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Chapter 4

The Impact of the COVID-19 Pandemic on Malaysia's Economy

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Abstract

The COVID-19 global infection has been recognised as an alarming pandemic threat in Malaysia since the second week of March 2020. The government was forced to hastily implement the Movement Control Order (MCO) to prevent the growing spread and terrifying health threat of COVID-19. The necessary lockdown measures drastically slowed down the economic growth of the country and caused an adverse impact on many industries, businesses, and households. Multiple stimulus packages have since been announced by the government towards securing

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and recovering the economy from the resultant effects of the pandemic. The stimulus packages were intended to provide coverage for both the welfare of consumers (demand side) as well as the producers (supply side). The objectives of this chapter are as follows:

(1) To describe and discuss the impacts of the devastating COVID-19 pandemic based on selected macroeconomic indicators.
(2) To review the existing economic policy on combating and mitigating the effects of the pandemic.
(3) To propose some significant improvements and necessary modifications on the general economic policy.

We conclude that the severe adverse impact of the pandemic on the macroeconomy is very significant and extremely "game-changing". However, it shows some improvement with the implementation of the various stimulus packages throughout the year of 2020. We suggest that the government focuses on fine-tuning and strategising the economic policy that aims to encourage a sustainable growth in domestic spending, and consumer and producer confidence in its efforts of stimulating the economy.

Keywords: COVID-19 pandemic; macroeconomy; stimulus packages; Malaysia.

1. Introduction

The inevitable spread of the COVID-19 virus to Malaysia started on 25 January 2020. Since then Malaysia was hit by three consecutive waves of COVID-19 before the end of 2020. The first COVID-19 wave of the deadly virus occurred in Malaysia from 25 January to 16 February 2020. The second wave happened from 27 February to 30 June 2020, and mainly involved a religious gathering held at a mosque in Seri Petaling, a suburb of Kuala Lumpur (Rampal and Liew, 2021). It was under control until the first week of March 2020, when the number of active cases recorded was less than 100. The first death caused by COVID-19 happened on 17 March 2020. The situation was recognised as a full-blown pandemic in Malaysia since the second week of March 2020. The number of accumulative cases had by then increased dramatically up to more than 2,000 within 3 weeks. As of 15 April 2020, the number of COVID-19 cases had stood at 5,182 accumulatively. To prevent the spread of COVID-19, a maiden Movement Control Order (MCO) was declared and implemented from 18 March 2020 to 3 May 2020 under the Prevention and Control of Infectious Diseases Act 1988 (Act 342). The number of accumulative cases up to 3 May was 6,298 by then. Statistically, the implementation of the MCO was undeniably most effective in controlling the deadly spread of COVID-19 infections in Malaysia.

The initial MCO was subsequently replaced by the Conditional Movement Control Order (CMCO) that ran from 4 May 2020 to 9 June 2020. The CMCO regime relaxed certain more drastic restrictions to allow the economy to resume somewhat. As of 9 June 2020, the cumulative cases were recorded at 8,336. Within the first 48 days of the CMCO period, 2,038 new cases were recorded. A further relaxation of the lockdown measures by the subsequent Recovery Movement Control Order (RMCO), an even more lenient form of the control measures, was experienced from 10 June 2020 to 6 November 2020. The RMCO relaxed the stringent Standard Operating Procedures (SOP) even further than that of the CMCO and allowed interstate travel. Almost all business sectors were allowed to resume almost full operations albeit with ever-present restrictions and new normal practices. Unfortunately, within the first 149 days of the RMCO implementation, there were 29,851 new cases that had been logged, representing an unacceptable and alarming “spike” in infections. It is widely believed that the resumption of near-normal economic and social activities had greatly contributed to and resulted in the rising number of daily infections at that time. This number of cases signalled the undisputed conclusion that Malaysia was by then heading into the third wave of COVID-19 infection.

The eventual third wave of COVID-19 began on 8 September 2020 and the government once again implemented the CMCO on 7 November 2020. Nevertheless, the new CMCO was implemented selectively only in certain states/districts that have a high number of new infection cases, such as Sabah, Selangor, Kuala Lumpur, Putrajaya, Terengganu, Johor, Penang, Kedah, and Sarawak (Kuching City only). From 7 November 2020 to 15 December 2020, the new cases were recorded at 47,261. The detailed statistical content of the MCO, CMCO, and RMCO, respectively, are summarised in Table 1.

Table 1: Summary information of MCO, CMCO, and RMCO.

Regulation	Content	Period	Number of New Cases
MCO	• All types of gathering activities are prohibited (including sport, recreation, and religious activities) • Business premises should be closed, except for supermarkets, public markets, grocery stores, and convenience stores selling everyday necessities • Restrictions on the entry of all tourists and foreign visitors into the country • To close all government and private premises except those involved in essential services • To close all schools, colleges, and universities • Interstate travel is prohibited	18 March 2020 to 3 May 2020	5,508
CMCO (1)	• All types of gathering activities (including sport, recreation, and religious activities) are allowed if they follow the SOP • Business premises can open with some operation time adjustment • All government and private premises can open if they follow the SOP • Interstate travel is prohibited	4 May 2020 to 9 June 2020	8,336
RMCO	• All types of gathering activities (including sport, recreation, and religious activities) are allowed if they follow the SOP • Business premises can open with some operation time adjustment • All government and private premises can open if they follow the SOP • Interstate travel is allowed	10 June 2020 to 6 November 2020	29,851
CMCO (2)	• All types of gathering activities (including sport, recreation, and religious activities) are allowed if they follow the SOP • Business premises can open with some operation time adjustment • All government and private premises can open if they follow the SOP • Interstate travel is prohibited (Until 6 December 2020)	7 November 2020 to current	47,261

The implementation of the MCO/CMCO/RMCO, while "flattening" the curve of infections, undeniably slows down the economic growth in the country as a result. It imposes an adverse and drastically dampening impact on many industries, businesses, and household incomes. It is expected to cause a negative growth of exports, a high unemployment rate, a high number of small and medium enterprises' (SMEs) shutdowns, lower purchasing power, and a drastic decrease of aggregate income. Other than the tourism sector which arguably suffered the most and was the very first industry to be affected, many SMEs have also suffered from business disruption and insufficient cash flow, and the overall supply chain broke down or at least suffered from massive disruptions. The Department of Statistics Malaysia (DOSM) observed that the COVID-19 pandemic had changed the Malaysian consumption and spending behaviour. Total household expenditure dropped significantly to RM 2,868 per month during the MCO, compared to a pre-COVID-19 figure of RM 6,398 per month. Once these figures were further analysed into the different income groups, it was noted that the B40 and M40 groups reduced household spending by approximately 50%, whereas the T20 group's household spending dropped by almost two-thirds of their previous household expenditures.[1]

Many international and domestic economic and financial institutions revised their forecasts to a lower GDP growth for the Malaysian economy for the year 2020. In the beginning of the world's second wave of COVID-19 infection, the World Bank forecasted that the economic growth of Malaysia would be at –0.1% in 2020. The International Monetary Fund (IMF) forecasted the economic growth of Malaysia at only 1.7%. Bank Negara Malaysia (BNM) had foreseen a contraction of the Malaysian economic growth at between –2.0% to 0.5% in 2020, compared to a 4.3% growth in 2019.[2] However, in the third quarter of 2020, the World Bank revised the economic growth forecast for the country at 3.5% to 5.5%.

[1] B40 refers to the households that earn an income below RM 4,000 per month. M40 refers to the households that earn a monthly income between RM 4,000–RM 8,000. T20 refers to the households that earn an income of more than RM 8,000 per month.

[2] https://www.theedgemarkets.com/article/world-bank-lowers-malaysias-2020-gdp-forecast-49-contraction.

Subsequently, BNM also further revised the nation's economic growth forecast to 5.5%. Meanwhile, the IMF later revised its forecast for Malaysia's economic growth to 6%, which is higher than the forecasts of any of the other global or domestic financial institutions.[3]

The major causes for most people's concerns are the output loss caused by the COVID-19 pandemic, the MCO, and commodity supply disruptions. However, the government optimistically forecasts the economic growth will reach 1.5% after considering the execution of the RM 260 billion of the Economic Stimulus Package (ESP). The ESP is expected to ease the burden of society in general, and the business community in particular, caused by the lockdown.

Given the concerns arising from multiple waves of COVID-19 outbreaks, it is crucial and timely to examine whether the actual economic impact of COVID-19 was as devastating as predicted. Which sectors were affected more, and why? It is important to address such issues more definitively through the published national statistics. It is also prudent to evaluate the actual effect of COVID-19, with the remedial effects of the stimulus countermeasures and compare this with the predictions made at the time before the data were available. Hence, it will lead the policymakers and the stakeholders to have a clearer picture and adequate information especially on the scenario after the pandemic. Consequently, a more accurately targeted offset policy could be devised and improvement needs on the current policy can be identified and taken up towards achieving economic recovery.

Generally, this chapter examines the impacts of the COVID-19 pandemic on the macro economy of Malaysia throughout the year of 2020. The objectives of this chapter are as follows:

(1) To describe and discuss the impacts of COVID-19 pandemic based on selected economic indicators.
(2) To review the existing economic policy on the effects of the pandemic.
(3) To propose some significant improvements on the economic policy for adjustment and adoption in the post-COVID-19 regime.

[3] https://www.freemalaysiatoday.com/category/nation/2020/10/14/imf-expects-malaysias-gdp-to-increase-7-8-next-year/#:~:text=KUALA%20LUMPUR%3A%20The%20International%20Monetary,the%20previously%20estimated%203.8%25%20contraction.

The chapter is organised as follows. The next section discusses selected macroeconomic indicators in Malaysia for the years of 2019 and 2020. Section 3 deliberates on the current economic policy in combating the pandemic. The last section concludes with some policy recommendations.

2. Important Economic Indicators in 2019–2020

2.1 *Gross domestic product (GDP)*

Table 2 reports the quarterly growth rate of GDP by sector from 2019:Q1 to 2020:Q3. The impact of the COVID-19 pandemic can be seen in 2020:Q1, when the quarterly GDP growth decreased by about 7.02%. It became even worse in 2020:Q2, when it was recorded at –15.86% due to the imposition of the MCO. After that, the GDP has shown signs of improvement in Q3 with an increase of about 21.34% from the previous quarter. It was driven by the actions taken by the government in relaxing the implementation of MCO that consequently allowed many businesses to restart their operations. In the meantime, an increase in purchasing power driven by the one-off cash aid to households and the 6-month loan repayment deferment were the major push factors for the GDP growth in 2020:Q3. Unfortunately, the third wave of the pandemic infections that started in September 2020 caused another adverse impact episode on the economic growth in Q4.

At the sectoral level, the accommodation sector was affected the most when in 2020:Q1 and 2020:Q2 its quarterly growth rate was at –15.49% and –77.02%, respectively. However, it increased to 1.33% in Q3. The accommodation sector is most central to the tourism industry. The sector includes all organisations and businesses that offer rooms or places to stay for travellers like hotels, service apartments, chalets, homestays, camping facilities, etc. A place to stay is an essential service or facility for most travellers. Hence, a resultant low number of travellers due to lockdown measures in place has a very drastic direct impact on the accommodation sector.

The gloom in the travel and accommodation industries are next followed by the decline in the motor vehicles, transport and storage; and construction sectors with the growth rate at –44.42%, –42.09%, and

Table 2: Quarterly GDP growth (2019Q1–2020Q3).

Sector	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3
Total	–4.42	2.21	3.25	2.67	–7.02	–15.86	21.34
Agriculture	–5.31	–1.51	15.41	–12.34	–8.42	8.99	13.54
Mining and Quarrying	–5.52	1.29	–11.15	13.67	–4.21	–17.28	0.03
Manufacturing	–4.64	4.44	1.16	2.27	–6.11	–15.94	0.28
Construction	1.55	–3.59	5.59	–2.29	–7.39	–41.92	0.67
Electricity and gas	2.08	3.92	0.56	–1.24	1.65	–14.08	0.11
Water, sewerage, and waste management	0.58	–0.63	3.13	2.99	0.1	2.3	0.02
Wholesale trade	–12.29	9.45	10.49	–0.12	–14.42	–15.8	0.33
Retail trade	–6.03	–0.51	4.2	10.2	–10.64	–22.9	0.28
Motor vehicles	–13.12	2.39	25.07	–6.21	–19.14	–44.42	1.51
Food and beverage	–3.6	2.01	2.11	10.32	–10.32	–32.22	0.14
Accommodation	–5.63	4.22	6.64	1.92	–15.49	–77.02	1.33
Transport and storage	–2.24	1.98	2.39	4.67	–11.01	–42.09	0.55
Information and communication	3.63	3.36	1.56	–1.79	3.52	1.55	0.02
Finance	–0.28	0.08	2.71	3.35	–1.94	–11.85	0.21
Insurance	–0.15	–6.35	2.94	7.15	3.24	–9.18	–0.02
Real estate	0.47	2.01	1.93	0.65	–4.4	–30.85	0.22
Business services	–0.99	4.46	–1.62	7.55	–5.13	–22.73	0.08
Private health services	–0.71	7.11	–0.9	0.39	–4.24	–14.51	0.15
Private education services	–4.77	3.96	7.19	–0.16	–6.29	–13.51	0.12
Other services	2.08	0.22	2.06	1.31	–2.84	–22.93	0.16
Government services	–10.95	1.36	4.54	9.84	–10.35	0.58	0.06

Source: Economic Planning Unit (2020). Authors' own calculation on 31 October 2020.

–41.92% in 2020:Q2, respectively. Nevertheless, these three sectors recorded a positive growth at 1.51%, 0.55%, and 0.67% in Q3, respectively. Tellingly, the MCO also has a direct adverse impact on these sectors as the activities in these sectors are fully involved with physical movements of people and/or goods. Luckily, the adverse impact on these sectors does not drag on for a long time with the subsequent relaxation of the MCO.

There are a few sectors that are not affected much by the COVID-19 pandemic, i.e. the agriculture sector, the water, sewerage, and waste management sectors, the information and communication sectors, and government services sectors. The agriculture sector performed the best with an increase of 8.99% in 2020:Q2 and 13.54% in Q3. The sewerage and waste management sector has shown an increase of about 2.3% in 2020:Q2 and 0.02% in 2020:Q3. The information and communications sector has shown an increase of about 1.55% in 2020:Q2 and 0.02% in 2020:Q3. The government services sector has shown an increase of about 0.58% in 2020:Q2 and 0.06% in 2020:Q3. In general, we understand that these sectors do not rely much on physical movement. Thus, the implementation of the MCO did not have an adverse impact on their businesses.

Basically, the agriculture sector was not affected at all as the retail and wholesale businesses for agricultural products are allowed to operate as usual during the MCO because they provide necessities and essential goods for the people. Water, sewerage, and waste management sector is categorised as essential goods as well and it does not involve retail trading activity. The implementation of MCO has shifted many economic and social activities online. The development of the digital economy needs the support from the information and communication sector in providing the facilities for digitalisation and consequently pushes up the demand for information and communication products in the market.

2.2 *International trade*

Table 3 and Figure 1 report monthly statistics of import, export, and trade balance from January 2019 to September 2020. Overall, in 2019, the export and import were recorded at the lowest level in February 2019 with RM 67,683 million and RM 55,567 million, respectively. The highest

Table 3: Monthly import, export, and trade balance (2019M01–2020M09).

Month	Import (million)	Export (million)	Trade Balance (million)
2019M01	73,922	86,341	12,419
2019M02	55,567	67,683	12,116
2019M03	69,681	85,677	15,996
2019M04	74,377	86,228	11,851
2019M05	75,109	84,679	9,570
2019M06	65,630	76,691	11,061
2019M07	73,796	89,765	15,969
2019M08	70,461	81,513	11,052
2019M09	69,438	78,252	8,814
2019M10	73,289	90,861	17,572
2019M11	74,261	80,947	6,686
2019M12	73,880	86,436	12,556
2020M01	72,081	84,114	12,033
2020M02	61,832	74,451	12,619
2020M03	67,805	80,119	12,314
2020M04	68,420	64,787	–3,634
2020M05	52,263	62,650	10,387
2020M06	61,966	82,819	20,854
2020M07	67,383	92,559	25,176
2020M08	65,915	79,130	13,215
2020M09	66,957	88,927	21,971

Source: Economic Planning Unit (2020).

level of export and import was in October 2019 (RM 90,861 million) and May 2019 (RM 75,109 million), respectively. Furthermore, the trade balance was recorded at the highest level in October 2019 with RM 17,772 million. It fell to RM 6,686 million in December 2019, which was the lowest value of trade balance in the year of 2019. The widening lockdowns in many countries and mobility restrictions across the world caused the decline of global demand and supply.

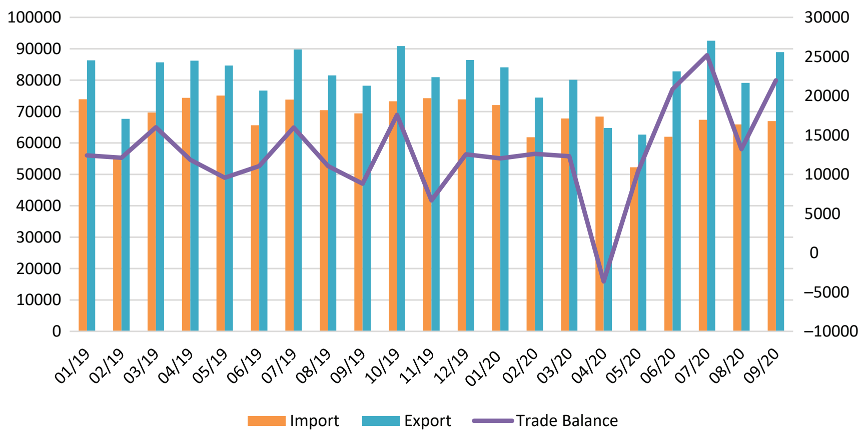

Figure 1: Import, export, and trade balance, 2019–2020.

Source: Economic Planning Unit (2020).

In 2020, during the pre-MCO period (January to March 2020), the trade balance was in a surplus. In April 2020, the trade balance became a deficit (–RM 3,634 million). This is the first time the trade balance has been in a deficit in the past 10 years. It was derived from the occurrence of a decrease of export growth of about 19.12% and an increase of import growth of about 0.91% in April 2020. As the Economic Planning Unit reported, almost all exported products were affected by the pandemic except for electrical, medical and pharmaceutical, iron and steel, and apparel products.

The trade balance went back to a surplus from May 2020 and onward. It increased from RM 10,387 million in May to RM 25,176 million in July. It was derived from an increase of export growth of about 48% from May to July 2020. The value of exports and the country's trade balance in July are the highest since January 2019. One of the reasons that the export growth increased rapidly in this period is that the export of many items that were supposed to be shipped abroad had been postponed for about 1 to 2 months due to the lockdown in April 2020. Interestingly, we note that the trade balance in June, July, and September were higher than those for the same period in 2019.

During this pandemic, the demand for medicinal and pharmaceutical products have been experiencing increasing trends not only in the

Table 4: Export and import growth for medicinal and pharmaceutical products.

Period	Export	Import
MCO and CMCO (March 2020–May 2020)	1.57%	5.99%
RMCO (June 2020–November 2020)	3.50%	–4.21%

Source: Economic Planning Unit. Authors’ own calculation on 31 October 2020.

domestic market but also in the global market (Ayati *et al*., 2020). Table 4 reports the import and export growth of medicinal and pharmaceutical products during the periods of MCO, CMCO, and RMCO. The export growth for the medicinal and pharmaceutical products was 1.57% from March 2020 to May 2020, while the import growth was 5.99%. During the RMCO period, the export for the medicinal and pharmaceutical products growth was placed at 3.5% from June 2020 to November 2020, which is better than the MCO and CMCO periods. In the meantime, the import growth for medicinal and pharmaceutical products registered at –4.21% on average from June 2020 to November 2020. The statistics tell us that Malaysia imported more medicinal and pharmaceutical products to accommodate the high demand in the domestic market. However, when the spread of COVID-19 infections was under control, the domestic demand declined and Malaysia started to export more medicinal and pharmaceutical products abroad.

2.3 *Inflation*

Table 5 reports the monthly inflation rate from January 2019 to July 2020. In general, the Consumer Price Index (CPI) showed a decreasing trend from March 2020 to April 2020. The sectors that contributed to a decrease of the inflation rate are the food sector, utilities sector, transport sector, education sector, and restaurant and hotels sectors. The MCO and resultant slowing of the economy had driven the market to push down the average price of products and services in these sectors. Many businesses offered lower and discounted prices as an attempt to attract more demand from their customers.

Table 5: Monthly inflation rates (2019M01–2020M07).

Period	Total	Food &Non Alcoholic Beverages	Alcoholic Beverages & Tobacco	Clothing & Footwear	Housing, Water, Electricity, Gas & Other Fuels	Furnishings, Household Equipment & Routine Household Maintenance	Health	Transport	Commun-ication	Recreation Service and Culture	Education	Restaurant & Hotels	Miscellaneous Goods & Services
2019M01	–0.50	0.91	0.00	0.11	0.00	0.17	0.25	–5.47	0.00	–0.09	0.42	0.00	0.36
2019M02	0.25	0.15	–0.06	–0.11	0.50	0.26	0.16	0.45	0.00	0.18	0.42	0.15	–0.09
2019M03	0.25	–0.45	0.06	0.11	0.00	0.26	0.25	2.61	0.00	–0.09	0.08	0.00	0.36
2019M04	0.00	–0.15	0.12	–0.11	0.00	0.00	0.16	0.44	–0.10	0.09	0.00	0.23	0.09
2019M05	0.25	0.30	0.06	–0.11	0.33	0.34	0.00	0.17	0.00	–0.09	0.08	–0.15	0.00
2019M06	0.00	0.08	0.06	–0.11	0.00	0.09	0.16	–0.35	0.00	0.09	0.00	0.23	0.27
2019M07	0.08	0.30	0.00	–0.42	0.00	0.17	0.08	0.17	0.00	–0.09	0.08	0.08	0.36
2019M08	0.25	0.23	0.06	0.00	0.50	0.00	0.16	–0.09	0.00	0.00	0.08	0.15	0.53
2019M09	0.00	–0.22	–0.06	0.00	0.00	–0.09	–0.08	0.09	0.00	0.63	0.42	0.15	0.35
2019M10	0.16	0.08	0.00	–0.32	0.00	0.00	0.08	0.17	1.56	0.00	0.08	0.00	–0.18
2019M11	0.08	0.00	0.06	0.11	0.41	0.09	0.16	0.00	0.00	0.09	0.00	0.08	0.44
2019M12	0.16	0.45	–0.12	–0.11	0.00	0.09	0.00	0.09	0.00	–0.09	0.00	0.15	–0.09
2020M01	0.08	0.15	–0.06	–0.11	0.00	0.00	0.24	0.09	0.00	0.18	0.42	0.08	0.44
2020M02	0.00	0.07	0.06	0.00	0.33	0.09	0.08	–0.96	0.00	0.00	0.08	0.15	–0.09
2020M03	–1.23	–0.07	0.12	–0.11	0.00	0.00	0.32	–8.69	0.00	–0.09	0.00	–0.23	0.44
2020M04	–2.73	–0.15	0.00	0.00	–3.75	–0.43	0.00	–13.46	0.00	0.00	–0.08	0.00	–0.17
2020M05	0.26	0.30	0.06	0.00	–0.08	–0.17	0.00	1.00	0.00	0.00	–0.08	0.08	0.52
2020M06	1.02	0.45	0.06	–0.11	0.00	0.09	0.08	7.81	0.00	0.00	–0.17	–0.38	0.43
2020M07	0.67	0.07	0.12	0.00	0.00	0.26	0.08	4.90	0.00	0.00	0.41	–0.08	0.26

Note: Economic Planning Unit (2020). Authors' own calculation on 31 October 2020.

On the other hand, it also derives from a cheaper energy price as the world oil price was decreasing significantly during this period.[4] A price reduction can be seen clearly in the utilities sector and the restaurant and hotels sectors. Low prices in the utilities sector are due to the subsidy given by the government on the utility bills to assist households and businesses tide over the difficult times. On the other hand, cheaper price in restaurant and hotels sector responded to the initiatives taken by the market players in these sectors by offering a low and competitive price to boost the demand from the market especially in June and July 2020. During this time, the government relaxed the implementation of the MCO and the number of COVID-19 infection cases was by then relatively under control.

2.4 *Employment and unemployment*

Table 6 reports the numbers of employed and unemployed, and the unemployment rate from January 2019 to August 2020. The unemployment rate had shown a rapid increase since March 2020 where it stood at 3.9%. In April and May 2020, the unemployment rate jumped to 5% and 5.3%, respectively. These statistics have clearly shown that the negative impact of the MCO had forced many companies to cut off and retrench a large number of workers in order to sustain their businesses.

The high number of unemployed comprised most of the job losses in the airline and tourism industry. For example, AirAsia is reported to have cut down about 30% of their workers in response to the economic downturn through their retrenchment plan.[5] Malindo Airline also took the same strategy, which affected more than 2,000 of their workers.[6] In line with these unfortunate developments, the Malaysian Trades Union Congress

[4] https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=106&bul_id=cE9sL2M3VXFTcGVvOEFOVkVDK1Bwdz09&menu_id=bThzTHQxN1ZqMVF6a2I4RkZoNDFkQT09.

[5] https://asia.nikkei.com/Business/Transportation/AirAsia-to-slash-workforce-by-30-considers-10-stake-sale.

[6] https://www.thestar.com.my/business/business-news/2020/04/08/70-of-malindo-air-staff-to-take-unpaid-leave.

Table 6: Unemployment rates (2019M01–2020M08).

Month	Employed (Million)	Unemployed (Million)	Unemployment Rate (%)
2019M01	14,992.8	515.6	3.3
2019M02	15,026.8	516.4	3.3
2019M03	15,035.2	521.3	3.4
2019M04	15,089.8	523.3	3.4
2019M05	15,122.5	519.8	3.3
2019M06	15,134.6	521.4	3.3
2019M07	15,179.8	524.8	3.3
2019M08	15,185.8	520.2	3.3
2019M09	15,229.9	521.4	3.3
2019M10	15,265.6	512.1	3.3
2019M11	15,315	513.9	3.3
2019M12	15,286	517	3.3
2020M01	15,317.6	511.7	3.2
2020M02	15,344.5	525.2	3.3
2020M03	15,232.4	610.5	3.9
2020M04	14,933.4	778.8	5
2020M05	14,887.9	826.1	5.3
2020M06	14,990.2	773.2	4.9
2020M07	15,073.4	745.1	4.7
2020M08	15,153.5	741.6	4.7

Note: Economic Planning Unit (2020).

(MTUC) reported that about 30,000 workers in the hotel industry had lost their jobs since the implementation of the MCO.[7]

However, in the third quarter of 2020, most of the restrictions had been eased, interstate travel was allowed, and more businesses were reopened as a result of a declining number of daily COVID-19 infections in the second quarter and early third quarter of 2020. With this release of the

[7] https://www.freemalaysiatoday.com/category/nation/2020/05/31/30000-in-hotel-industry-have-lost-jobs-says-mtuc/.

tight hold of the MCO, the total employment numbers started to increase from 14,887.9 million workers in May to 15,153.5 million workers in August. However, the country's economic situation is still not able to bounce back to the high levels as in February 2020, before the first lockdown occurred. It was reported by the Department of Statistics Malaysia that the number of workers employed increased by about 88,000 new jobs to bring the employment population to 8.47 million in Q3:2020.[8] The number of job vacancies increased, too, from the previous quarter to 179,000 in Q3:2020. In addition, there were about 21,000 new jobs created in the private sector in Q3:2020.

2.5 *Business climate*

We use leading, coincident, and lagging indexes as the indicators to discuss the business condition prevailing in Malaysia. Table 7 reports the monthly leading, coincident, and lagging indexes from January 2019 to July 2020. The usage of leading index indicators can designate the possibility of an early signal to any business cycle turning point. It is used to predict the economic direction in an average time period of 6 months ahead. Coincident index examines the current condition of an economy or the current business cycle. Lagging index is used to measure and confirm the performance of any previous economic condition. The base year of these indexes is 2015 = 100. In the case of Malaysia, this index is composed from seven economic components where those changes tend to precede changes in the overall economy. Those seven economic components are real money supply, Bursa Malaysia Industrial Index, real import of semi-conductors, real import of other basic precious and other non-ferrous metals, the number of housing units approved, expected sales value (manufacturing), and the number of new companies registered.[9] A

[8] https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=480&bul_id=R3VRSE9iU2U1ZFRpRlh3SDFNSmJwZz09&menu_id=Tm8zcnRjdVRNWWlpWjRlbmtlaDk1UT09.

[9] https://www.dosm.gov.my/v1/index.php?r=column/cthemeByCat&cat=82&bul_id=dEJRd1hDMG9obGYrWVRhczNpVFVXQT09&menu_id=YmJrMEFKT0p0WUIxbDl1bzZydW9JQT09.

Table 7: Leading, coincident, and lagging indexes, by monthly, 2019–2020.

	2019			2020		
Period	**Leading Index**	**Coincident Index**	**Lagging Index**	**Leading Index**	**Coincident Index**	**Lagging Index**
January	101	113.2	151.9	101.7	115.5	153.6
February	99.2	112.5	154.1	100.9	116.3	153.1
March	99.6	112.3	150.6	95.9	108.3	144
April	101.9	113.2	151.8	96.1	91.4	158.9
May	100.2	113.7	152.3	100.8	101.2	166.9
June	100	113.5	150	104.6	110	167
July	101.4	114.1	152.3	109.2	111.4	169.3
August	100.8	114.6	151.9	—	—	—
September	100.8	114.3	152.4	—	—	—
October	102.3	114.8	153.3	—	—	—
November	101.9	115.1	152.8	—	—	—
December	101.6	115.3	154	—	—	—

Note: Economic Planning Unit (2020).

higher index quantum indicates the economic condition is experiencing a convincing upturn, while a lower index quantum is indicative of an economic decline.

Before the MCO, the three indexes in January 2020 and February 2020 were higher as compared to the same index in January 2019 and February 2019, respectively. It means, the economic prospect is more convincing in the beginning of 2020 as compared to the same period in the year 2019. During the MCO, all the three indexes dropped in March 2020. However, the leading and lagging indexes increased in April 2020. An improvement in April might be a "knee-jerk" response to the implementation of the government's economic stimulus packages. The indexes increased once again in May and onward and might likely be a reactive response to the introduction of the CMCO and subsequently the RMCO. Many significant economic activities were allowed to operate in these periods of time. Surprisingly, the leading and lagging indexes in May–July 2020 are higher than the numbers in May–July 2019.

2.6 *Market sentiment*

We use the CEO confidence index, business conditions index, consumer sentiments index, and retail trade index to discuss the market sentiment. All indexes are based on the survey by the Malaysian Institute of Economic Research. Table 8 reports these quarterly indexes from Q1:2019 to Q3:2020. The CEO confidence index is an indicator to measure how confident the top management of corporates are about the domestic economy. The trend shows that the CEO's confidence in the domestic economy decreased from 93.1 in Q1:2019 to fall to 85.3 in Q4:2019. However, the CEO confidence index registered at 88.4 in Q1:2020, which is higher than in the previous quarter (Q4:2019). The index dropped significantly to the lowest in Q2:2020. This reflected the loss of confidence and the worry caused by the implementation of the MCO since March 2020. There is some improvement in Q3:2020, but it is still smaller than the index value before the imposition of the MCO.

The business conditions Index is indicative of the condition of the business situation in the economy in terms of its current and future prospect for business capacity. This index covered a sample of 350 manufacturing businesses in 11 industries that are operating in Malaysia. The main indicators of this index are production level, new order bookings, sales performances, inventory build-up, and new job openings. The business conditions index was lower in the second half of 2019 than the first half

Table 8: CEO confidence index, by quarterly 2019–2020.

Period	CEO Confidence Index	Business Conditions Index	Consumer Sentiments Index	Retail Trade Index
2019Q1	93.1	94.3	85.6	134.4
2019Q2	90.1	94.2	93.0	138.5
2019Q3	90.2	69	84	141.9
2019Q4	85.3	88.3	82.3	143.1
2020Q1	88.4	83	51.1	137.1
2020Q2	26.9	61	90	108.8
2020Q3	61.5	86.3	91.5	137.6

Note: Economic Planning Unit (2020).

of 2019. In the beginning of 2020, business conditions index was registered at 83 in Q1:2020, which decreased by about 6% from Q4:2019. As the MCO started to be implemented in March 2020, the business conditions index decreased further to 61 in Q2:2020. However, the index increased to 86.3 in Q3:2020. Comparatively, the index value is smaller as compared to the index value in 2019, indicating that the business condition was worse than in 2019 due to the pandemic.

On the other hand, the consumer sentiments index informs the feelings and confidence level of a consumer on their budget constraints and the prospect of the domestic economy, respectively. The survey covers consumer spending trends and sentiments. Consumer sentiments index started to decrease from Q3:2019 to Q1:2020. A low index was in response to the pre-pandemic sentiment in January 2020 and February 2020 and the implementation of MCO in March 2020. However, this index bounced back in Q2:2020. This upward trend may also be a reactive response to the various economic stimulus packages doled out by the government in March and April 2020.

The retail trade index is informative of the retail sector activity in terms of value and volume. It is also an indicator for domestic demand of final goods. In 2019, the retail trade index increased in every quarter. In the beginning of 2020, the retail trade index was registered at 137.1 in Q1:2020, a decrease from 143.1 in Q4:2019. But it was higher than the index value in Q1:2019 if we make a comparison on a year-over-year basis. It means the retail trade performed better in quarter 1 for the year of 2020 than 2019. We can see that the retail trade index dropped significantly to 108.8 in Q2:2020 due to the implementation of the MCO since March 2020. It has undergone some improvement in Q3:2020. However, the index value is still lower than the value in Q3:2019 if we compare on a year-over-year basis.

Overall, the CEO confidence index, business conditions index, and retail trade index showed the lowest in Q2:2020. While the consumer sentiments index was at the lowest index in Q1:2020. We can conclude that the market sentiment on the pandemic and the early stages of the MCO implementation was worse for businesses and economic activities besides social interaction. However, the introduction of various economic stimulus packages manages to improve the market sentiment in Q3:2020 somewhat and mitigates against the ill effects of the pandemic-induced and MCO-caused economic downturns.

3. The Economic Policy on COVID-19 Pandemic

The government decided to follow other countries to implement the MCO which largely entailed the prohibitions and restrictions on gatherings, mass assemblies, commuting, and travelling by the entire population in combating and reversing the spread of the COVID-19 virus in Malaysia. However, the implementation of the MCO and its drastic measures had an adverse impact on economic activities and peoples' well-being. Sufficient coverage of offset policy is very important to ensure the economy can recover well after it resumes operations fully. The government has announced several economic stimulus packages to cushion the adverse impact from the pandemic and the lockdowns.

Chronologically, the government announced the first economic stimulus package valued at RM 20 billion on 27 February 2020. It was before the execution of the MCO. The second announcement of the economic stimulus package valued at RM 250 billion was on 27 March 2020. It was announced during the maiden MCO period. The third announcement of the economic stimulus package valued at RM 10 billion was announced on 6 April 2020. On the other hand, BNM also supported these fiscal measures by promoting the country's monetary expansion by adjusting the Overnight Policy Rate (OPR) and reducing it four times consecutively to provide additional liquidity in the market.

3.1 *First stimulus package*

The first stimulus package was announced on 27 February 2020 by the Pakatan Harapan Government. It was before COVID-19 became a pandemic in Malaysia. RM 20 billion was allocated in this package. This stimulus package focuses more on cushioning the tourism sector and SMEs from the external shock. It involves a direct government spending in the economy and tax reduction. These incentives aimed to improve the businesses' cash flow and increase domestic spending. The stimulus package was expected to trigger the economic growth and increase it from a range of 3.2% to 4.2%.

3.2 *Second stimulus package*

The second stimulus package aptly named as The PRIHATIN Economic Stimulus Package was announced by the Perikatan National Government on 27 March 2020. This stimulus package has been valued at RM 250 billion. It is more than 11.5 times higher than the first stimulus package. The PRIHATIN is intended to comprehensively cushion the whole economy from the adverse impact of the MCO since its implementation on 18 March 2020. For this round, almost everyone was affected by the lockdown. Cash assistance and electricity bill discounts were provided to firms, households, and individuals. A big sum of the budget (RM 100 billion) was allocated for the loan repayment moratorium programme. However, this programme is not involved with a fiscal commitment. It is to encourage the demand in the market as the purchasing power of consumers is expected to be increased through the implementation of the fiscal stimulus package. It is calculated that when households and businesses have a higher purchasing power, it will eventually encourage more domestic spending. In the end, the domestic businesses are expected to earn more revenue in turn, and consequently, it helps to improve their cash flow.

On the supply side, the government also allocated several budgets for business loans especially for the SMEs via commercial banks and other government agencies. Various responses were received from the people and the industry players expressing that there was a growing demand for some adjustments to be made to some of the features of the stimulus package.

First, the wage subsidy programme.[10] Initially, this programme planned to give a wage subsidy of RM 600 per worker for 3 months. But, many industries players requested for an increase of the subsidy quantum and an extension of the coverage period due to the deep impact suffered from the MCO. Second, there was a strong demand from the SME players to be

[10] https://www.pmo.gov.my/2020/03/speech-text-prihatin-esp/.

awarded a business grant instead of a repayable loan in spite of any possible "easy" terms to ease their cash flow during these hard times.[11]

3.3 *Third stimulus package*

In responding to the feedback on the wage subsidy programme and a specific aid for SMEs, the third stimulus package called "PRIHATIN plus" was announced by the federal government on 6 April 2020. This is a mini stimulus package as an extension of the PRIHATIN economic stimulus package. An additional RM 10 billion was allocated. It involves the wage subsidy that increased the amount of incentive to RM 1,200 per worker and the provision of a business grant of RM 3,000 for SMEs. The aim of this stimulus package was to improve the business cash flow for recipient companies both during the MCO and the post-MCO periods. The intention of the stimulus extension programme was to moderate the increase in the unemployment rate through a wage subsidy programme.

3.4 *Fourth stimulus package*

Consequent to the three previous stimulus packages, the federal government subsequently announced another stimulus package that became known as the National Economic Recovery Stimulus (PENJANA) on 5 June 2021, which is a short-term economic recovery plan to extend credit to companies especially SMEs. This initiative is intended as a kickstart measure for Malaysia's economic recovery. In this stimulus package, there are 41 programmes worth RM 35 billion to re-energise the economy. RM 10 billion is a direct fiscal injection by the government. The aims of this stimulus package are to empower the people, propel businesses and stimulate the economy. The time frame to execute all programmes would be from June 2021 to December 2021. There are 11 programmes that the plan targets at empowering the people and businesses with. The government also listed 14 other programmes intended to propel businesses on to a path of recovery and growth. To stimulate the economy, 16 new programmes had been strategised.

[11] https://www.bharian.com.my/berita/nasional/2020/03/670224/majikan-perlu-tuntut-program-subsidi-upah.

3.5 *Monetary policy adjustments*

BNM also supported these macro initiates by promoting the monetary expansion, with the Overnight Policy Rate (OPR) being reduced four times to provide additional liquidity in the market. Since March 2020, BNM announced a 0.25% reduction of OPR four times. On March 2020, the OPR stood at 3.25. As of 7 July 2020, the OPR was further reduced to 1.75.[12] A lower interest rate generally leads to a lower investment rate for the depositors. On the other hand, the cost of borrowing becomes cheaper for the borrowers. This monetary policy is expected to encourage more spending in the domestic market as an unattractive lower savings rate will discourage the depositors to save more money in the bank and conversely encourage investments and spending which are hoped to churn the economy faster and fuel growth.

3.6 *Budget 2021*

This national budget is different from other previous annual budgets tabled in previous years not only in terms of size but also in scope and intention. The country's budget for the year 2021 is focused on the fiscal strategy in reviving the economy from the pandemic. Basically, the government allocated a total budget of RM 322.5 billion. About RM 236.5 billion is meant for operational expenditure, RM 69 billion for development and RM 17 billion for the COVID-19 fund. The COVID-19 fund mainly covers the Wage Subsidy Programme, small-scale infrastructure projects, SME soft loans and food security projects. The government estimates the budget deficit will stand at 5.4% of GDP by the end of 2021.

The government also extended the loan repayment moratorium for another 3 months forward. For this round, the targeted groups are the B40 and the SMEs only. On the other hand, the government also allows selected members of the Employees' Provident Fund (EPF) to withdraw their old

[12] https://www.bnm.gov.my/interest-rates-volumes?p_p_id=bnm_market_rate_display_portlet&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&_bnm_market_rate_display_portlet_product=rrm&_bnm_market_rate_display_portlet_monthStart=0&_bnm_market_rate_display_portlet_yearStart=2020&_bnm_market_rate_display_portlet_monthEnd=1&_bnm_market_rate_display_portlet_yearEnd=2021.

age savings to a maximum withdrawal of 10% of their total deposits from their EPF accounts. This programme is intended to reduce the burden of people who are facing an income reduction or have lost their jobs during or as a result of the pandemic. However, many people requested for an amendment to this measure as Malaysia by then was suffering the third wave of the pandemic in Q4:2020.[13] They requested for the loan repayment moratorium programme to be further lengthened and extended for a wider coverage and that the EPF deposit withdrawal should be automatically approved for everyone without any terms and conditions imposed. In addition, the loan repayment moratorium programme should be extended for another 6 months ahead at least instead of just 3 months.

4. Conclusion and Policy Recommendation

The COVID-19 virus infection has been declared a pandemic threat to life and health in Malaysia since March 2020. The government implemented the MCO and lockdown measures to combat the spread of COVID-19. The MCO however gave rise to massive adverse impacts on the economy as it disrupted the daily economic and social activities. Without sufficient and accurate offset policy, the impact of the MCO will drag on longer in the country. Statistically, real economic activity, i.e. output (GDP), inflation rate, unemployment, and trade balance, had shown a trend of decreasing in 2020:Q2. The resultant declining inflation rate was not expected to be an advantage to the consumers' purchasing power because many were left unemployed and/or had had their wages cut. In addition, the index for all market sentiments indicated that the market sentiment on the current economic situation in 2020:Q2 was worse. Throughout the period of 2020, the production and employment were at the lowest point reflecting the necessary draconian measures in the implementation of the MCO in 2020:Q2. However, the production and employment levels were seen to be increasing in 2020:Q3 and 2020:Q4 in response to the implementation of CMCO and RMCO that

[13] https://www.thestar.com.my/news/nation/2020/11/12/announcement-on-loan-moratorium-epf-soon.

relaxed many restrictions of MCO. This was also supported by the execution of multiple stimulus packages that aimed to strengthen the business resilience and prepare the economy to grow once the pandemic is over.

Multiple offset policies have been announced by the government in securing and recovering the economy from the pandemic. Generally, there are four main components in the economy, namely private consumption (C), total investment (I), government expenditure (G), and net export (NX). The current situation affected the performance of I and NX. A reduction of interest rate led to a lower rate of return in the capital market. The lockdown had a direct impact on international trade as well. Hence, the I and NX are too weak to trigger the desired economic growth. Therefore, the economy is relying more on the C and G to activate economic growth during this hard time. However, to encourage more C and G, high fiscal commitment is required, especially with the government's fiscal constraints. In this chapter, we recommend several policies that the government can consider in improving the C and G towards economic recovery.

First, the government implemented the 6-month loan moratorium from April 2020 to September 2020. This programme had increased people's purchasing power in the market despite the economic calamity and it provided valuable breathing space for the people. Higher purchasing power in the hands of the consumers in the market will help the producers improve their cash flow. However, this programme will give an adverse impact to the financial institutions and capital markets if the programme takes a longer coverage time period.

The government should introduce a debt restructuring programme for households and corporate entities especially the SMEs after the loan moratorium ends. Debt restructuring programmes are important to avoid a shock on consumer purchasing power after the loan moratorium ends. Instead of giving loan deferment for 6 months, there should be a plan to coordinate a debt restructuring programme which aims to reduce the loan instalment after the moratorium ends. It can be done by extending the period of the loan contract. Debt restructuring programmes should have less bureaucracy, too. These debt restructuring programmes will give a larger multiple effect in the economy at both the demand and supply sides. At the demand side, the purchasing power is still strong to support the domestic demand because the consumers have extra money in their pockets. At the supply side, the producers can enjoy a lower overhead cost as their monthly loan instalments are reduced. Thus, the marginal revenue is expected to increase.

Second, the government should improve the tax system to maximise its revenue from tax collection. Initially, the government has injected a lot of money into the market via fiscal policy. With all the economic stimulus packages, the spending of the government amounted to around 20% of GDP. To finance all these economic stimulus packages, the government depends a lot on domestic borrowings. Hence, it increases the deficit to 6% of GDP. In addition, the commitment on debt in the future is also high. There is a need to improve the tax system in maximising government's tax revenue collection. The Goods and Service Tax (GST) system is one of the options to replace the current Sales and Service Tax (SST) system. We advise the government to reintroduce the GST, however, it should start with a lower rate such as 1%–2%. GST is more efficient than SST. On the other hand, it also diversifies the source of income from levying and relying too much on the oil revenue. The more productive the tax collection system, the more the revenue can be maximised through tax collection. Thus, improving the tax system will reduce the fiscal pressure because the money that had been injected into the economy will be returned to the government.

Third, a 6% service tax has been extended to the foreign digital service providers since January 2020. The digital tax is expected to contribute RM 400 million to the national revenue. An increasing trend of online transactions in the country especially during the lockdown promotes new business opportunities to many people. Hence, we suggest the government may consider extending the digital tax to the domestic users. By extending this tax to the domestic users, the government can be expected to raise more revenue from the digital tax.

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