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The Malaysian economy and economic responses to COVID-19

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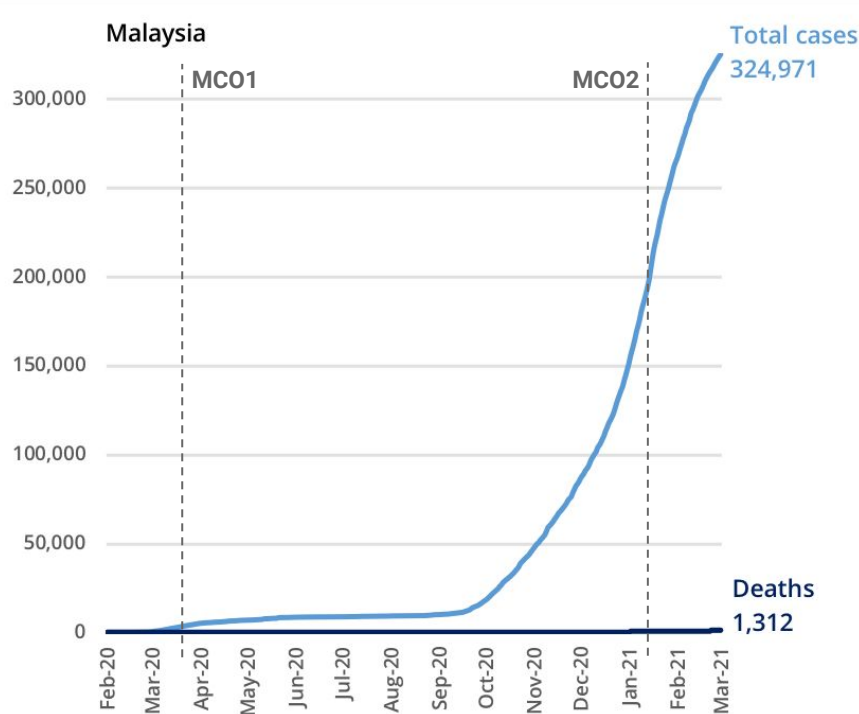
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● New daily cases in 2021 far exceed the first wave of COVID infections in March 2020

Cumulative case numbers, recoveries and deaths (no. of persons)



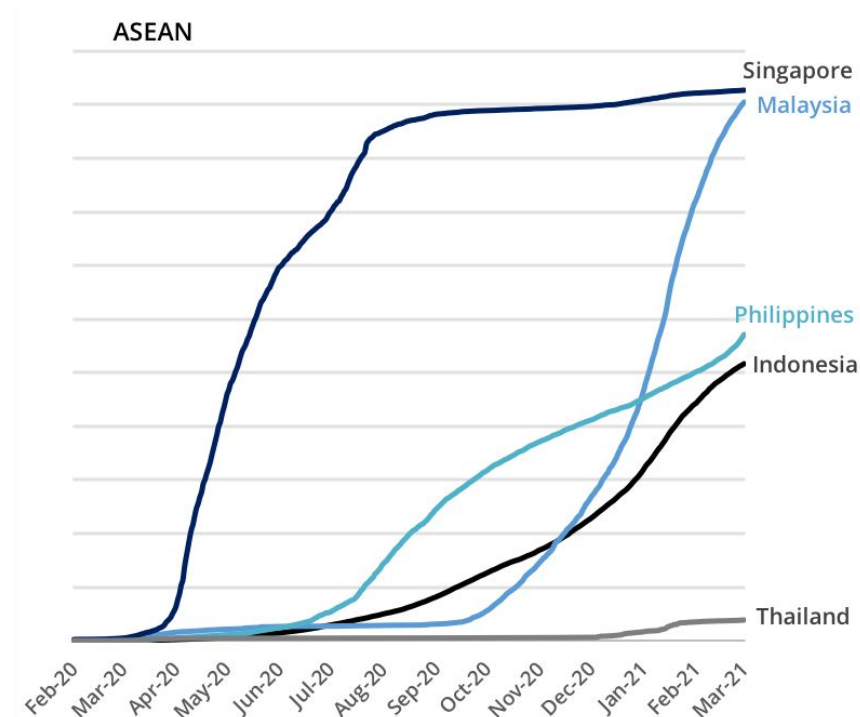
Source: JHU CSSE Github, MOH, Author's illustration

Note: Lines denote lockdown measures; Data as at 15 March 2021



● Malaysia now has 2nd highest total positive COVID cases (per 1,000 people) in ASEAN

Confirmed Covid-19 cases in the region per 1000 people

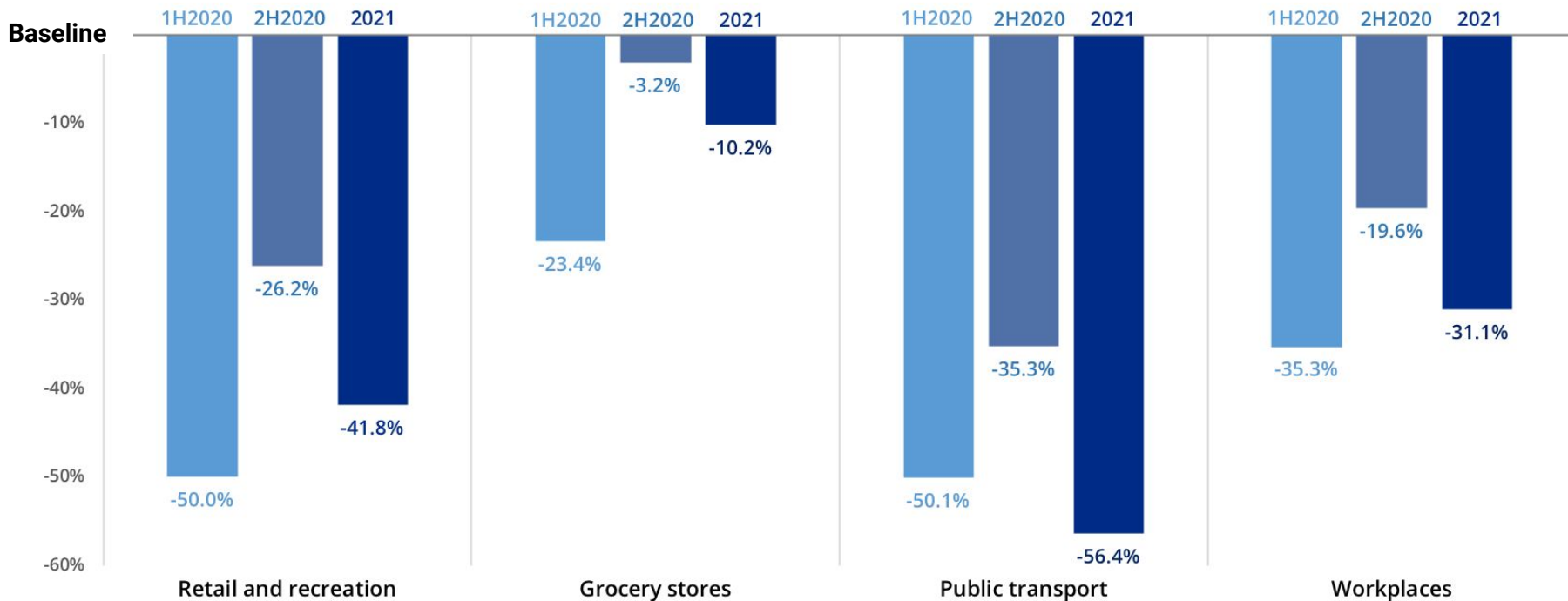


Source: JHU CSSE Github, WHO, Worldometer, Author's estimates

Note: Data as at 15 March 2021



● **MC01 and MC02 have had large impacts on consumer visits to retail and recreation and transit points like public transportation**
Percentage change from baseline pre-COVID visits (7-day moving average)



Source: Google Mobility data, Author's estimates

Note: Bars represent changes from a pre-COVID baseline; Lines denote lockdown measures; data for 2021 until February 2021



1 External

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

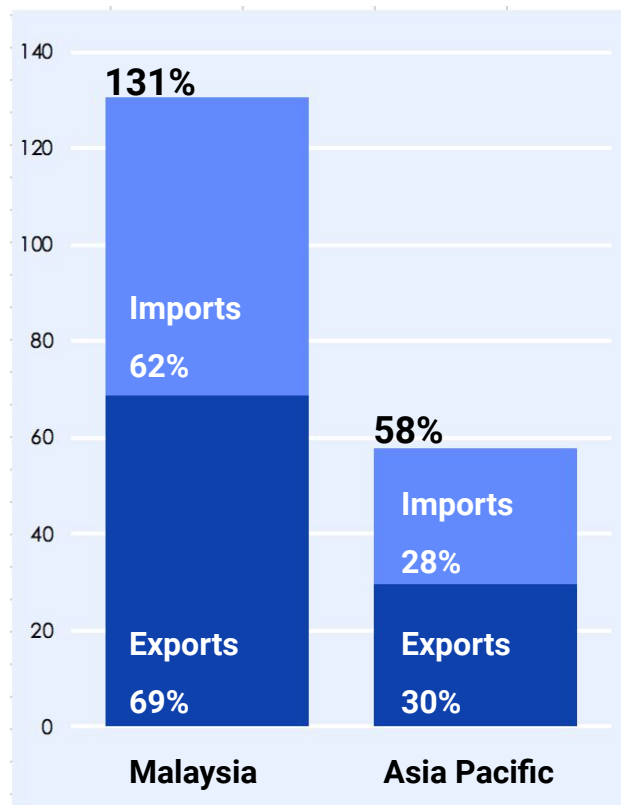
2 Domestic

- 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

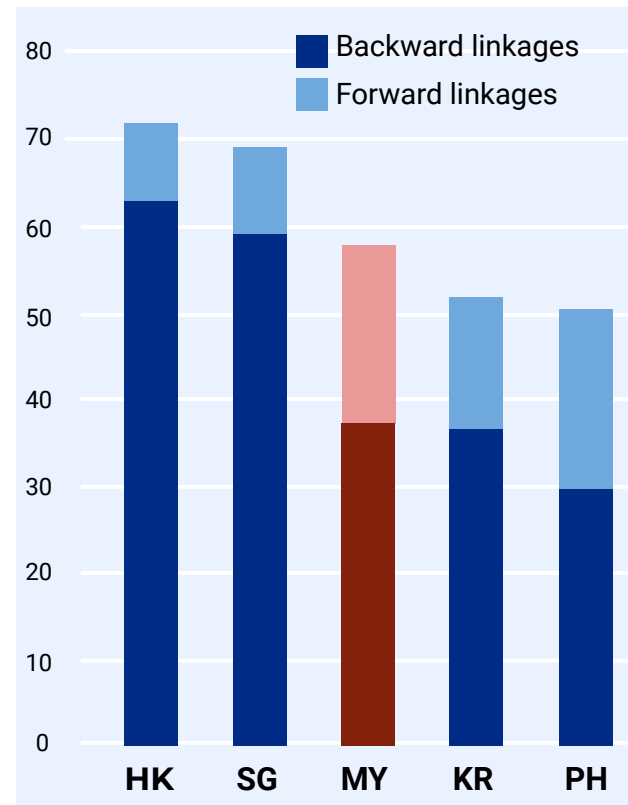
● Malaysia has amongst the highest exposure to trade in the region...

Goods imports and exports (% of GDP)

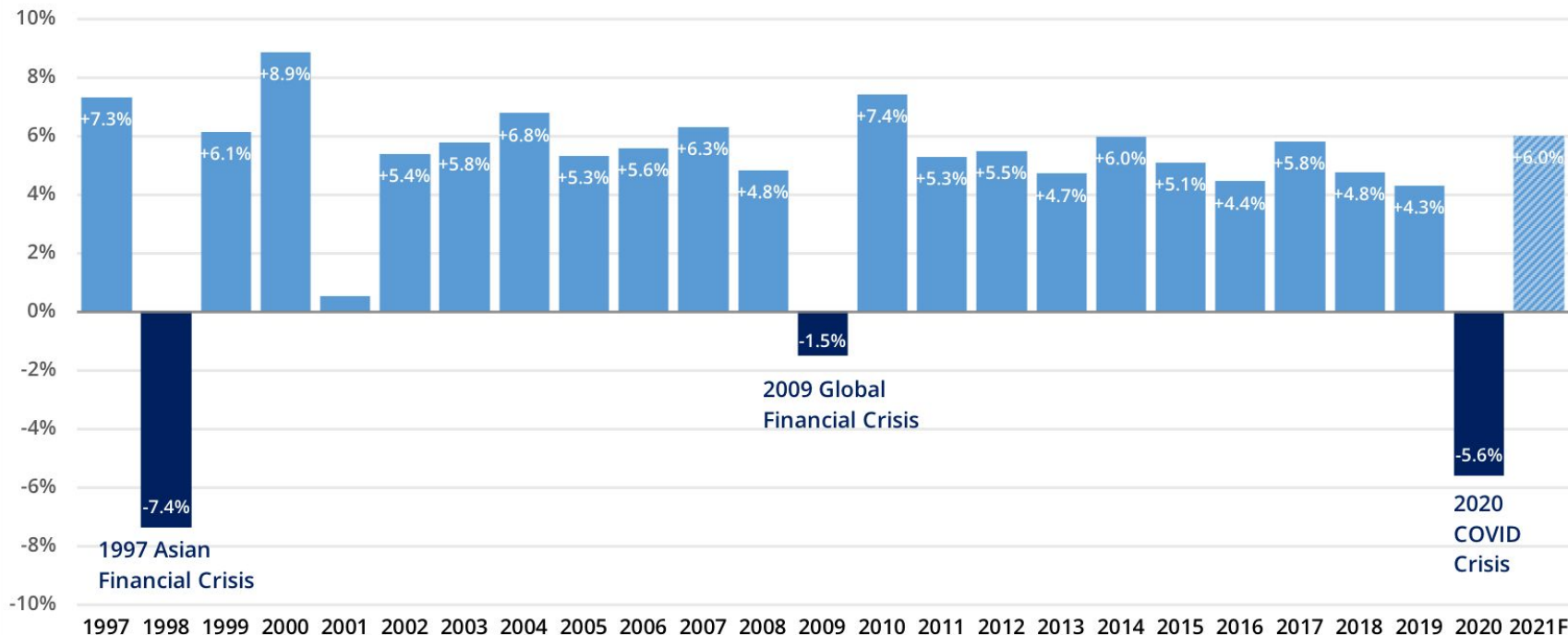


● ...and is the 3rd most connected in Asia to global supply chains

% of foreign value-added in trade



- **The 2020 COVID crisis has caused the sharpest annual decline in GDP growth since the 1997 Asian Financial Crisis**
Annual GDP growth (y/y% change, Malaysia)

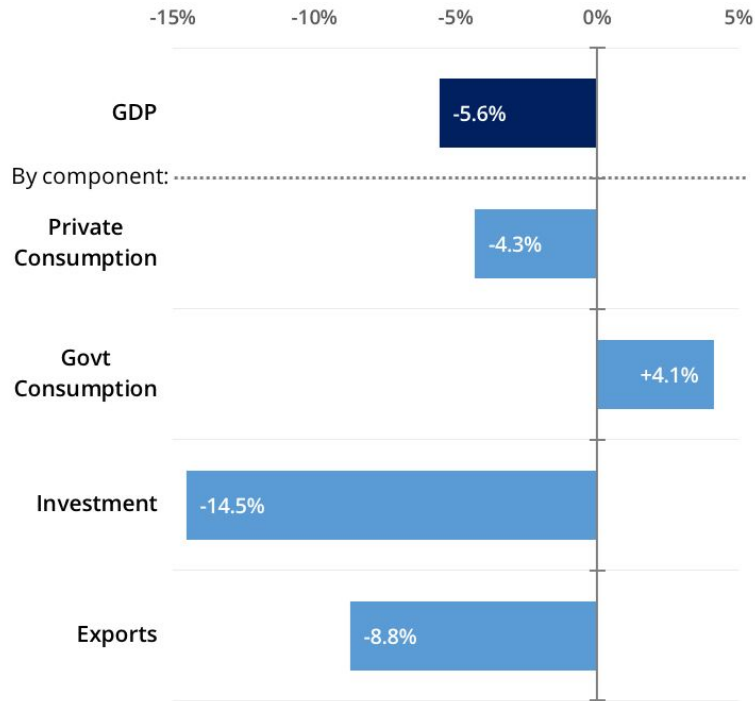


Source: DOSM, World Bank, Bloomberg, Author's estimates
Note: F = forecasts, Bloomberg consensus retrieved February 2021



● The sharp fall in 2020 GDP was driven by steep declines in consumer spending and investment

2020 GDP by demand components (annual % change)

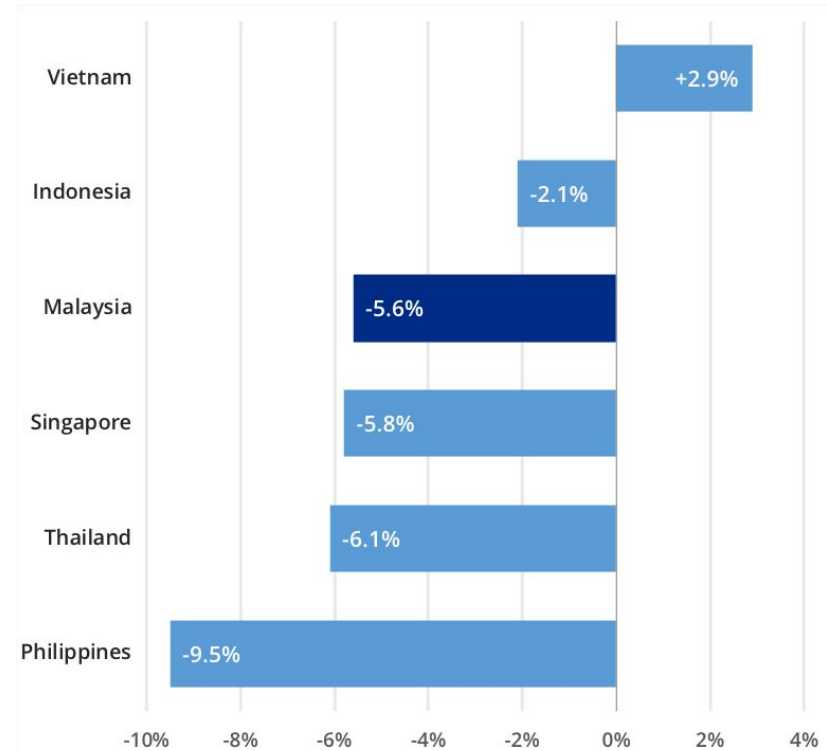


Source: DOSM, Bloomberg



● Other ASEAN countries in the region have also experienced sharp GDP contractions in 2020

2020 GDP growth, by country (annual % change, 2020 vs 2019)

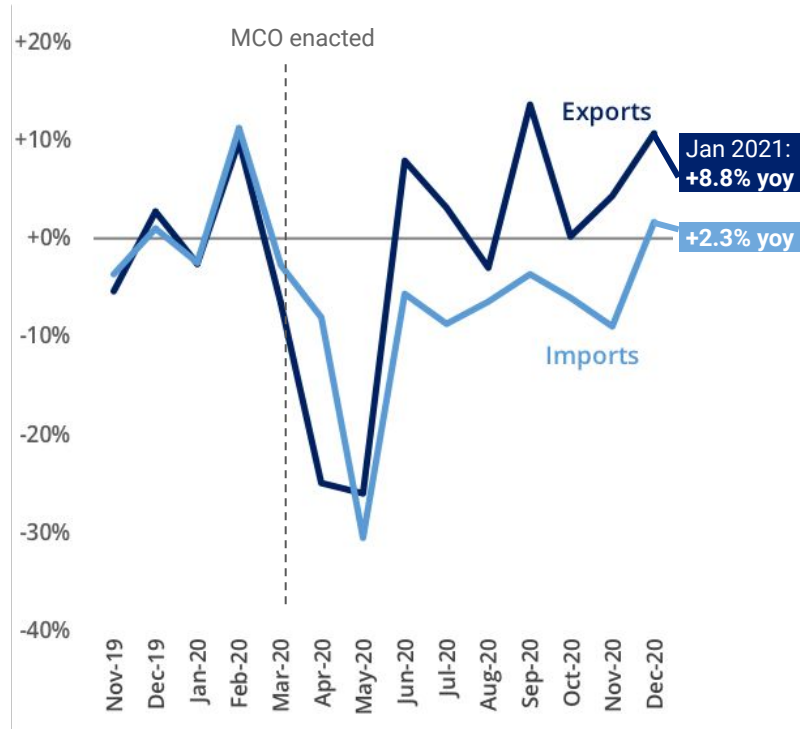


Source: DOSM, Bloomberg



● Trade has fallen sharply during the MCO, but have recovered relatively quickly

Exports and imports (y/y% change)

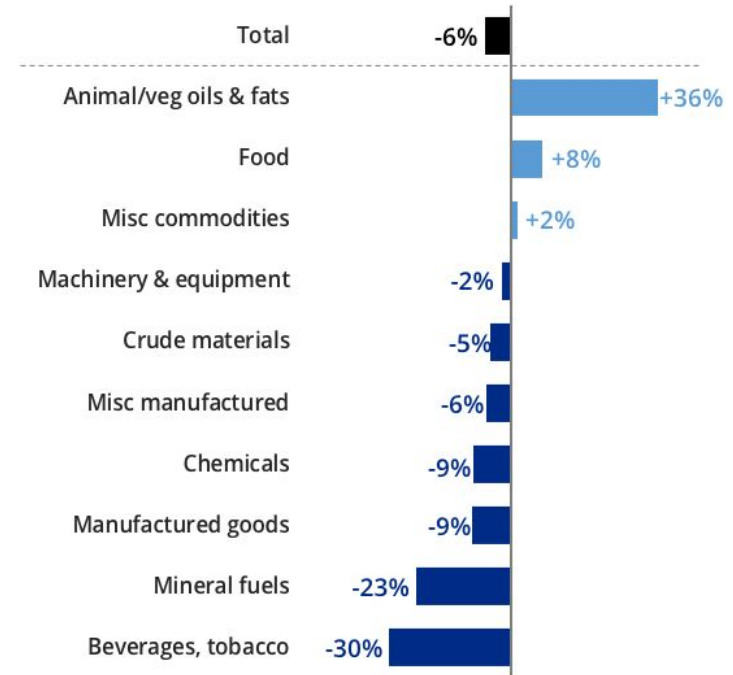


Source: DOSM, Author's calculations
Note: MCO = Movement Control Order, enacted 18 March 2020



● Export performance have varied greatly depending on the type of products exported

Exports by commodity group (annual % change, 2020 vs 2019)

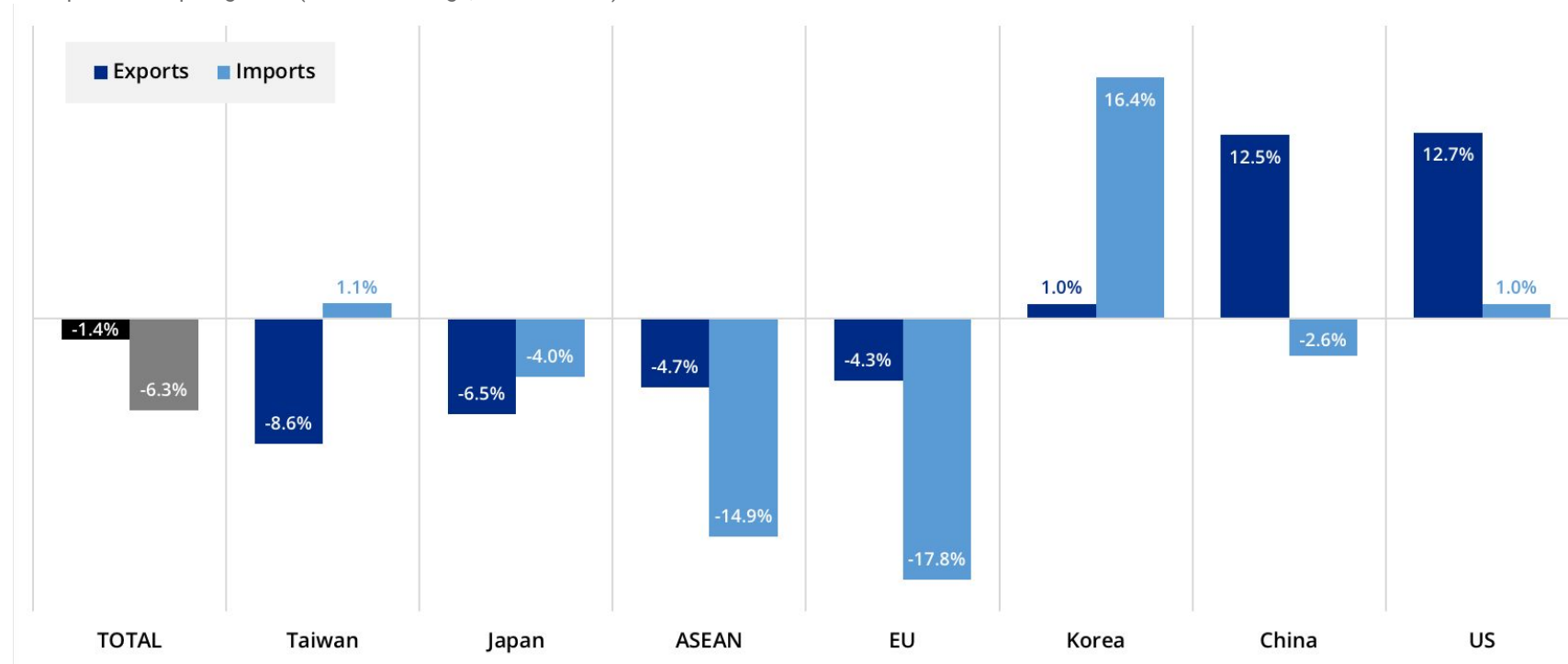


Source: METS, DOSM, Author's calculations
Note: ROW = rest of world



● Malaysia's export recovery is driven mainly by higher exports to China and the US

Export and import growth (annual % change, 2020 vs 2019)

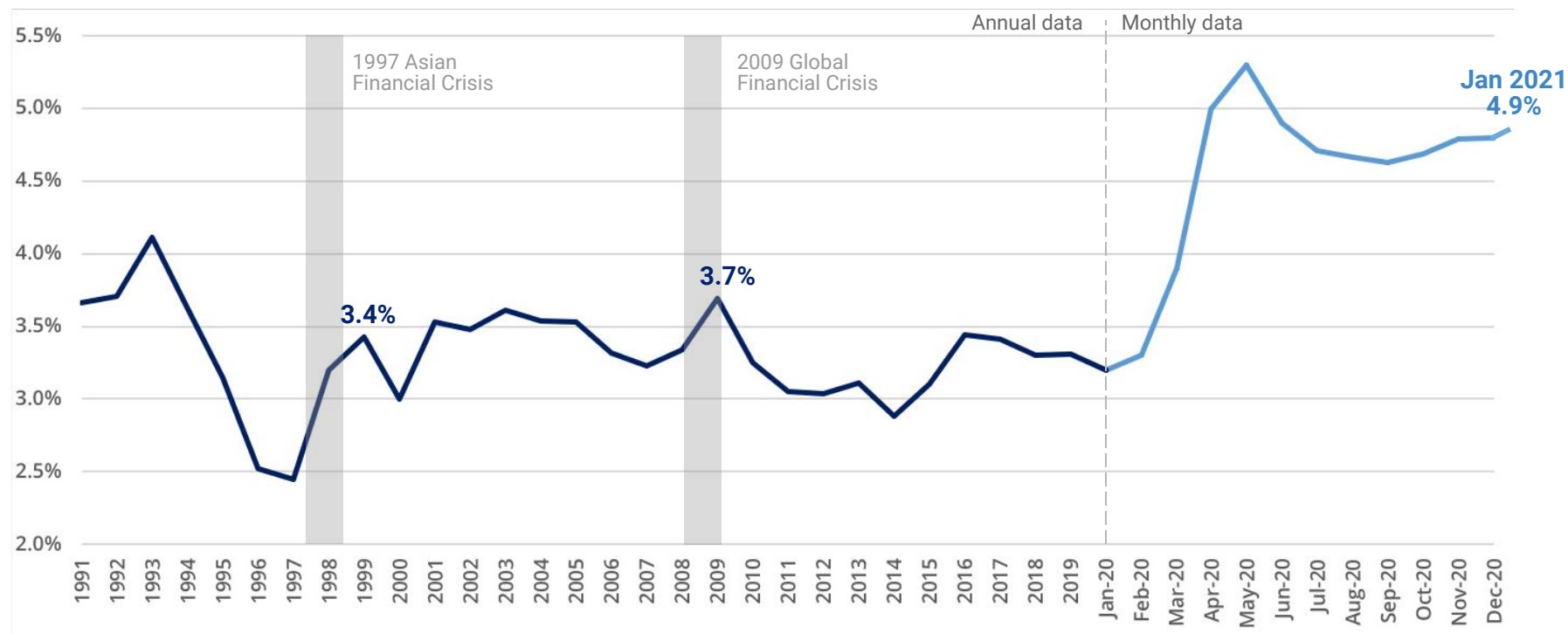


Source: DOSM, Author's estimates



● The unemployment rate is currently still at a record high, one year after the onset of the COVID-19 pandemic

Headline unemployment rate (%)



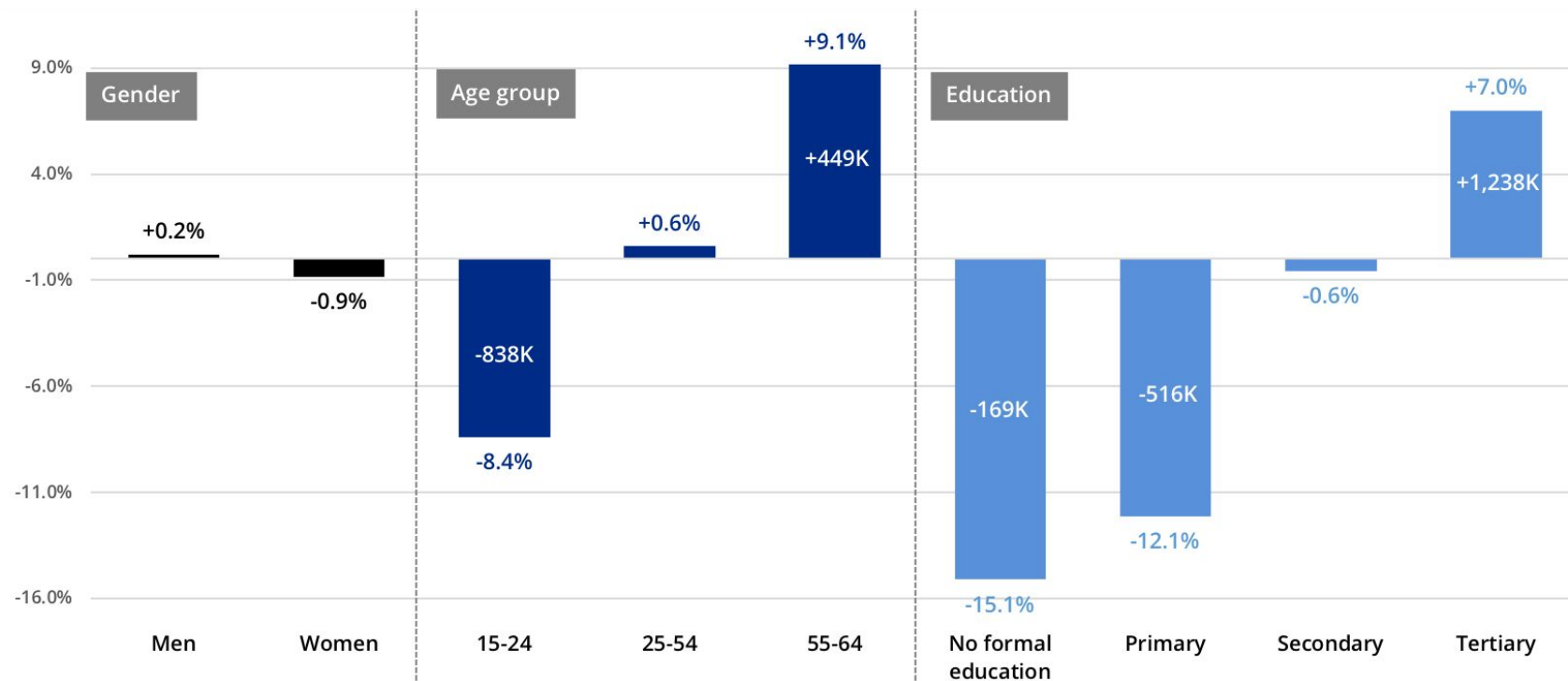
Source: DOSM, author's estimates

Note: Dashed line denotes transition from annual data into monthly data



● Employment impacts have been deeply unequal across gender, age, and educational attainment

Employed persons, by occupation (% change, 2020 vs 2019)

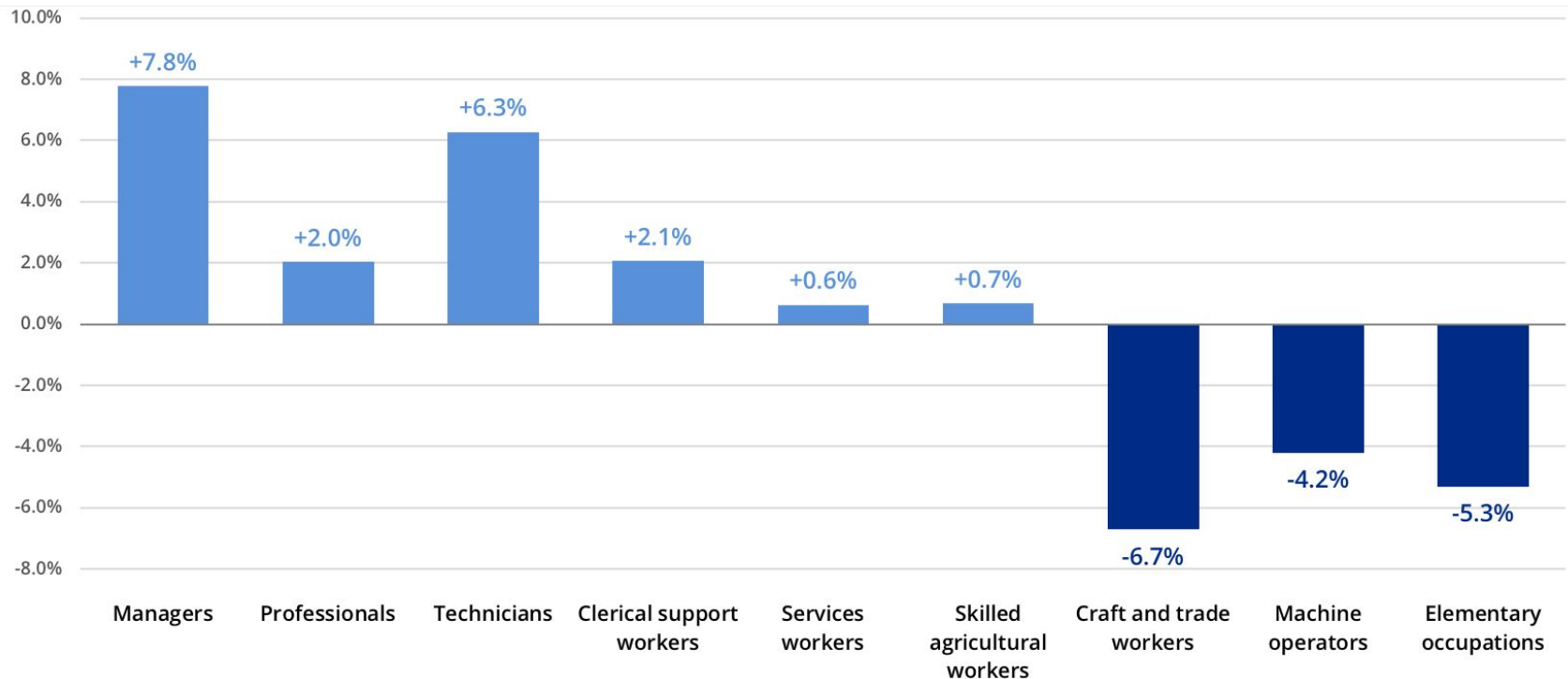


Source: DOSM, Author's estimates



● Lower-skilled workers have experienced much higher employment impacts compared to higher-skilled workers

Employed persons, by occupation (% change, 2020 vs 2019)

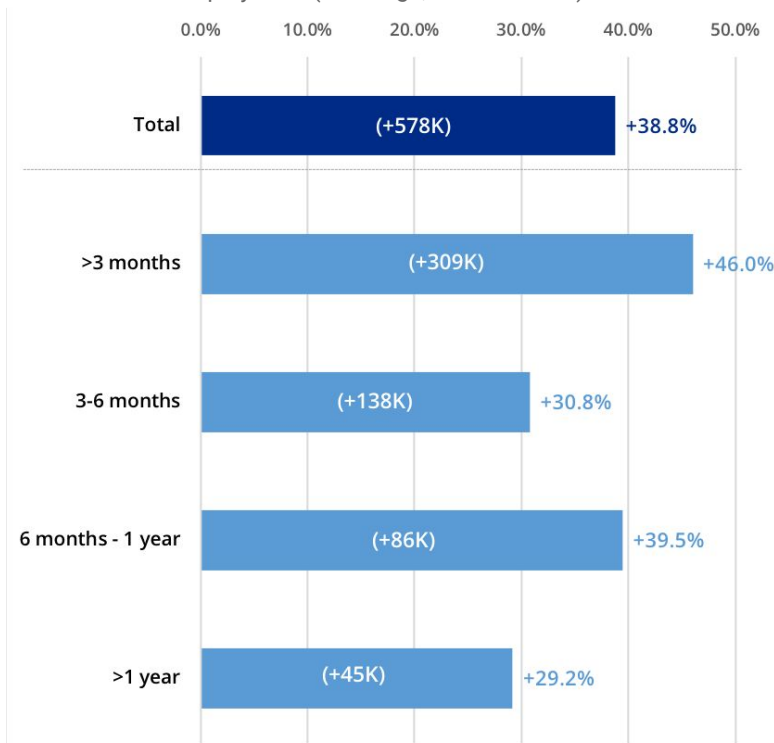


Source: DOSM, Author's estimates



Overall, more Malaysians are remaining unemployed for longer and longer

Duration of unemployment (% change, 2020 vs 2019)

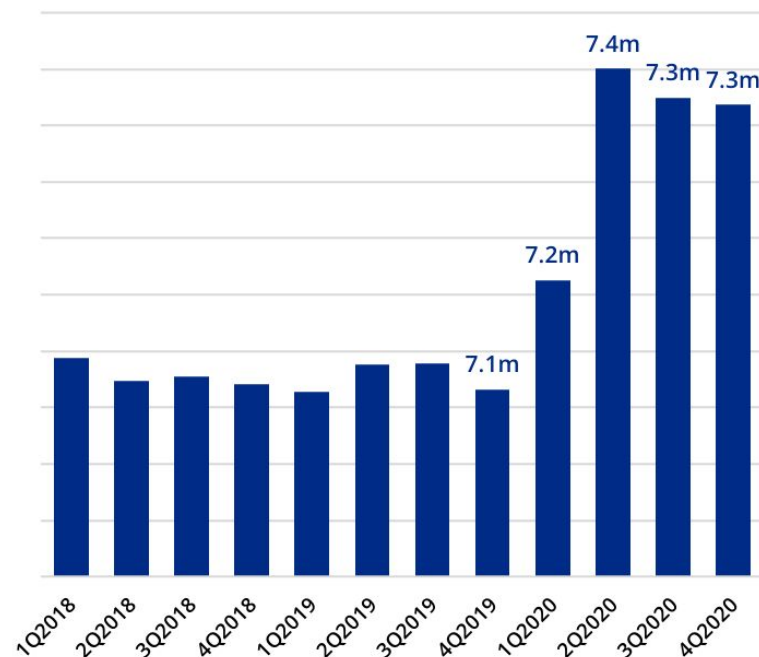


Source: DOSM, Author's estimates



As unemployment rises, more workers are exiting the labour force entirely

Change in labour force participation (2Q2020 vs one year ago, pp)

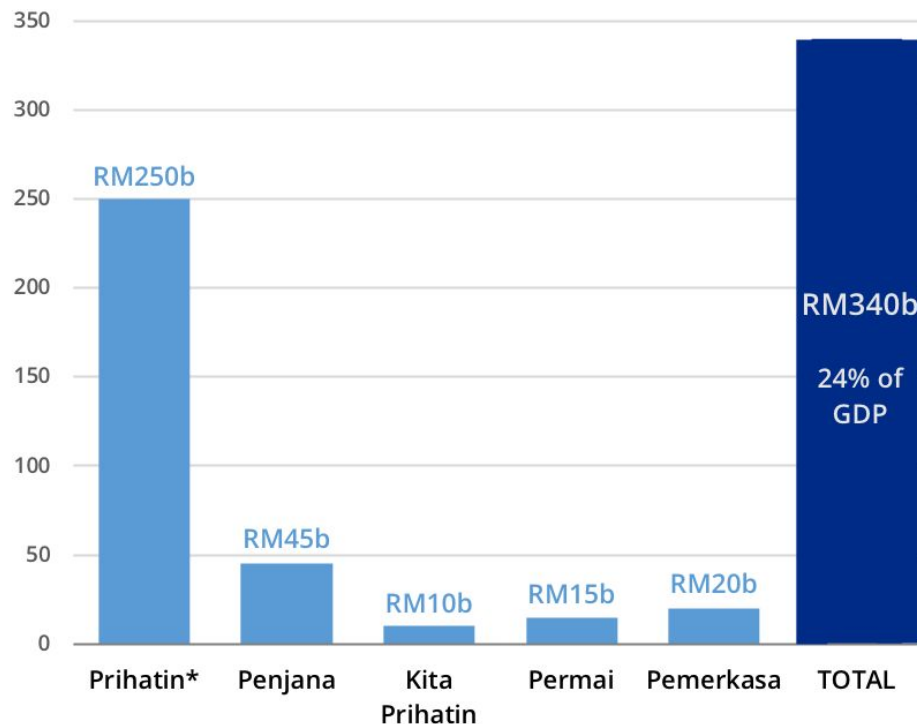


Source: DOSM



● The Malaysian government has pledged about RM340 billion in response to the COVID-19 pandemic

Economic response packages, Malaysia (2020-2021)



Source: MOF, The EdgeAuthor's estimates

Note: *Prihatin includes 3 separate supplementary stimulus packages from Feb to April 2020



● But this RM340 billion figure includes both fiscal and non-fiscal measures

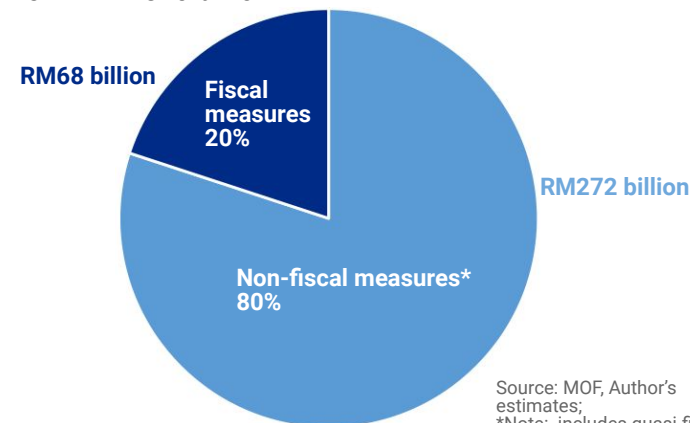
1. Fiscal (direct government spending)

- PERKESO Wage subsidy/retention program
- Bantuan Prihatin Nasional (BPN)
- Geran Khas Prihatin (MSME special grant)

2. Non-fiscal (no direct government spending)

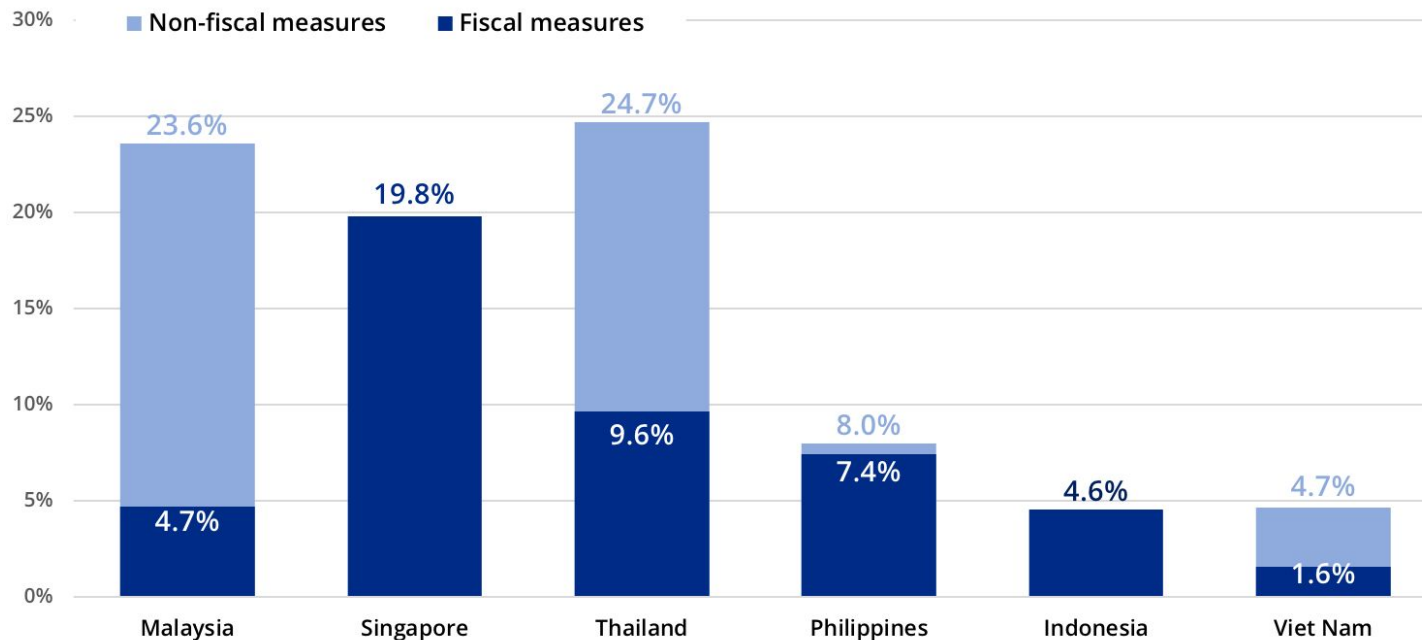
- EPF-related measures
- Loan moratorium and tax relief
- Small business (SME) loans

TOTAL: RM340 billion



Source: MOF, Author's estimates;
*Note: includes quasi-fiscal measures

- **In terms of fiscal stimulus measures, Malaysia's economic response is amongst the smallest in the ASEAN region**
Fiscal and non-fiscal measures, estimated (% of GDP)



Source: DOSM, Author's estimates, Bloomberg, JakartaPost, Lowy Institute

Note: Figures are rough estimates based on publicly available data and is subject to change based on currency movements



1 Shorter-term: support workers and households

- Expansion and extension of existing social safety net programs until economic conditions improve

Employment Insurance Scheme (EIS):

- Relax eligibility requirements and extend full coverage to self-employed/contract workers
- Extend benefit duration beyond 6 months (ALMP)

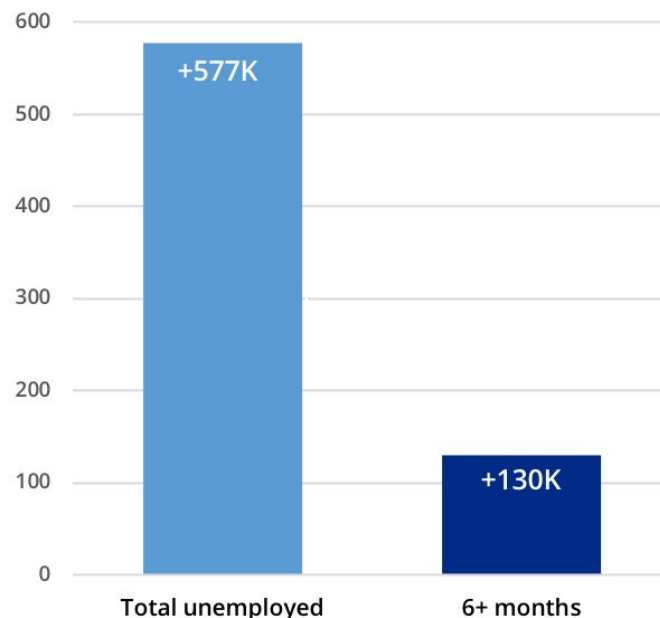
Bantuan Prihatin Rakyat/Nasional (BPR/BPN):

- Supplementary emergency cash relief (BPR3.0)
- Integrate with JKM aid (single mothers etc)

- Emergency assistance programs have expired while economic conditions not improving--duration of unemployment increasing
- Increasing social assistance will have large growth impacts (make recovery quicker and more equitable)

● Malaysians are remaining unemployed for longer

Duration of unemployment (% change, 2020 vs 2019)



Source: DOSM, Author's estimates

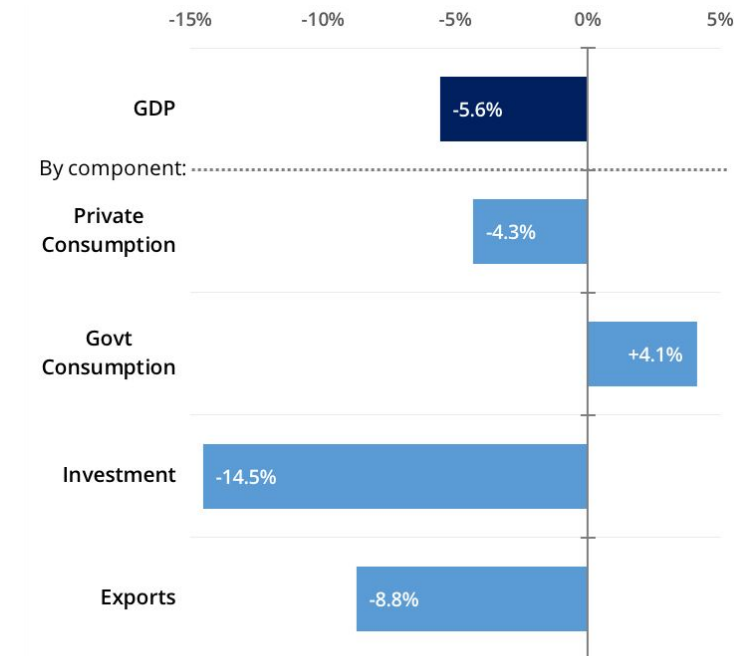


2 Longer-term: invest in the future

- **Strengthen existing social safety net programs to increase resilience for future crises**
 - Automatic fiscal stabilisers to help cushion economic fallout in future crises
- **Expand infrastructure spending and trade integration**
 - Increase infrastructure spending, including on digital and internet infrastructure especially in lesser-developed regions
 - Supporting greater regional integration and freer inter-regional trade
- **Diversify government revenue streams and streamline government expenditure**

● The increase in government spending helped cushion the fall in GDP in 2020

GDP, by demand components (% change, 2020 vs 2019)



Source: DOSM



- **Outlook for economic growth hampered by downside risks.** Overall, economic recovery will not likely be as quick (V-shaped) as during the 2009 Global Financial Crisis.

Downside risks: vaccine rollout delays, political and policy uncertainty, third wave of outbreaks, unemployment crisis

Upsides: faster-than-expected recovery in external demand and exports

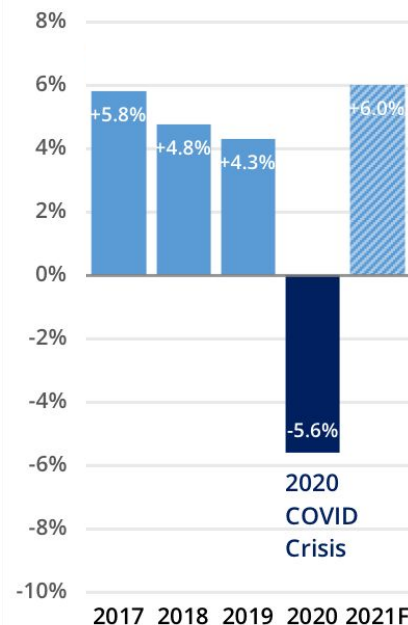
- **Labour market and jobs recovery will be slow and gradual.** Malaysia's unemployment rate will likely stay high, around 4.5-5 percent, for most of 2021.

The 2020 MCO have pushed a lot of workers either into unemployment (+782k) or to exit the labour force (+850K). The January MCO2 is likely to have similar impacts on workers.

- **The COVID-19 crisis has been a deeply unequal.** Overall, while the macroeconomic impacts of COVID-19 on the economy have been severe, the impacts have been deeply unequal.

Younger, female, and lesser-educated, informal workers have been the hardest hit--leading to a recession that does not feel like a recession for upper-middle class white-collar workers.

- **Bloomberg forecasts for Malaysia's 2021 GDP growth**
Annual GDP growth (y/y% change)



Source: DOSM, World Bank, Bloomberg
Note: F = forecasts, Bloomberg consensus
retrieved February 2021



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