The Covid-19 pandemic has seriously impacted the Malaysian economy. If you were the finance minister of Malaysia, discuss 3 policies that you would implement, why, and how they would help Malaysia weather the crisis.

The ongoing COVID-19 pandemic has evolved into a global health crisis that has significantly weakened the growth prospects of vast majority of countries, including the most major advanced and emerging market economy – United States of America (Outlook and Policy in 2020, accessed on 10th August 2020). The measures taken by Malaysia to contain the spread of COVID-19 such as the implementation of the Movement Control Order (MCO), are critically suppressing private sector activities, both in the domestic-oriented and tourism-related sectors. This implementation, alas, had caused a sharp downshift in the economic growth and simultaneously disrupted the demand and supply chain not only in Malaysia, but the entire globe as well (Bank Negara Malaysia, accessed on 10th August 2020). As you may surmise, Coronavirus disease (COVID-19) is a highly transmittable and pathogenic viral infection caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), which emerged in Wuhan, China (Elengoe, accessed on 10th August 2020). On 25 January 2020, the new SARS-CoV-2 virus, which causes the novel disease – COVID-19 had first arrived in Malaysia. Due to the COVID-19 being transmitted globally in a rapid pace, businesses and services deemed to be non-essential in Malaysia were forced to shut down (ISIS Policy Brief, accessed on 10th August 2020). Hence, the Gross Domestic Product (GDP) growth of Malaysia had been continuously contracted by 17.1% in the second quarter of 2020, as stated by Bank Negara Malaysia (Bank Negara Malaysia, accessed on 10th August 2020). This decline had indeed reflected the unprecedented impact of stringent containment measures enforced by the government of Malaysia. In this essay, I shall discuss the 3 policies in which a finance minister would implement, along with its rational factors and the causal nexus between these policies and the future economy growth, given that the policies had been fully implemented.

Long before the partial lockdown measures in Malaysia were implemented, the COVID-19 outbreak in China had significantly disrupted several aspects of the economy, including the supply and demand chain, exchange rate developments, traveling and manufacturing worldwide. Due to the pandemic, wide-ranging supply and demand shocks had been reverberating across the globe. The sole factor was the production cut faced by global manufacturers as Chinese factories are being locked down. Subsequently, the collapse of Chinese demand had forced commodity experts to brave lower prices in production and supply.

The most highly exposed economies in the region to Chinese demand and supply – Malaysia, had indeed faced the knock-on effects on the economy. With the liquidity squeeze that was disproportionately felt by small-and-medium enterprises (SMEs) and vulnerable groups, businesses are now left insolvent, individuals are facing bankruptcy and the financial system is saddled with non-performing loans (ISIS Policy Brief, accessed on 29th August 2020). Apart from disrupting the supply-and-demand chain, the exchange rate developments in Malaysia had faced severe depreciation as the ringgit depreciated to RM 4.08 against the US dollar in the first quarter of 2020 (FRED, accessed on 29th August 2020). This weakening and uncertain outlook to global growth had affected investor sentiments as global risk aversion intensified (Siaran Akhbar, accessed on 29th August 2020). Moreover, the broad-based restriction and aversion implemented by Malaysia had adversely impacted tourism-related sectors, which accounts for 11.8% of Malaysia's GDP. In the first two months of 2020, airport passenger traffic had declined by 8.2% and the tourist arrivals are now expecting a drastic decline (Outlook and Policy in 2020, accessed on 29th August 2020). As one would expect, these substantial and pervasive economic scars caused by the novel disease had indeed brought unanticipated backlash to the livelihoods of Malaysians, regardless of their status quo.

As the finance minister of Malaysia, the policies in which I would implement to weather the COVID-19 crisis are comprised into two distinct stages. Stage one policies are implemented when the Movement Restriction Order (MCO) are imposed to safeguard the income and liquidity of affected businesses and individuals. Stage two policy, on the other hand, is implemented when the outbreak shows signs of subsiding and the Recovery Movement Restriction Order (RMCO) is being lifted. During stage one, various expansion and temporary extensions should be implemented by the finance minister to cushion the impact of outbreak on livelihoods of Malaysians from vulnerable groups, such as the lower income, the unemployed and the gig economy workers. One of the criteria that should be expanded and extended temporarily would be the unemployment insurance. As you may surmise, the Job Search Allowance (JSA) component under PERKESO's EIS mechanism provides allowance for those who have lost their one and only job. However, a monthly allowance is only provided for a maximum of 6 months at their respective rates. Hence, under this expansion plan, individuals from vulnerable groups could have the privilege of freezing their maximum six-month period benefit eligibility period until 31 December 2020. As long as the movement control order is in place, this expansion of Job Search Allowance will provide them more time to seek for job opportunities during the pandemic. Moreover, once the JSA benefits amount are being supplemented, the unemployed recipients are enabled to weather the cash flow shocks for the longer period of time whilst remaining ready to resume their job search once the restriction order is lifted (ISIS Policy Brief, accessed on 4th September 2020).

Needless to say, during this unprecedented pandemic, the supply and demand chain in Malaysia had been severely disrupted, affecting the current cash flow of businesses, especially the small-and-medium enterprises (SMEs). Due to that, the second policy which I, the finance minister, would implement during stage one is to provide guaranteed loans to affected businesses who are most susceptible to cash flow pressures. The paramount aim of this policy is to reduce the number of business deaths from the global health crisis as permanent business closure will destroy jobs and create negative spill over effects on other businesses along the supply chain. With loans that carry 100% government guarantee, SMEs have a higher chance of remaining solvent during periods of reduced demand. To allow SMEs sufficient liquidity to continue paying their employees, increment of funds allocated to SMEs, reduction of interest rate charged, and prolonged repayment tenure should be provided when these businesses apply for the government guaranteed loan. Once the businesses across Malaysia had availed themselves to the standardized loan application, SMEs are able to sustain their business operations and preserve their employees' job security, as well as bridging liquidity shortage caused by the COVID-19 pandemic. Additionally, lenders are not required to perform credit risk assessments for these loans as long as SMEs attest that the turnovers they faced have been impacted by the COVID-19 pandemic. With that being said, government guaranteed loans are able to aid SMEs throughout the global health crisis period without requiring non-repayable advances (ISIS Policy Brief, accessed on 4th September 2020).

Once the pandemic has passed its peak and the Recovery Movement Control Order (RMCO) is lifted, stage two policy needs to come on-stream tout de suite. As a complementary to the stage one measure, the last economic policy should now shift gears to focus on boosting the economy via a proactive fiscal stimulus package, which consists of a multi-pronged approach in one single package. As the finance minister of Malaysia, the fiscal policy in which I would implement is to increase the productivity-improving expenditure and invest in deepening the social safety nets. Irrefutably, infrastructure projects are often touted as excellent modus operandi of fiscal stimulus because this spending will have a stimulatory effect on the Gross Domestic Product (GDP), which is often larger than some other types of spending or fiscal policies. Thus, increasing infrastructure investment, especially in the healthcare sector, can have long-term effects as it allows healthcare sectors to operate with vigour to combat the virus and supply the world with drugs and medical equipment in the future. At the same time, it will increase the potential supply capacity of Malaysia economy (Alpert, accessed on 5th September 2020). Similarly, as the government continues to strengthen the social safety net and deepen automatic stabilizers, human capital accumulation will also be constantly incentivised, whilst ensuring both Malaysian economy and Malaysian workers are better prepared for future crises (ISIS Policy Brief, accessed on 4th September 2020).

To summarise, the novel coronavirus – SARS-CoV-2, had indeed caused major outbreaks of COVID-19 disease which lead to severe effects worldwide, with 9969 confirmed cases and 128 deaths as of today (15th September 2020) in Malaysia (COVID-19 Malaysia Updates, accessed on 15th September 2020). It is certainly that even with valiant and comprehensive endeavours at cushioning the blow to Malaysians and businesses, the unemployment rate and business closures will be inevitable. Yet, the economic, social and political cost of negligence, or even insufficient measures, is far greater and far more appalling. Undoubtedly, this is no time to be timid. In light of the emerging risks, it is clear that the fiscal and monetary policies that were implemented hitherto needs to go further beyond in order to safeguard the livelihoods of Malaysians. Ultimately, the current COVID-19 crisis will eventually be curbed through robust public health efforts, but without an efficient and proactive fiscal response, the economic scars it leaves behind will be dreadfully long-lasting.

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