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MEDIA STATEMENT

IDEAS welcomes additional cash support but cautions against reliance on stop gap measures

Kuala Lumpur, 18 March 2021 - IDEAS welcomes the government's latest announcement on the PEMERKASA stimulus. With the effects of Movement Control Order (MCO) 2.0 being felt, it is positive that the government continues to recognise the need for assistance to cushion the negative impact of MCO 2.0. However, the scale of the challenges that Malaysia faces calls for bolder action. Additionally, the government needs to clarify how this increases the country's debt.

In response, IDEAS CEO, Tricia Yeoh said, "Up until now, the stimulus packages have relied upon a diverse revenue base from Development Finance Institutes to Statutory Bodies to fund the initiatives. The increased reliance on fiscal injections in PEMERKASA necessitates parliamentary approval as it will have an effect on the budget deficit. Assuming government projections of GDP in 2021 are accurate at around 7 per cent GDP growth, we estimate that the added fiscal injections could increase the debt-to-GDP ratio to 58 per cent, which would put it close to the increased debt ceiling of 60 per cent in the first quarter of 2021. If the debt-to-GDP ratio exceeded 60 per cent, this would then require an amendment to the COVID-19 Fund Act which would require parliament to reconvene. Public accountability of public spending is needed now more than ever."

Commenting on the package itself, Yeoh said, "PEMERKASA provides long overdue support to those bearing the brunt of MCO 2.0. Further fiscal injection in the economy will release some pressure on the *rakyat*. Previous stimulus packages have had government fiscal injections hovering below 20 per cent of the total amount in the packages. However, the recent PEMERKASA estimates fiscal injections of RM 11 billion which is more than half of the total estimated amount of PEMERKASA. The government is also introducing several innovative initiatives to support some of the most hard-hit communities – including for Small and Medium Enterprises (SMEs), informal workers, youth, tourism sector, and disabled community."

Yeoh also highlighted concerns that the scale of support being offered is actually quite small. "The overall scale of additional support is quite low when you consider how many different challenges the package is trying to address. The result is a series of small measures which ultimately do not amount to more than a short-term stop gap. Since the measures are limited to the short term, the implementation needs to be as fast and effective as possible."

Looking beyond the short-term support being offered, Tricia also highlighted the need for a longer-term recovery strategy. “The support offered by the package is welcome. However, there are structural issues which have been exposed and exacerbated by the pandemic which need a longer-term strategy to address. For example, our research on the tourism sector shows that the industry is already facing major problems prior to the pandemic. If we only focus on managing the short term, we might hinder the long-term goal of making SMEs more innovative, agile, and adaptive post COVID-19. We look forward to a longer term recovery strategy and hope the 12th Malaysia Plan can provide a concrete roadmap for Malaysia’s economy.”

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About IDEAS

The Institute for Democracy and Economic Affairs (IDEAS) is a nonprofit research institute, dedicated to promoting solutions to public policy challenges, focussing on three overarching missions – advancing a competitive economy, ensuring trust in institutions and promoting an inclusive Malaysia. IDEAS is Malaysia’s first independent think tank, free of personal interests and partisan influences. For more information, visit www.ideas.org.my.

For enquiries, please contact:

Amir Ridzuan Jamaludin
Assistant Manager, External Relations
+603 2070 8881/8882
amir@ideas.org.my