Exploring Global and Malaysia’s Financial Stability Impact of COVID-19 Pandemic

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Abstract
Many believes year 2020 would brought great changes and opportunities for their future. No one ever thought the world economy would be disrupted by Covid-19 outbreak at the same year. High level of health crisis escalates with uncontrollable cases of infection and deaths around the world. All countries have taken unprecedented measures to curb the pandemic by introducing movement control order (MCO), centralized quarantine, closure of country’s border gates, ban the social gatherings, closure of business activities and quarantine order against the population, mask wearing and school closure and so on. Due to the measures taken by the governments to curb the pandemic, current global financial reports show instability and sharp decline in growth projections in many sectors. This paper would explore the effect of COVID-19 on global and Malaysia’s financial stability. Government’s intervention is essential to help the individuals, household and businesses to sustain in long run. This paper can provide useful insights on current financial stability of Malaysia and worldwide.

Keywords: global, Malaysia, financial stability, COVID-19

1. INTRODUCTION

Year 2020 experiencing a dramatic decline in global economy development. The stability of the world economy is expected to be disrupted by the sudden outbreak of the Covid-19 pandemic. The virus continuously spread in more than 100 countries around the world. Updates from Ministry of Health shows infection cases escalates day by day. All countries including Malaysia have taken unprecedented measures to curb the pandemic by introducing movement control order (MCO), centralized quarantine, closure of country’s border gates, ban the social gatherings, closure of business activities, mask wearing and school closure and so on. Terms such as COVID-19, pandemic, new normal, Acute Respiratory Stress Syndrome (ARDS), asymptomatic, social distancing, screen test become wildly used words in our daily conversations. Like it or not we should adapt ourselves with this new normal in our life in order to protect ourselves and others from the pandemic.

Although these social imprisonment measures are important to ensure public health, however, it has great impact on the supply and demand market. This indicates that the rate of economic activity around the world is shrinking significantly while the prospects for advanced economies and emerging economies are declining. For instance, global economy forecast to shrink by 5.3% this year (World Bank, 2020). This situation has caused a great deal of turmoil in the global financial market and economic stability in Malaysia and worldwide. Therefore, world financial agencies such as International Monetary Fund (IMF), European Economic Union, World Bank and so on regulates financial and economic flows holistically.
2. DISCUSSIONS

This part will discuss about global and Malaysia’s financial stability specifically of Covid-19 pandemic.

2.1 Global Financial Stability

The coronavirus (COVID-19) has posed unprecedented health, financial and economic instability around the world. The effects of Covid-19 can be seen in various sectors across many countries. The baseline forecast envisions a 5.2 percent contraction in global GDP in 2020 shows the deepest recession in decades. The recession triggered expected to have long term effect on investment, employment (loss of works), education along with disruption in world’s trade and supply market (Global Economic Prospect, 2020).

In one hand, leading financial agencies such as European Union (EU) experienced difficult time in providing funds for needed countries. Apart from that, cash flow shortfalls or liquidity problem also could undermine the financial stability of euro area member states. Thus, the governments implements “rescue programmes” and European Pandemic Equity Fund (EPEF) to support the Small and Medium Enterprises (SMEs). In other hand, IMF approved short-term credit lines to middle and poor income countries to ease the burden, which require all members to implement exceptional fiscal and monetary measures to curb epidemics and limit long-term damage to the economy. The World Bank also provided 12 billion US Dollars as an immediate fund to help developing countries improve their health services, disease surveillance, access to medical supplies and working capital for businesses and stabilize the financial flows of the countries involved.

Besides financial agencies, banking sector also face grater challenges in this difficult time. Low interest rates over a continuous period are likely to put more pressure on banks' profitability in the medium term. Banks around the world are showing better quality, holding more liquid assets and less lending than the short-term market compared to what they did during the global financial crisis (IMF, 2020; OECD, 2020). However, there are also countries where the bank's resilience system is being tested due to the sharp slowdown in economic activity caused by the Covid-19 pandemic. In addition, a long-term downturn in the stock market will also put pressure on other financial institutions, including asset management, and at the same time could cause credit problems for non-financial borrowers. More importantly, banks are also storing more liquid assets than in the last global financial crisis. Apart from that, monetary policy and fiscal supports need to be enhanced via strong public investments (OECD, 2020).

2.2 Malaysia’s Financial Stability

The Malaysian Government has announced the Movement Control Order (MCO) which has been in place since March 18, 2020 as a preventive measure and response to the Covid-19 outbreak in the country. Among the restrictions mentioned were the closure of government departments and private premises, except those related to key national services such as health and safety, telecommunications, retail, finance and transportation (National Security Council, 2020).

According to World Bank (2020), Malaysia's Gross Domestic Product (GDP) is projected to contract between 0.1 per cent to 4.6 per cent this year due to the adverse effects of the
COVID-19 (BNM, 2009). World Bank Senior Economist in Finance, Competitiveness and Global Practice Innovation, Smita Kuriakose, said the impact on the Malaysian economy is expected to be large based on the negative impact of Covid-19 on foreign direct investment (FDI), commodities and tourism as well as domestic shocks following the Control Order Movement (MCO).

COVID-19 mainly impacted education, tourism, manufacturing, property, health sectors. Each sector took effective measures to curb the spread of the deadly virus. For instance, educational institutions encouraged to conduct online classes and other innovative teaching practices. Here, higher institutions play an important role in safeguard the welfare of their students. Meanwhile, tourism and transportation sectors were affected by the cancellation of bookings which contributes to the economic slowdown in the services sector. Manufacturing sector also faces the closure of operations and layoffs which contributed to limited supply of goods in the market. Next, commodity sector challenged by drop-in prices for crude oil, palm oil and rubber due to falling demand worldwide.

Although the government and frontline staff are doing their best to reduce the spread of this virus, the economic impact is already felt deeply by households and businesses. Therefore, governments intervention is essential to provide support to individuals, households and businesses in this country. These interventions are aimed at preventing even worse business failures in long term. For instance, Malaysian government with Central Bank of Malaysia (BNM) announced the deferral on loans or moratorium will be carried out for six months automatically from 1 April 2020 until September 2020. This caring initiative enjoyed by borrowers which is estimated to amount to at least RM 100 billion. Another supports from government through telecommunication industry is providing internet services with a capacity of 1 gigabyte for free to all users from 8 am to 6 pm every day. This initiative directly helps the citizens access online learning while at home.

2.2.1 Government’s initiatives to stabilize Malaysia’s Economy

Immediate attention and action from the government is crucial to support its people from Covid-19. Malaysia government has provided various supporting measures to helps its citizens economically. Firstly, the Prime Minister of Malaysia, YAB Tan Sri Dato’ Haji Muhyiddin Haji Mohd Yassin announced a new plan to regenerate the country’s economy, namely the National Economic Regeneration Plan or the short name PENJANA. This plan has been worked out with the theme “Together Generating the Economy”. According to the Prime Minister, under the implementation of this plan, the government has set 3 main thrusts. The 3 main thrusts are the first to empower the people. The second is to boost business or propel businesses and the third is to stimulate the economy.

In general, this National Economic Regeneration Plan contains 40 types of initiatives that have been prepared with a total value of RM 35 billion. Of this total, the Government itself has provided direct fiscal injections worth RM 10 billion based on the income of the household. For example, RM 1600 distributed to almost 4 million individual households with a monthly income of RM 4000 and below. This payment will be given in two phases namely RM1000 will be paid in April 2020 and RM 600 in May 2020. The second is the provision of RM 1000 to almost 1.1 million individual households earning more than RM 4000 to RM 8000 which will also be paid on two levels namely RM500 in April 2020 and RM500 in May 2020. The third award is cash of RM 800 to 3 million single individuals aged 21 and above with a monthly income of RM 2000 and below. For
this single grant payment of RM 500 will be credited to the account in April 2020 and the remaining RM300 in May 2020. Fourth, the grant of RM500 to 400,000 single individuals aged 21 and above who have a monthly income of more than RM2,000 to RM4,000. For this assistance, payment of RM250 will be made in April and the balance in May 2020.

On 24 March 2020, Bank Negara Malaysia (BNM) offered a moratorium or deferral of payment for all commercial bank loans except debt credit cards until 30th September 2020. According to BNM Deputy Governor Jessica Chew, the initiative was taken into consideration by financial constraints from borrowers (Bank Negara Malaysia, 2020). This financial relieves assists the individual and households to overcome the financial issues during Covid-19 pandemic.

Various allowances and assistance introduced by the Malaysian Government in helping front liners, among them is a special Allowance of RM600 for health and medical personnel. Special allowance of RM200 for members of the military, police, customs, immigration, fire brigade, Cloud Defense Force and volunteer members. In addition, there are postponement of payment of the Skills Development Fund Corporation (PTPK) for six months. Government also provides 15 per cent discount on electricity bills for the tourism sector and two per cent for the commercial, industrial, agricultural and household sectors in Peninsular Malaysia. The governments collaboration with Tenaga Nasional Berhad (TNB) allocated RM530 million to provide a gradual discount of between 15 percent to 50 percent based on usage of electricity with a maximum limit of 600 kilowatts.

Besides incentives, Prihatin Rakyat Economic Stimulus Package (PRIHATIN) implemented to reduce the burden of companies and business firms impacted by Covid-19 pandemic (see figure 1). In addition, The Inland Revenue Board (IRB) took the initiative to offer tax deductions for cash and donations of goods to help the affected communities in meeting their basic needs. MOH and Tenaga Nasional Berhad (TNB) also set up action councils to seek financial assistance from corporate companies, government-linked companies (GLCs) and other organizations in Malaysia in an effort to combat the
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pandemic. The funds raised are used by the MOH as a medical preparation as well as the purchase of PPE equipment needed to curb COVID-19 (Foo et al, 2020).

The government has provided many assistances to Malaysians to deal with financial problems from unemployed to small business traders who suffered losses due to the covid-19. Among the assistance are ‘one-off’ and periodic cash assistance, financial assistance, house rental assistance, donations and so on. Homeless people who were previously unidentified have also been given special assistance and shelter in a place. Indirectly, Covid-19 pandemic has given awareness to us in maintaining personal hygiene and cleanliness.

Figure 2: Current unemployment rate in Malaysia

Source: Department of Statistic Malaysia (DOSM), 2020

Unemployment become another important issue to be discussed during this pandemic. As for July 2020, 4.7 percent unemployment rate recorded (see figure 1). This rates indirectly provides an opportunity for the government to improve the skills and knowledge of graduates by improving the quality of human capital in Malaysia. In addition, government also provides an allocation of RM 25 million to Malaysia Digital Economy Corporation (MDEC) to run a program called Global Online Workforce (GLOW) which aims to guide fellow Malaysians to generate income through online.

3. CONCLUSION

Based on the current situation, the Malaysian government still able to deal with the impact of the spread of Covid-19 by economic diversification and strengthening the financial and economy system with a strong current account surplus. However, for low income or B40 group, Covid-19 pandemic cause them lose their job and added financial burden as well. In addition, the financial and currency markets are facing global uncertainty as well as capital transfers from high-risk markets. The spread of the Covid-19 epidemic has a huge impact on the socio-economic activities of a country. Covid-19 impacts the people’s health and contributes to the slowdown in demand, production, investment and income of businesses as well.

Therefore, various social protection efforts are being implemented by the government, NGOs and individuals in safeguarding the welfare of people, support businesses and strengthen the economy during Covid-19. Various financial assistance in the form of cash and deferment of loan payments (moratorium) are short-term measures that need to be expedited to alleviate the burden of all affected parties, especially employers and employees as well as health workers who have to work overtime. Therefore, all parties need to cooperate to achieve the main mission and vision, which is to curb the epidemic of Covid-19 by breaking the chain of infection to the lowest level and eliminating these symptoms forever. This includes the steps taken by individuals in an attempt to prevent
the spread of this virus. The measures announced by the Ministry of Health Malaysia (MOH) include hand washing, social imprisonment, wearing face masks in public places, cleaning and disinfection in our own homes.

References


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