

MALAYSIAN BUDGET 2021



LABOUR MARKET PERSPECTIVES

EIS-UPMCS Centre of Future Labour Market Studies (EU-ERA)
Office of Employment Insurance System, Social Security Organisation

“ In my view, the Malaysian Budget 2021 is inclusive, containing productive-driven recovery measures for the labour market and charting foundations for the future workforce development.

This review is written to provide our perspective on the key labour market information (LMI) as a reflection to the Malaysian Budget 2021.

There are several key takeaways for current and future workforces revealed and documented in this review.”

Dato' Mohd Sahar Darusman

Head of Employment Insurance System Office
Social Security Organisation

Recovering the Current Employment and Investing the Future Workforce

In my view, there are three main highlights in the Malaysian Budget 2021.

First, Budget 2021 records the largest budget in the Malaysian history hitting RM322.5 billion allocation. It is also the first Malaysian budget that balances between the needs for economic growth and the needs for protecting the *Rakyat* from the risk of Covid-19 pandemic. With 60.7% of government debt-to-GDP ratio, the Malaysian government takes the conventional approach to consider an expansionary fiscal policy. The present of lower consumer price index (CPI) growth, this approach may not create a long-term risk if appropriate measures are undertaken.

Second, Budget 2021 embodied two foundations, which are, *recovery* and *growth*. In relation to the labour market, recovery measures for the current employment are oriented towards retaining the employments and releasing the economic burden. Extension of Wage Subsidy Program and Job Search Allowance, and direct financial assistant to farmers and fishermen are among the examples of the measures. Growth of future employment is focused on the investment of human capital through reskilling and upskilling, and specific training programs to create future jobs employees and entrepreneurs. Altogether, the job creation strategies are expected to reduce unemployment rates to 3.7% in 2021.

In addition to the Research & Development (R&D), technological upgrading of economic sectors through digitalization, automation and modernization (DAM) receives considerable attention in the budget. This technological upgrading is expected to influence directly and indirectly on the demand and supply of future workforces. Changes in the composition of future workforces depending on the technologies, whether they are skill-complement or skill-substitute.

Third, Budget 2021 is the first budget in the framework of Twelfth Malaysia Plan (2021-2025). There are significant measures introduced in the budget in response to the sustainable development agenda with specific attentions are also given to the environmental and natural resources, and sustainable finance. Having sustainable development as the goal means to reconcile the economic and social pillars without ignoring environmental aspects.

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Reflection – the main insights

Our perspective on the following insights are made solely based on the contents of Budget 2021 speech and it may not necessarily reflecting the overall landscape of labour market.

➤ **Equilibrium between health risk and economic risk**

In safeguarding the welfare and livelihood of the people, the Budget 2021 provides a clear policy priority in establishing the equilibrium point between Covid-19 infection risk and economic risk. Stimulus and package to boost economic recovery and growth included in Budget 2021 are designed without ignoring the importance to strengthening public health system. The 'equilibrium' indicator of the budget is to improve socio-economic welfare of the *Rakyat* by lowering health and economic risks.

➤ **Elevation of job creation as national agenda**

The outbreak of Covid-19 elevates job creation as a national agenda, putting aside the existing structural issues in labour market such as underemployment, wage differentials and mismatch. During the crisis period, short-term policy measure is more important to safeguard the welfare and livelihood of the people as opposed to the medium-term measure. Moving through the economic revitalization stage in Budget 2021, targeted incentives such as Skim Jaminan Penjanaan Pekerjaan (JanaKerja) and PenjanaKerjaya, and the establishment of National Employment Council, are designed to support this short-term agenda.

➤ **Human capital investment for skills development**

Budget 2021 put a great emphasize on the aspect of human capital investment which is reflected through the allocation for various trainings, reskilling and upskilling programmes. For training, focus is primarily given to developing entrepreneurs and preparing fresh graduates for penetrating the labour market. Entrepreneurship training programmes are mostly targeted to needed groups such as Bumiputera and women. Meanwhile fresh graduates are prepared for labour market through the provision of allocation to pursue professional certificate course and apprenticeship programme. Concerning to reskilling and upskilling programmes, they are structured to assist current employees preparing for the transition process from one industry to another and to further improve their skills level, thus increase workforce flexibility and agility in the ever-changing labour market condition.

➤ **A skills-needs approach for automation**

Technological upgrading of economic sectors through digitalization, automation and modernization (DAM) receives considerable attention in Budget 2021. Concerns about changing technologies fostering technological unemployment and the substitution of machines for labour have featured prominently in all industrial revolutions. Two measures need to be emphasized. First, identifying the 'automatability risk', that is, the propensity of workers with high risk of substitutability by machines, robots or other algorithmic processes, and uncovers its impact on labour market outcomes. Second, determining the appropriate skills needed to support the types of automations.

➤ **Indirect measures affecting labour market**

The indirect effects of numerous incentives and initiatives proposed in Budget 2021 on labour market have to be taken into consideration for policy analysis. For example, promotion of high-value services/activities by relaxing several conditions (i.e. number of high value jobs, number of key positions and annual operating expenditure) are proposed to qualify of a renewal of the PH incentive for another five years. This is likely to influence the size of skill workforces in the large-sized firms. In addition to that, Budget 2021 also proposes to increase value added activities in Free Industrial Zones and Licensed Manufacturing Warehouses from 10% to 40%. This initiative will increase local content in total production and at the same time will increase directly and indirectly labour requirements.

Fiscal Highlight

Expansionary fiscal policy

In response to the impacts of Covid-19 pandemic, the government continues stimulating the economy through expansionary fiscal policy with the largest allocation in the history at RM322.5 billion. This fiscal expansionary implies a decrease in tax collection, while an increase in government spending. To finance the spending, the government debt in 2021 is expected to increase by 10.2%.

The goal of expansionary fiscal policy is to boost the economic activities and to reduce unemployment.

Large and well-targeted fiscal measures are particularly critical during the pandemic crisis periods to ease shocks in production sectors, labour markets and to guarantee minimum living standards, for *Rakyat* survival, business revitalization and whole economic recovery.

Growing debt-to-GDP may not create long-term risks

There is a significant increase in the debt-to-GDP ratio from 52% in 2019 to 60.7% in 2020, and expected to be around 59.0% in 2021. High debt ratio to GDP does not necessarily to bring adverse effect to the country if there is a balanced between operating expenses that driven by the productive and well-targeted measures, and development expenses.

Clearly, there is a significant growth in the allocation of development expenses in 2021 that expected to generate future returns to the country. Within the ASEAN countries, the debt ratio for Malaysia is considerably lower compared to Singapore and Laos which is forecasted at 131.2% and 70.9%, respectively.

Notes:
e = estimate
f = Forecast

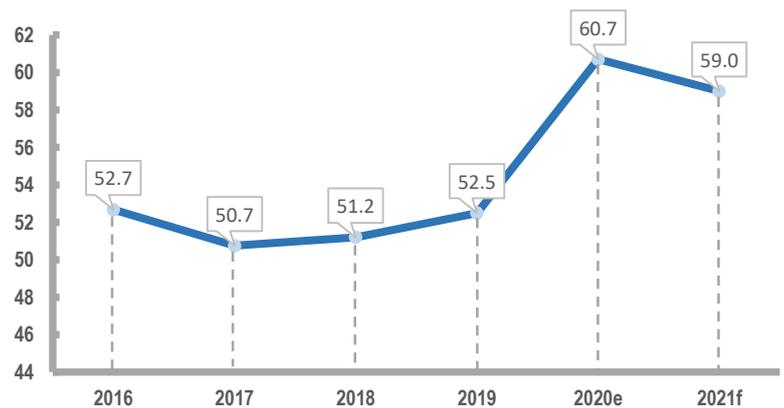
Budget deficit in Chart 1 is expressed in percentage

Sources:
Budget speeches from 2013-2021, Ministry of Finance
Economic Reports, Ministry of Finance

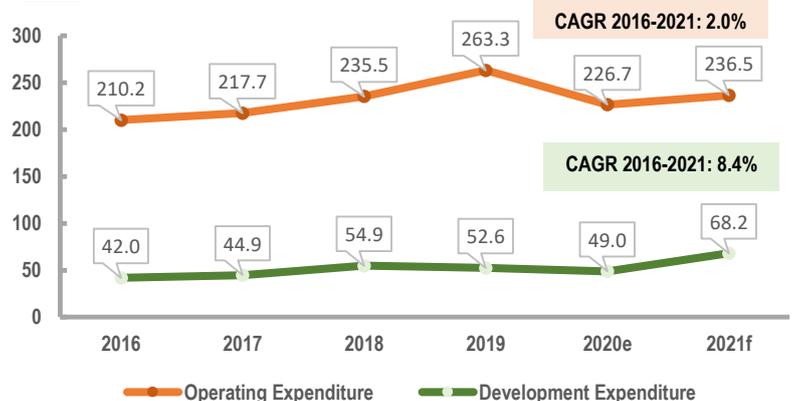
1 Budget Allocation, Government Revenue and Budget Deficit



2 Government Debt-to-GDP Ratio (%)



3 Operating and Development Expenditures (RM Billion)



Labour Market Highlight

Significant labour market recovery

With the high GDP growth around 6.5% to 7.5%, the unemployment rate in 2021 is expected to reduce and reach at 3.7%. The high GDP growth with strong job creation programs designed in Budget 2021 will absorb large number of unemployed workers in 2020.

Securing jobs for the people is the priority

Budget 2021 is a short-term policy tool that used to bring labour market recovery. As far as short-term recovery is concerned, the policy priority should be given on the job creation efforts. Budget 2021 properly addressing this issue by proposing several main programs that are oriented towards job creations.

Under-employment is a long-term structural intervention

Under-employment occurs when an individual does not work full-time or takes a job that does not reflect their actual educational levels. In the Malaysian context, under-employment is a long-term structural issue that requires long-term policy intervention. For example, the incidence of graduate mismatch was occurred in the economy since the past two decades. Annual budget is a short-term policy tool which has limited space to incorporate the long-term policy intervention.

Notes:

e = estimate

f = Forecast

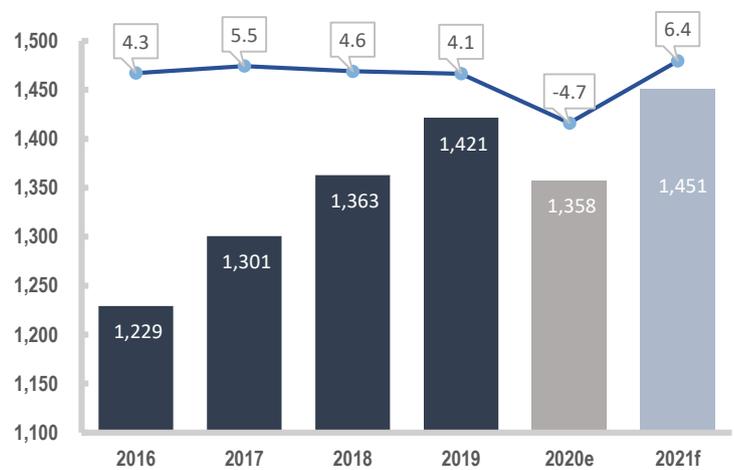
Dotted red line in Chart 5 indicates the normal unemployment rate experienced by Malaysia around 3.2% to 3.4%

Sources:

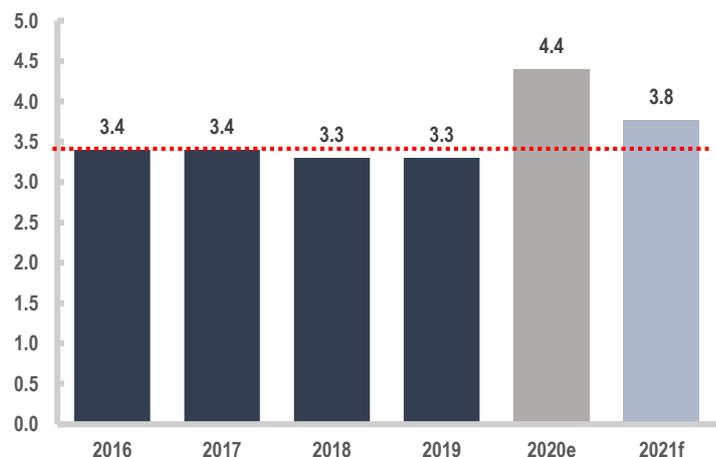
GDP sourced from Ministry of Finance,

Unemployment rates for 2020 and 2021 are estimated by EIS-UPMCS Centre of Future Labour Market Studies (EU-ERA)

4 GDP at Constant 2015 Price (RM Billion)



5 Unemployment Rates (%)



A) EMPLOYEES

Loan guarantee scheme

Danajamin Prihatin Guarantee Scheme worth RM3 billion will be extended to 2021 with improved terms and conditions for companies involved in highly skilled industries, such as oil and gas and aerospace.

Assistance and empowerment of farmers and fisherman

Rubber Production Incentive of RM300 million to assist 150,000 rubber smallholders.

Subsidy, aid and incentive of RM1.7 billion to farmers and fishermen.

Living allowance to 40,000 fishermen commencing 2021 with the total allocation of RM151 million.

Vessel Modernization and Capture Mechanization Programme for fisherman worth RM150 million provided through Agrobank.

Relieve the financial burden of Rakyat

Reduction of Employees Provident Fund (EPF) contributions of employees from 11% to 9% for a period of 12 months effective January 2021.

Facility to withdraw Account 1 EPF savings of RM500 per month for 12 months effective January 2021.

Extension of Job Search Allowance for an additional three months starting in 2021 from only six months. The allowance rate is subject to a cap of 80% of salary for the first month, 50% for the second to sixth month, and 30% for the last three months.

Social protection

Facility to withdraw Account 2 EPF savings to purchase insurance and takaful products for critical illnesses coverage for individuals and their families as approved by EPF.

Extension of tax relief of RM3,000 for contribution to Private Retirement Scheme (PRS) up to 2025.

Targeted wage subsidy program

Extension of Wage Subsidy Program (WSP) targeted for the tourism sector for an additional three months at a rate of RM600 per month for employees with wages of RM4,000 and below. The employee limit for each application is increased to 500 employees per employer from 200.

Tax relief

Increment in tax exemption for compensation for loss of employment from RM10,000 to RM20,000 for each completed year of service.

Additional tax deduction on the remuneration of senior citizens, ex-convicts, parolees, supervised persons and ex-drug dependents employed for remuneration amount not exceeding RM4,000 starting 2021 up to 2025.

B) ENTREPRENEUR

Empowerment of agriculture sector

Agrofood Value Chain Modernization Programme for financing agricultural entrepreneurs under Agrobank with the allocation amount of RM60 million.

Empowerment of Bumiputera

Bumiputera entrepreneurs' empowerment through financial assistant and capacity building programs. A total allocation of RM4.6 billion is provided through Syarikat Jaminan Pembiayaan Perniagaan (RM2 billion), TEKUN and PUNB (RM510 million), Dana Kemakmuran Bumiputera and other Bumiputera specific projects (RM1.3 billion), and Bank Pembangunan Malaysia and SME Bank (RM800 million).

B) TRAINING

Reskilling and upskilling

Transition of existing workforce to the growing ICT industry through the allocation of RM100 million to MDEC.

A) EMPLOYEES

Generating and retaining jobs

Implementation of Skim Jaminan Penajaan Pekerjaan (JanaKerja) to provide 500,000 new job opportunities through RM3.7 billion government expenditure.

PenjanaKerjaya incentives of RM2 billion to increase employment opportunities for 200,000 job seekers.

Additional employers' incentive of 20% to create job opportunities for the disabled, long-term unemployed, and retrenched workers, making the total employers' incentive of 60%.

Special incentive of 60% of monthly wages will be provided to sectors with a high reliance on foreign workers such as construction and plantations, with 40% are channelled to the employers and the remaining 20% to local workers that replace foreign workforce.

Short term Employment Programme

Short term Employment Programme (MySTEP) will be introduced with an allocation of RM700 million to provide 50,000 job opportunities in the public sector and GLCs on contract basis.

National Employment Council

The formation of a National Employment Council to coordinate various initiatives across ministries and agencies to create job opportunities, enhance skills and provide training for employees.

Job creation for Orang Asli

Government to provide job opportunities to 500 Orang Asli from local community as tour guide at national parks to boost ecotourism.

Recruitment of more than 500 former military and police personnel as well as Orang Asli for patrolling activities under Biodiversity Protection and Patrol Programme.

Returning Expert Programme

Extension of application for tax incentives under Returning Expert Programme (REP) for three years.

B) ENTREPRENEUR

Production and purchase of local products

Micro Franchise Development and Affordable Franchise programmes including Buy Made in Malaysia programme will be implemented with an allocation of RM25 million to encourage the production and purchase of locally made products.

The implementation of Shop Malaysia Online initiative with the collaboration of major e-commerce platform to encourage online purchasing. RM150 million will be allocated for the programme.

Micro credit financing

Skim Lestari Bumi financing with funds amounting to RM300 million will be provided by SME Bank to encourage Bumiputera micro and small businesses to graduate to a larger size category.

The introduction of National Supply Chain Finance Platform or "JanaNiaga" to support the financial position of SMEs that supply products to the Government or GLCs. RM300 million is provided by EXIM Bank to drive JanaNiaga.

Micro credit financing worth RM1.2 billion will be provided through TEKUN, PUNB, Agrobank, BSN and other financial institutions. It involves additional RM110 million for Micro Enterprises Facility under BNM to encourage entrepreneurship among gig workers and self-employed and to support the iTEKAD programme.

Loan guarantee

Syarikat Jaminan Pembiayaan Perniagaan to increase up to RM10 billion additional guarantee, with RM2 billion are reserved for Bumiputera entrepreneurs.

Empowering women

Empowering of women entrepreneurs through special micro credit financing through TEKUN, MARA and Agrobank worth RM95 million.

C) TRAINING

Apprenticeship

Apprenticeship programme for fresh graduates under private employers with the total allocation of RM250 million.

Reskilling and

Vouchers worth RM3,000 to fresh graduates to pursue a professional certification course at public and private universities.

Employment training programme worth RM100 million under HRDF in collaboration with private sector employers.

Entrepreneurship training programmes worth RM30 million under PERHEBAT for veterans of the Malaysian Armed Forces.

The maximum training rate claimable by employers will be increased from RM4,000 to RM7,000 to enable employees who are hired through PenjanaKerjaya to take up high skill training and professional certification.

New skills training through regional corridor authorities such as IRDA and SEDIA to workers affected by the closure of borders to foreign tourists in order to assist them to secure new jobs or source of incomes with the allocation amount of RM100 million.

Training programme, sales assistance and digital equipment for 100,000 local entrepreneurs to shift to digital services under the e-Commerce SME and Micro SME Campaign.

Training programmes for more than 2,000 women entrepreneurs through the Micro Entrepreneurs Business Development Programme (BizMe).

Training and placement programmes for 8,000 airline employees with an allocation of RM50 million.

Access to quality

Provision of loans to 24,000 trainees through Skills Development Fund Corporation (PTPK) to pursue TVET programme in public and private skill training institutions.

Introduction of National Dual Training System Plus with increment in allowance rate from RM625 to RM1,000 to encourage the industry involvement in implementing TVET-based programmes.

Implementation of TVET programmes under MOHE to students in tahfiz institutions and pondok schools.

Income tax relief for education fees

Expansion scope of tax relief for education fees of RM7,000 per year that include up-skilling or self-enhancement courses in fields of study recognized by the Department of Skills Development, Ministry of Human Resources. This tax relief for additional scope is limited to RM1,000 that applies for year of assessment 2021 and 2022.

<p>Prioritizing automation and digitisation</p>	<p>Implementation of Industrial Digitalization Transformation Scheme worth RM1 billion through Bank Pembangunan Malaysia Berhad (BPMB) to stimulate digitization activities.</p> <p>Provision of additional fund of RM150 million under SME Digitization Grant Scheme and the Automation Grant to support automation and modernisation activities. The eligibility condition will be loosened to includes micro SME and start-ups that have been operating for at least</p>
<p>Adapting technology in construction sector</p>	<p>Provision of tax incentives to producers of Industrialized Building System (IBS) basic components to increase the adoption of IBS technology in construction sector.</p>
<p>Investment in major sectors</p>	<p>Relaxation of tax incentive conditions for Principal Hub to transform Malaysia into a high-value service activity and the incentive will be extended until 31 December 2022</p>
<p>High value-added service activities</p>	<p>Broadening of tax relief scope for companies in selected services sectors including companies adopting Industrial Revolution 4.0 technology and digitalisation with investment that contribute to significant multiplier impacts. It includes the following services sectors:</p> <ul style="list-style-type: none"> ▪ Provision of technology solutions; ▪ Provision of infrastructure and technology for cloud computing; ▪ Research and development/design and development activities; ▪ Medical devices testing laboratory and clinical trials; and ▪ Any other services, including manufacturing related services, as determined by the Minister of Finance.
<p>Micro credit financing</p>	<p>Financing to SMEs (RM230 million) will be provided through PUNB for working capital, upgrading of automation system and equipment and expenditures related to the implementation of Covid-19 SOP compliance</p>

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About EU-ERA

EIS-UPMCS Centre for Future Labour Market Studies (EU-ERA) is a collaborative research laboratory between the Employment Insurance System (EIS) at Social Security Organisation (SOCSO) and Universiti Putra Malaysia Consultancy & Services (UPMCS).

The mission of the EU-ERA is to blend the scientific and empirical approaches into the current policy development which cover end-to-end labour market policies ranging from the labour supply to the labour demand issues.

The research areas and policy analyses are focused towards supporting the public employment services. In meeting the scopes, the centre focuses on forecasting and modelling; applied policy analysis; and capacity building and structured training programs for labour market assessment tools.

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