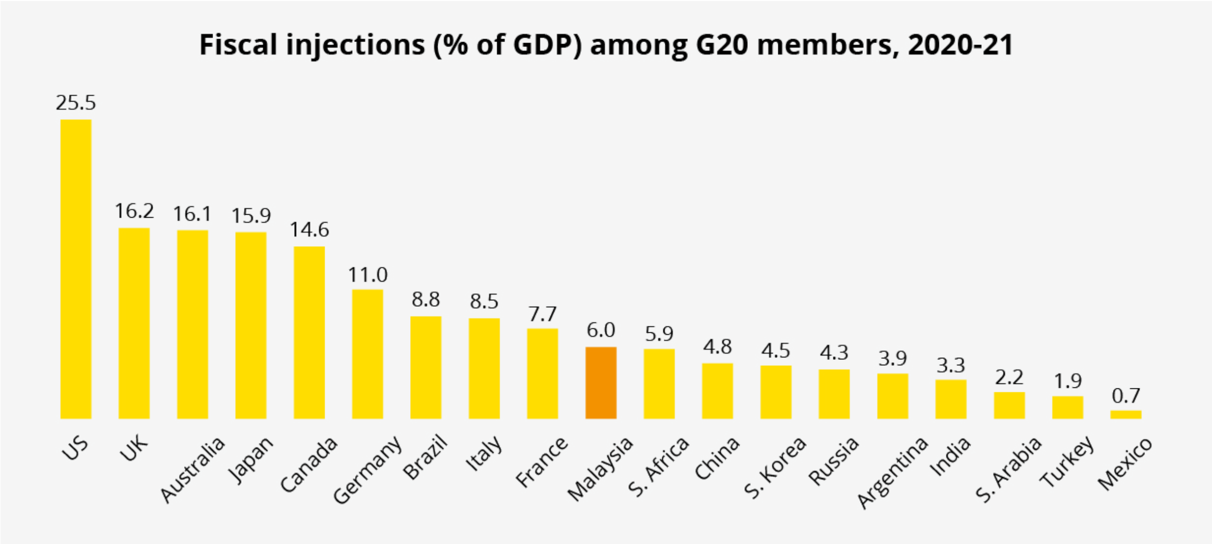
Source: REFSA's tabulations based on the Prime Minister's package announcements (see endnotes 4-6)

Subsequent sections discuss these initiatives in greater detail. However, the point to note is that **non-fiscal measures as a whole should *supplement* fiscal measures rather than taking centre stage** as the figures above suggest.

As an OECD paper on policy responses to the pandemic stresses, **fiscal stimulus programmes should aim to address the instant shock** on households and businesses of the reduction in economic activity **as well as to maintain a country's productive capacity**. With Malaysia's fiscal measures being far smaller than the RM530 billion allocated across the nine aforementioned packages, their true impact on businesses and livelihoods is likely to be less than hoped.

In total, the packages are equivalent to about 36.5% of Malaysian GDP[7], with the fiscal injections accounting for 6% of GDP. Based on IMF data, this puts Malaysia below the global average of 9.2% of GDP. According to Figure 2, Malaysia is in the middle of the pack relative to the world's biggest economies in the G20, largely lagging behind the developed world. This reinforces REFSA's own findings from June 2020, which found that **Malaysia's fiscal measures paled in comparison to the corresponding stimulus packages in the UK and Singapore**.

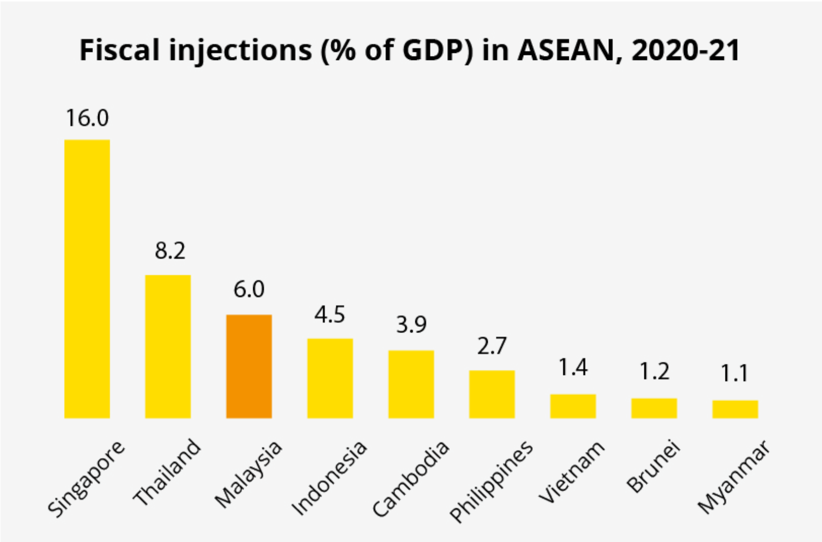
Figure 2: Fiscal stimulus measures in the G20



Source: IMF (2021). Note that the figures for the G20 countries are correct as of April 2021.

Across ASEAN meanwhile, Figure 3 shows that Malaysia's fiscal injections put it ahead of most of its regional counterparts except Singapore and Thailand.

Figure 3: Fiscal stimulus measures in ASEAN



Source: IMF (2021). Note that the figures for all countries are correct as of April 2021 (except Malaysia).

Nevertheless, it is important to note that the figures are not directly comparable as such. This is because of the relative pervasiveness and extent of Malaysia's lockdowns (see Figure 4). On June 30, for example, The Economist ranked the country last among 50 major economies in terms of return to normalcy, behind Indonesia, Thailand, Singapore, the Philippines and Vietnam. Put simply, **Malaysia's fiscal stimulus measures are insufficient given the gravity of the situation**, which we explore further in the rest of Strategy 3.

SUPPORT FOR BUSINESSES IS NOT SUFFICIENT

Measures to help businesses through the crisis are predominantly focused on safeguarding their liquidity position to stave off bankruptcies. This takes the form either of cash flow support through loan guarantees or grants, and job retention schemes.

In the PRIHATIN support package, the government introduced a **loan guarantee scheme** for medium and large businesses, to enable them to finance their working capital requirements during the pandemic. The **conditions attached to the guarantees make them ill-suited** even for medium enterprises however, for example the large collateral requirements.

The government also introduced a **wage subsidy programme** (WSP) for qualifying firms, which pays out between RM 600-1,200 per worker earning less than RM 4,000 per month. The payments are funded by SOCSO, and by extension only apply to registered workers in the formal sector. Conversely, foreign workers, the self-employed and workers in the informal sector were explicitly excluded from this scheme, which in retrospect is a glaring omission. This has since been partly addressed in the PEMERKASA package, by including temporary and gig workers in the scheme.

In return for receiving the wage subsidies, employers have to commit not to reduce pay or let employees go for a period of up to six months. Many **employers found these conditions too onerous**, compared to the relatively small subsidy amount, and have therefore opted not to join the scheme. As an indication, the amount originally allocated to the WSP programme amounts to only 19% of the total private sector wage bill for one month, according to the Federation of Malaysian Manufacturers (FMM). It has not significantly changed in subsequent revisions to the support packages.

On top of the WSP, the government also introduced a special grant programme for SMEs. Micro-enterprises in particular can apply for a RM 3,000 grant that does not need to be repaid. At this stage of the pandemic, this level of support is likely to have already been used up. Of note here is the introduction of two programmes specifically targeted at women, who have suffered disproportionately during the pandemic. The first programme partners with two banks to make up to RM 50 million of micro-financing available to women, the second programme aims to raise financing for micro-enterprises led by women.

The PRIHATIN package also included a range of cost alleviation measures. First and foremost the bank loan moratorium, which enabled companies to pause repayment of their loans, initially for a period of six months, and which has been extended on an ad-hoc basis since. Further, the government also announced a moratorium on rent payments for premises in government facilities, deferment of social contributions and tax payments, and reductions in utility bills.

The moratoriums were continued under PEMULIH, with automatic approval given to borrowers, including individuals and MSMEs. However, as BNM has emphasised, the **moratoriums simply defer repayment**

by six months and will result in a higher overall borrowing cost in the long-run as interest will continue to accrue on all payments. Ultimately, the moratoriums are intended to provide short-term relief to illiquid SMEs.

Although conceptually these measures all point in the right direction, on the whole the amounts committed, with the exception perhaps of the loan moratorium, are unlikely to be transformational for most companies' cash position.

SUPPORT FOR WORKERS AND HOUSEHOLDS IS NOT SUFFICIENT

Three categories of measures are targeted specifically at supporting workers' and households' incomes. The first is the ***i-Lestari* scheme**, allowing contributors to withdraw part of their EPF savings. This provides a measure of income support in the short term, but obviously depletes savings in the long term, particularly important since this might affect pension payouts in the future. Indeed, as the EPF CEO himself highlighted, 6.3 million out of 15 million of EPF's member base have less than RM10,000 in their Account 1 while 9.3 million people have less than RM10,000 in Account 2. Overall the uptake of this scheme was high, particularly among the lowest earners. Again, **this scheme does not cover self-employed or informal workers**, since it is only open to EPF contributors.

The second measure emphasised is **unemployment payouts** through the *Employment Insurance Scheme* (EIS), available for employees contributing to the scheme and who have lost their jobs. The payments have increased in size and duration during the pandemic, and special provisions were enacted to support newly enrolled members who would normally not qualify for payouts. However, overall **the payments do not entirely replace lost income and remain limited in time**. Moreover, only slightly more than half of the qualifying employees are actually enrolled in the EIS, and since its introduction is very recent (2018), questions arise as to the sustainability of the funds. As part of the support packages, more generous incentives for reskilling have also been offered.

The third type of income support measure is a **direct cash transfer** under the *Bantuan Prihatin Rakyat* scheme. These are reserved only to those earning below certain thresholds, and here too, the **amount of the payouts is relatively small**.

In addition to the inadequate size of the existing payouts, another area of concern is the **insufficient breadth of support**. It is likely that informal workers in particular have fallen off the radar since they may not have sizable EPF contributions nor are they likely to have signed up for EIS.

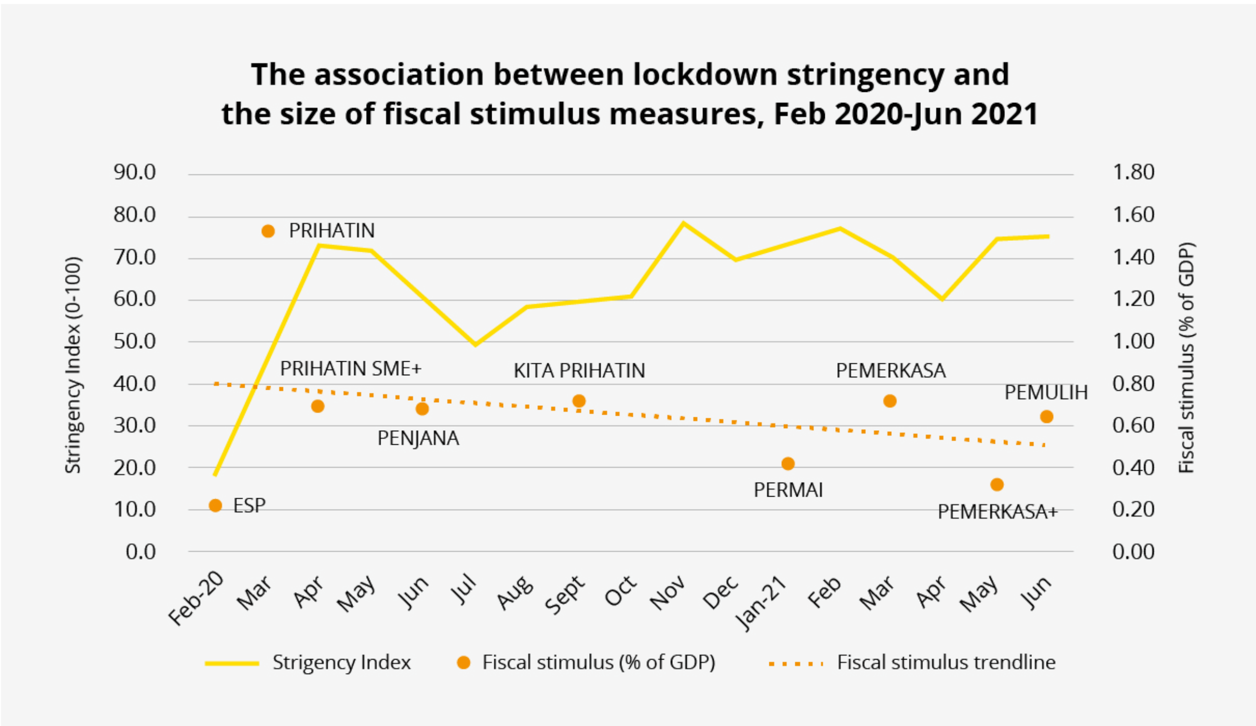
OVERALL SUPPORT IS NOT SUFFICIENT

The small size of the country's fiscal stimulus measures, along with inadequate support for businesses and households, indicates that **overall economic support is not sufficient**. This is particularly the case given the duration and magnitude of Malaysia's lockdowns.

Figure 4 shows that **the level of fiscal support has not been commensurate with the damage to the economy** caused by the lockdowns, especially this year. In general, the country's lockdown has increased in severity since October 2020, but the fiscal stimulus measures this year are less than half the size of the PEMULIH stimulus programmes introduced during the comparably stringent first MCO last year.

We use Oxford's [Stringency Index] (SI) to capture the loss of livelihoods due to lockdowns and compare it with the size of fiscal stimulus measures as a share of GDP. The SI measures the seriousness of a country's lockdown on a scale of 0-100 on the basis of 9 indicators, including workplace closures, school closures and travel restrictions. This acts as a proxy for the economic damage caused by lockdown strictness.

Figure 4: Malaysia's fiscal support has not kept up with the damage to the economy



Source: Our World in Data (2021). Note: The dotted line in orange represents an approximate linear trend in the evolution of fiscal stimulus from package to package to visualise their decreasing size over time on average.

As Figure 4 highlights, since the start of 2021, Malaysia's lockdowns have been at or near their peak – at 70-80 – in terms of stringency, except for a brief, light relaxation of rules in April. However, fiscal support has been smaller in magnitude – averaging 0.53% of GDP from PERMAI onwards – than those introduced in 2020, including PRIHATIN at the height of the first MCO (1.54% of GDP) and even PENJANA and KITA PRIHATIN (0.71% of GDP each) when the lockdown was close to its loosest.

Therefore, there is a need to **ensure that lockdowns are accompanied by thorough assistance**. Some policy recommendations are highlighted in the next section.

POLICY RECOMMENDATIONS

Moving forward, we recommend the following policies to ensure short-term economic assistance is adequate in size, depth and breadth.

The first is to **raise the arbitrary debt to GDP ratio and the interest service ratio** of 15% of the budget to a higher level for at least 5 years during this crisis period and through the economic recovery period once the pandemic is under control. The country's debt to GDP ratio of 60% is a statutory measure rather than one grounded in economic logic, making it a moving target that can be raised temporarily in line with the current circumstances. This will allow the government to engage in more thorough deficit-financed expansionary fiscal policy to save livelihoods and businesses.

Such an increase alone does not imply fiscal irresponsibility. Ultimately, communication with the rating agencies and having a clear fiscal plan forward matter more than arbitrary spending limits. Indeed, since the start of the pandemic, several countries around the world have broken their spending limits without serious threat to their credit ratings. For example, Brazil invoked an 'escape clause' in its fiscal rules that allowed it to raise its expenditure ceiling in times of crisis. The country's 2020 budget was treated like a wartime emergency and was not bound by the national Fiscal Responsibility Law. Nevertheless, the country's credit rating has remained relatively stable at BB- according to Fitch. Other countries that have spent more than expected include Japan, which raised the ceiling of its COVID-19 reserve fund and Morocco, which adopted a decree-law in 2020 that allowed the government to bypass its 2020 Budget Act and increase external borrowing accordingly.

The second policy recommendation is to **increase the level of spending**, especially direct cash injections, to individuals and small business owners who have been worse hit by this pandemic. There are several ways of targeting the assistance, particularly using big data to accurately identify those who need the most help. As an example, priority could be given to the following businesses:

- businesses that have had a large share of employees test positive for COVID-19,
- businesses that have had to sack workers early in the MCO and were therefore ineligible for the first few rounds of the WSP,
- businesses that started operations in 2020 and 2021,
- businesses in the worst hit sectors, such as F&B, retail and tourism.

In addition, the government should evaluate existing bottlenecks when applying for various schemes, such as BNM's special relief package and TEKUN Nasional's soft loan package, which has ended up being more expensive than conventional bank loans.

The third is to **find "out of the box" ways to increase revenue collection** in ways which would not hurt small businesses and individuals. Given that this is an emergency situation, there is scope to increase spending via the National Trust Fund (KWAN), which houses Malaysia's petroleum funds. Using KWAN to support COVID-19 related spending is not unprecedented: in April, Putrajaya passed a law allowing it to access KWAN funds for vaccine procurement. It is also possible to look for unspent sums in other trust funds, such as in Ministry of Finance Incorporated companies as well as companies in other ministries, including the Universal Service Provision Fund under the Malaysian Communications and Multimedia Commission and Education Malaysia Global Services under the Ministry of Higher Education.

Another way to raise revenue is the imposition of a windfall tax or capital gains tax, which would target highly profitable firms and high-income earners rather than burdening struggling businesses and households.

The final policy recommendation is to use this opportunity to **enhance social protection, especially for those in the informal and gig sectors of the economy**. This can be achieved by providing full payment, and subsequently a 50% subsidy, for informal and gig workers to subscribe to the EIS programme. All workers should also have a tax identification number to ensure no one is off the radar: the benefits of such a system need to be explained to everyone, particularly informal workers. Eventually, once vaccine supplies are plentiful, the government could potentially use vaccination status and EIS enrolment collectively as preconditions for the renewal of business licences.

REFERENCES

BERNAMA (2021). *MCO 2.0 less impact to the economy - Tengku Zafrul*. [online] Available at: <https://www.astroawani.com/berita-malaysia/mco-20-less-impact-economy-tengku-zafrul-278731> [Accessed 2 July 2021]

IMF (2021). *Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic* [online] Available at: <https://www.imf.org/en/Topics/imf-and-covid19/~/media/Files/Topics/COVID/FM-Database/SM21/revised-april-2021-fiscal-measures-response-database-publication-april-2021-v3.ashx> [Accessed 2 July 2021]

MoF (2020). *Fiscal Outlook and Federal Government Revenue Estimates 2021 - Section 1: Fiscal Policy Overview*, p. 98. [online] Available at: <https://belanjawan2021.treasury.gov.my/pdf/revenue/2021/section1.pdf> [Accessed 3 July 2021]

MoF (2021). *Teks Ucapan Program Strategik Memperkasa Rakyat dan Ekonomi Tambahan*. [online] Available at: <http://belanjawan2021.treasury.gov.my/pdf/pemerkasa/teks-ucapan-pm-pemerkasa-plus.pdf> [Accessed 2 July 2021]

Our World in Data (2021). *COVID-19 Stringency Index*. [online] Available at: <https://ourworldindata.org/grapher/covid-stringency-index> [Accessed 7 July 2021]

PMO (2021a). *PEMERKASA worth RM20 bln launched, along with RM11 bln fiscal injection from govt – PM Muhyiddin*. [online] Available at: <https://www.pmo.gov.my/2021/03/pemerkasa-worth-rm20-bln-launched-along-with-rm11-bln-fiscal-injection-from-govt-pm-muhyiddin/> [Accessed 2 July 2021]

PMO (2021b). *Teks Ucapan Pakej Perlindungan Rakyat dan Pemulihan Ekonomi (PEMULIH)*. [online] Available at: <https://www.pmo.gov.my/ms/2021/06/teks-ucapan-pakej-perlindungan-rakyat-dan-pemulihan-ekonomi-pemulih/> [Accessed 2 July 2021]

ENDNOTES

1. Covers WSP 1.0-4.0 across the following packages: PRIHATIN and PENJANA (RM16.8 bn), KITA PRIHATIN (RM2.4 bn), PERMAI (RM1 bn), PEMERKASA (RM0.7 bn), PEMERKASA+ (RM1.5 bn) and PEMULIH (RM3.8 bn).

2. Covers BPN and its successor BPR across the following packages: PRIHATIN and PENJANA (RM11.2 bn), KITA PRIHATIN (RM7 bn), PEMERKASA (RM1.2 bn) and PEMERKASA+ (RM2.1 bn).

3. A detailed package-by-package breakdown, covering GKP 1.0-4.0 and GKP Plus, is unavailable. The Prime Minister's PEMULIH speech in late June 2021 simply states that RM5.1 billion has been allocated through GKP, which covers five rounds of grants.

4. The breakdown is as follows: PRIHATIN (RM100 bn), PEMERKASA+ (RM30 bn) and PEMULIH (an estimated RM80 billion).

5. The breakdown is as follows: PRIHATIN (RM50 bn) and PEMULIH (RM30 bn).

6. Covers the following packages: PRIHATIN (RM4.5 bn), PENJANA (RM0.4 bn), PERMAI (RM1 bn), PEMERKASA (RM0.5 bn), PEMERKASA+ (RM3.5 bn) and PEMULIH (RM1.1 bn).

7. The GDP figure used to calculate this percentage is based on MoF's GDP estimate for 2020 and its forecast for 2021. The actual figure may vary by <1% point depending on the eventual GDP figure for 2021, which is likely to be lower than official estimates.

REFSA

ABOUT REFSA

Research for Social Advancement (REFSA) is a progressive, non-profit think tank that promotes social advancement in Malaysia. Since its inception, REFSA has been at the forefront of policy discussions and debates in the important political and socio-economic issues of the nation. Today, our aspiration hasn't changed - we want to power the movement for a just, inclusive and multi-ethnic society.

REFSA BRIEF

REFSA Brief is a series of briefs and opinion pieces that aim to analyse pertinent socio-economic issues and encourage discussions in policy issues across the public, private and the third sector.

Dr. Ong is the former Deputy Minister of International Trade and Industry (MITI), Malaysia and the current Member of Parliament (MP) for Bangi.

Frederik Paulus is Economic Advisor at REFSA.

Jaideep Singh is a Researcher at REFSA.

REFSA

Cover photo: by Izuddin Helmi Adnan on Unsplash

REFSA

Research For Social Advancement

Level 5, Block A,
Wenworth Building,
Jalan Yew, Off Jalan Pudu,
55100 KL

(03) **9285 5808**

www.**refsa**.org

REFSA

InfoREFSA

refsa_my

refsa.org

REFSA - Research for Social Advancement