

COVID-19

Economic Implications for Malaysia



WORLD BANK GROUP

Global Knowledge & Research Hub
in Malaysia

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Main Messages

1

The supply shock that started in China has transformed to become a pandemic with a global economic shock.

2

Malaysia and countries in the East Asia and Pacific region now face the prospect of a global recession.

3

The government has taken actions to contain the spread of the virus and to help mitigate its economic impact.

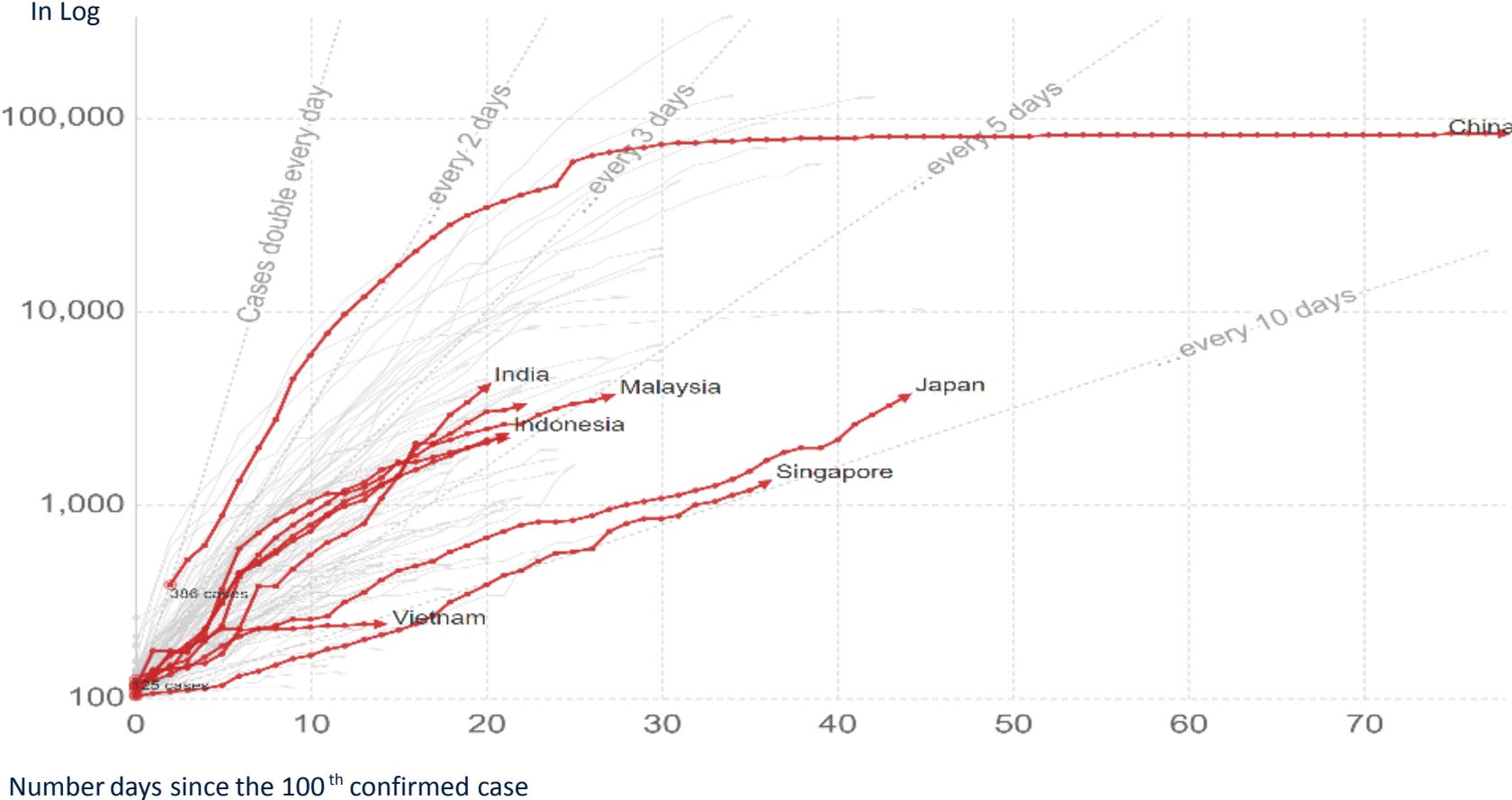
4

The key risks facing Malaysia include a prolonged outbreak, depleted fiscal space to respond, and political uncertainty.

A pandemic that has triggered a global recession

Covid-19 has now become a pandemic, with the epicenter shifting from China to Europe and the US

Total confirmed Covid-19 cases

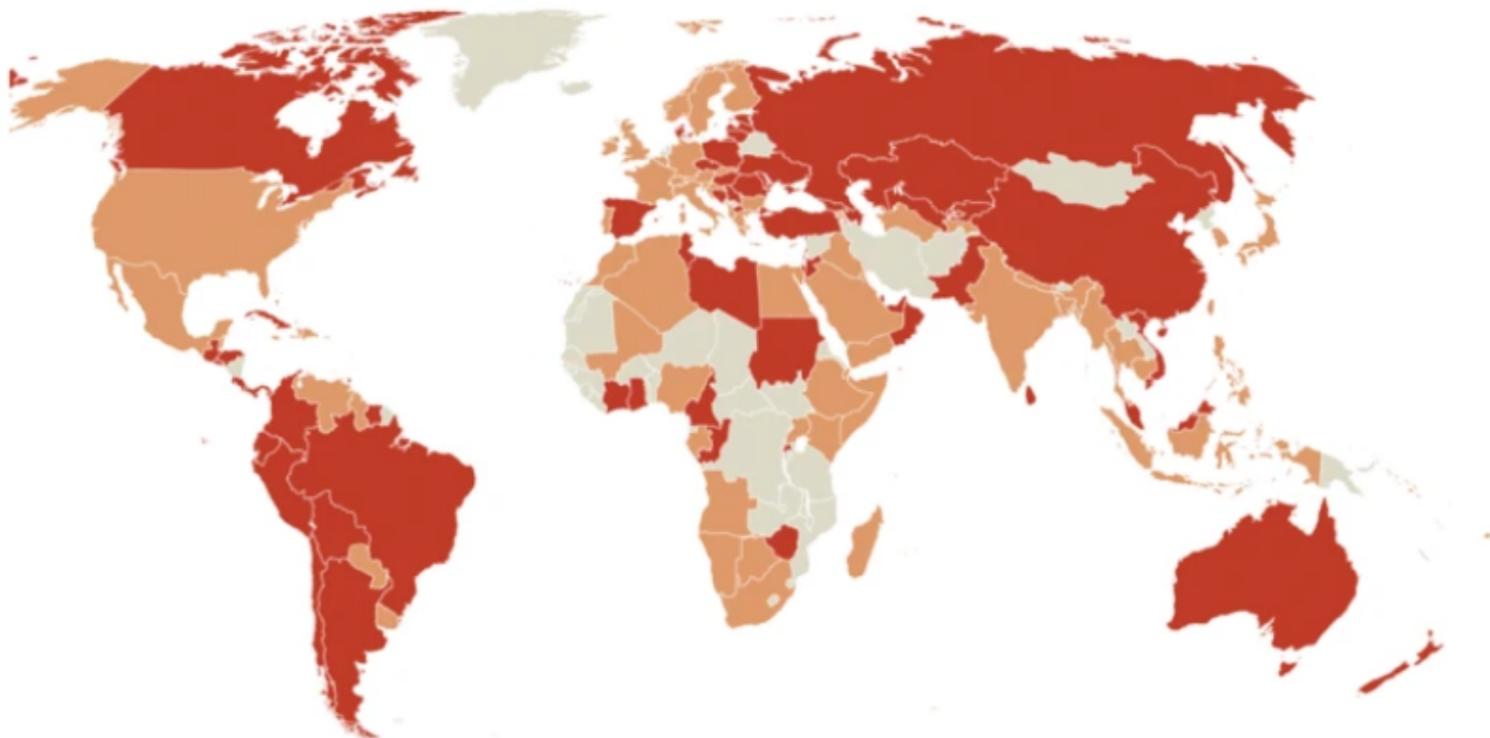


Source: European CDC through <https://ourworldindata.org/>

Countries have taken strict measures to restrict movements in order to mitigate the spread of the virus

Countries that have enacted complete or partial border closure for foreign travelers

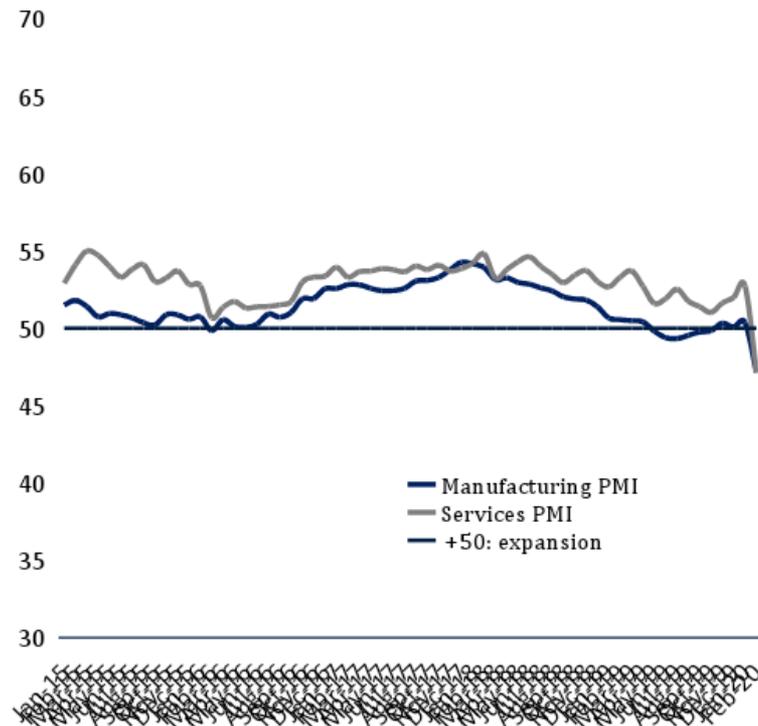
■ Complete closure ■ Partial closure



Financial markets globally have reacted to the impact of the pandemic

Contraction in global manufacturing and services

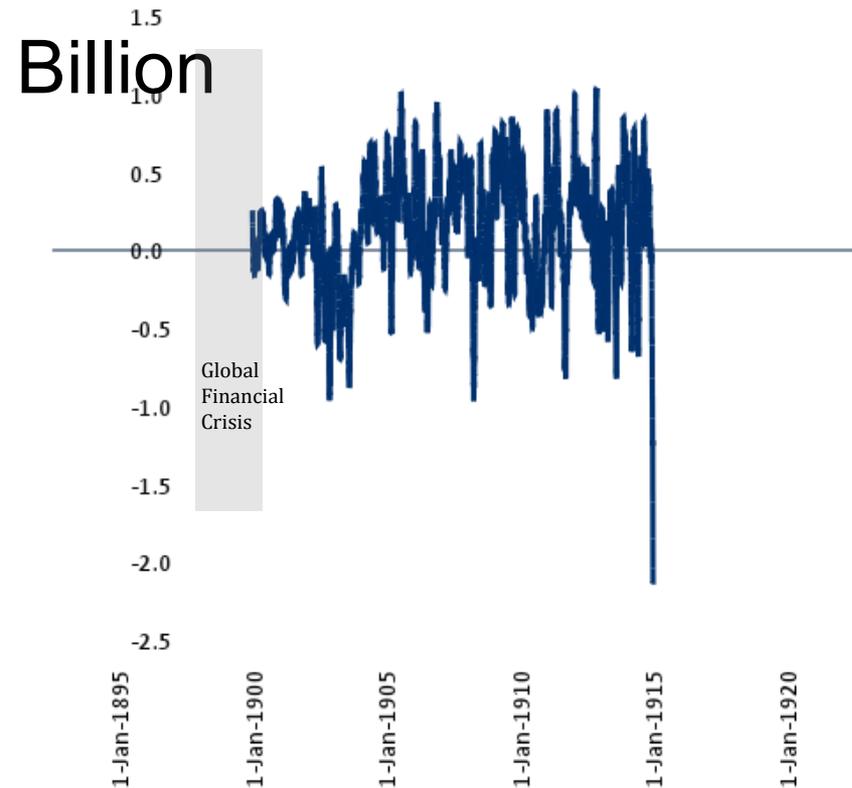
World manufacturing and services PMI



Source: Have Analytics, World bank staff calculation

Large capital outflows from emerging markets

Emerging markets Net Non-resident Equity and Bond Purchases – 4-week moving average



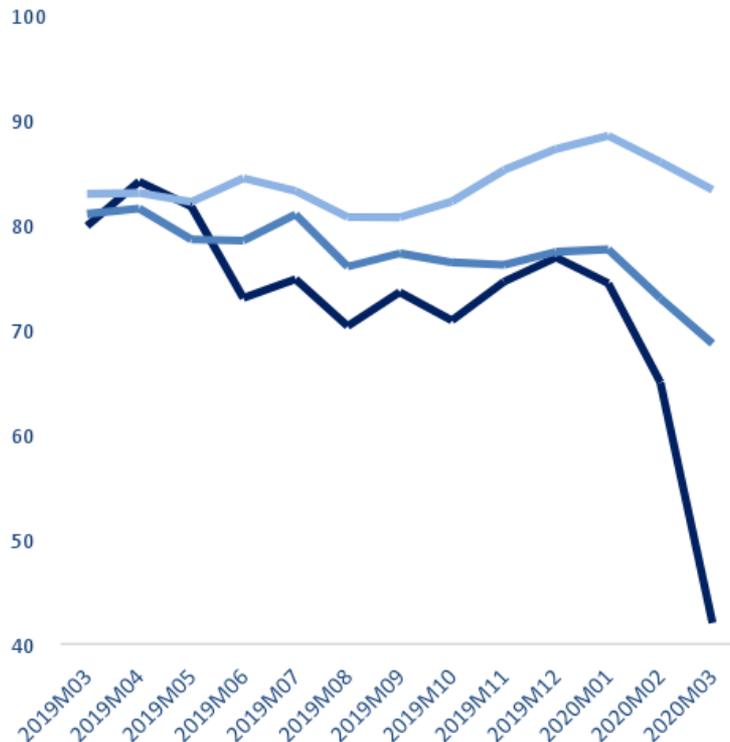
Commodity markets have also seen significant turbulence

Energy prices have seen the sharpest declines

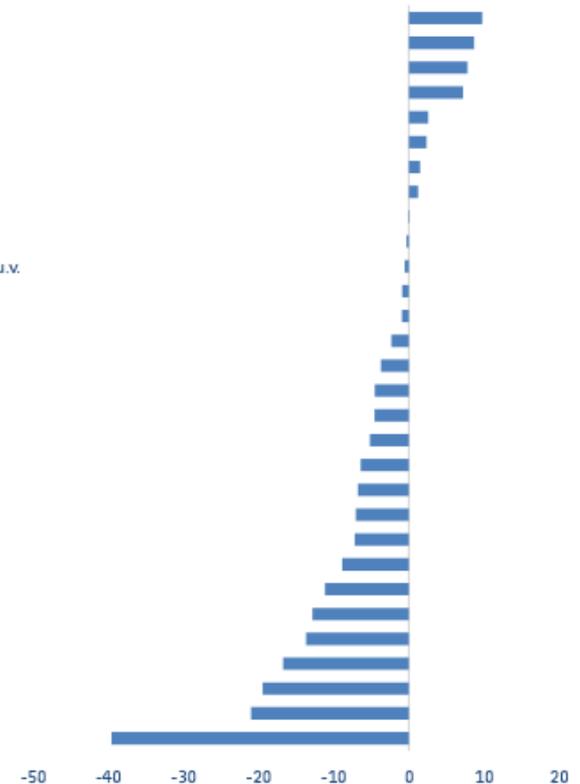
Crude oil prices declined 40 percent in March, rice prices gained 10 percent

Major commodity price indexes (US\$, 2010=100)

Nominal prices, percentage changes, March over February



- Rice, Thai 5%
- Groundnuts
- Urea
- Orange
- Fish meal
- Logs, Malaysian
- Iron ore, cfr spot
- Groundnut oil
- Sorghum
- Gold
- Tobacco, US import u.v.
- Soybeans
- Coconut oil
- Coal, Australian
- Maize
- Wheat, US SRW
- Aluminum
- Beef
- Natural gas, US
- Tea, avg 3 auctions
- Rubber, SGP/MYS
- Tin
- Copper
- Cotton, A Index
- Palm oil
- Cocoa
- Silver
- Sugar, world
- Platinum
- Crude oil, average



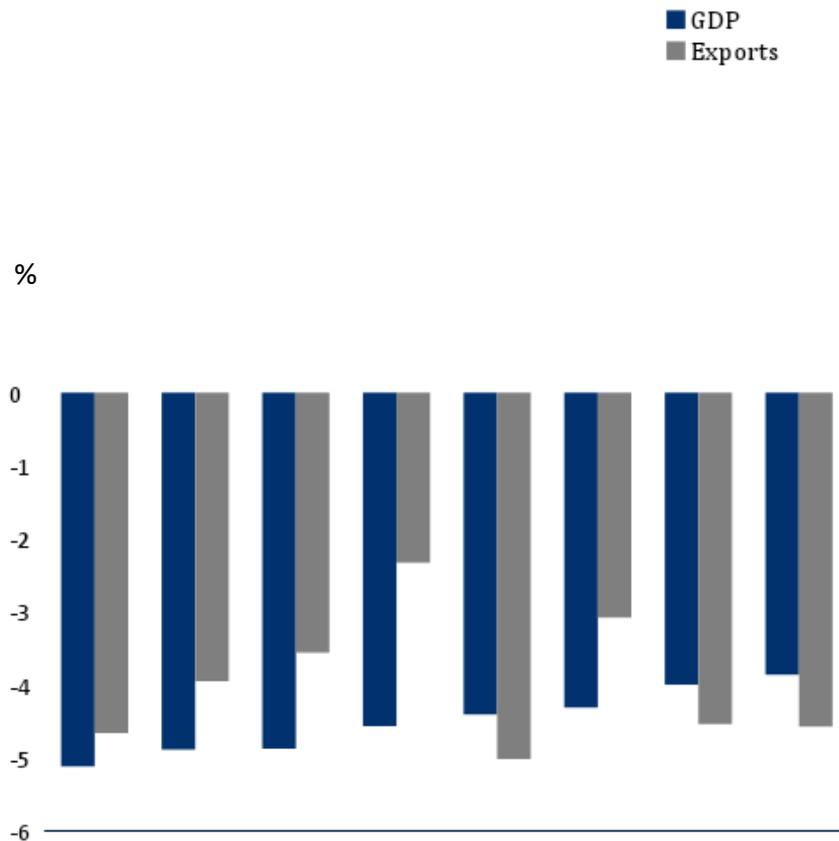
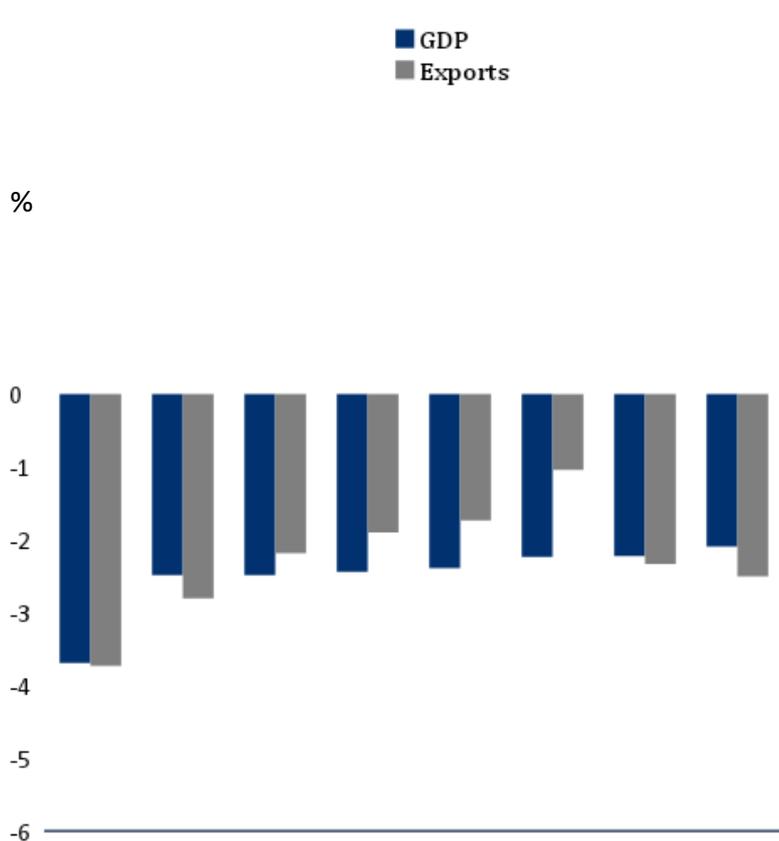
Source: World bank staff calculation

GDP and exports are expected to contract across the world

The severity of the global impact will determine the impact on economies in the region

Changes in GDP and export under a pandemic scenario
(deviation from the benchmark)

Changes in GDP and export under an amplified pandemic scenario
(deviation from the benchmark)



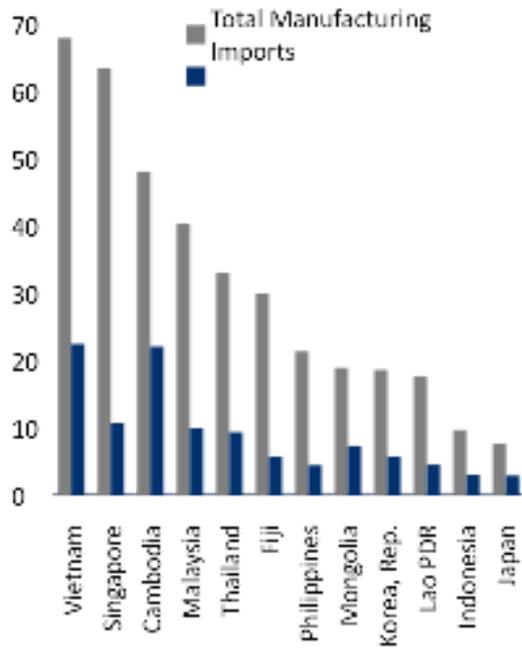
Source: World Bank staff calculation

The initial impact of the outbreak in East Asia was mainly through its deep linkages with the Chinese economy

The impact of the outbreak in China was felt by East Asian economies given their deep integration with China

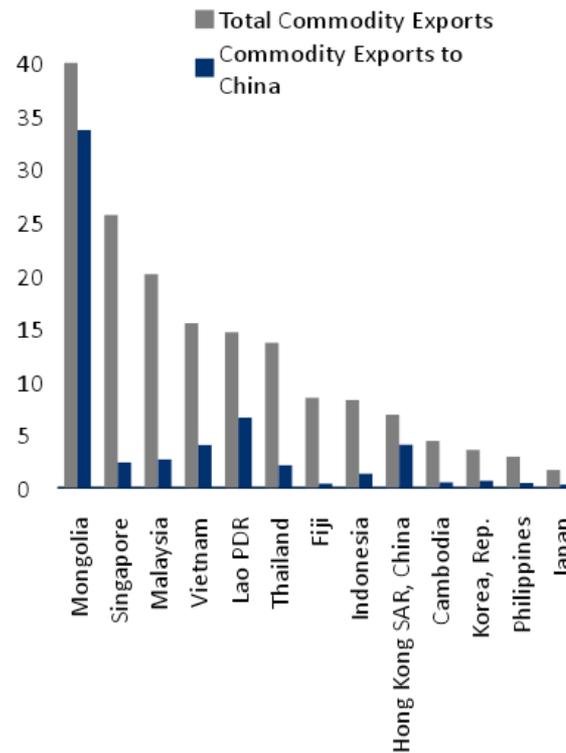
Manufacturing imports

Percent of GDP



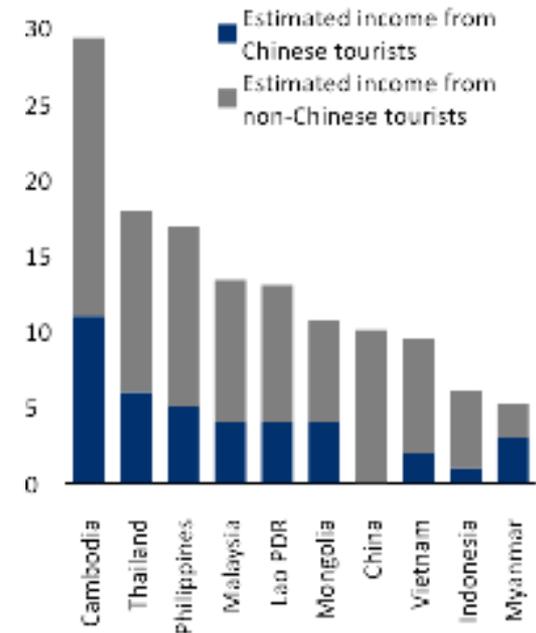
Commodity exports

Percent of GDP



Tourism

Percent of GDP



Source: World Bank staff calculation

Additionally, economic impact of the outbreak has been through the enactment of movement restrictions

1

Countries have enacted movement restrictions leading to limited economic activities since only essential activities are allowed to continue.

2

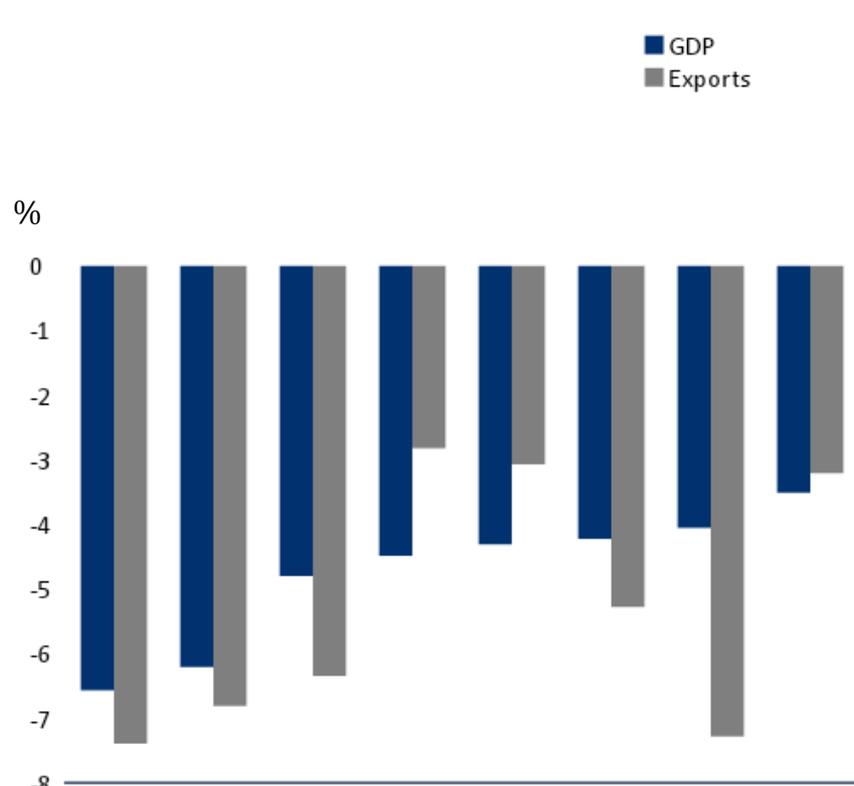
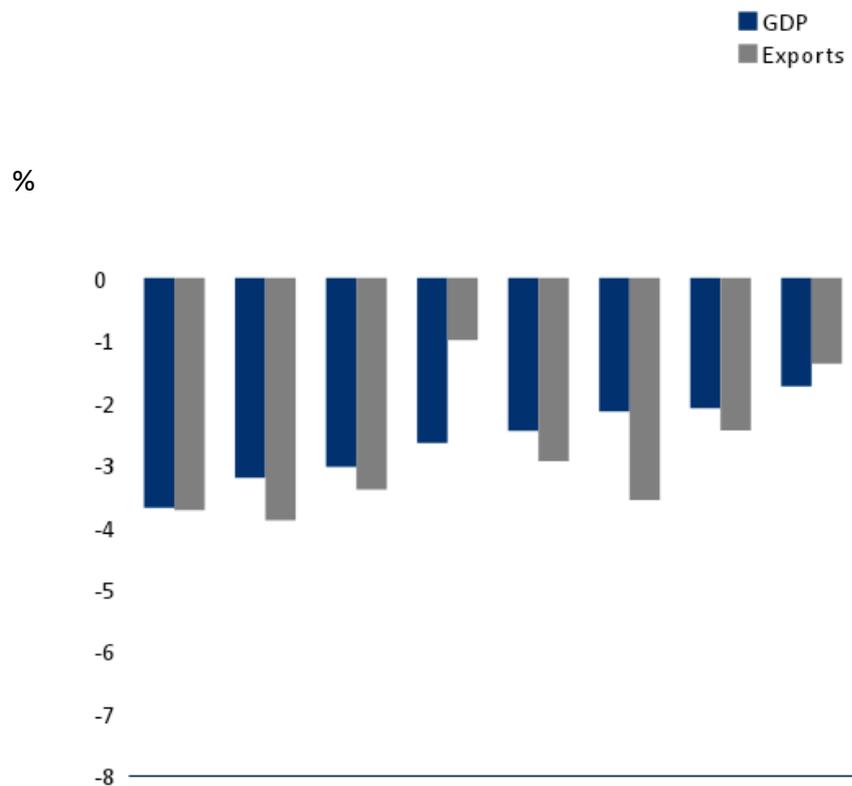
The restrictions have led to domestic demand and supply shocks.

GDP and exports are expected to contract across the region

The severity of the global impact will determine the impact on economies in the region

Changes in GDP and export under a pandemic scenario
(deviation from the benchmark)

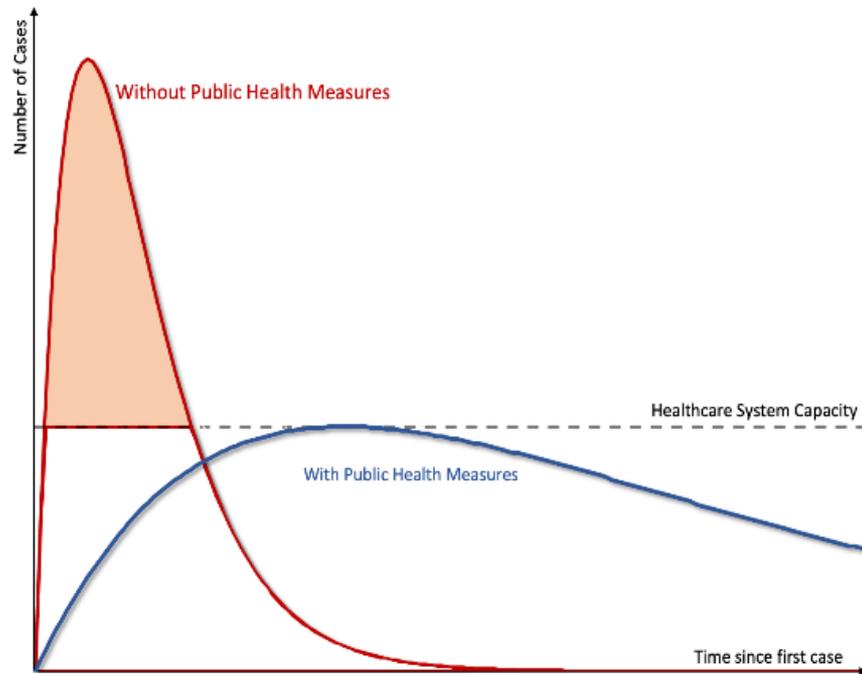
Changes in GDP and export under an amplified pandemic scenario
(deviation from the benchmark)



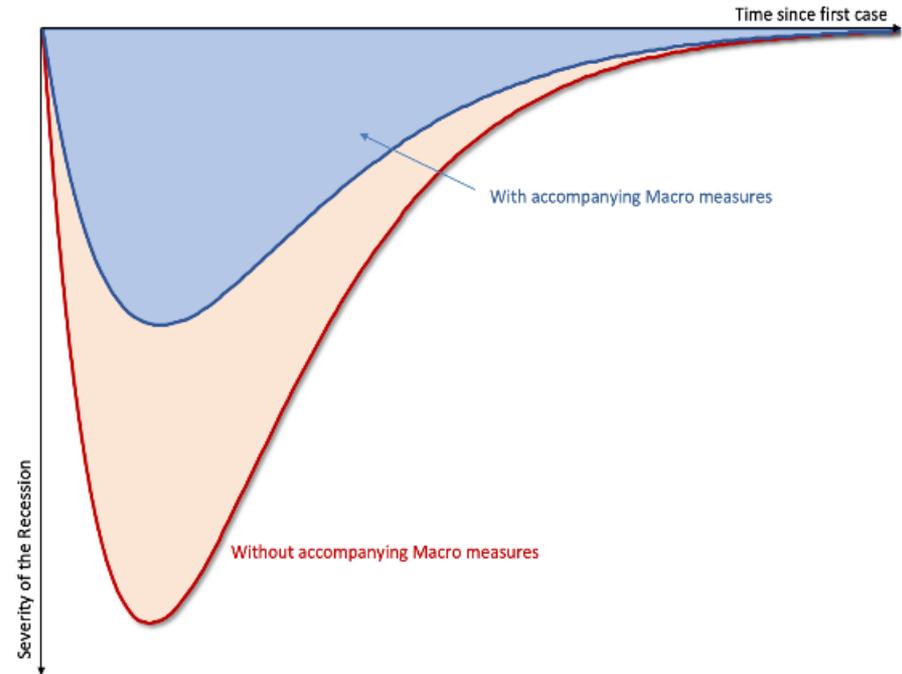
Source: World Bank staff calculation

The severity of the economic downturn will depend on management of the pandemic curve

Flattening the pandemic curve through public health measures (i.e MCO) will prevent the virus from overwhelming the healthcare system



Flattening the pandemic curve helps to flatten the recession curve



Source: Gourinchas (2020), Flattening the Pandemic and Recession Curves, March 13, 2020.

Key global policy messages



Urgently boost health care capacity to meet what may be an overwhelming demand for a sustained period.



Adjust fiscal and monetary policy to meet the COVID-19 crisis.



In the financial sector, ease access to credit for households to ease hardships and smooth consumption, and ease access to liquidity for firms to help them survive the current disruption.



Trade policy must stay open.



In all of these areas, boost international cooperation and develop public private partnerships, particularly to ensure the supply of key medical products.

Macroeconomic Assessment for Malaysia

Equity markets have declined and the ringgit has depreciated

Since January 2, the FBM KLCI has declined by about 17 percent.

...and the ringgit has depreciated by nearly 7 percent.

FBM KLCI Index



Exchange rate, USD/ MYR

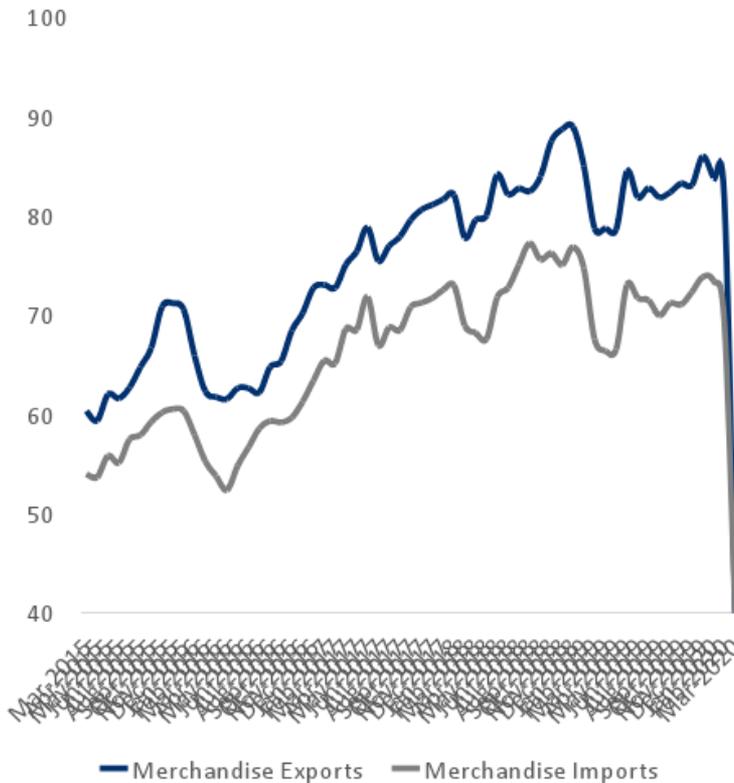


Source: Haver Analytics and World Bank staff calculation

Early indicators are already suggesting a sharp decline in economic activity

Merchandise exports and imports started to decline in February

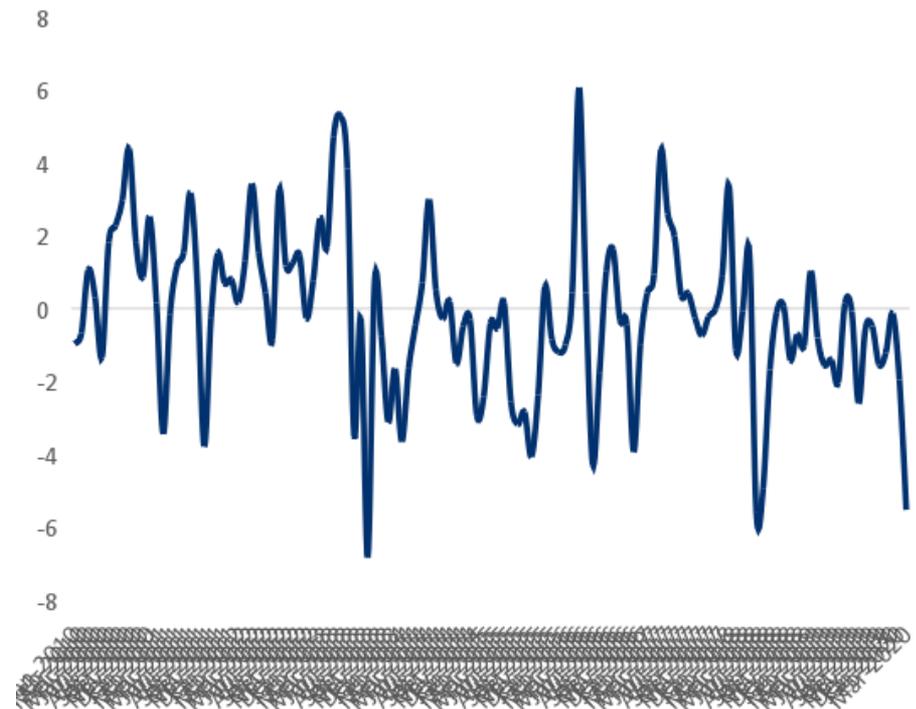
RM (3-month moving average, in thousands)



Source: Haver Analytics and World bank staff calculation

Large capital outflows in February & March

Foreign institutional and retail net buy
RM (in thousands)



Output is expected to contract in 2020

Baseline scenario

Variable (annual percent change unless indicated otherwise)	2019	2020	2021	2022
Real GDP Growth, at constant market prices	4.3	-0.1	6.4	4.8
Private Consumption	7.6	1.6	7.4	6.3
Government Consumption	2.0	2.4	2.3	2.2
Gross Fixed Capital Formation	-2.1	-4.0	3.8	2.6
Exports, Goods and Services	-1.1	-3.9	5.1	2.6
Imports, Goods and Services	-2.3	-3.6	4.2	2.6
Real GDP Growth, at constant factor prices	4.4	-0.2	6.5	4.8
Agriculture	1.8	1.9	2.5	2.7
Industry	2.4	-2.9	4.2	3.2
Services	6.1	1.3	8.5	6.0
Current Account Balance (% of GDP)	3.3	1.9	2.6	2.4

Lower case scenario

	2020	2021
Real GDP Growth	-4.6	4.1

Source: World bank staff calculation

Risks and challenges to the outlook

Some of the downside risks to the outlook include:



A prolonged outbreak leading to a more severe economic downturn.



The increasingly depleted fiscal space.



Political uncertainty and the stability of the ruling coalition.

Government Response & the Fiscal Impact

The government has enacted several rounds of stimulus packages

totaling about 17 percent of GDP

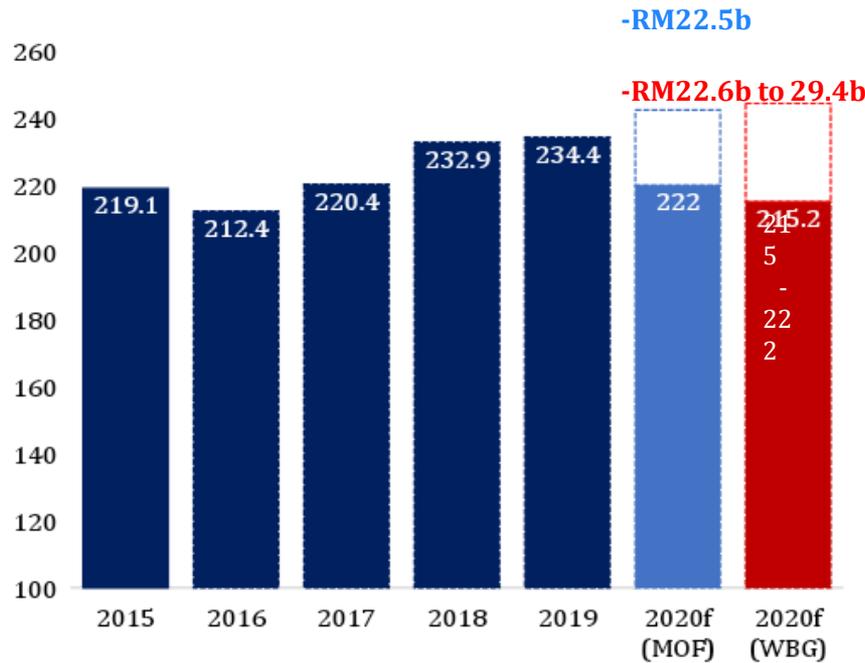
Main elements of the Prihatin Rakyat Economic Stimulus Packages

	RM billion
Protecting the people	126
• National Caring Aid Cash Transfer Program	10
• Wage subsidy	13.8
• Cash aid for government servants and pensioners	1.7
• Special grants to micro enterprises	2.1
• EPF Account 2 withdrawal	40
• 6-month moratorium on loan repayments	63
• Special fund to strengthen health care system	1
Supporting the business community	101
• 6-month moratorium on loan repayments	35
• Corporate loan guarantees from Danajamin	50
• 6-month freeze on EPF contributions and HRDF contributions by employers	10
Strengthening the economy	3
Total	260 (17.3% of GDP)
Direct fiscal injection	35 (2.3 % of GDP)

Government revenue is expected to fall further in 2020

Current estimates show a marked shortfall of government revenue

Federal government revenue, RM billion



Source: MOF and World Bank staff projections

Bulk of the revenue decline is due to lower petroleum-related revenue

Projected shortfall in government revenue, RM billion

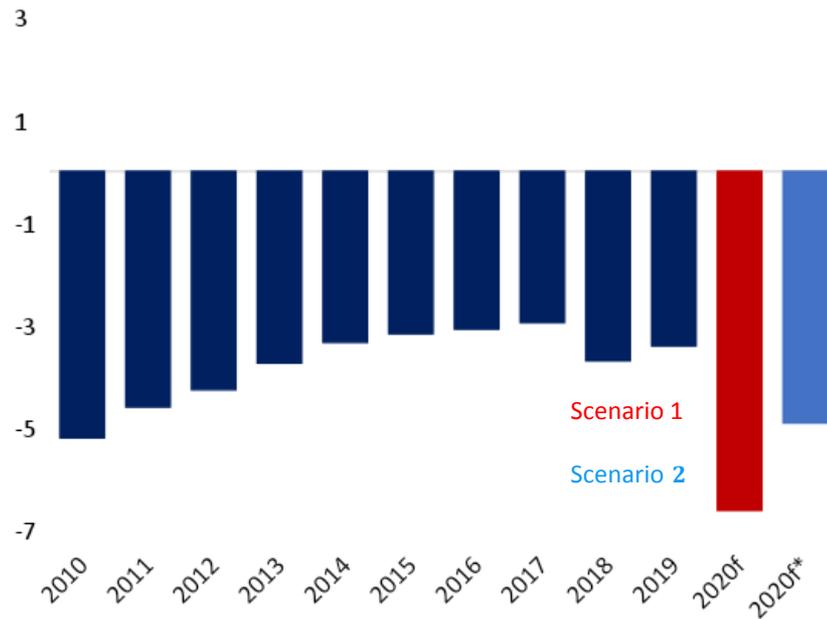


Source: World Bank staff projections

Larger government spending combined with lower revenue would lead to a wider fiscal deficit in 2020

Without any new revenue measures, the fiscal deficit could widen to around 7 percent of GDP

Overall fiscal balance, % of GDP



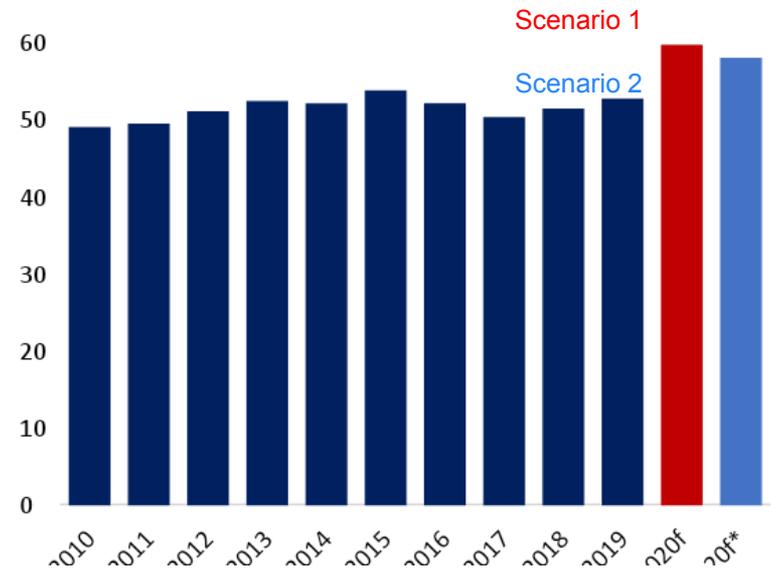
Source: MOF

Scenario 1: without revenue measures

Scenario 2: with revenue measures

Federal government debt is projected to exceed the self-imposed limit of 55 percent of GDP

Federal government debt, % of GDP

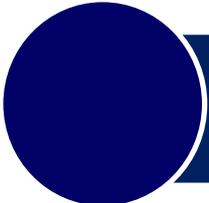


Source: MOF

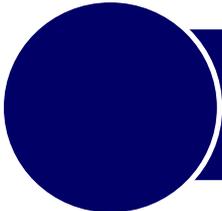
The fiscal stimulus is relatively modest in terms of direct fiscal injection



The components of the stimulus package are mostly off-budget measures with a relatively small direct fiscal injection



Limited wage subsidy and high qualification requirements



Overall speed of implementation and disbursement of the fiscal stimulus package.

Government's options to finance additional fiscal measures are constrained by its statutory limits

Statutory limits on federal government debt

	Debt legislative	Statutory limit
Operating expenditure	Loan (Local) Act 1959	Operating expenditure must be financed by revenue (not borrowing)
MGS, MGII and MITB	Government Funding Act and Statute Paper 76 of 2009, Loan (Local) Act 1959	55 percent of GDP
Debt service charges (DSC)	Federal Constitution Article 98(1)(b)	15 percent of revenue
Treasury Bills (MTB)	Treasury bills (Local) Act 1946	RM10 billion
Offshore borrowing	Statute Paper 77 of 2009, External Loans Act 1983	RM35 billion

Source: 2020 Fiscal Outlook and Federal Government Revenue Estimates, MOF; World Bank staff projections

Government's options to finance additional fiscal measures are constrained by its statutory limits

Option 1: The government could recalibrate selected items of operating expenditure, however, the savings may not be sufficient to fund additional stimulus measures

RM billion	2019	Budget 2020	Feasibility
Supplies and services	30.2	38.5	Yes
Grants to statutory bodies	13.2	15.3	Yes
Subsidies and social assistance	23.6	24.2	Fuel subsidies and education-related assistance
Grants and transfers to state governments	7.6	7.7	Limited
Emolument	82.0	82.6	Limited
Retirement charges	26.6	27.1	Limited
Refunds and write-offs	0.9	1.0	Minimal impact
Asset acquisition	0.7	0.7	Minimal impact
Debt service charges	33.0	34.9	No
Others	7.5	9.0	No information

Source: 2020 Fiscal Outlook and Federal Government Revenue Estimates, MOF

Government's options to finance additional fiscal measures are constrained by its statutory limits

Option 2: The government could raise additional non-tax revenue to fund additional stimulus spending. Non-tax revenue measures include higher investment income from Petronas etc. and the sales of physical assets

RM billion	2019	Budget 2020	Feasibility
Interest and return on investments from Petronas	54.0	24.0	Yes
Interest and return on investments from Khazanah	1.0	1.0	Yes
Interest and return on investments from BNM	2.5	2.0	Limited
Others	0.6	1.3	No information
Sales of physical assets	0.0	1.3	Yes

Source: 2020 Fiscal Outlook and Federal Government Revenue Estimates, MOF

Government's options to finance additional fiscal measures are constrained by its statutory limits

Option 3: Parliamentary intervention to temporarily lift the statutory limits governing public debt management

- The Loan (Local) Act 1959, the Treasury (Local) Act 1946 and the Government Funding Act 1983 collectively specify that the government's operating expenditure must be financed by its yearly revenue, and the statutory limit of federal government outstanding debt instruments must not exceed 55% of GDP.
- It remains unclear whether the government could convene an emergency sitting of Parliament to temporarily lift these laws during the crisis period. The government would also have to carefully balance the need to relax these binding fiscal limits against the potential erosion of its medium-term institutional credibility in fiscal management.

Malaysia's economy is resilient

Economic

- Diversified economic structure
- High level of digital adoption
- Current account surplus
- Sound macroeconomic management

Financial

- Deep domestic capital markets
- Resilient financial sector institutions
- Past crisis response experience

Public sector

- Strong health institutions
- Economic stimulus package
- Early response

But measures will be needed to ensure a speedy recovery after the crisis

1

Measures should be taken to restore private investor confidence to revive private investment

2

Medium to long term reforms should aim to address critical gaps in human capital to boost productivity

3

Additional reforms should aim to increase competition in protected sectors, such as services

4

Create more private sector opportunities, especially for women

Questions?

For more information:

World Bank COVID-19 resource page

<https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19>

East Asia and Pacific in the time of COVID-19

<https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>

Malaysia country page

<https://www.worldbank.org/en/country/malaysia>

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