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Global Health Security
COVID-19 & Its Impacts

Malaysian Budget 2022: Time For Radical Measures

By Muhammed Abdul Khalid

SYNOPSIS

The COVID-19 pandemic has posed serious challenges to Malaysia's economic progress and potentially its social stability and upward mobility. The government's eight stimulus packages have been too small to make a meaningful impact. Budget 2022 that will be tabled in the parliament in late October 2021 presents an opportunity to put in place radical measures.

COMMENTARY

MALAYSIA CONFRONTED the COVID-19 crisis from a weakened economic position. Prior to the pandemic, there were already challenges in ensuring adequate social protection and social assistance, especially for low-income families. The pandemic worsened the situation. Against this backdrop, the Malaysian parliament is currently debating economic recovery strategy and the proposed 12th Malaysia Plan, including Budget 2022. Will there be radical measures for economic recovery in dramatic times?

The pandemic's economic impact has been extraordinary. For the first time in nearly five decades, Malaysia's poverty rate increased, from 5.6% in 2019 to 8.4% in 2020, equivalent to an additional 200,000 households falling into poverty. The worst affected are the poorer states – the poverty rate in Sabah increased from one in five in 2019 to one in four in 2020, or three times higher than the national rate. The poverty rate in Kelantan and Terengganu has doubled. Joblessness among the young, nationally, has risen, including among graduates, and even the middle income has been hit, not to mention business.

Joblessness Among Graduates and the Young

Income level has also reduced significantly, with the median monthly household income decreasing by 11.3% in 2020 compared to the preceding year. All states recorded a decline in median monthly household gross income by at least 9%, with the exception of Putrajaya, which declined by 2%.

The reduction of income is due to the fact that many lack work, or are under-employed. The unemployment rate in Malaysia rose to 4.5% in 2020, the highest rate since 1993. The number of unemployed people last year jumped by 40%, and under-employment increased by 64.9%, with nearly two-third of those who lost their jobs being non-tertiary educated.

Among the worst affected are the young, including university graduates. The number of graduates who are unemployed jumped by 22.5% to 202,400 in 2020, with an additional 255,500 being underemployed, translating to an underemployment rate of 31.2%, compared to 26.7% a year earlier.

Even those who were lucky enough to obtain employment would receive lower wages – the median monthly wage of young graduates declined by one-fourth to RM1,550 (about SGD500) in 2020, or just about 20% above the minimum wage.

Rising Income Inequality

The pandemic has affected not only those at the bottom of the ladder, but also the middle class. A certain segment of the middle class has disappeared, with about one in five households previously in the middle-income category having fallen to join the B40 (“Bottom 40%” in income level).

The rich are less affected, in fact, they did slightly better than the others. While the income shares for the B40 and M40 (“Middle 40%”) declined last year, the income share that accrued to the T20 (Top 20%) increased slightly by 0.4 percentage point to 47.2%. Not unexpectedly, income inequality has risen, with the current level of inequality returning to almost that registered in 2012 and 2013.

Not just adults, but children have also been hit hard. A report by UNICEF in March 2021 shows that one in four children from the low-income community lost interest in studying and returning to school due to the prolonged lockdown and challenges in online learning.

These kids also lack nutritional meals, and it is expected that the level of stunting and underweight among children in Malaysia, which had been increasing between 2015 and 2019 will continue to climb.

The digital divide is pronounced, with many families lacking proper equipment for online learning, especially in poor states like Sabah and Kelantan. This will make it harder for vulnerable children to move up the social mobility ladder.

Government Intervention

Government intervention indeed helped. In the last 18 months, it has announced eight stimulus packages totalling RM530 billion (SGD171 bil) or 37% of GDP. Notable interventions include the cash transfers that reached close to 11 million people, and wage subsidy programmes that benefited 2.64 million workers and 322,177 employers. The amount of cash assistance this year is RM17.1 bil (SGD5.5 bil), and RM14.3 bil (SGD4.6 bil) have been disbursed to subsidise wages.

This assistance has been instrumental in supporting households and businesses, as well as helping to arrest a sharper decline in economic growth. However, the direct fiscal intervention is rather small. From the total of RM530 bil stimulus, only RM83 bil (SGD27 bil) is a direct fiscal injection from the government, equivalent to 5.6% of GDP.

This is lower than that of neighbouring countries, with Singapore at 19.8%, Thailand at close to 10%, and the Philippines at 7.4%.

In fact, the bulk of the stimulus comes from two main sources: loan moratorium (RM210 bil, SGD67 bil), and withdrawals from the Employee Provident Fund or EPF (RM120 bil, SGD38 bil). These two tranches alone are about four times the size of the direct fiscal injection.

While withdrawal from the provident fund may help to stimulate domestic demand and mitigate the fiscal pressure among households, it will pose a challenge in the near future when the bulk of workers would not have enough money to retire. Nearly one in three of EPF members will have nearly zero balances in their accounts due to these withdrawals. This populist measure is short-sighted and irresponsible.

The intervention by the government is also too small to make a meaningful impact. For instance, the self-employed have received on average RM133 (SGD43) per month since the pandemic began, and for the B40 and M40 households, each has received on average about RM110 (SGD 35) and RM44 (SGD14) per month.

Assistance for Business: Too Little?

The assistance to firms, while it helped to mitigate the impact of the pandemic, is too little. The average monthly wage subsidy to firms is equivalent to 4% of total wage bill, almost negligible in incentivising firms to keep their workforce. The soft loan fund for SME coverage is also small, only 2.9% of the total SMEs received this assistance.

The assistance provided to the worst affected sector – tourism, is negligible. As of 20 August 2021, only 337 of the total tourism-related SMEs and Micro SMEs received financing assistance from the government, equivalent to 3.6% of the total registered travel and accommodation companies.

While the economy is expected to register positive growth this year after contracting by 5.6% in 2020 – the worst in two decades, it is only expected to return to its pre-COVID-19 level by the end of 2022 or 2023. The contraction of the economy has pushed back Malaysia's GDP per capita to the level last seen in 2017.

What Can Be Done?

There is a need to tweak the assistance to households and firms, specifically by providing sizeable regular monthly cash assistance to the lower income group and the self-employed, and widening the wage subsidy programme. It is estimated that these expanded assistance will cost roughly 3% of GDP.

The government can expand its revenue base to finance its COVID-19 spending, by ensuring that the tax system is fair and progressive, and through a windfall tax (a similar tax has been imposed on the palm oil industry since 1998, and independent power plant producers since 2008).

At the same time, the government can afford to increase its borrowing to help firms and households, as it will boost spending and generate economic activities. It was a welcome move by the government when it announced that the debt level would be raised to 65% of GDP, and that the budget will be expansionary.

Importantly, for sustainable long-term growth, investors' confidence matter. Clear and consistent policy setting, independent institutions, and a clean government are vital to build confidence among investors. These are the three important pre-requisites towards a sustainable and inclusive economic growth that benefits all.

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