



Economic impact of COVID-19: A Malaysian context

Summary of potential economic impacts
and corresponding policy interventions



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working world

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This document analyzes the socio-economic impacts from the COVID-19 pandemic, and describes key policy measures undertaken by the Malaysian Government. This document also provides guidance on the four priority areas that organizations should focus on to stay resilient during this challenging period.

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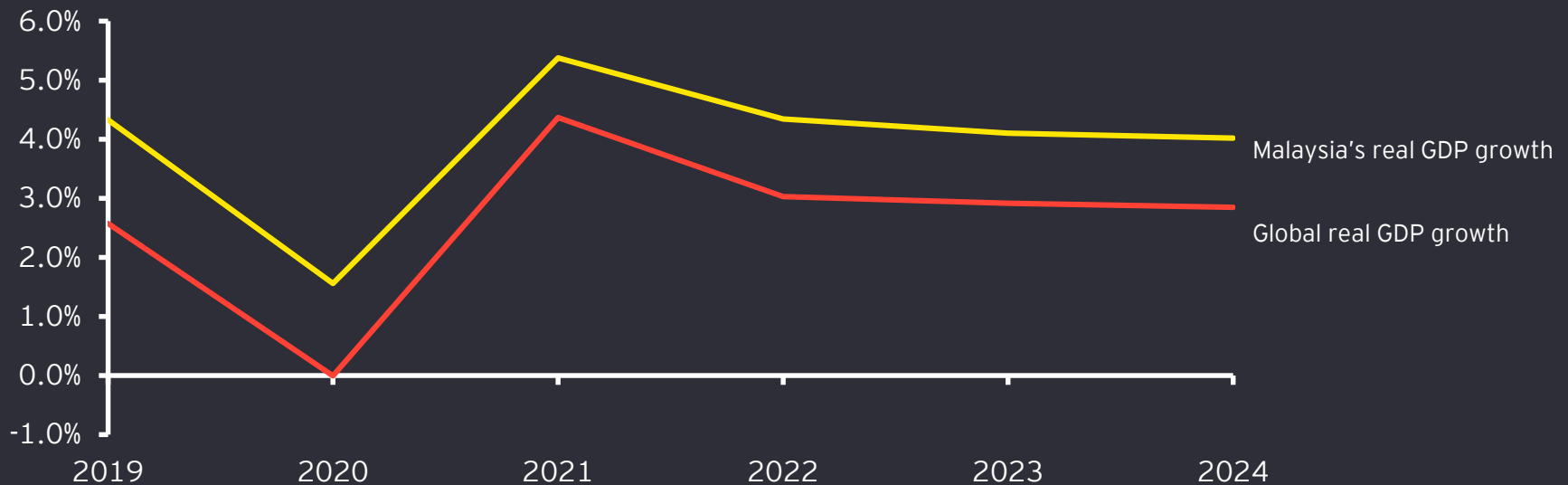


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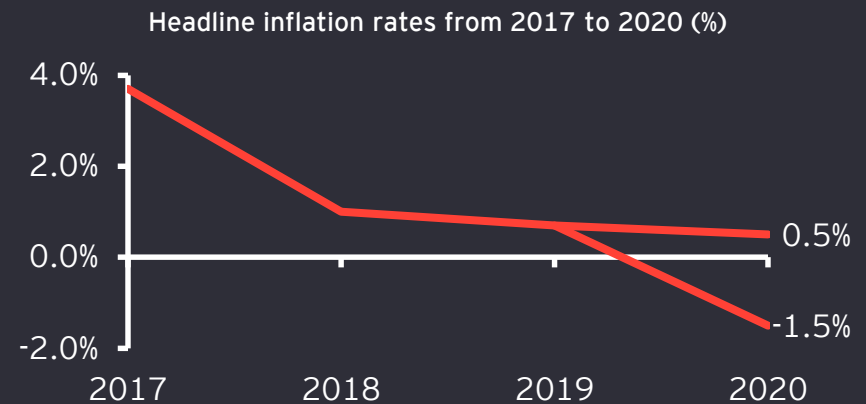
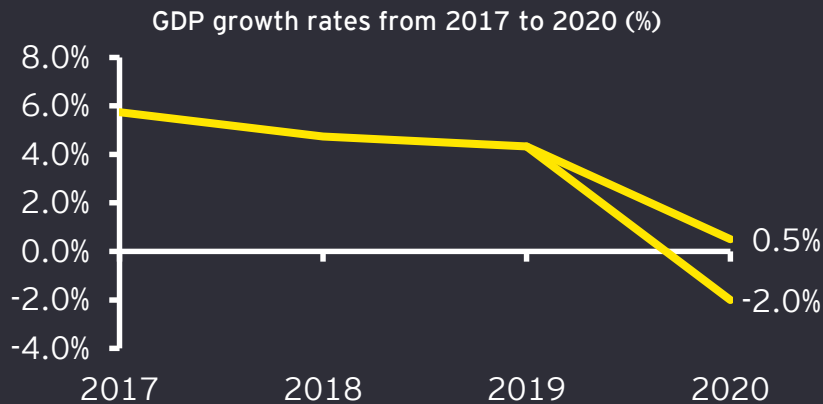
Review of economic forecasts based on external sources

- ▶ The Malaysian Institute of Economic Research, in a press statement on 24 March 2020, predicts that the real GDP growth of Malaysia in 2020 will drop from 4.0% to -2.9%, with up to **2.4 million** job losses, of which **67%** will be from the unskilled workers category.
- ▶ The International Labour Organisation (“ILO”)’s preliminary estimates point towards a significant rise in unemployment and under-employment as the crisis unfolds.
- ▶ An external EY source anticipates the real GDP growth and unemployment in Malaysia to worsen, in both baseline and scenario forecasts. Comparing global economic growth against Malaysia’s, the external EY source predicts that Malaysia’s real GDP growth will fare better.



Review of economic forecasts from Bank Negara Malaysia

- ▶ Bank Negara Malaysia projects Malaysia's GDP growth to range between **-2.0% to 0.5%** in 2020, due to:
 - ▶ Output losses as a result of the COVID-19 pandemic;
 - ▶ The implementation of the Movement Control Order ("MCO"); and
 - ▶ Commodity supply disruptions both domestically and internationally
- ▶ Through stress tests, Bank Negara Malaysia predicts that the financial system will continue to remain resilient even under adverse economic scenarios, with capital buffers still sufficient to absorb potential losses.
- ▶ Bank Negara Malaysia has represented that GDP growth in 2020 will be supported by stimulus measures, policy rate cuts, the continued progress of public projects and higher public sector expenditure.



Source: Bank Negara Malaysia Economic and Monetary Review 2019 as at 3 April 2020

Prospective economic forecasts from an External EY Source

Initial baseline forecasts (As at 17 February 2020)

Indicator	2019	2020	2021
Real GDP growth	4.3%	3.9%	4.4%
Domestic demand growth	4.0%	5.2%	4.3%
Private consumption growth	7.6%	5.7%	4.2%
Employment growth	2.1%	2.1%	2.2%
Unemployment rate	3.3%	3.4%	3.3%
Inflation rate	0.7%	1.9%	2.0%

Updated baseline forecasts (As at 24 March 2020)

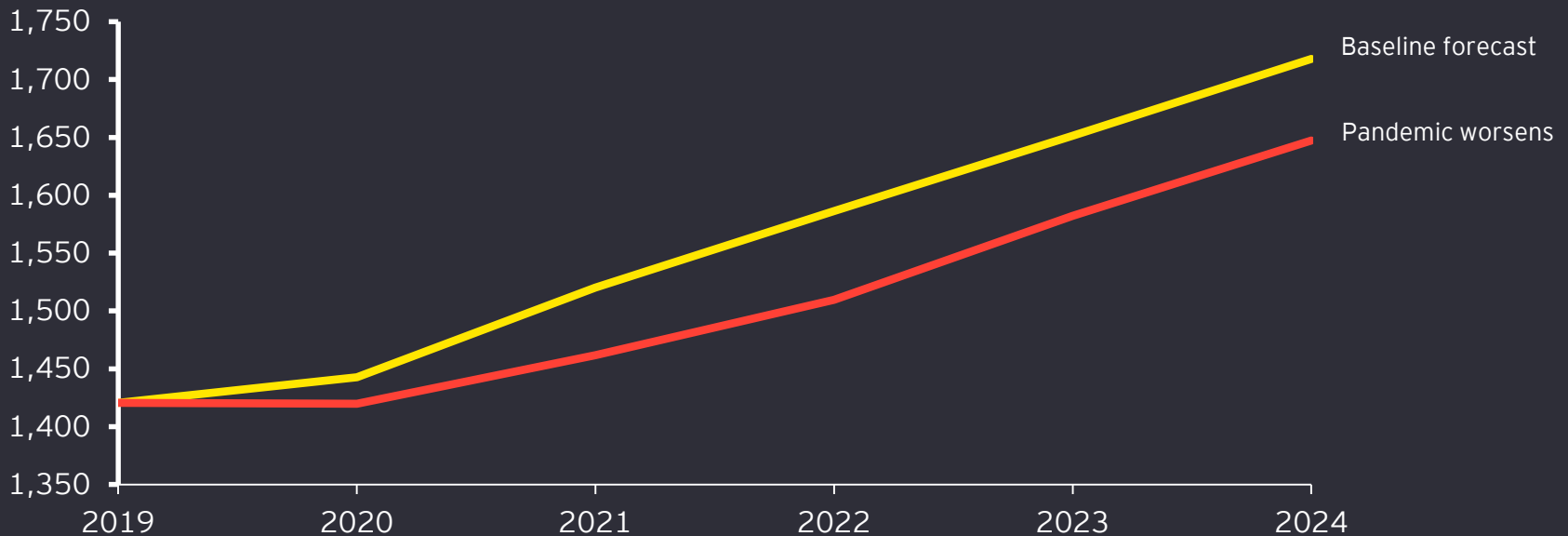
Indicator	2019	2020	2021
Real GDP growth	4.3%	1.6%	5.4%
Domestic demand growth	4.0%	3.6%	4.9%
Private consumption growth	7.6%	5.4%	5.0%
Employment growth	2.1%	1.2%	3.0%
Unemployment rate	3.3%	3.5%	3.3%
Inflation rate	0.7%	0.8%	1.7%

- ▶ Subsequently, the External EY Source has adjusted its forecasts to reflect the ongoing global pandemic, by reducing the forecasts for real GDP growth, domestic demand growth, private consumption growth and employment growth.
- ▶ Inflation rate is expected to improve in 2020, reflecting the inverse relationship with unemployment rate, to combat lower domestic demand and private consumption.

Source: External EY Source as at 24 March 2020

The real GDP of Malaysia to decrease by -0.05% in 2020 in the event that the Coronavirus pandemic worsens

Forecast of Malaysia's real GDP from 2019 to 2024 (RM billion, 2015 prices)

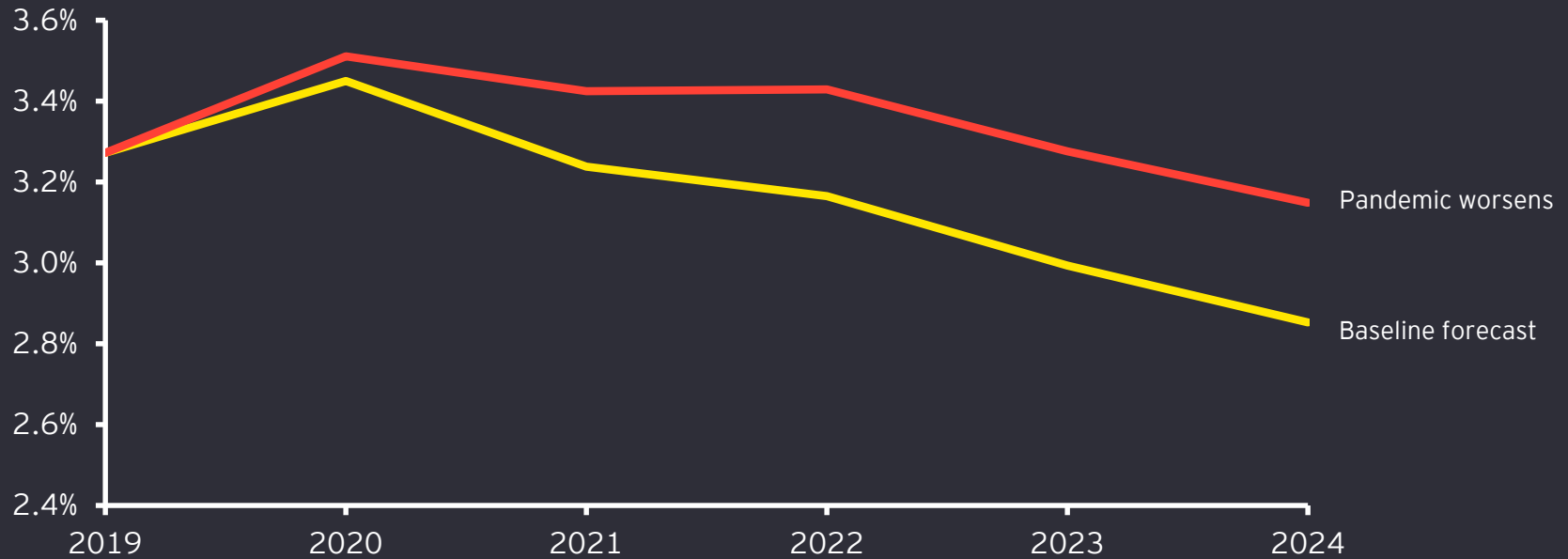


- ▶ The updated baseline forecasts indicate a **1.6%** growth in real GDP in 2020, compared to **-0.05%** in 2020 in scenario forecasts in the event of a worsening pandemic.
- ▶ The real GDP growth is expected to recover in 2021 in baseline forecasts (**5.4%**), whereas it is expected to recover in 2023 (**4.8%**) in the scenario forecasts.

Source: External EY Source as at 20 March 2020

The unemployment rate in Malaysia to rise to 3.5% in 2020 if global pandemic continues to worsen

Forecast of Malaysia's unemployment rate from 2019 to 2024 (%)



- ▶ The updated baseline forecasts show that the unemployment rate will rise to **3.4%** in 2020, compared to **3.5%** in 2020 if the pandemic worsens.
- ▶ Likewise with real GDP, the unemployment rate is expected to return to normal levels in 2021 for baseline forecasts (**3.2%**), whereas the scenario forecasts expect the unemployment rate to return to normal levels in 2023 (**3.3%**).

Source: External EY Source as at 20 March 2020

Potential socio-economic impacts of COVID-19



Direct sectoral impact to industries such as air travel, tourism and hospitality



Drop in foreign trade as supply chains are affected by Government orders



Fall in stock markets due to reduced investor and consumer confidence



Reduced consumer spending due to the implementation of the MCO by the Government



Cashflow issues arising from the MCO, leading to permanent/temporary layoffs



Further reduced domestic demand and spending arising from unemployment

Degree of impact in specific sectors

Degree of impact, by severity



Source: MIDF as at 10 March 2020, CAPA as at 17 March 2020, McKinsey Global Report as at 25 March 2020

Policy interventions

- ▶ On 27 February 2020, the Malaysian Government announced an Economic Stimulus Package to “cushion” the resulting impact from the COVID-19 outbreak, as well as “reinvigorate” the growth of the Malaysian economy, through three (3) different strategies:
 - ▶ Strategy 1: Mitigating impact of COVID-19
 - ▶ Ease cashflow of businesses;
 - ▶ Assist affected individuals; and
 - ▶ Stimulate demand for the domestic “travel and tourism” sector
 - ▶ Strategy 2: Catalyzing *rakyat*-centric economic growth
 - ▶ Boost household spending and people-centric projects
 - ▶ Strategy 3: Promoting quality investment
 - ▶ Leverage public investments; and
 - ▶ Provide incentives to encourage private investments

Total Economic Stimulus Package

(as at 27 February 2020)

RM 20b

Policy interventions (cont'd)

- ▶ Following the increase in infection rates across the nation and the implementation of the MCO on 18 March 2020, the Government announced the PRIHATIN Economic Stimulus Package on 27 March 2020, which aims to inject an additional **RM 230 billion** into the economy.
- ▶ Together with the previously announced economic stimulus package, the Government has ultimately pledged to inject a total of **RM 250 billion** to stimulate the Malaysian economy, with three primary goals as follows:
 - ▶ To protect the *rakyat*;
 - ▶ To support businesses; and
 - ▶ To strengthen the economy
- ▶ Bank Negara Malaysia has represented that this package is estimated to add **2.8%** to GDP growth in 2020.

Total PRIHATIN Package
(as at 27 March 2020)

RM 230b

Policy interventions (cont'd)

- ▶ The Small and Medium Enterprises (“SMEs”) are the backbone of the Malaysian economy, contributing almost 40% of the country’s GDP, and providing employment to almost two-thirds of the Malaysian workforce. After various requests from interest groups, the Government announced on 6 April 2020 an additional allocation of **RM 10 billion** to further support businesses, particularly the SMEs.
- ▶ The RM 10 billion will be allocated as follows:
 - ▶ Additional allocation of RM 7.9 billion to the Enhanced Wage Subsidy Programme, now totalling RM 13.8 billion, to help 4.8 million workers. The programme was originally allocated RM 5.9 billion and aimed to help 3.3 million workers.
 - ▶ Allocation of RM 2.1 billion to fund the PRIHATIN Special Grant, which is an initiative to provide RM 3,000 to each qualifying micro SME
- ▶ Together with the previously announced economic stimulus packages, the total pledged by the Government for the PRIHATIN Economic Stimulus Package is **RM 260 billion**.

Total additional allocation
(as at 6 April 2020)

RM 10b

Total PRIHATIN Economic
Stimulus Package
(as at 6 April 2020)

RM 260b

Selected measures of the Economic Stimulus Package

Financing facilities



- ▶ Financial institutions to facilitate the restructuring and rescheduling of loans
- ▶ RM 2 billion allocated to establish a Special Relief Facility (“SRF”) to assist with the cashflows of affected SMEs
- ▶ Bank Simpanan Nasional to offer RM 200 million in micro-credit facilities to the tourism and other affected sectors
- ▶ RM 500 million to be invested by the Securities Commission Co-Investment Fund in early-stage and growth-stage Malaysian companies

Industry boosters



- ▶ Deferment of monthly tax instalments for six months for the tourism sector
- ▶ Exemption of service tax on taxable services for six months for the hospitality industry
- ▶ All affected sectors exempted from Human Resources Development Fund levy
- ▶ 15% discount on electricity bills for all affected sectors
- ▶ RM 500 million allocated to stimulate demand for the tourism sector
- ▶ Up to RM 5 million per affected SME for guarantees to finance working capital

Socio-economic drivers



- ▶ Fund amounting to RM 1.1 billion to assist retrenched workers under the Employment Insurance System (“EIS”)
- ▶ Minimum employee contribution to the Employees Provident Fund (“EPF”) reduced from 11% to 7%, to potentially increase disposable income by approximately RM 10 billion
- ▶ RM 300 million for all SMEs to upgrade, modernize and rejuvenate productive assets under the SME Automation and Digitalisation Facility (“ADF”)
- ▶ Up to RM 2 billion worth of small-scale projects to be carried out

Source: Ministry of Finance as at 27 March 2020

Selected measures of the PRIHATIN Economic Stimulus Package

Rakyat-centric

RM 128b

to preserve *rakyat's* welfare

- ▶ Allocation of RM 1.5 billion to support the Ministry of Health;
- ▶ Insurance and takaful industry to create a special fund of RM 8 million to cover costs, and suspension of premiums by affected contributors for three months;
- ▶ Allocation of RM 10 billion for one-off cash assistance to all B40 households and eligible M40 households under the Bantuan Prihatin Nasional;
- ▶ Allocation of RM 1 billion to the Food Security Fund; and
- ▶ Loan moratorium for all borrowers for six months

Business support

RM 110b

to support all businesses, including SMEs

- ▶ Loan/financing moratorium for all affected businesses for six months;
- ▶ Allocation of RM 500 million to provide discounts on electricity bills for the tourism, commercial, industrial, agricultural and household sectors;
- ▶ Allocation of RM 13.8 billion to assist up to 4.8 million workers under the Enhanced Wage Subsidy Programme;
- ▶ Postponement of income tax instalments for all SMEs; and
- ▶ Various forms of assistance to farmers and fishermen, including agricultural inputs to increase domestic production

Economic strengtheners

RM 2b

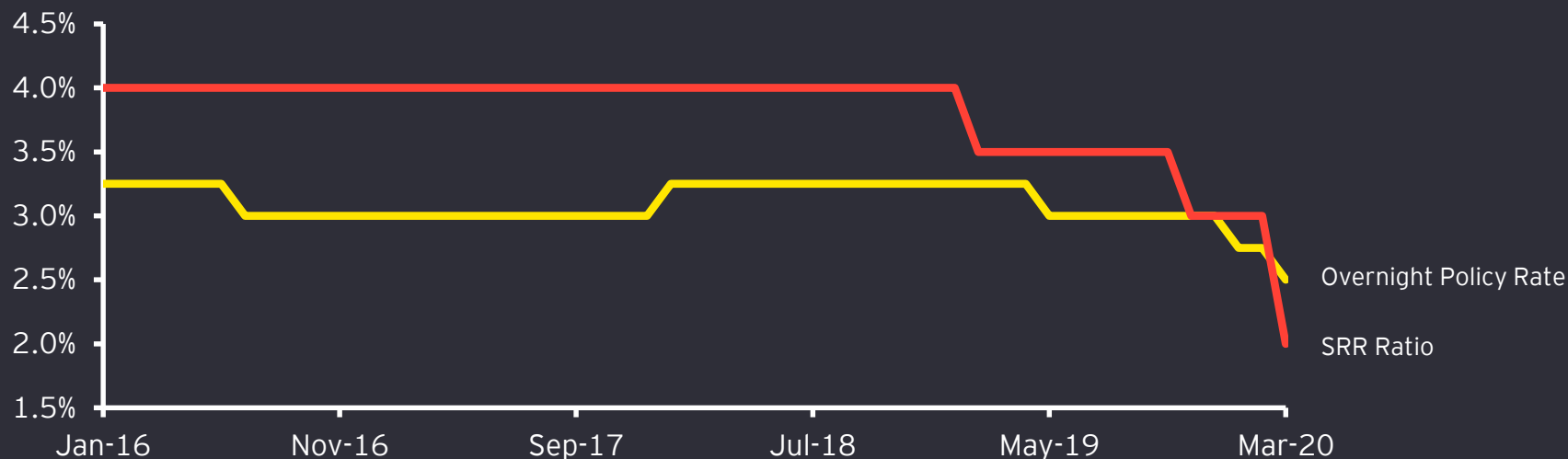
to ensure sustainability of economic growth

- ▶ Allocation of RM 2 billion for the implementation of small projects to benefit G1 to G4 contractors;
- ▶ To ensure the implementation of the RM 2 billion worth of projects previously announced; and
- ▶ To continue and bring forward the implementation of all projects allocated under Budget 2020 such as the East Coast Rail Line project, the Mass Rapid Transit 2 project, and the National Fiberisation and Connectivity Plan

Source: Ministry of Finance as at 27 March 2020 and 6 April 2020

Bank Negara Malaysia's monetary policy interventions

- ▶ In response to the COVID-19 outbreak, the central bank of Malaysia, Bank Negara Malaysia ("BNM"), has implemented the following measures:
 - ▶ Reduced the Overnight Policy Rates from 2.75% to **2.50%** on 3 March 2020, which aims to "provide a more accommodative monetary environment"; and
 - ▶ Decreased the Statutory Reserve Requirement ("SRR") Ratio from 3.0% to **2.0%**, and each Principal Dealer is able to recognize Malaysian Government securities ("MGS") and Malaysian Government Investment Issues ("MGII") of up to RM 1 billion, effective 20 March 2020. These measures aim to release approximately RM 30 billion worth of liquidity into the banking system.



Source: BNM press releases on 3 March 2020 and 19 March 2020

The resilient enterprise

The resilient enterprise

1. Put people safety first

2. Protect business continuity

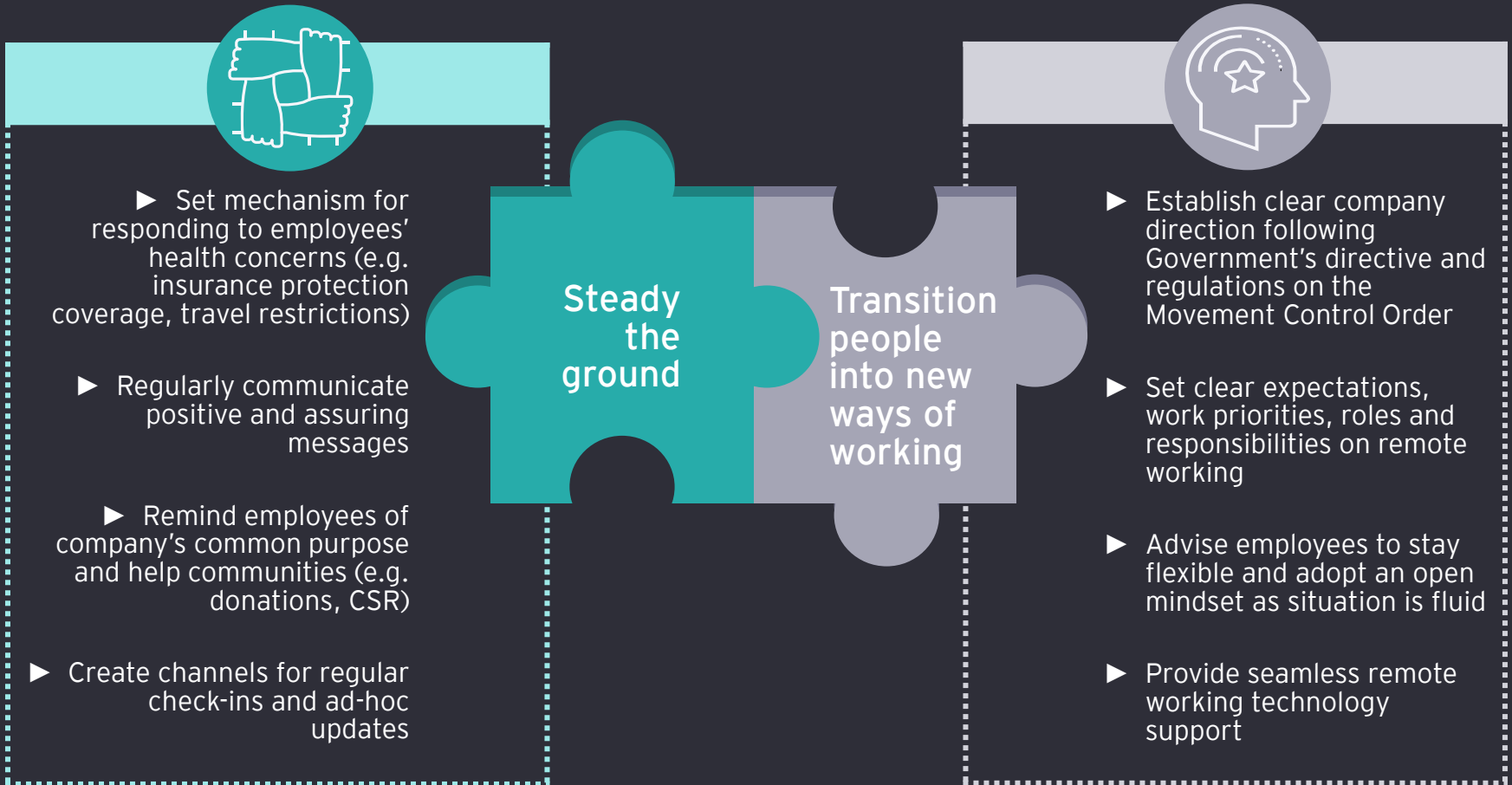
Four actions
to respond to
COVID-19

3. Build and secure liquidity

4. Engage stakeholders

1. Put people safety first

- ▶ Companies need to do their best to steady the ground and transition people into new ways of working



Source: EY

1. Put people safety first (cont'd)

People, your key assets, are subject to high stress when dealing with fear, anxiety, ambiguity and uncertainty given the extent of the **COVID-19 impact on a personal level and on work.**

Safety, health, wellbeing, care and job security become immediate priorities to deal with the present and coming challenges.

Your team will also need **clear and transparent communications** on how the Government's stimulus package may help them.

Actions to take

1. Be extraordinarily human

- ▶ Actively listen to employee concerns
- ▶ Practice empathy
- ▶ It's fine to acknowledge you may not have all the answers at this point

2. Be persistent

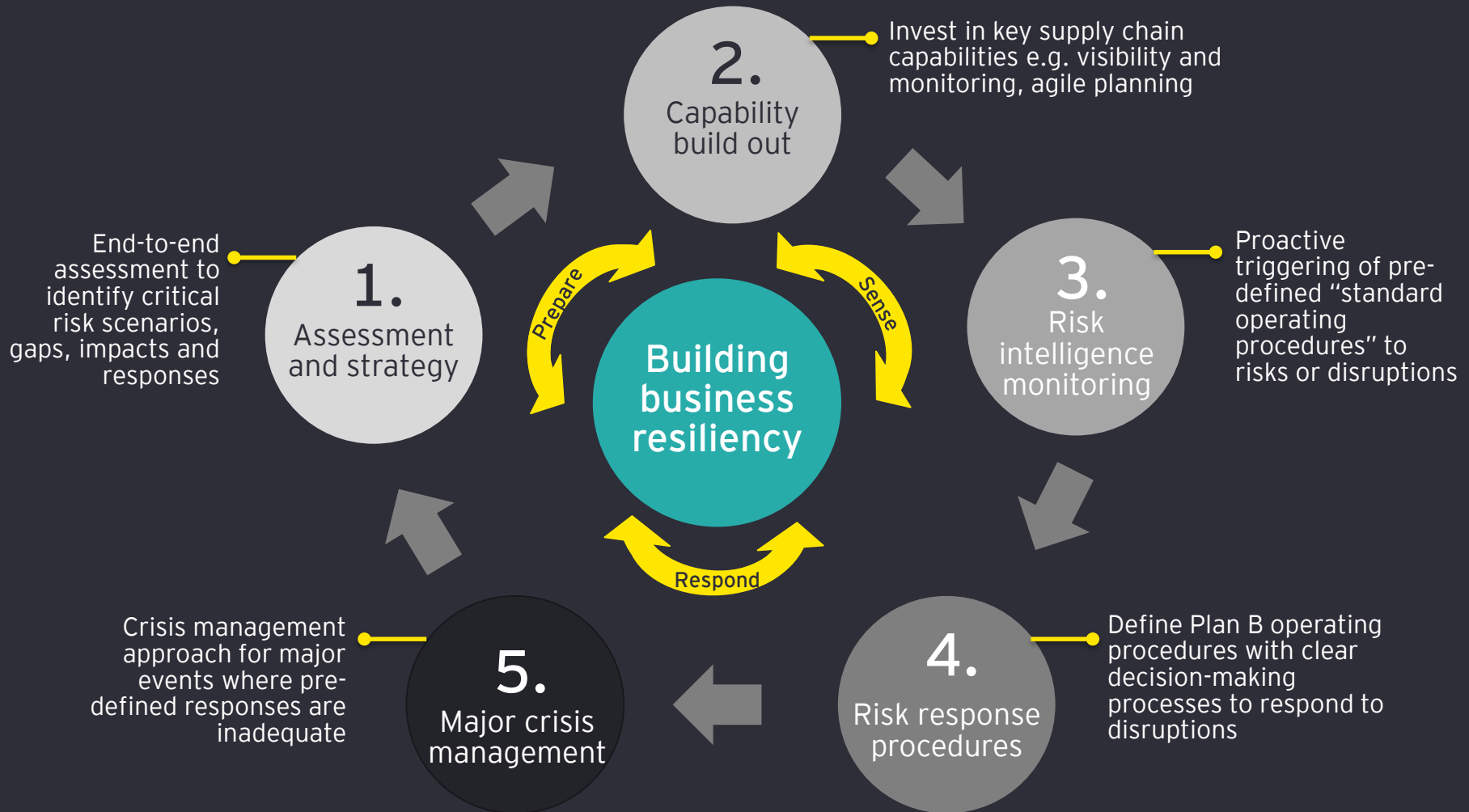
- ▶ Communicate regularly
- ▶ Personalize messages
- ▶ Build trust

3. Be creative

- ▶ Explore new ways of working remotely
- ▶ Register for a new learning course
- ▶ Share experiences and tell stories

2. Protect business continuity

- ▶ Building a resilient supply chain is key to mitigating economic risks



2. Protect business continuity (cont'd)

The COVID-19 pandemic has disrupted economic activities, including **supply chain networks**.

Businesses lose clarity on demand as **buying behavior shifts** drastically.

Ripple effect emerges as companies' sources of supplies are disrupted, compounded by temporary suspension of support services.

It is imperative for businesses to **rapidly assess, recover and respond** to their supply network disruptions.

Actions to take

1. Visibility and monitoring

- ▶ Is there a single view across your supplier and customer networks on supply chain capacity, availability and product flows?

2. End-to-end supply chain risk assessment

- ▶ Are your supply chain ecosystem partners proactively engaged to identify risks and close gaps?

3. Contingency and scenario planning

- ▶ Is contingency and scenario planning in place with standardized emergency response processes?

4. Supplier network diversification

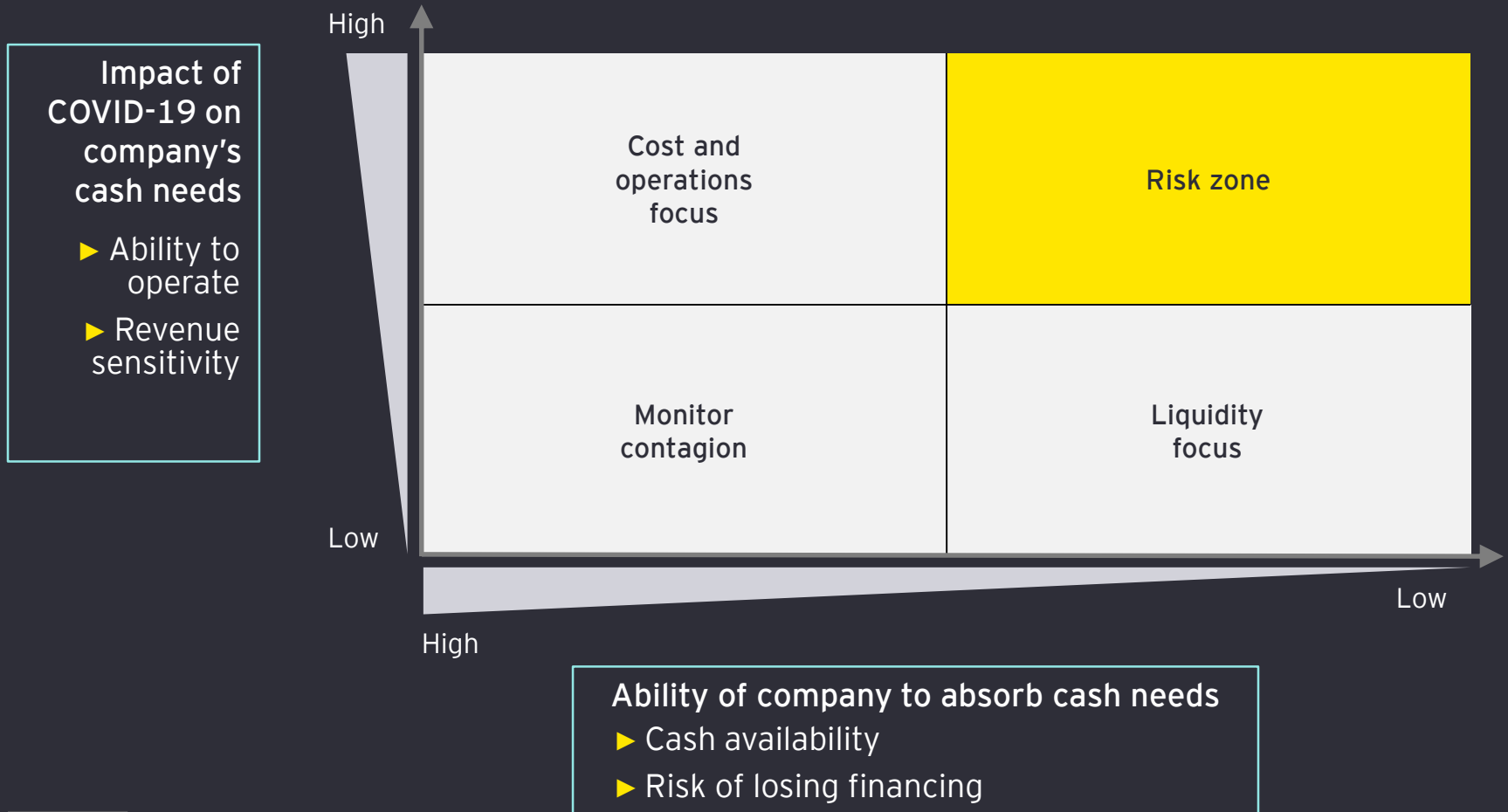
- ▶ Is there clarity on your supplier base and dependencies, with alternate suppliers in place?

5. Contingency and scenario planning

- ▶ Have you considered available tax, financing, and other moratorium benefits?

3. Build and secure liquidity

- ▶ Both internal and external factors will tighten liquidity during COVID-19 and rapid assessment is needed to test different scenarios.



3. Build and secure liquidity (cont'd)

COVID-19 will disproportionately impact highly leveraged businesses and those with low cash buffers already facing tough trading conditions. Liquidity tightening across the markets will cascade, from business to business, impacting the supply chain network.

Key questions for CFOs to consider:

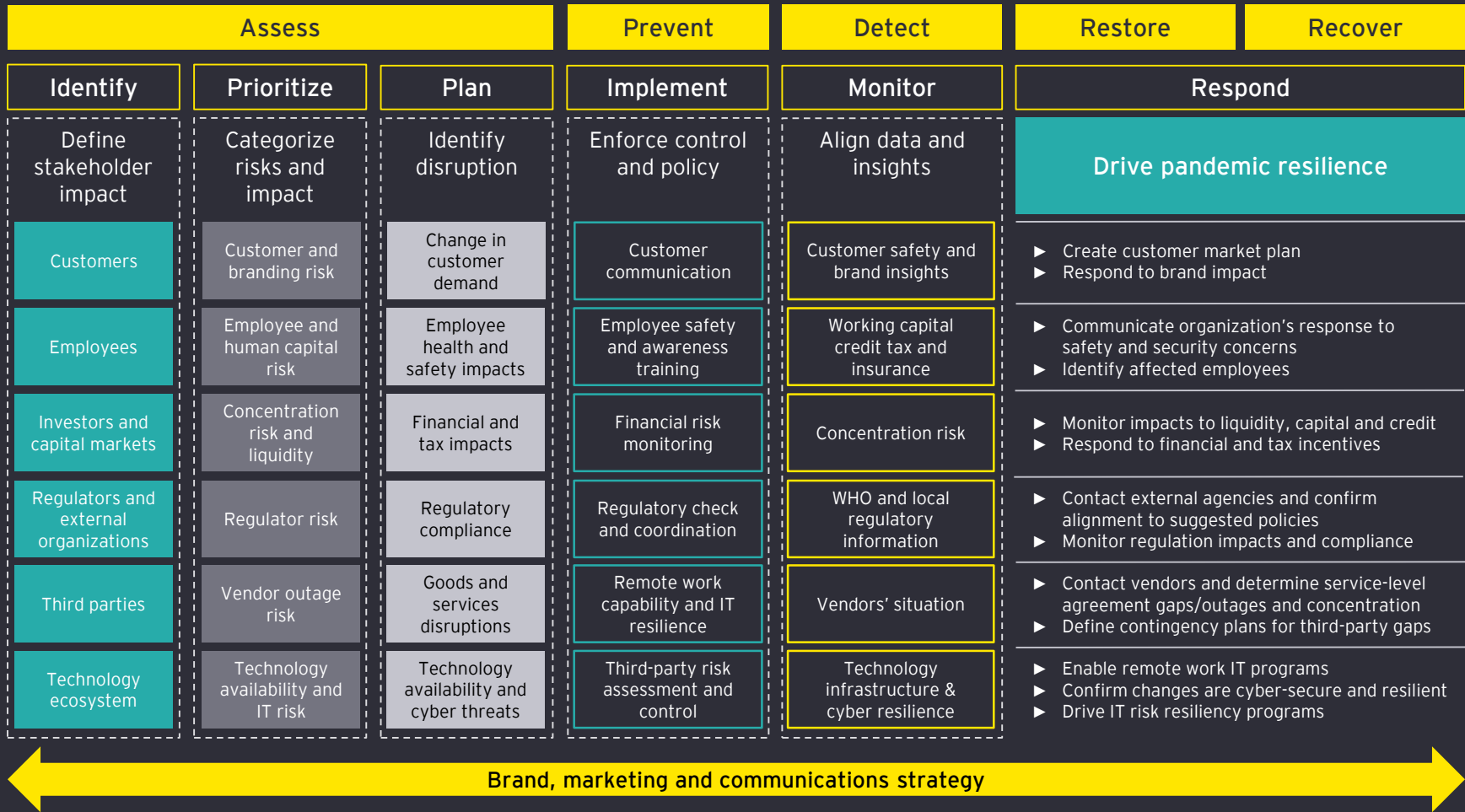
1. Have you assessed the **liquidity impact** on the range of stress-test scenarios presented by COVID-19?
2. Has management agreed on an appropriate **contingency funding plan** based on the stress-test scenarios?

Actions to take

1. **Identify available cash and due payments**
 - ▶ Track down cash buffers, calculate available cash and unutilized credit lines
 - ▶ Identify urgent payments (e.g. invoices and treasury settlements)
2. **Allocate cash reserves**
 - ▶ Identify opportunities to pool liquidity
 - ▶ Monitor the financial status of entities within the group
 - ▶ Allocate liquidity to entities in need of cash
3. **Forecast cash flows**
 - ▶ Establish a cash forecast including various scenarios
 - ▶ Calculate the group's cash forecast to identify cash bottlenecks and surplus
 - ▶ Provide adequate liquidity reserve to prevent insolvency
4. **Monitor financial covenants**
 - ▶ Regularly review forecast to ensure compliance with financial covenants

4. Engage stakeholders

► Building confidence and trust will be a key differentiator



Source: EY

4. Engage stakeholders (cont'd)

With most businesses planning to reshape their organization to sustain in these challenging times of the COVID-19 pandemic, **stakeholder engagement** is more important than ever.

Lack of communication or unclear messaging may trigger speculations and raise doubts among stakeholders. This may result in the **loss of stakeholder confidence** and lead to an **adverse shift on how the organization is perceived**.

In time, this may have long-term financial and operational impact on the organization.

Source: EY

Actions to take

- 1. Understand stakeholders' critical priorities**
 - ▶ Identify key stakeholders and their short to medium term priorities
 - ▶ Examine the impacted stakeholders due to the current economic situation
- 2. Create a cross-functional response team to address challenges/issues and track position daily**
 - ▶ Identify the decision-makers within the organization
 - ▶ Establish daily cadence and appropriate governance to address issues and risks
- 3. Prepare a targeted engagement plan to address needs and priorities**
 - ▶ Establish a proactive and comprehensive communication plan to address both external and internal stakeholders
 - ▶ Designate single points of contact to facilitate seamless engagement with internal and external stakeholders
- 4. Address legal liabilities**
 - ▶ Establish process to notify and engage with regulators proactively
 - ▶ Establish mitigation action on any potential lawsuits and negative brand impact to the organization

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