Bernama - Economy: COVID-19 Wreaking Havoc, Right Policies Matter

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Pekeliling Perbendaharaan
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KUALA LUMPUR, Aug 23 -- The COVID-19 pandemic has literally drenched the global economy in red whether in developed or developing countries, with most seeing the second-quarter growth numbers plunging to a level never seen since the infamous 1998 Asian Financial Crisis.

Malaysia is no exception, with its Gross Domestic Product (GDP) shrinking 17.1 per cent year-on-year in the second quarter of this year, exceeding the -11.2 per cent posted in the fourth quarter of 1998.

Regionally, Thailand also suffered its biggest decline in 22 years with its GDP contracting 12.2 per cent in the second quarter of this year from a year ago, while Singapore's economic growth plunged 13.2 per cent year-on-year and Indonesia's declined 5.32 per cent.

Not only in Southeast Asia, but bigger economies such as the United States also suffered their worst period ever in the second quarter, with GDP falling a historic 32.9 per cent while the Eurozone economy contracted 12.1 per cent in the quarter.

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The country's economy now needs to be guided to a stronger path, with a greater focus on people from the lower socio-economic groups, who are among those hardest hit by the pandemic.

In Malaysia, the June 2020 unemployment rate declined month-on-month to 4.9 per cent from a record high of 5.3 per cent in May 2020 as more sectors, including the services industry, reopened due to the implementation of the recovery movement control order to revive the economy while curbing the COVID-19 pandemic.

Although the Malaysian economy is showing signs of a "V" shaped recovery, we should not sit on our laurels but remain vigilant and re-align policies and measures to sustain the recovery path.

Perhaps this is the reason the government is open to the idea of targeted stimulus measures.

Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz recently said that there is still room for targeted initiatives following the plan to increase Malaysia's statutory debt limit to 60 per cent of GDP from the current 55 per cent.

He noted that the increase is part of the RM45 billion government's direct injection into the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) and National Economic Recovery Plan (PENJANA).

Bank Negara Malaysia (BNM) has revised its 2020 GDP growth forecast to -5.5 to -3.5 per cent from -2.0 to 0.5 per cent previously. The bank is expecting the economy to recover from the adverse impact of COVID-19 and post a growth of 5.5 per cent to 8.0 per cent in 2021.

Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said economic activity would pick up steam in the third quarter of

Federal
Government
Administrative
Centre,
62592 WP
PUTRAJAYA

03-8000 8000
03-88823893 /
03-88823894

2020 and would continue in the final three months of the year as the economy continues to be operational albeit gradually.

Expansionary fiscal policies adopted by the government and an accommodative monetary stand by the BNM should help steer the economy in the remaining period and into next year, he added.

"Development over the vaccine also seems to point a promising prospect in light of the recent testing conducted by the pharmaceutical and biotech companies and some of them have gone into an advanced stage.

"In that sense, we cannot totally rule out the possible discovery of the vaccine although the situation is still very fluid. I think most economists are having a tough time coming up with estimates given the nature of the negative shocks," he told Bernama.

As the country seems to have digested the impact of COVID-19 in the second quarter and a glimpse of what is in store for the second half of this year and next year, all eyes are now set on the 2021 Budget and the tabling of the 12th Malaysia Plan.

The 2021 Budget would be a crucial one due to the fact the impact of the health crisis remains and how it has changed the way people work, play and do business.

“The discussions so far have been on ways to change business models to face challenges posed by COVID-19. Among the two areas it is crucial for the country to move forward are human capital and technology,” said Tengku Zafrul to Bernama recently.

The 2021 Budget, to be tabled in Parliament on Nov 6, is aimed at revitalising the economy as well as restoring investors’ and consumers’ confidence to drive the economy.

BNM Governor Datuk Nor Shamsiah Mohd Yunus said Malaysia can bank on the greater demand created by the pandemic, namely the increase in healthcare spending and greater utilisation of semiconductor and medical devices, sectors in which the country is already a key player.

Malaysia is the sixth-largest global semiconductor exporter, home to leading global technology firms, the largest market for medical devices in ASEAN, and ranked third in Asia for outbreak readiness.

"Put in the right policies to take advantage of the new normal and the new growth areas. We can do it because we already have the base. We are poised to benefit from this strength," she said recently.

The Institute for Democracy and Economic Affairs (IDEAS) recently said it is time for the government to identify and prioritise subsectors or key value chain activities where Malaysian industries, as well as small and medium enterprises (SMEs) can be competitive, not just domestically but more so regionally and globally.

At the same time, the pandemic has highlighted the urgency of addressing existing gaps in social protection, targeting especially SMEs, which remain the biggest employer in Malaysia.

Speaking to Bernama, IDEAS research manager Lau Zheng Zhou said the government among others is expected to include some policy measures in the upcoming Budget to pre-empt the economic implications of a possible third wave of COVID-19.

These could include extending existing protection-based programmes, targeting certain worst-hit sectors, and also addressing SMEs' capabilities to adapt, he added.

"Some of these measures may not entail direct fiscal injection but there will still be an impact on fiscal deficit and debt limit. However, the priority to protect and promote growth could still be a priority," he had said.

IDEAS' Lau pointed out that the options to recovery today are more limited when compared with the Asian Financial Crisis due to the fact that trade and foreign direct investment (FDI) are plunging with the ongoing health crisis in the more advanced economies today.

"The government should consider alternatives such as identifying subsectors where we have a competitive edge regionally in order to benefit from the relocation of supply chains from China to ASEAN that is taking place.

"By attracting highly developmental Foreign Direct Investments (FDIs), Malaysia can speed up its process of automation and digitalisation, especially targeting domestic SMEs," he added.

It is definitely a testing time for the government.

So far, it seems to have got the policies and tools right, to remain on the growth path.

Having said that, future policies and directions have to be equally good as well as flexible enough to be fine-tuned and upgraded in the shortest time possible, as and when new challenges or opportunities arise.

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