**Background: COVID crisis by the numbers**

**Global COVID cases continue to rise**
Total confirmed cases

![Graph showing total COVID cases globally, including China and the rest of the world.](image1)

Source: CSSE Github, WHO, Author's calculations

**New case growth may be decreasing for Malaysia**
Total case numbers and log trend

![Graph showing total cases and recoveries for Malaysia, with logarithmic scale.](image2)

Note: shaded areas denote MCO period

Data as at 4 April 2020

Calvin Cheng, 2020. calvin.ckw@isis.org.my
## Economic Impacts: Anatomy of a crisis

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

<table>
<thead>
<tr>
<th>1997 Asian financial crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Started as a monetary crisis in Thailand</td>
</tr>
<tr>
<td>Hit Malaysia through monetary &amp; financial channels</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2008/09 Global financial crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Started as a housing market &amp; financial crisis in the US</td>
</tr>
<tr>
<td>Hit Malaysia mainly through the trade channel</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2019/20 COVID-19 crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foremost a public health crisis that creates both supply &amp; demand shocks</td>
</tr>
<tr>
<td>Public health measures to flatten infection curve also steepens recession risks</td>
</tr>
</tbody>
</table>

### ...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!

---

Athukorala, 2010; Guerreri et al. 2020; World Bank, 2020;
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:
### Economic Impacts: Channels of transmission

#### External
- **Trade & tourism**
- **Financial markets and uncertainty**
- **Commodity prices**

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

---

**Malaysia has amongst the highest exposure to trade in the region...**
Goods imports and exports (% of GDP)

- **Imports**: 62%
- **Exports**: 69%

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

---

**...and is the 3rd most connected in Asia to global supply chains**
% of foreign value-added in trade

<table>
<thead>
<tr>
<th>Region</th>
<th>Backward linkages</th>
<th>Forward linkages</th>
</tr>
</thead>
<tbody>
<tr>
<td>HK</td>
<td>80</td>
<td>58</td>
</tr>
<tr>
<td>SG</td>
<td>70</td>
<td>40</td>
</tr>
<tr>
<td>MY</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>KR</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>PH</td>
<td>40</td>
<td>10</td>
</tr>
</tbody>
</table>

Calvin Cheng, 2020. calvin.ckw@isis.org.my
Economic Impacts: Macro and micro effects

The macroeconomic impacts on economic growth may be severe...
Malaysia real GDP growth, actual and projected (% annual chg)

- Counterfactual: +4.5%
- Baseline: +0.2%
- Low case: -3.0%

...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
Note: shaded areas indicate start of forecast period
A look at the latest data: Impacts on businesses

Business revenues have been declining...
Expectations of gross revenue by sector

...and a large percentage businesses are in affected sectors
No. of establishments, by sector and sub-sector, 2016

Source: DOSM Business Tendency Survey 1Q2020
Note: Industry comprises manufacturing, utilities, mining and agriculture
Data for 1Q2020 are survey expectations

Source: DOSM Economic Census 2016, Author’s estimates
Businesses in certain sectors have been badly hit by the MCO...

% of businesses reporting a decline in earnings

- F&B: 86%
- Fisheries: 79%
- Accommodation: 75%
- Forestry: 72%
- Animal rearing: 70%
- Transport: 69%
- Retail trade: 69%
- Agriculture: 63%
- Arts & rec: 63%
- Other services: 56%
- Health: 53%
- Utilities: 50%
- Manufacturing: 49%
- Construction: 47%
- Education: 47%
- Real estate: 40%
- Water & waste: 40%
- Finance: 37%
- Administration: 32%
- Professional services: 31%
- Mining & quarrying: 28%
- Info & comms: 27%

...but workers have fared worse

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

- F&B: 77%
- Fisheries: 76%
- Accommodation: 67%
- Forestry: 65%
- Animal rearing: 63%
- Transport: 63%
- Retail trade: 62%
- Agriculture: 62%
- Arts & rec: 61%
- Other services: 51%
- Health: 46%
- Utilities: 44%
- Manufacturing: 44%
- Construction: 41%
- Education: 36%
- Real estate: 35%
- Water & waste: 34%
- Finance: 32%
- Administration: 29%
- Professional services: 25%
- Mining & quarrying: 25%
- Info & comms: 18%

Source: DOSM Survey on the effects of COVID-19, Author’s estimates
Policy responses for the crisis: A 2-stage solution

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

1. **Lockdown**
2. **Recovery**

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


Policy responses: The Prihatin ‘stimulus’ package

Prihatin package breakdown by type of measure (RM bil)

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)

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated income replacement rate</th>
<th>Max benefit amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>80%</td>
<td>RM4,758</td>
</tr>
<tr>
<td>Canada</td>
<td>75%</td>
<td>RM4,142</td>
</tr>
<tr>
<td>Denmark</td>
<td>75%</td>
<td>RM4,530</td>
</tr>
<tr>
<td>ERP</td>
<td>15%</td>
<td>RM6,000</td>
</tr>
<tr>
<td>WPS (SME)</td>
<td>30%</td>
<td>RM1,200</td>
</tr>
<tr>
<td>WPS (Large)</td>
<td>15%</td>
<td>RM6,000</td>
</tr>
</tbody>
</table>

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

Calvin Cheng, 2020. calvin.ckw@isis.org.my
**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
More grants instead of loans

**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.

**Current Prihatin liquidity support measures for businesses**

<table>
<thead>
<tr>
<th>Only Micro-SMEs (&lt;5 people)</th>
<th>All SMEs (5-200 people)</th>
<th>All firms (all sizes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSN microcredit loans 0% interest rate</td>
<td>Prihatin Special Grant RM3,000 grant</td>
<td>Danajamin loan guarantees RM50 bil</td>
</tr>
<tr>
<td>Special Relief Facility 3.5% interest rate</td>
<td>Other BNM funds (ADF, AF)</td>
<td>Loan moratoriums 6 months</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cost-reduction measures (EPF, HRDF)</td>
</tr>
</tbody>
</table>

Further reading: bit.ly/ISIS-COVID
Hubbard & Strain, 2020; UNDP, 2020; Calvin Cheng, 2020. calvin.ckw@isis.org.my
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

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

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

- Counterfactual: +4.5%
- Baseline: +0.2%
- Low case: -3.0%

Source: DOSM, Bank Negara Malaysia, AmBank, World Bank, Author's estimates
Note: shaded areas indicate start of forecast period

Further reading: bit.ly/ISIS-COVID
Thank you. Questions welcome.

Economics of a Global Pandemic
Malaysian impacts and responses

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