
Fiscal size matters (Pt. 2): Permerkasa Plus and Malaysia's economic stimulus packages

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1 June 2021

Key Points:

- Out of the total RM40 billion allocated under the Permerkasa Plus economic assistance package, only 13 percent, or RM5 billion represents direct government spending.
- Similarly, the Malaysian government has only allocated about ~5 percent of GDP (RM73 billion) in direct federal government spending across the six major economic response packages announced since the beginning of 2020.
- Rough estimates suggest that Malaysia's total fiscal spending measures are relatively low (in GDP terms) compared to major countries in ASEAN, despite having the largest total economic response package size.
- More cash support to households, a wholesale expansion of unemployment benefits, and higher infrastructure spending could have outsized economic benefits for the long-run.

1.0 Overview of Permerkasa Plus

One day before the slated implementation of the nationwide full movement control order (FMCO), the Malaysian government announced an RM40 billion (about 2.8 percent of GDP) economic stimulus package called *Permerkasa Plus*. Key initiatives under *Permerkasa Plus* include a loan moratorium for lower-income households and SMEs affected by the FMCO; supplementary income support to households under the Bantuan Prihatin Rakyat cash transfer program; and extensions of the wage subsidy program under PERKESO.

As [usual](#), only a small proportion of *Permerkasa Plus*' RM40 billion size consists of actual federal government spending (see Fig. 1). Of the total RM40 billion, only RM5 billion (13 percent of total) amounts to new fiscal spending by the government. The remaining RM35 billion (88 percent) consist of non-fiscal or quasi-fiscal measures, largest of which are the loan moratorium measures which are valued by the government at RM30 billion (Fig. 1).

In terms of fiscal measures, the largest expenditure item under the *Permerkasa Plus* package is the RM2.1 billion for the benefit top-up under the Bantuan Prihatin Rakyat (BPR) cash transfer

program, as well as RM1.5 billion for the extension of the wage subsidy program under PERKESO (see the itemised list in Table 1). In GDP terms, *Permerkasa Plus* has a total package size of about 2.8 percent of GDP, but only represents about an additional 0.3 percent of GDP in government spending using official GDP estimates from the Ministry of Finance.

Fig. 1: Permerkasa Plus package, components and amounts

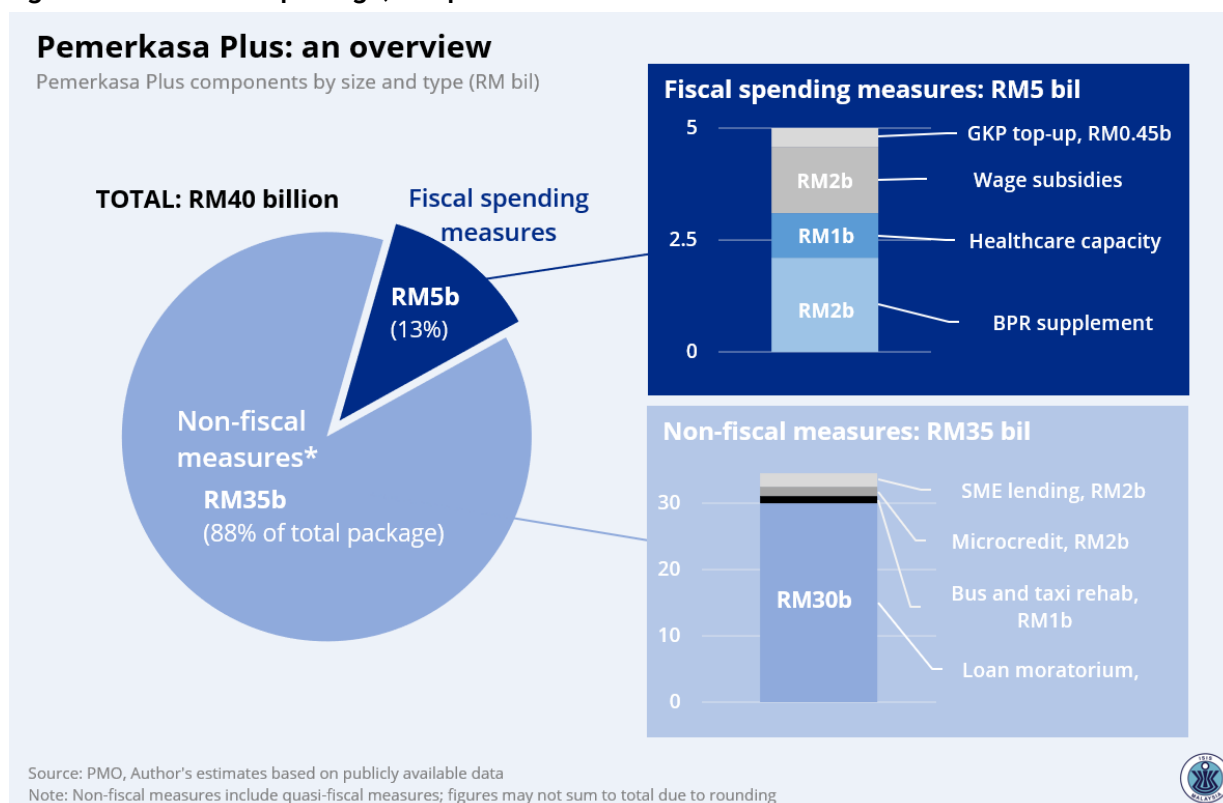


Table 1: List of measures under the Permerkasa Plus package

Item	Amount (RM)	% of GDP*
Fiscal measures	RM5 bil	0.3%
Bantuan Prihatin Rakyat additions	RM2.1 bil	
Wage subsidy program extension	RM1.5 bil	
Improving healthcare infrastructure	RM1.0 bil	
RM500 top-up grants to microenterprises (GKP)	RM0.45 bil [~]	
One-off aid for taxi/bus drivers	RM0.07 bil	
Non-fiscal measures	RM35 bil	2.4%
Loan moratoriums	RM30 bil	
Bus and taxi "rehabilitation" scheme	RM1.0 bil	
Microcredit for small businesses	RM1.5 bil	
Loans for SMEs	RM2.0 bil	
Other non-fiscal	RM0.5bil [~]	
Total (Permerkasa Plus)	RM40 bil	2.8%

Source: PMO, MOF, Author's estimates; Note: [~]based on GDP forecasts from MOF; figures may not sum to total due to rounding

2.0 Malaysia’s stimulus packages and ASEAN comparisons

The total size of the six economic response packages the Malaysian government has announced since the beginning of 2020 is about RM380 billion—about 26 percent of GDP. This includes the RM40 billion Permerkasa Plus—along with the Prihatin, Penjana, Kita Prihatin, Permai and Pernerksa packages (see Fig. 2). Again, despite this massive headline number, the actual amount of federal government spending represents a tiny fraction of the total headline amount. Indeed, my estimates suggest that only 15 percent of the total RM380 billion amount—or about RM73 billion are fiscal-related measures (see column labeled ‘total’ in Fig. 2).

That is, across the six major economic stimulus packages announced since the start of 2020 the Malaysian government has only allocated about ~5 percent of GDP in direct federal government spending (RM73 billion) to combat the economic impacts of the COVID-19 pandemic. Put differently, for every RM1 ringgit announced across the six packages, the Malaysian government has spent only about RM0.15, or 15 sens. The remaining 75 sens are made up of non-fiscal measures—a figure inflated by measures like EPF withdrawals (valued at about RM74 billion including i-Sinar), loan moratoriums and loan guarantees (valued at about RM153 billion combined).

Comparing Malaysia’s economic response to COVID-19 with other major countries in the ASEAN region (see Fig. 3 below) indicate that Malaysia’s fiscal spending measures are relatively low (in GDP terms). (Very) rough approximations using publicly-available data suggest that while Malaysia has the largest economic response by total package size (at about 26 percent of GDP)—the size of its fiscal measures (5 percent of GDP) fall far below Singapore (~20 percent of GDP), Thailand (9 percent of GDP) and the Philippines (6 percent). This is despite Malaysia recording far more [confirmed COVID-19 cases](#) per million than Singapore, Thailand, Philippines, Indonesia, Vietnam combined.

Fig. 2: Economic stimulus packages from February 2020 to January 2021

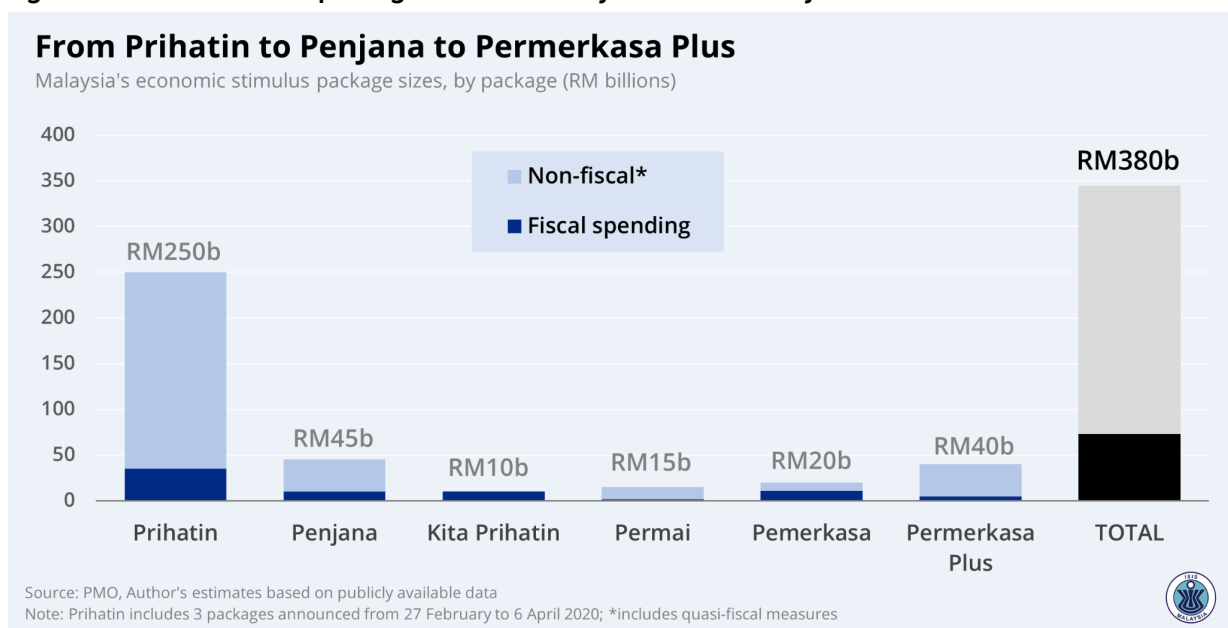
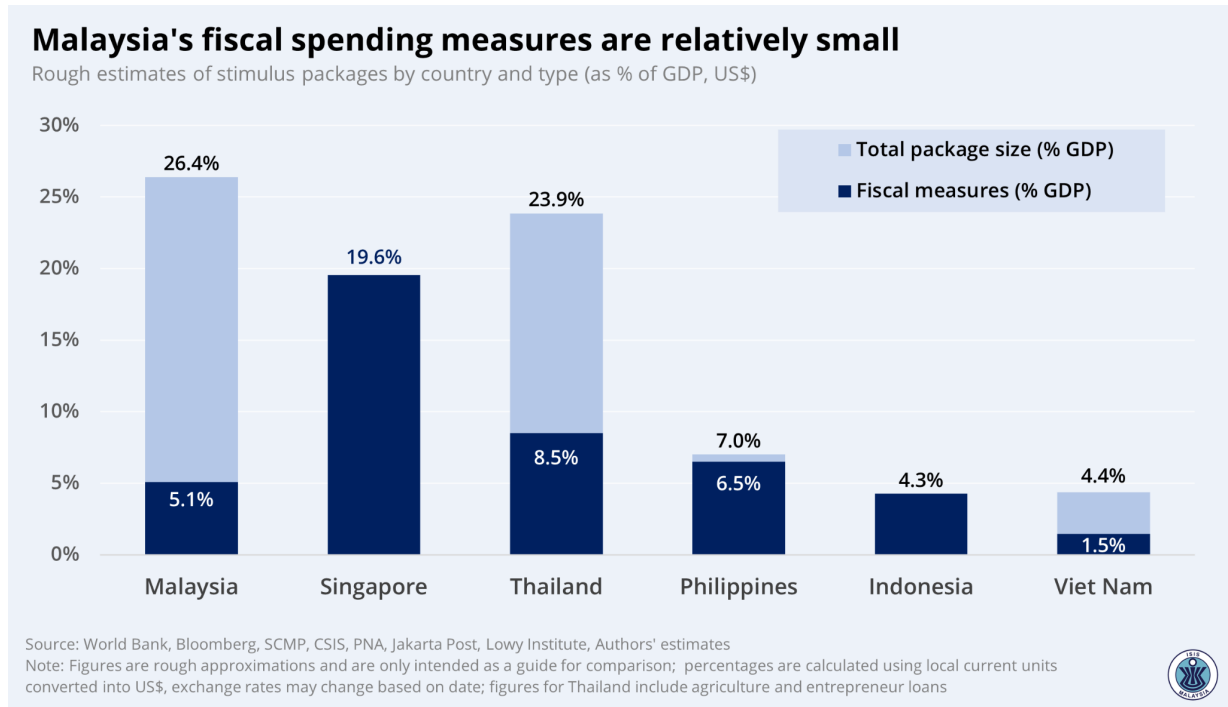


Fig. 3: Economic responses in the ASEAN region



3.0 More fiscal action needed to support families in need

Many of the fiscal and non-fiscal measures announced under *Pemerksa Plus* represent a lifeline to many low-income households and workers [heavily affected](#) by the COVID-19 pandemic. In the [past](#), I have [recommended](#) supplementary cash transfers and grants to microenterprises similar to *Permerkasa Plus*' BPR top-ups and microenterprise grant top-ups (GKP). Likewise, the loan moratoriums and microcredit schemes will undoubtedly help hundreds of thousands of affected entrepreneurs and small businesses.

Nonetheless, the magnitude of *Pemerksa Plus* is largely insufficient to combat both the economic impacts of the resurgence in COVID-19 infection rates and the implementation of a nationwide lockdown. This is made more urgent by rapidly rising COVID-19 case numbers, a partial economic recovery that has been [deeply unequal](#)—with about 750 thousand Malaysians remaining unemployed, and labour participation rates for [marginalised worker groups](#) at multi-year lows.

As such, if economic conditions deteriorate and COVID cases continue to rise, the Malaysian government needs to be much more forceful in expanding government spending. Overall, as I have argued [many times before](#), fiscal measures should focus on expanding direct government spending in three key areas: 1) cash support to lower income households; 2) expanding and extending EIS unemployment benefits and 3) increasing infrastructure spending. Focusing on these three key areas would help more unemployed Malaysians (read [here](#)) better able to receive the assistance they need to continue searching for a new job or re-skill. It would also help low-income families access the cash support they need, while also taking advantage of lower borrowing costs to expand infrastructure spending and boost longer-term productivity.

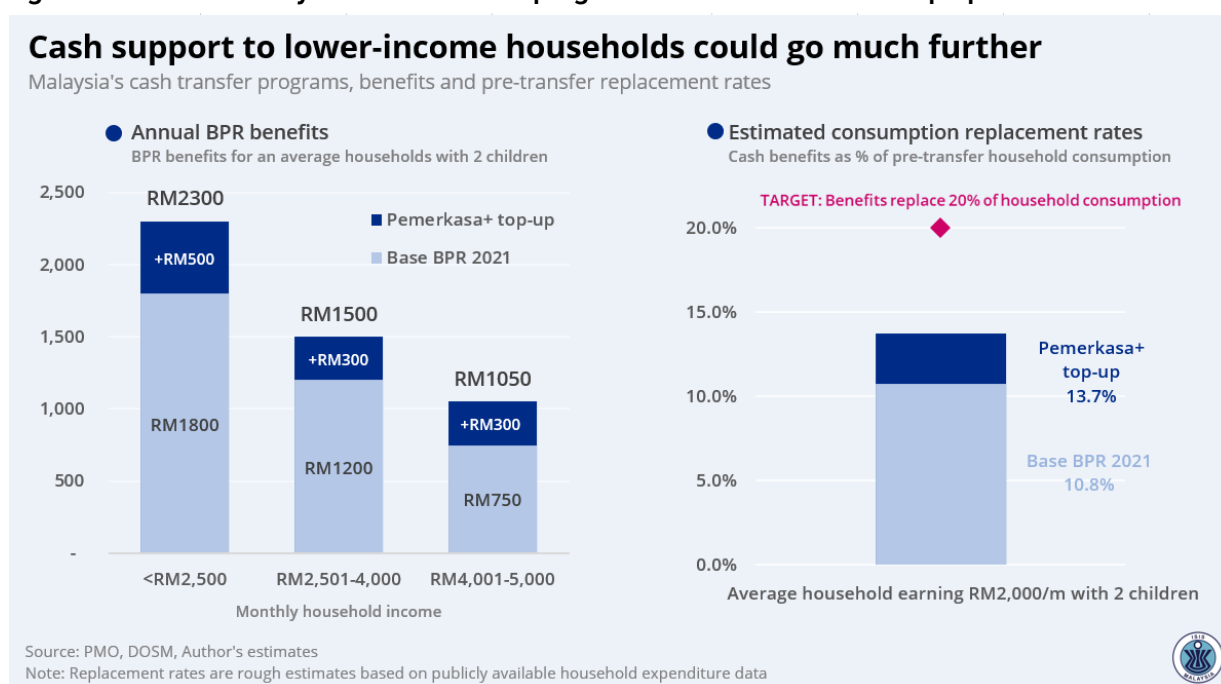
4.0 A brief note on the Bantuan Prihatin Rakyat cash transfer program

As mentioned earlier, *Pemerksa Plus*' BPR top-ups are a good start. [Survey](#) findings from lower-income households regularly show that cash support measures (like BPR and BPN) are amongst the most [effective](#) assistance for many families and households at the lowest end of the income distribution. Yet, there is a sense that the BPR top-ups under *Pemerksa Plus* (additional one-off RM500 for households earning below RM2,500 per month) are insufficient for many families to weather the impacts of a nationwide lockdown.

As it stands, the base BPR benefits for an average family earning RM2,500/month with 2 kids is about RM1,800 per year (see Fig. 4). The *Pemerksa Plus* top-ups brings that annual BPR benefit amount to RM2,300 for a household earning RM2,500/month (with 2 kids). This represents a replacement rate of about 13.7 percent, based on back-of-the-envelope estimates using household expenditure survey data (Fig. 4).

[Evidence](#) suggests that even in normal (non-pandemic) times, expenditure replacement rates of closer to 20 percent are likely to be [more effective](#) (Fig. 4, right chart). Additionally, earlier survey evidence shows that many lower-income families earn [sharply lower](#) or even [zero](#) incomes during full lockdowns. I estimate that the RM2,300 annual BPR benefit (which includes the *Pemerksa Plus* top-up) will only fully cover about 49 days of household consumption for an average household earning RM2,000/month. Moving forward, cash support needs to be more generous if and as economic conditions worsen. As a guide, estimates using household survey data suggest that a flat transfer of RM2,000 for households in the bottom 40 percent of the income distribution will cost about RM 6 billion in additional government spending.

Fig. 4: Overview of Malaysia's cash transfer program and Permerkasa Plus top-ups





4.0 Fiscal space considerations and concluding thoughts

Of course, calls for more fiscal action are regularly opposed by anti-debt enthusiasts. Recent [statements](#) by the Ministry of Finance suggest that debt ratios currently stand at 58% of GDP—about 2 percentage points lower than the statutory debt limit of 60%. This additional 2 percentage points may translate to about [RM28-30 billion](#) in additional deficit spending that can be financed through borrowing—far exceeding the RM5 billion allocated under the *Pemerkasa Plus* package.

Ultimately, fiscal space is malleable. In the near-term, taking into account other federal government budgetary measures, including re-allocating and/or non-essential expenditure items and increased revenue contributions from government-linked entities could further increase fiscal space. In the medium-term, measures to increase revenue sustainability (including enlarging the tax base and tax compliance) and expenditure reform can improve longer-term debt sustainability. Any and all of these would be far more effective in improving fiscal sustainability in the longer-run compared to myopic calls for near-term austerity.



APPENDIX A. Breakdown of main fiscal stimulus measures announced by the Malaysian government(2020-2021)

Fiscal measures	RM mil
PERKESO measures: Wage subsidy, employment retention & training assistance	16,800
Bantuan Prihatin Nasional cash transfers (Penjana)	11,200
Small-scale infrastructure projects (Penjana)	4,000
Upskilling programs (Penjana)	2,000
Prihatin SME grants (Prihatin)	2,212
Allocations to Ministry of Health (Penjana)	1,000
Food Security Fund (Prihatin)	1,000
Special allowance for COVID-19 frontliners (Prihatin)	600
PENJANA Nasional fund (Penjana)	600
ePENJANA (Penjana)	520
Electric bill discounts (Prihatin)	500
RM100 BSH supplementary transfers (Prihatin)	300
Special allowance for higher-education students (Prihatin)	300
Bumiputera relief financing (Penjana)	200
MY30 transport subsidies (Penjana)	200
Special assistance for rideshare/taxi/transportation services (Prihatin)	160
Social assistance measures for vulnerable individuals (Penjana)	110
Automation grants (Penjana)	100
Social assistance and training for gig workers (Penjana)	75
"Shop Malaysia Online" (Penjana)	70
Grants for childcare and early-childhood education centers (Penjana)	50
Grants to non-governmental organisations (NGOs) (Penjana)	35
SME MyAssist (Penjana)	10
Extra wage subsidies (Kita Prihatin)	2,400
Extra SME grants (Kita Prihatin)	600
BPN (Kita Prihatin)	7,000
Extra wage subsidies (Permai)	1,000
Extra SME grants (Permai)	650
Recruitment of healthcare workers (Permai)	150
Assistance for rideshare/taxi/transportation services (Permai)	66
One-off assistance to taxi/bus drivers (Permai)	70
National Vaccine Program (Permai)	3,000
Additions to COVID-19 fund (Permai)	1,000
Bus/taxi hire purchase scheme (Permai)	1,000
Flood-related initiatives (including NADMA) (Permai)	250
Cooperation with private hospitals (Permai)	100
Disaster Relief Network matching grant (Permai)	30
Other Permai tax reliefs, guarantees, misc	4,230
Extra allocation for small-scale infrastructure projects (Permerkasa)	2,500
Additions to the national vaccination program (Permerkasa)	2,000
Wage subsidies to sectors (Permerkasa)	700
Utilities discount for hotels (Permerkasa)	135
Cash aid for low-income households (Permerkasa)	1,200
Special Assistance Grant for Tourism (Permerkasa)	15
Prihatin Special Grant (GKP) 3.0 (Permerkasa)	1,000
Hiring incentives (for gig workers) (Permerkasa)	300

Source: Estimates based on the compilation from various press releases and speech texts from the Prime Minister's Office

APPENDIX B. Breakdown of main non-fiscal and quasi-fiscal measures

Non-fiscal measures (loans, loan moratoriums, guarantees, EPF withdrawals)	RM mil
EPF withdrawal measures (Penjana)	50,000
SME loan guarantees	55,000
EPF I-Sinar withdrawals (Permai)	24,000
Loan moratoriums	98,000



Various Penjana and Prihatin tax relief measures and waivers	47,000
Targeted Relief and Recovery Facility (TRRF) BNM	2000
Automation and digitalisation Facility	700
Smart automation	50
Microcredit	500
Pemerkasa-Nita microcredit for women entrepreneurs (BSN)	50

Source: Estimates based on the compilation from various press releases and speech texts from the Prime Minister's Office