

The Covid-19 pandemic has wreaked devastating havoc on not only global health, but also the world economy. The chaos and all sorts of frustrations caused by the pandemic forced countries to impose national lockdowns. Having suffered from a negative GDP growth rate for the first time since the 1980s recession, Malaysia is also one of the victims and has been confronted with yet another potential economic crisis. As the Finance Minister of Malaysia, I would implement three policies that target key economic challenges in the current situation—an expansionary fiscal policy, a stimulus package for small and medium enterprises (SMEs) and a wage subsidy scheme to help weather the crisis.

Considering the adverse impacts of the Covid-19 pandemic on the Malaysian economy, the problems of low domestic consumption and decreased economic activities must be addressed in a timely manner. The Movement Control Order (MCO) which was implemented by our prime minister, Tan Sri Muhyiddin Yassin on 16th March 2020 has gravely affected almost all economic sectors as people were confined at home except for buying daily essentials. The series of Covid-19-related events caused a rapid decline in Malaysia's GDP from a marginal growth rate of 0.7 percent in the first quarter of 2020 to -17.1 percent—the worst decline since the fourth quarter of 1998.¹ It shows that the Covid-19 pandemic and the national lockdown caused a sharp decline in GDP. As international trade was put to a halt, Malaysia's net export for the past few months fell by 35.75% (Figure1).²

¹ Department of Statistics Malaysia <https://www.dosm.gov.my/v1/index.php>

² MOODY'S ANALYTICS <https://www.economy.com/malaysia/net-exports>

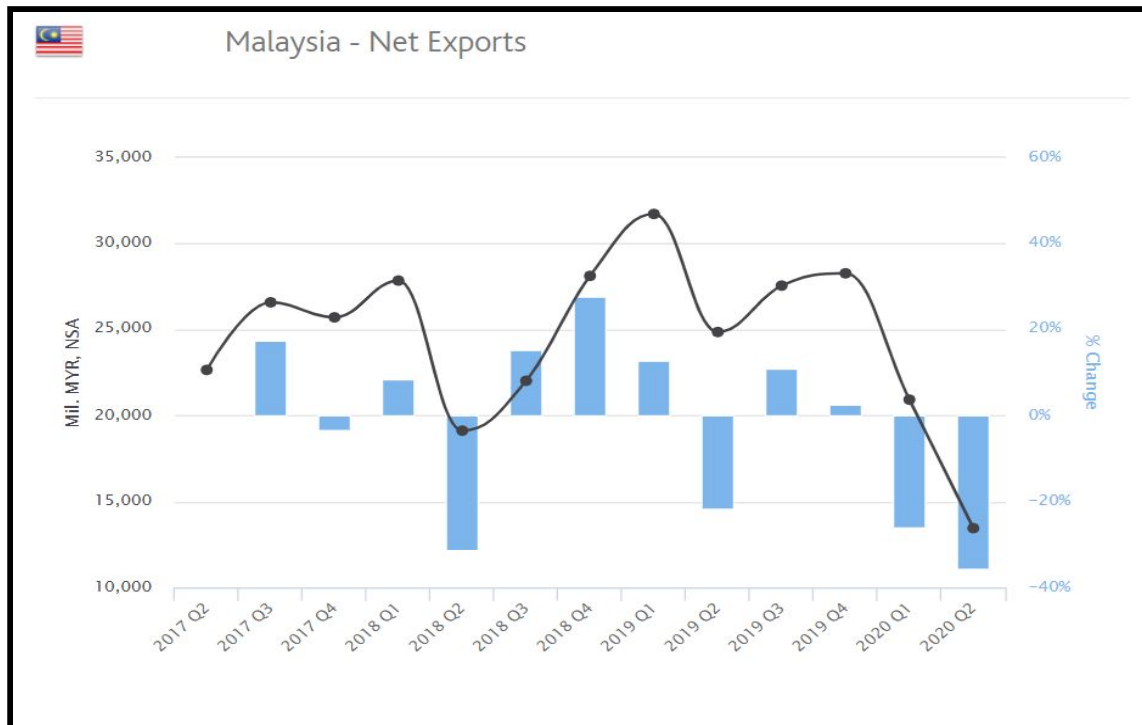


Figure 1

The first policy that I would implement is an expansionary fiscal policy that aims to increase government expenditure and lower the income and corporate tax rates. The aims of this policy are increasing the consumer's consumption and stimulating the economic activities in our country through increased government spending. The expansionary fiscal policy targets the three key components of GDP: government spending, private consumption and investment. The increase in government spending is expected to increase employment opportunities, thus leading to a concomitant rise in household income. As household income increases, disposable income increases and, depending on the current marginal propensity to consume in the Malaysian economy, consumers will be more willing and able to consume given the positive wealth effect. On the other hand, private investments may increase as a result of higher business confidence as consumption increases. Therefore, the increase in government spending, consumption and investment may lead to an increase in aggregate demand, thus restoring GDP growth, as inferred from the Keynesian multiplier effect of government spending.

The effectiveness of the expansionary fiscal policy can be preemptively evaluated through an analysis of the status quo of the economy. During the MCO, all construction activities slowed down in the second quarter of 2020. There are 4 out of 5 sectors experiencing a negative growth rate of more than 15 percent (Figure 2)³. Apart from that, according to the Report of Special Survey On Effects Of Covid-19 On Economy And Individual, more than two-third (71.4%) of self-employed respondents have sufficient savings for less than 1 month.⁴ Besides that, Malaysian Employers Federation (MEF) executive director Datuk Shamsudin Bardan pointed out that the advantages from the government's stimulus packages had mostly gone to the small and medium enterprises, leaving big companies out in the cold.⁵ Moreover, recent academic research on the determination of the optimal corporate tax rate in the Malaysian economy showed that the gradual reduction in the corporate tax rate had a positive impact on the economic growth of Malaysia.⁶ Hence, lowering corporate tax can increase the corporates' revenue, the companies can boost up the economic activities by producing more products. The price of the products will fall as the aggregate supply (AS) increases. Therefore, consumption increases in our country, resulting in the recovery of real GDP.

³ Department of Statistics Malaysia

https://www.dosm.gov.my/v1/index.php?r=column/cthemByCat&cat=100&bul_id=NS9TNE9yeHJ1eHB6cHV1aXBNQINUZz09&menu_id=TE5CRUZCbIh4ZTZMODZlBmk2aWRRQT09

⁴ Report of Special Survey On Effects Of Covid-19 On Economy And Individual

https://www.dosm.gov.my/v1/uploads/files/covid-19/Report_of_Special_Survey_on_Effects_of_COVID-19_on_Economy_and_Individual-Round-1.pdf

⁵ The Sun

<https://www.thesundaily.my/local/with-business-suspended-due-to-the-mco-companies-will-have-trouble-paying-salaries-says-mef-chief-IB2267930>

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<https://www.emerald.com/insight/content/doi/10.1108/IJIF-07-2017-0011/full/pdf?title=malaysian-corporate-tax-rate-and-revenue-the-application-of-ibn-khaldun-tax-theory>

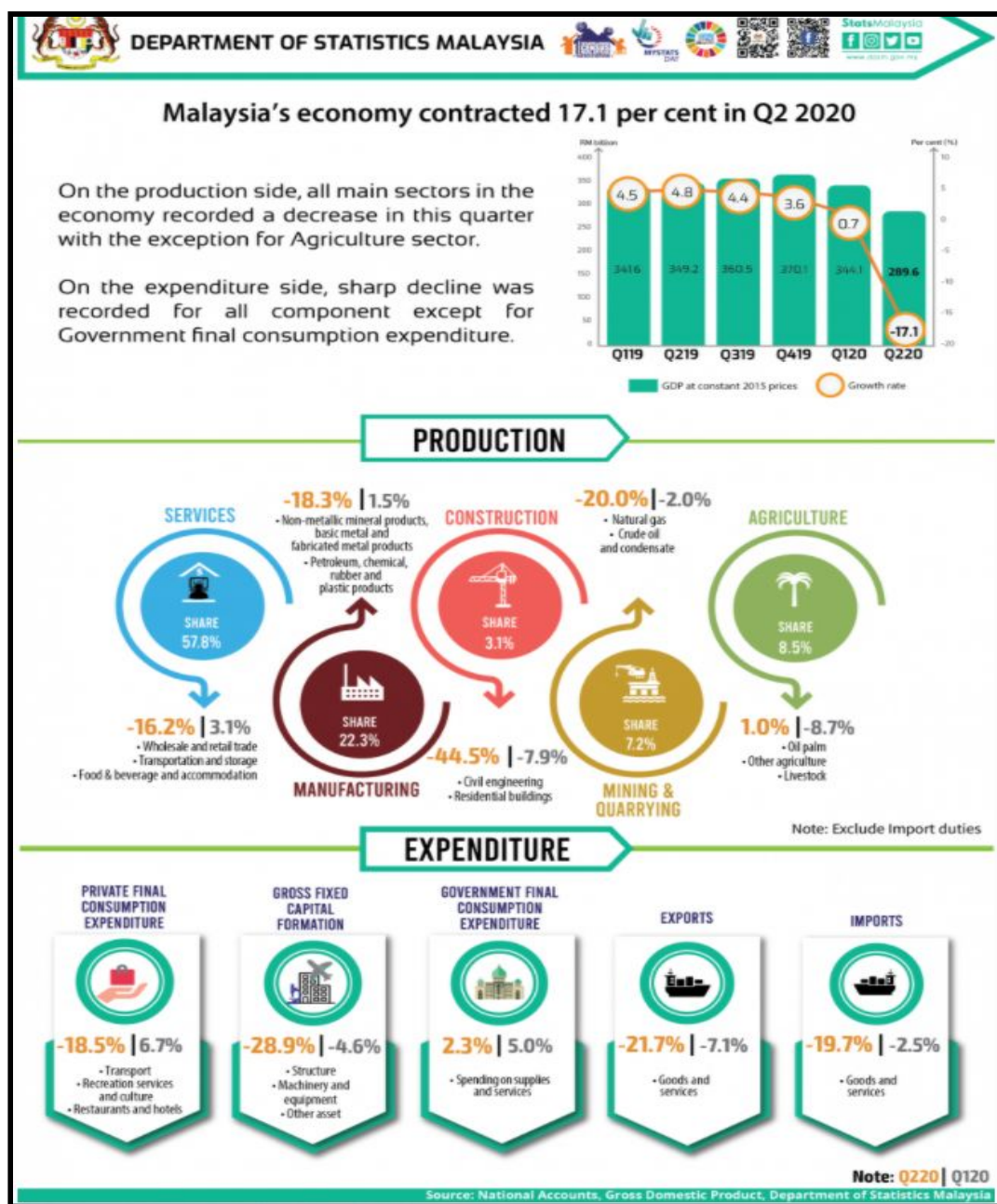


Figure 2

On the contrary, in the short run, expansionary fiscal policies tend to suffer from time lags. For instance, a decision to increase government spending may take a long time to affect aggregate demand (AD), so it may not be a possible way in the short run to weather the economic crisis. Apart from that, during the MCO, a lot of people have lost their jobs or their salaries are retrenched. They were forced to

spend their savings to buy daily essentials. As inferred from the Keynesian theory, the government might face a widening budget deficit. Therefore, expansionary fiscal policy may not be effective. In addition, this policy will also require higher government borrowing, but Malaysia's National Government Debt data has shown that our national debt has reached an all-time higher of 197.7 USD bn in Jun 2020 (Figure 3).⁷ This may not be possible for countries with higher levels of debt. In the long run, increased government expenditure might inadvertently lead to the crowding out of private investments as the government increases spending because the government borrows from the private sector, they have less to spend, and therefore the contributions of increased government spending towards higher aggregate demand might be counteracted by the fall in private investments. Nevertheless, implementing the expansionary fiscal policy will help Malaysia weather the crisis.

Last	Previous	Min	Max	Unit	Frequency	Range
▲ 197,724.0 Jun 2020	▲ 197,129.3 Mar 2020	6,874.2 Mar 1978	197,724.0 Jun 2020	USD mn	Quarterly	Mar 1978 - Jun 2020 Updated on 14 Aug 2020

Figure 3

The second policy I would implement as a Finance Minister is a stimulus package for small and medium enterprises (SMEs) by lending out low interest loans. According to the Department of Statistics Malaysia, 68.9% of the companies used savings as the major source to accommodate operating cost or working capital during the national lockdown (Figure 4).⁸ Furthermore, small and medium enterprises (SMEs) are the backbone of the economy in our country because they account for 49.5 percent of the total companies in the country. On top of that, it was estimated

⁷ Malaysia National Government Debt
<https://www.ceicdata.com/en/indicator/malaysia/national-government-debt>

⁸ Department of Statistics Malaysia
https://www.dosm.gov.my/v1/index.php?r=column/cone&menu_id=RkJtOThJSIBJNStOV1liM1JsKzdZUT09

that about 42.5 percent of the companies require more than 6 months to recover, and 1.9 percent of companies will not recover (Figure 5)⁹.

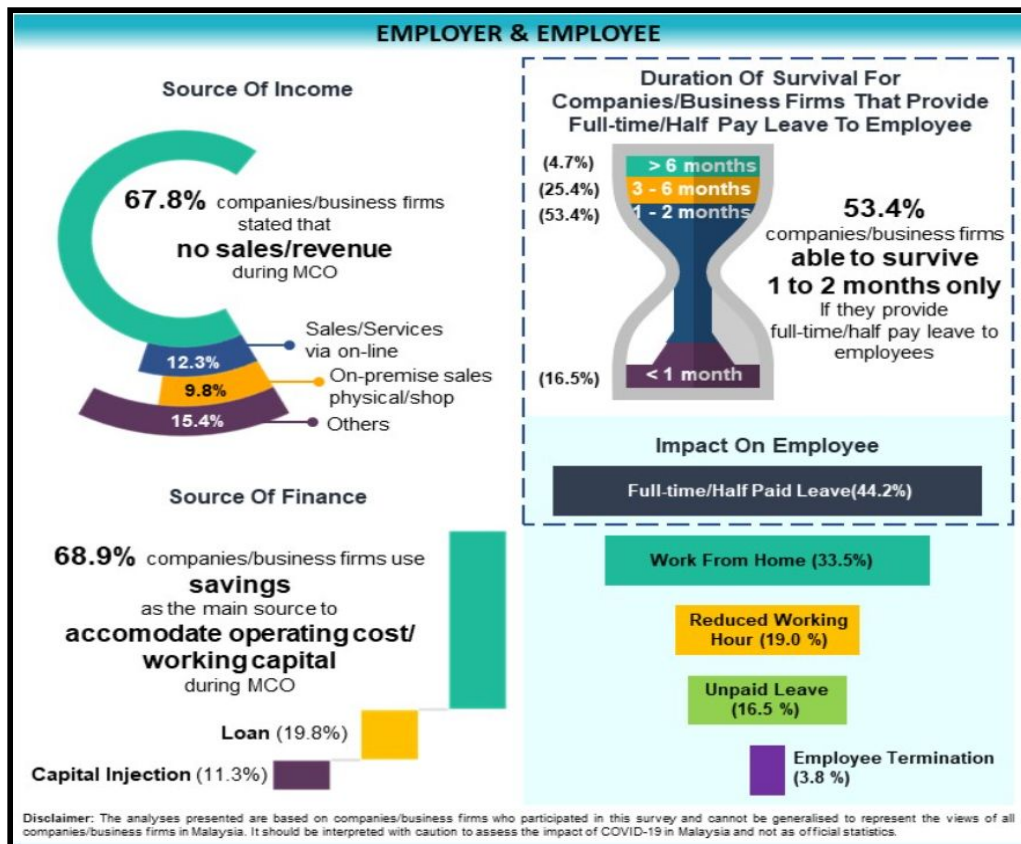


Figure 4

⁹ Department of Statistics Malaysia

https://www.dosm.gov.my/v1/index.php?r=column/cone&menu_id=RkJtOTThJSIBJNStOV1liM1JsKzdZUT09

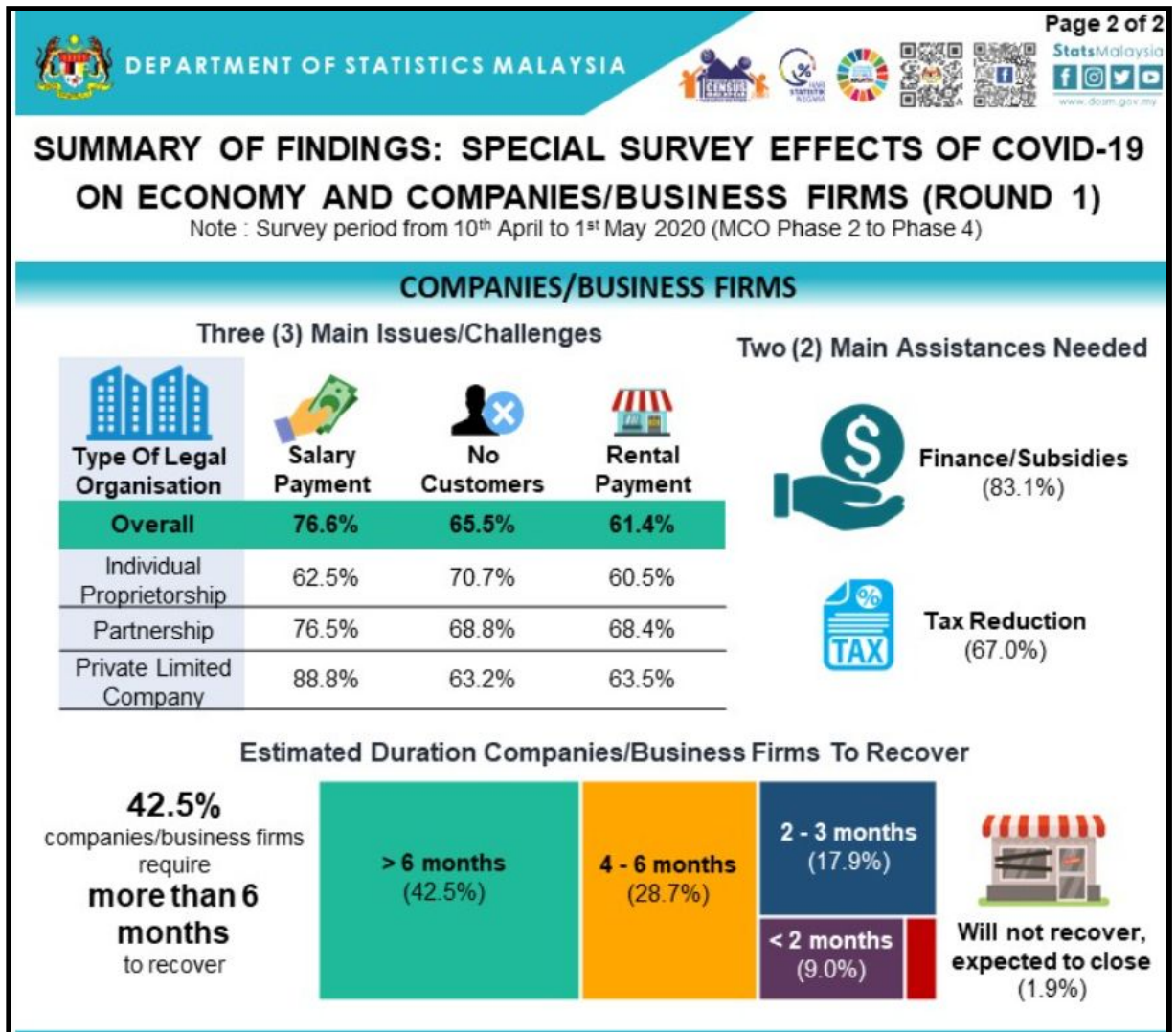


Figure 5

As illustrated by the statistics and analysis above, SMEs in Malaysia remain one of the most important stakeholders in the government's fiscal response to the pandemic. Lending low interest loans targets to help the SMEs whose business operations are adversely affected by the lockdown. Furthermore, banks should relax some of these requirements because the SME Association of Malaysia President Datuk Michael Kang noted that various banks have set their own terms and conditions for the loan. It increases the difficulty for the SMEs to obtain the amount they need to ride out the MCO.¹⁰ If I were the Finance Minister, I would work towards offering an additional RM2.5 billion under the Penjana SME Financing to

¹⁰ The STAR

<https://www.thestar.com.my/business/business-news/2020/04/16/banks-asked-to-relax-lending-criteria-for-smes>

assist SMEs adversely impacted by Covid-19 but the interest loans at 3.5 percent. The maximum loan size for SMEs is RM550,000 per SME. Moreover, I would suggest to Bank Negara to set up a single window for applications for all the aid under the stimulus package, so less terms and conditions are needed for SMEs to borrow the loans. SMEs can escape from facing bankruptcy. In addition, SMEs also can produce more products as the low-interest loans are given. Hence, the selling price of the products will decrease and the consumptions increase. The financial problem because of the low economics activities during the MCO can be resolved.

However, the government may face a problem of an increase in government debts as shown in Figure 3, which means the stimulus package for SMEs may add to the government's financial burden in the long run. On the other hand, lending low interest loans to SMEs will entail trade-offs. Inflation might happen in the future because the government may resort to deal with high levels of debt by printing more money. This increase in the money supply can cause an increase in inflationary pressures. In addition, creating more money will also depreciate the value of the currency and makes foreign investors less willing to hold that country's debt. Foreign companies will also have less confidence to invest in our country. Lastly, high government borrowing might lead to high debt interest payments. As borrowing increases, the government has to pay more interest rate payments on those who hold bonds. This consequence can lead to a greater percentage of tax revenue going to debt interest payments. Therefore, providing stimulus packages for SMEs have pros and cons. The Covid-19 pandemic has exacerbated our country's economy, so lending low interest loans for SMEs is one of the policies that can help to boost up the economic activities to weather the crisis.

Last but not least, I would implement a wage subsidy scheme. During the MCO, demand-deficient unemployment occurred because consumption has decreased rapidly. A fall in aggregate demand (AD) leads to a fall in economic output. Therefore firms employ fewer workers. Moreover, according to Moody's Analytics, in May 2020, the unemployment rate reached 5.3 percent which is very high in our country. However, in July 2020, the unemployment rate has decreased to

4.7 percent, but the unemployment rate is still very high in our country (Figure 7).¹¹ Moreover, many companies have retrenched the workers' salary. For instance, airline industry players have highlighted that the current travel bans and plummeting demand around the world have put the loss-making carrier at risk of bankruptcy. All three Malaysia's major airlines, namely Air Asia, Malindo Air and Malaysia Airlines, have initiated salary cut range from 10% to 100% and unpaid leave hinging on the salary range and position. Hence, this substantiates my point that implementing a wage subsidy scheme can reduce the rate of unemployment and increase job opportunities.

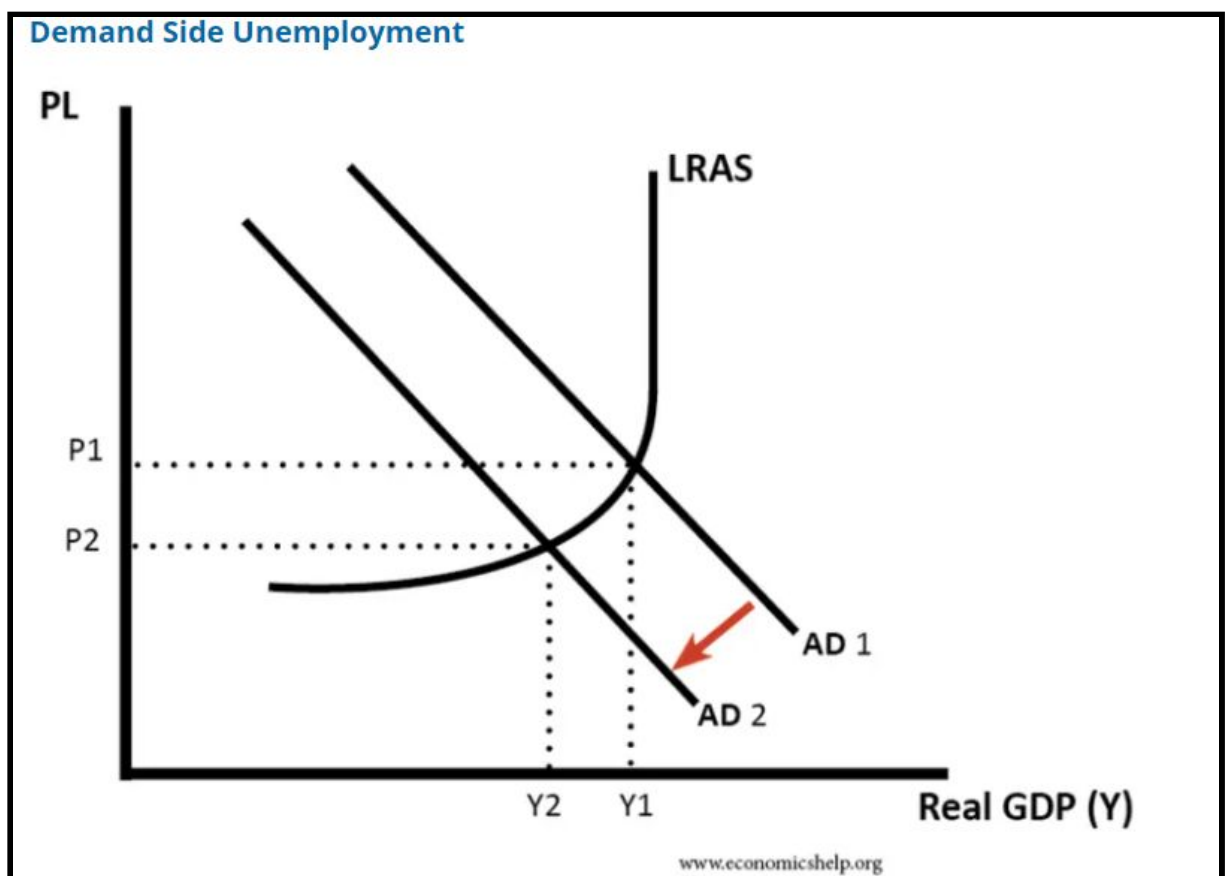


Figure 6¹²

¹¹ Moody's Analytics <https://www.economy.com/malaysia/unemployment-rate>

¹² <https://www.economicshelp.org/blog/716/unemployment/types-of-unemployment/>

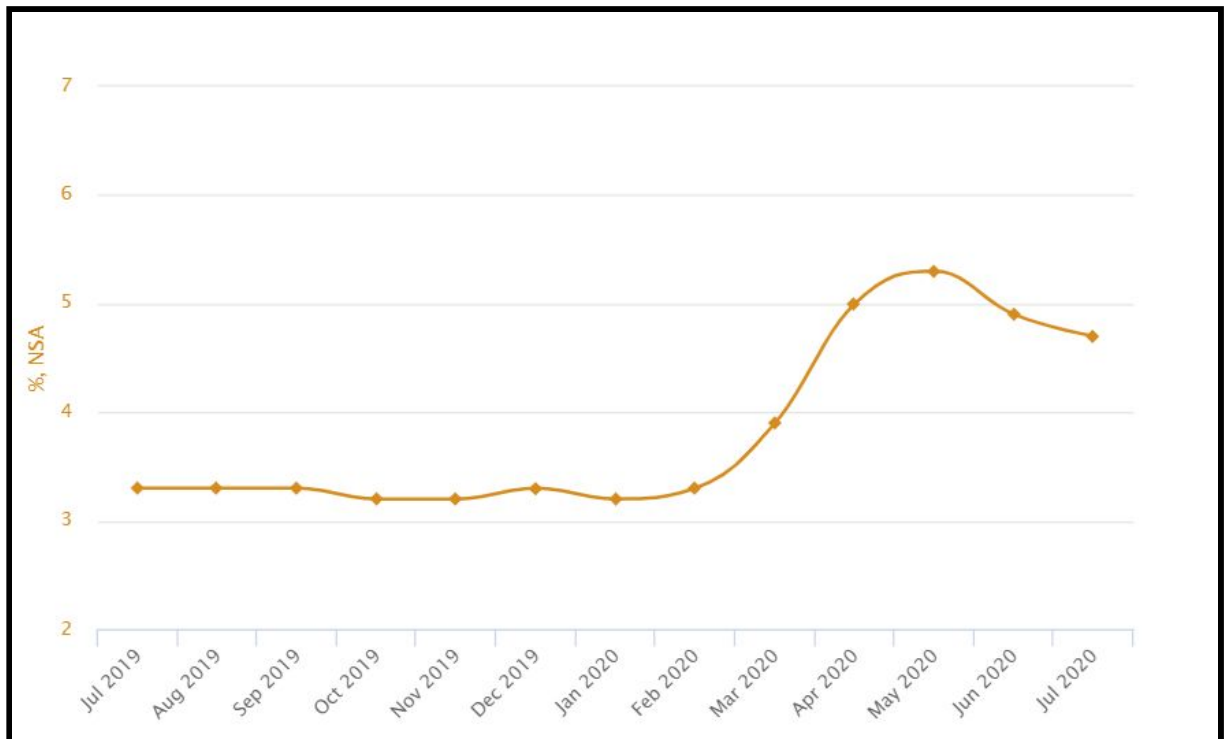


Figure 7

Given the current status quo, it seems that providing wage subsidies can support the employers who were adversely affected by Covid-19; they can continue to pay their employees and support workers to ensure they continue to receive a salary, and stay connected to their employer, even if they are unable to work their normal hours. Though wage subsidies to the employers and employees are essential, employers would still pay their workers at least 70 percent of their normal salaries above the minimum wage of RM1200. When the workers are being paid, the disposable income of consumers increases, resulting in increased consumption. Economic growth may recover as aggregate demand increases. Therefore, the employers need to employ more workers to fulfill the demand of the consumers. Hence, the unemployment rate will fall. However, the unemployment benefits will benefit a lot of job seekers. According to Prime Minister Tan Sri Muhyiddin, the incentives which are the unemployment benefits will benefit 300,000 job seekers.¹³ It shows unfairness to those who lost their job. Furthermore, some of the unemployed

¹³ THE EDGEMARKETS

<https://www.theedgemarkets.com/article/govt-offers-rm15-billion-worth-incentives-hiring-youth-and-unemployed>

individuals will start to rely on the government and they do not want to seek jobs. These are the pros and cons of unemployment benefits. Providing a wage subsidy scheme will help the employers and the employees and hence reduce the rate of unemployment in our country.

In conclusion, implementing the three policies which are applying expansionary fiscal policy, providing stimulus packages for SMEs and wage subsidy schemes are some of the ways to bolster the economic activities and the aggregate demand in our country. It is perhaps one of the most uncertain and difficult times in the history of Malaysia's development, and hence it necessitates sound economic analysis and judgement as the government navigates its way out of the pandemic.

(1940 words)

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