

FINANCIAL AID

'RM10b WITHIN RANGE OF AFFORDABILITY'

But govt must move carefully to ensure there's sufficient funds in the event conditions worsen, says economist

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THE government can afford to provide cash and other assistance to the people and businesses as the latest Kita Prihatin stimulus is still within its capacity, economists said.

They also said the RM10 billion Kita Prihatin would exert further positive impact on the Malaysian economy.

Putra Business School Associate Professor Dr Ahmed Razman Abdul Latiff said the RM10 billion package, which included a RM7 billion Bantuan Prihatin Nasional 2.0, was equivalent to less than 0.7 per cent of Malaysia's gross domestic product (GDP).

Ahmed Razman said in a recent parliamentary sitting, the government had received an approval to raise its debt ceiling to 60 per cent of GDP. This would be equivalent to RM75 billion of new debt.

"Therefore, the RM10 billion is still within the range of affordability. In addition, the government initially allocated RM15.3 billion for wage subsidy but only RM10.4 billion was disbursed. There is a surplus of that allocation that can be used for the second round of aid," he told the *New Straits Times*.

MIDF Research economist Mazlina Abdul Rahman said the new stimulus would have a positive impact on the Malaysian economy on top of previous stimulus packages.

"We think this is doable as Parliament has approved the government's request to increase the statutory debt ceiling from 55 per cent to 60 per cent of GDP, which provides greater flexibility to inject additional fiscal stimulus like Kita Prihatin," she added.

However, Mazlina said the government must carefully use the



Bank Muamalat Malaysia Bhd economist Izuan Ahmad says the extensions of the wage subsidy programme and special grant for micro-enterprises signify the government's continuous effort to provide aid for the small business community. FILE PIC

KitaPrihatin

additional space to ensure sufficient funds in the event of worsening economic conditions following new waves of Covid-19 cases.

"While we agree the latest stimulus package will provide an overall positive impact, we are afraid it would be minimal.

"For instance, the cash assistance, being the biggest chunk in the Kita Prihatin at RM7 billion, is just one-off. Hence, it will not be adequate to boost consumption moving forward, especially with rising fears over new waves

of Covid-19 cases, which could force consumers to hold back their spending plans on concerns over future personal finances and outlook for the job market."

Mazlina said the labour market had remained fragile as retrenchments were still taking place.

Some companies might have to resort to retrenchment to manage operating costs due to con-

cerns over less encouraging revenue moving forward as overall economic activities would take time to recover, she added.

"Government debt and fiscal deficit will be higher this year with the stimulus packages announced so far. But the government is capable of reducing it over time as most of the measures in the stimulus packages are one-off," Mazlina said.

Against the economic fallout from the pandemic, she said the decision to raise the debt ceiling was not unique to Malaysia.

"We could expect that other countries will also record higher public debt ratio this year, adopting expansionary fiscal policy to counter the pandemic-induced economic slowdown."

She added that the government needed to adopt a fiscal consolidation approach when the economy recovers.

Mazlina pointed out that the international ratings on Malaysia's sovereign debts were unchanged thus far, although larger fiscal deficits and increased borrowing could have a negative implication on the gov-

ernment's fiscal management.

"The Finance Ministry has reiterated its expectation that our fiscal deficit is expected to increase to around 5.8 per cent to 6.0 per cent of GDP, but lower than the level seen during the global financial crisis when the deficit ratio rose to 6.7 per cent of GDP in 2009.

"Despite the higher public debt ratio that will temporarily exceed 55 per cent of GDP, rating agencies did not make any changes to Malaysia's sovereign debt ratings. This reflects continued confidence in the government's fiscal management," she added.

Bank Muamalat Malaysia Bhd economist Izuan Ahmad described the RM10 billion Kita Prihatin package as a firm commitment from the Perikatan Nasional government to provide further assistance to the most affected groups from the Covid-19 pandemic and resulting MCO periods.

"The stimulus is also a preventive short-term measure to avoid further deterioration in domestic demand, which is one of the major contributors to the country's economic wellbeing and growth. This is done by way of providing further monetary assistance to the Bottom 40 and Middle 40 income groups to supplement their spending power amid the chal-

lenging period.

"As such, private consumption is expected to be enhanced from the extension of cash handouts to the respective targeted groups," he added.

On the extensions of the wage subsidy programme and special grant for micro-enterprises, Izuan said they signified the government's continuous effort to provide aid to the small business community adversely affected by the challenging business environment.

"The extensions would enable the strengthening of the business continuity for the targeted segments in contributing to the country's economic growth as well," he added.

"In essence, this latest package indicates that the targeted income groups and business community still need to rely on further assistance from the government as they are hit hard by the repercussions of the pandemic and resulting lockdowns.

"This is crucial for the government to address, as it could not afford to leave behind these targeted segments from the country's ongoing road to economic and financial recovery, which is targeted to be achieved by next year," Izuan said. **Additional reporting by Azanis Shahila Aman**