Malaysian Institute of Economic Research (MIER)

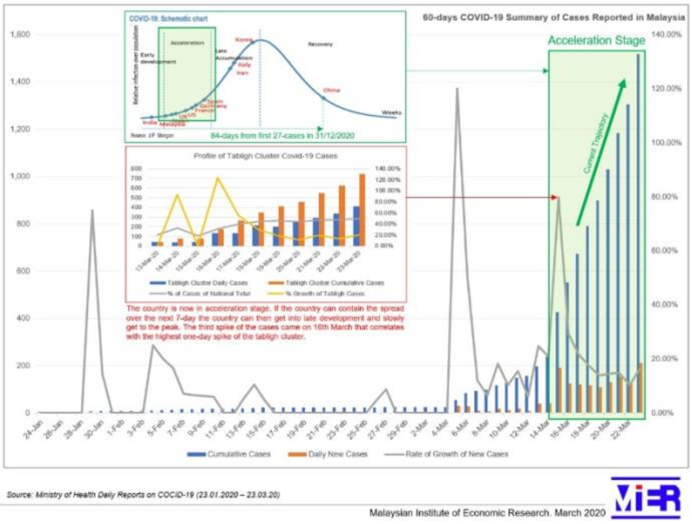
PRESS STATEMENT

The Economic Impacts of COVID-19
March 24, 2020

MIER had organized a press conference on 21st of February 2020 to announce the results of a preliminary analysis of the economic impact of COVID-19 after its initial outbreak in Malaysia in the beginning of the year. The overall economic impact of the outbreak on GDP growth was a reduction of between 0.8% to 2.0% rate declines from the baseline trend for the low and high scenarios. The pandemic has now advanced beyond the initial infectious phase leading to Movement Control Order (MCO) issued by the government for two weeks from the 18th of March 2020 to the end of the month. The country-wide MCO or partial lockdown inevitably leads to economic disruptions which affect the country's pattern of production, consumption and trade of our industrial outputs as well as on income and employment of the population.

The PN government has also announced a stimulus package of RM20 billion in the first instance followed by a second allocation of RM680 million to finance a series of measures to deal with the outbreak and the negative impact on the economy.

MIER through its Health Economics Group has undertaken, using data from Ministry of Health, data from other countries as well as independent epidemiological studies on the COVID-19 pandemic, has undertaken its own projection of the outbreak in Malaysia. As evident in the diagram attached, after a one-week movement restriction, Malaysia has entered an acceleration phase of the pandemic and is expected to peak by the middle of April 2020. With that outlook MIER has recently undertaken a second more comprehensive analysis, using a more sophisticated Computational General Equilibrium (CGE) model for Malaysia, on the economic impact of the COVID-19 outbreak. The result of this second economic impact analysis is summarized below.



Our second study presumed the MCO will be extended by another 2 weeks into the 2nd quarter in order to achieve full compliance and the peak of the COVID-19 trajectory. We further assumed all industrial outputs and trade will rebound to near full recovery from the third Quarter of 2020.

Our findings show that:

1. Malaysia's real GDP may shrink about 6.9% relative to the 2020 baseline. This translates into a -2.9% real GDP growth for 2020, relative to 2019.
2. The number of job losses (presumably mainly non-salaried jobs) could be in the region of 2.4 million, 67% of which are unskilled workers.
3. Household incomes is projected to fall by 12% relative to the baseline, which amounts to RM95 billion.
4. Such a fall is manifested in a sharp decline in consumer spending by 11%, despite the drop in general consumer price level by 4.4%.

In this challenging and unprecedented times, it will be to the nation's best interest to depart from looking at the economy based on the conventional indicators in normal times. Ensuring full compliance of the MCO will be most paramount at this stage. This will prevent further ripples in the economy, where any additional MCO of 2 weeks may amplify the contraction of real GDP between -3% to -4% relative to the 2020 baseline.

To mitigate the economic effects, we propose that the government set aside an extraordinary crisis budget comparable to the projected income losses of RM95 billion. Since RM20 billion has earlier been pledged, an additional RM75 billion will be needed. Such allocation will be imperative especially to avoid company bankruptcies, loss of jobs, and impaired household incomes and welfare through business support, SME rejuvenation and social safety net programs.

It will also be important to revisit the country's overall socio-economic goals. Given the pandemic, we think it is now timely to establish policies, mechanism and measures to move the economy towards resiliency and genuine prosperity, not unsustainable growth-oriented policies of the many past decades.

It is also timely to revisit thoroughly the state of our agriculture. From an agricultural eco-system characterized by our colonial legacy of commodity-based crops, we need to move on to food-based agriculture, especially in light of the nation's food security and sovereignty. For this reason, we would recommend strongly that the government consider establishing a National Food and Medical Supplies Stockpile funded by the government or in conjunction with private sector through a Public Private Partnership (PPP) program.

Finally, because of this COVID-19 pandemic and the stimulus package required to overcome the negative economic impact, the government has to review its fiscal policy including Budget 2020 that had been announced by the previous PH government in order to deal with this new development.

MIER do expect that the recovery from this year's projected economic recession due to the COVID-19 outbreak and implementation of the recommended stimulus package will result in a V-shaped recovery (as happened in all previous recessions since 1985), so that the year 2021 will see a better economic performance of the economy. In anticipation of this, MIER would recommend for the PN government to reconsider bringing back the GST with appropriate adjustments to its rate and coverage as well as improved mechanism in terms of collections and rebates, in its forthcoming 2021 budget, along with other related measures which will be introduced to parliament later this year. This should provide a means to cover any shortfall in federal government revenues due to the lower expected oil receipts in the previous assessment.