



Institute of Strategic & International
Studies (ISIS) Malaysia

**10/4/20 REFSA Webinar on “Flattening the Recession Curve: Saving
SMES and Preserving Jobs”**

Some portions originally presented at ISIS Malaysia Staff Seminar 1/2020

Economics of a Global Pandemic Malaysian impacts and responses

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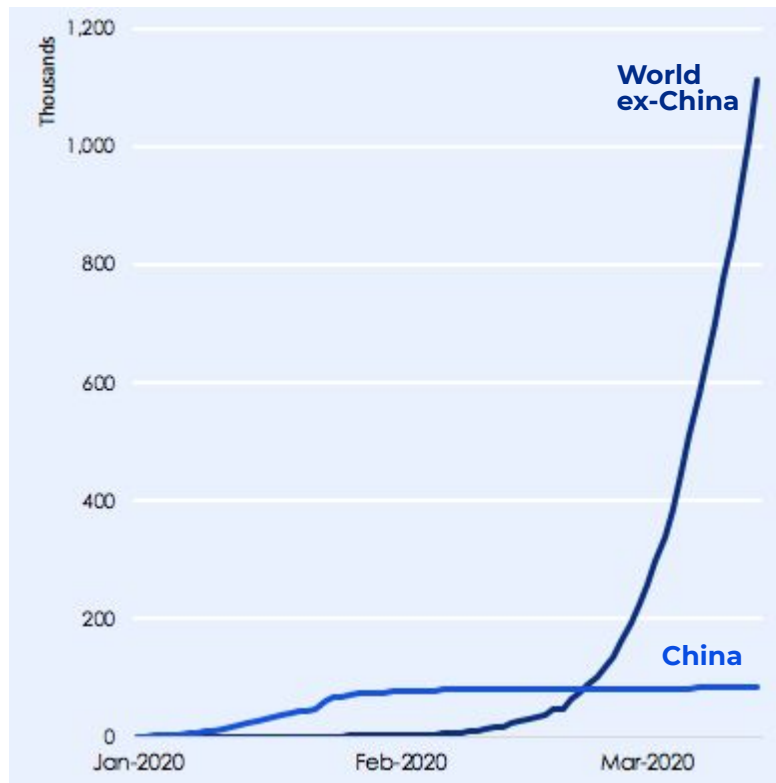
Economics, Trade & Regional Integration

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Global COVID cases continue to rise

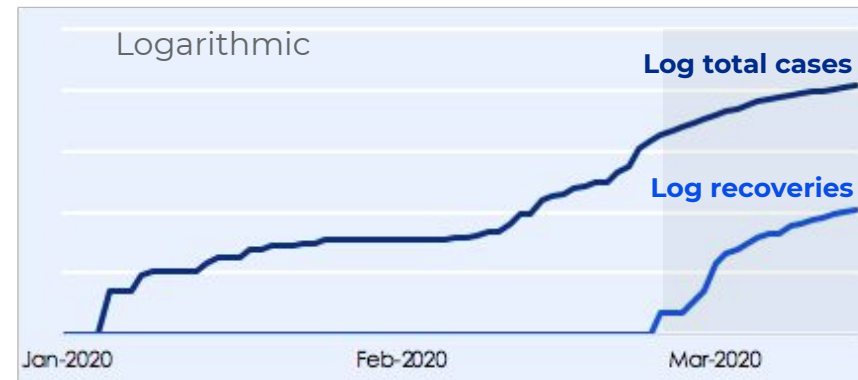
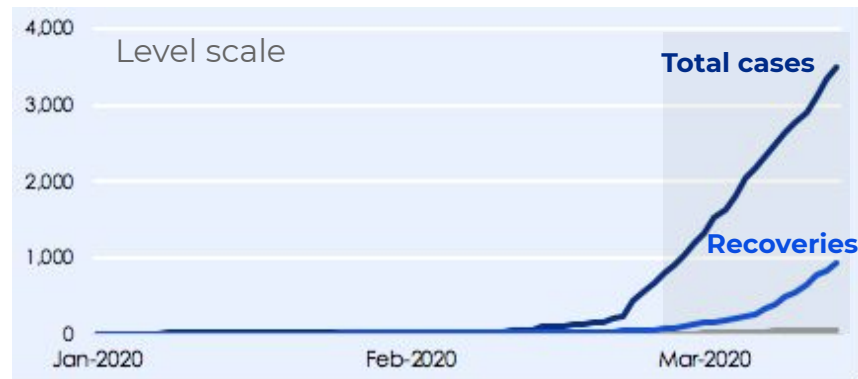
Total confirmed cases



Source: CSSE Github, WHO, Author's calculations

New case growth may be decreasing for Malaysia

Total case numbers and log trend



Note: shaded areas denote MCO period
Data as at 4 April 2020

The COVID crisis is a **different** type of crisis...

1997 Asian financial crisis

- Started as a monetary crisis in Thailand
- Hit Malaysia through **monetary & financial** channels

2008/09 Global financial crisis

- Started as a housing market & financial crisis in the US
- Hit Malaysia mainly through the **trade channel**

2019/20 COVID-19 crisis

- Foremost a public health crisis that creates **both supply & demand shocks**
- Public health measures to flatten infection curve also steepens recession risks

...but how should this affect **economic policy responses**?

1 Prioritisation of public health responses

Public health outcomes more important in the immediate-term

2 The role of Keynesian fiscal stimulus

Stimulating too early may be ineffective & undermine infection suppression

3 The role of social insurance transfers

Social insurance transfers to households, businesses, & workers more important than ever before -- prevent negative feedback loops!

Policy responses: A 2-stage solution (cont.)

Stage 1: During the MCO

Goal 1 Safeguard solvency of households & businesses

1. Households & individuals:

- Emergency cash transfers (*BSH, BPN*)
- Expansion and extension of unemployment insurance (*EIS*)
- Cost reduction (discounts, moratoriums)

2. Businesses:

- Liquidity support (*concessionary loans, grants, credit lines*)
- Cost reduction (overheads, moratoriums)

Goal 2 Retain employment & preserve employer-worker relationships

- Wage subsidies (wage-sharing)
- Provision of conditional on worker retention

Stage 2: Post-MCO recovery

Goal 3 Kickstart economic recovery

1. Immediate-term:

- One-off cash injection to households (immediate tax rebate)

2. Longer-term:

- Expansion of infrastructure spending in underdeveloped regions
- *Invest in deepening social safety nets and automatic stabilisers (EIS, BSH)*

Further reading:

[Stan Veuger & Steven Hamilton](#), 2020.
[Arindhaait Dube](#), 2020.
[Michael R Strain](#), 2020.
[Pierre Olivier-Gourinchas](#), 2020.
[Claudia Sahm](#), 2020.
[Calvin Cheng](#), 2020.
US Congressional Research Office, 2019.

1 External

- Trade & tourism
- Financial markets and uncertainty
- Commodity prices

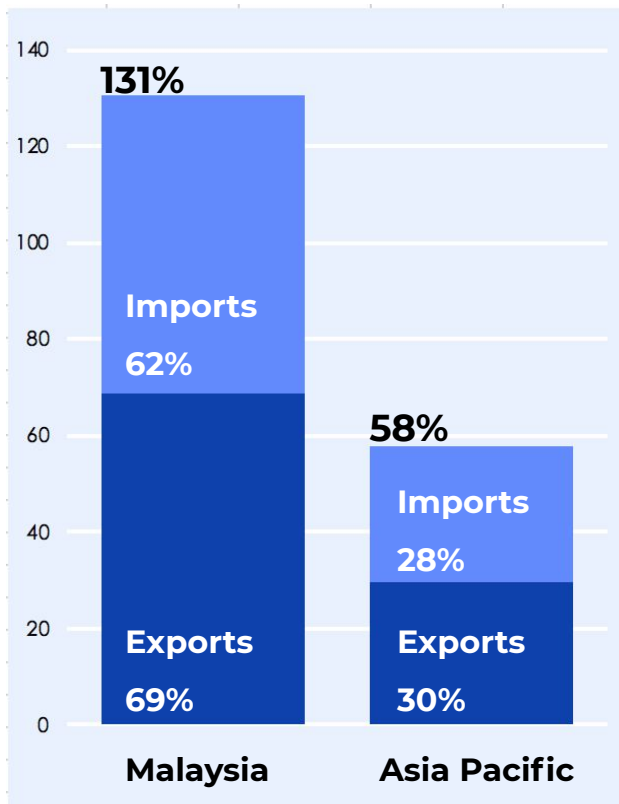
2 Domestic

- Impact of movement controls on incomes & consumption
- Financial sector systemic risks
- Fiscal/budgetary risks

Chart data sources: DOSM, World Bank Open Data, World Bank EAS report, IMF EORA, Author's calculations

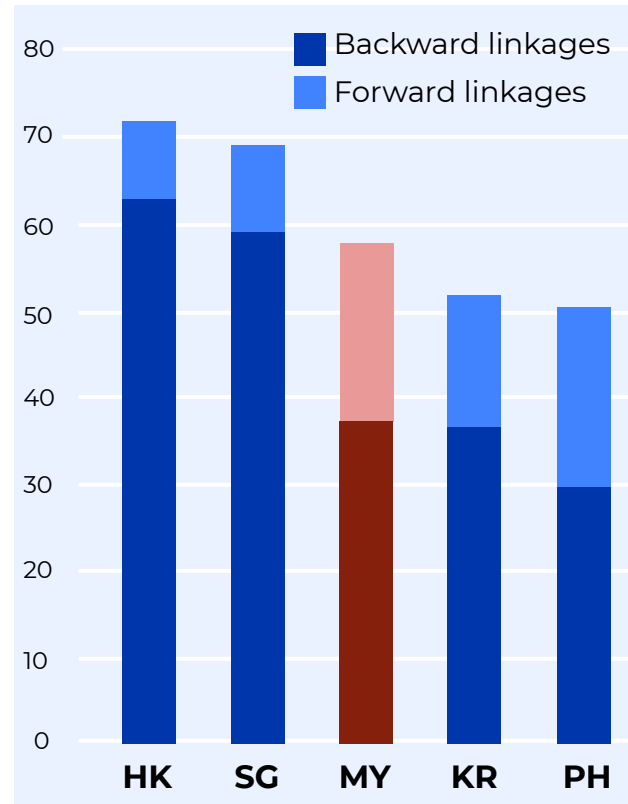
Malaysia has amongst the highest exposure to trade in the region...

Goods imports and exports (% of GDP)



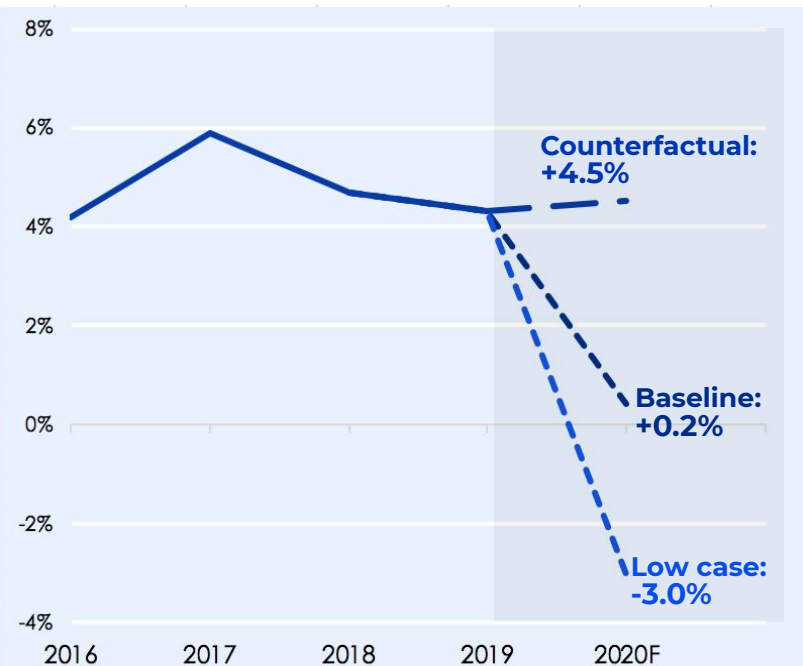
...and is the 3rd most connected in Asia to global supply chains

% of foreign value-added in trade



The **macroeconomic impacts** on economic growth may be severe...

Malaysia real GDP growth, actual and projected (% annual chg)



Source: DOSM, Bank Negara Malaysia, AmBank, World Bank, Author's estimates

Note: shaded areas indicate start of forecast period

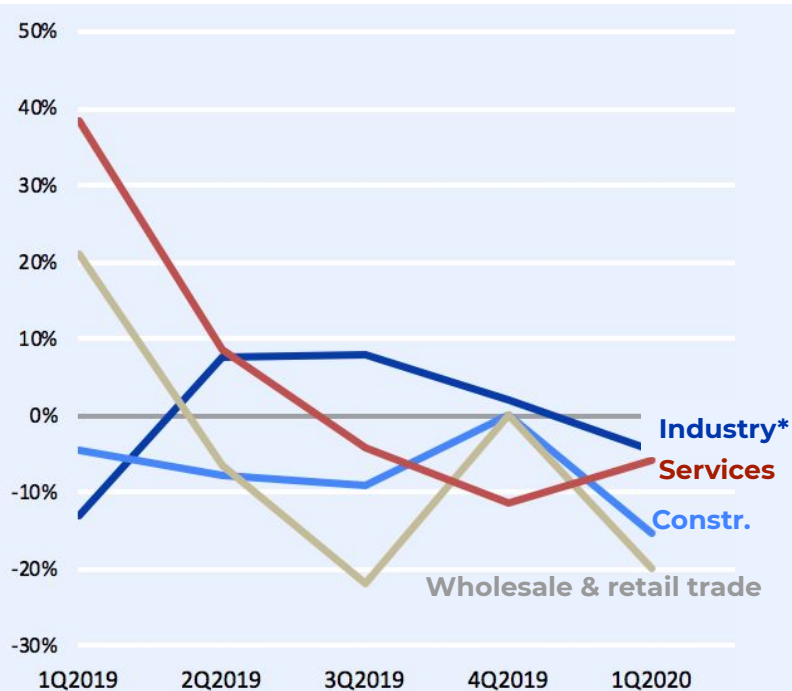
...but these impacts will be **unevenly spread** among sectors and vulnerable groups

- 1 Lower-income families and individuals
- 2 Smaller & younger businesses
- 3 Informal workers
- 4 Sectoral impacts on tourism, food & beverage, retail

Source: DOSM, Bank Negara Malaysia, AmBank, World Bank, Author's calculations

Business revenues have been declining...

Expectations of gross revenue by sector

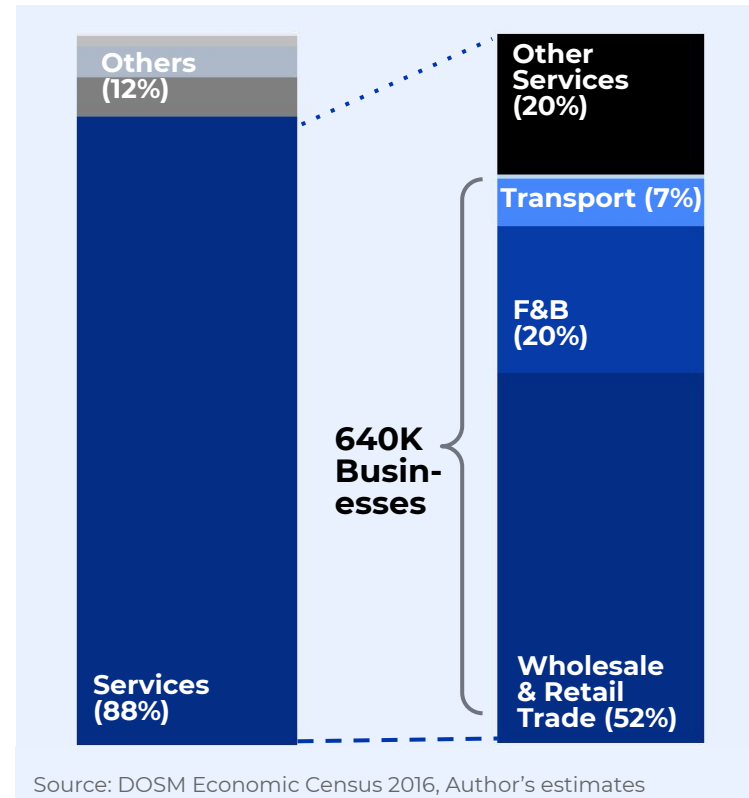


Source: DOSM Business Tendency Survey 1Q2020

Note: Industry comprises manufacturing, utilities, mining and agriculture
Data for 1Q2020 are survey expectations

...and a large percentage businesses are in affected sectors

No. of establishments, by sector and sub-sector, 2016



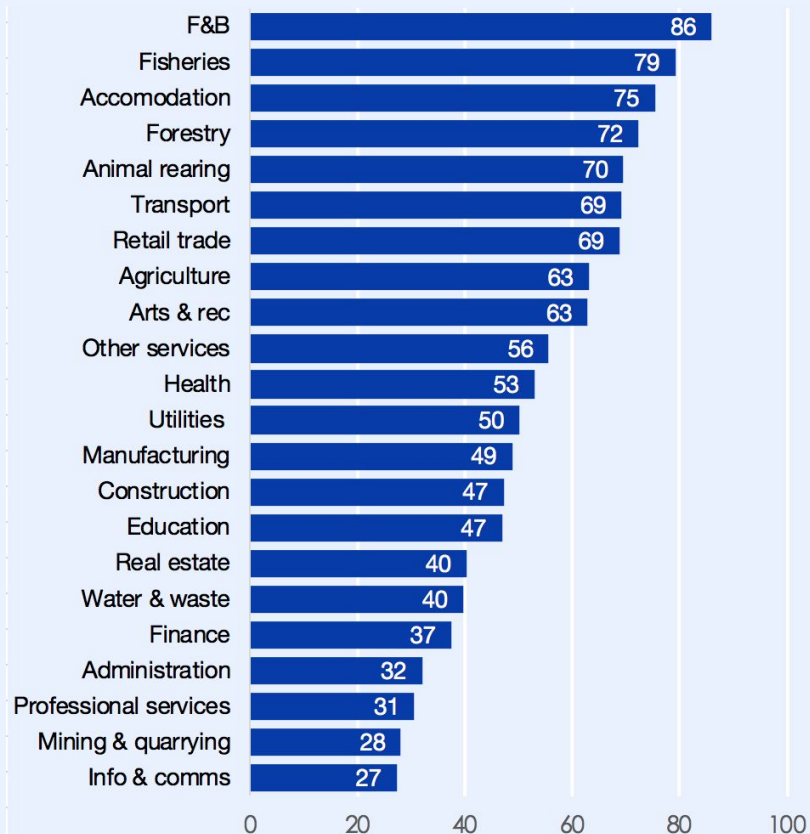
Source: DOSM Economic Census 2016, Author's estimates

A look at the latest data (cont.)

Calvin Cheng, 2020. calvin.ckw@isis.org.my

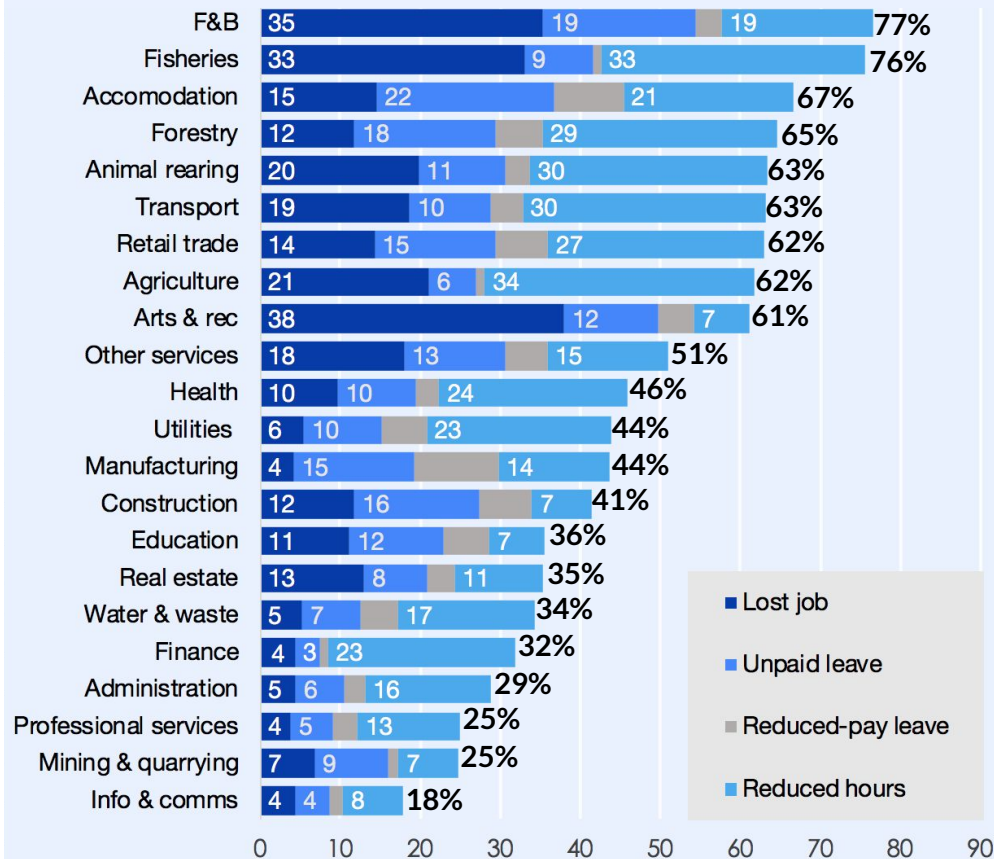
Businesses in certain sectors have been badly hit by the MCO...

% of businesses reporting a decline in earnings



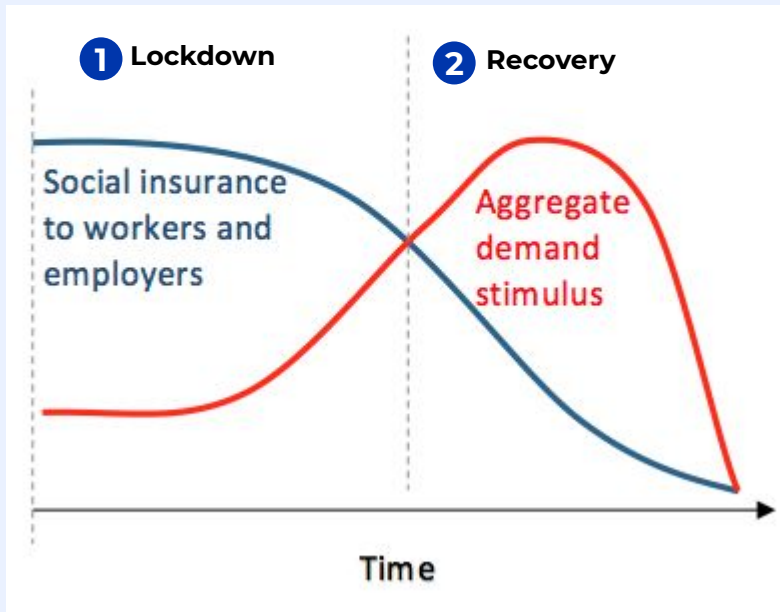
... but workers have fared worse

Effects of the COVID19 crisis on workers, by industry (%)



Source: DOSM Survey on the effects of COVID-19, Author's estimates

Different stages of the crisis will have **different goals** and require different responses



Source: reproduced in full from Arindrajit Dube "Step One in Fighting the COVID-19 Economic Crisis". March 23 2020. Boston Review.

A **two-stage** economic policy response for Malaysia proposed in bit.ly/ISIS-COVID

1 Stage 1: During the MCO

- Goal 1** **Safeguard solvency** of households & businesses
- Goal 2** **Retain employment** & preserve employer-worker relationships

2 Stage 2: Post-MCO recovery

- Goal 3** **Kickstart economic recovery** by stimulating aggregate demand

Veuger & Hamilton, 2020; Dube, 2020; Gourinchas, 2020; Cheng, 2020. UNDP, 2020.

Prihatin package highlights

Including all three stimulus packages from Feb - April

1 Individuals

- Bantuan Prihatin Nasional (BPN) - supplementary to BSH cash transfers
- Moratoriums on loan repayments
- EPF withdrawals

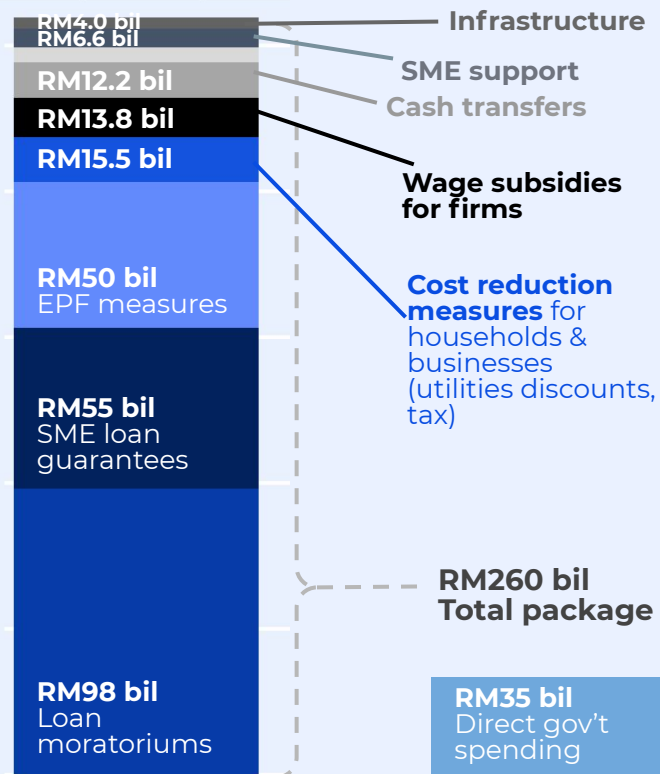
2 Businesses

- **Danajamin loan guarantees**
- **Special Relief Facility**
- **BSN micro-loans**
- **Prihatin Special Grant**
- **Employment Retention Program (ERP)**
- **Wage Subsidy Program (WSP)**
- Cost-reduction measures (moratoriums)

3 Other spending

- Infrastructure spending (RM 4 bil)

Prihatin package breakdown by type of measure (RM bil)



Source: Authors' calculations, MOF, reproduced from bit.ly/BSH-Prihatin

Prihatin needs **more focus on workers** and **employment retention**

Employment retention programs: WSP and ERP

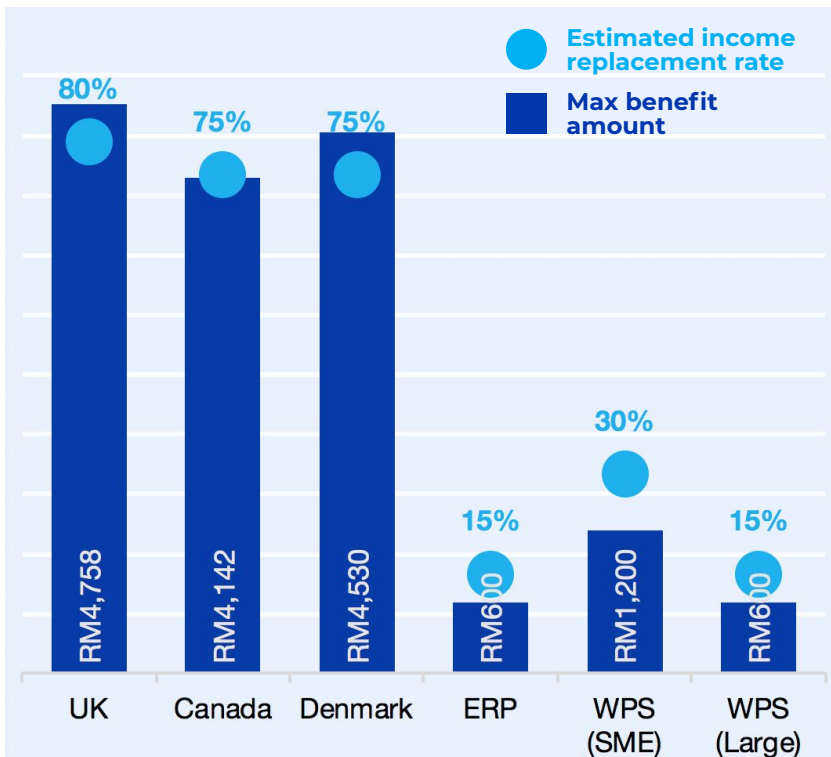
- Imposing strict conditions by cutting off workers earning above 4k and needing firms need to prove 50% fall in earnings undermines employment retention goals
- Current WSP targeting by company size is unusual, administratively complex
- Instead, instead set a flat target income replacement rate, subject to a maximum benefit amount.
- Implementation is key (delays in the US & UK)

Potential for improved coverage

- Self-employed, informal sector workers currently not covered by ERP/WPS and only partially covered by EIS through SIP600
- Expand EIS JSA to fully provide benefits to these groups and extend benefit duration

Job retention programs can be more generous

International comparisons vs ERP and WPS



Source: Authors' rough estimates, various news sources, PERKESO
Note: RM figures adjusted for PPP, replacement rates for Malaysia calculated using the top income threshold of RM4,000

Policy responses: Prihatin - fixing weaknesses

Prihatin's transfer components can have greater impacts with a larger benefit size and lower exclusion

Supplement BPN/BSH if MCO is extended

- Current BSH/BPN replacement rates (18%) adequate for non-crisis periods
- But might only cover 2.1 months of household expenditure

Work towards mending existing weaknesses in BSH

- BPN may inherit many of the weaknesses in BSH targeting
- High exclusion errors in many vulnerable communities

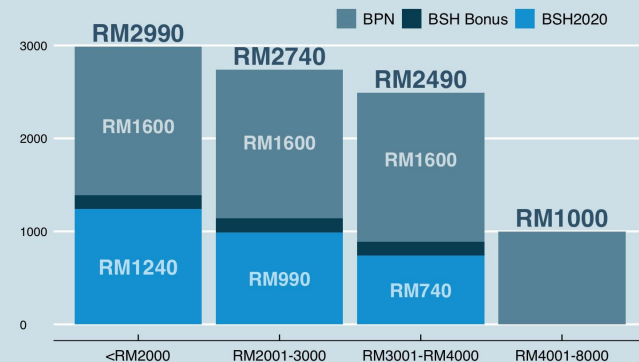
Extend and expand EIS unemployment benefits

- Only lasts 6 months, need extension
- Broaden coverage to self-employed workers*
- Move expansion to emergency federal funding

Charts (right) copied from: bit.ly/BSH-Prihatin

BSH benefits are targeted towards low-income households while BPN benefits are widely targeted

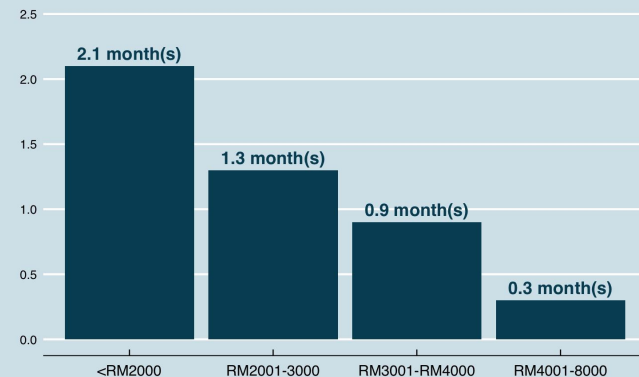
Total BPN and BSH benefit annual amounts by household income (RM)



Source: Calvin Cheng (@calvinchengkw); Data: DOSM, MOF;
Note: for an average household with 2 kids, excluding other retiree/e-hailing transfers

BPN and BSH benefits may cover about 2.1 months of household expenditure for the poorest households

BPN and BSH benefit amount/monthly household expenditure, by household income



Source: Calvin Cheng (@calvinchengkw); Data: DOSM, MOF;
Note: Rough estimates using 2016 data, for an average household with 2 kids

Businesses, especially SMEs could use **more grants vs loans**

Vulnerable SMEs would fare better with more grants

- SMEs are in huge amounts of distress, with many facing permanent losses of revenue.
- Loans can be an invaluable lifeline, but loans are debt, and they risk disproportionately burdening the most vulnerable SMEs even more.
- Instead, more outright grants to more vulnerable SMEs would be faster (rapid cash injection) and provide a stronger buffer against SME insolvency

Linking grant provision back to worker retention

- Also, there is an opportunity to link provision of grants back to employment retention, by making a portion of these grants conditional on meeting some worker retention target.

Further reading: bit.ly/ISIS-COVID
Hubbard & Strain, 2020; UNDP, 2020;

Current Prihatin liquidity support measures for businesses

Only Micro-SMEs (<5 people)

- **BSN microcredit loans** 0% interest rate
- **Prihatin Special Grant** RM3,000 grant

All SMEs (5-200 people)

- **Special Relief Facility** 3.5% interest rate
- **Other BNM funds (ADF, AF)**

All firms (all sizes)

- **Danajamin loan guarantees** RM50 bil
- **Loan moratoriums** 6 months
- **Cost-reduction measures** (EPF, HRDF)

Increasing focus and planning for post-MCO economic recovery

*Including all three stimulus packages from Feb - April

Expand infrastructure spending (>RM4b)

- The current amount of RM4 bil in infrastructure spending is very minimal as the only post-MCO stimulus (not even 3% of GDP)

Need post-MCO income transfers

- Broad, immediate income transfers will get money out into the real economy quicker than traditional stimulus measures like corporate tax cuts

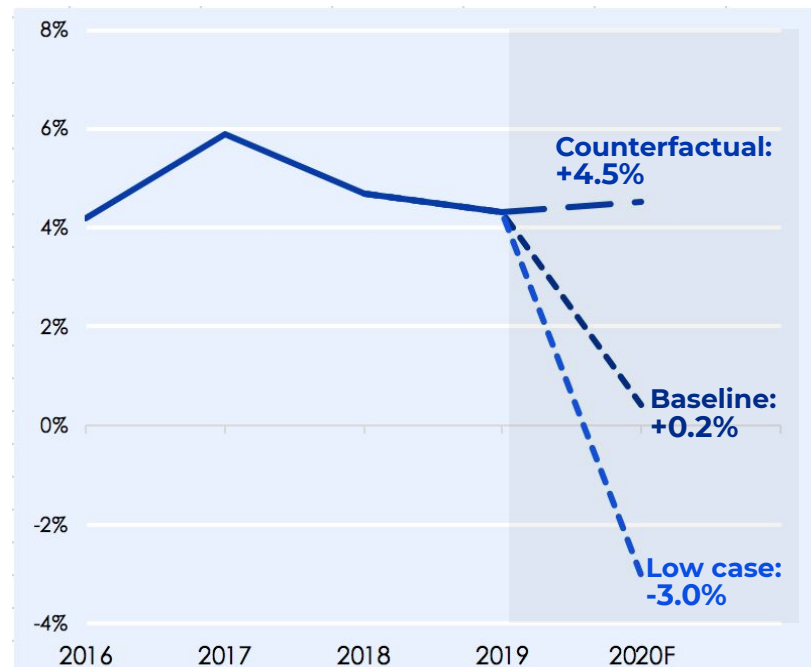
Invest in strengthening automatic stabilisers

- Strengthening automatic stabilisers (EIS and BSH) will increase Malaysia's resilience to economic shocks in the future

Further reading: bit.ly/ISIS-COVID
Sahm, 2020. Ritz, 2020.

Larger post-MCO stimulus will help the economy get back on its feet

Malaysia real GDP growth, actual and projected (% annual chg)



Source: DOSM, Bank Negara Malaysia, AmBank, World Bank, Author's estimates

Note: shaded areas indicate start of forecast period



Thank you. Questions welcome.

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