



## **Review of Economic Stimulus Packages to Fight the Covid-19 Pandemic: Evidence from Malaysia**

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**Received:** 10<sup>th</sup> July 2021    **Accepted:** 13<sup>th</sup> September 2021    **Published:** 7<sup>th</sup> October 2021

### **ABSTRACT**

The purpose of this study is to describe the COVID-19 situation in Malaysia and the way the government of Malaysia manages the impact of this pandemic through economic recovery packages such as economic stimulus packages. This study focuses on the effects of the economic stimulus packages released by the government of Malaysia as a response to the economic recession triggered by COVID-19. Malaysia is one of the favourite tourist destinations, and the tourism industry generates about 5.9% of the country's GDP. However, the lockdown imposed by the Malaysian government to combat the COVID-19 pandemic has severely affected almost every sector of the economy. The Malaysian government has taken several steps to control the spread of the pandemic, such as declaring hotspots of COVID-19, imposing lockdowns, and creating mass scale awareness through social media and TV channels. The government has also deployed several economic strategies such as economic stimulus packages to help industries and the people. This study concludes that the mitigation techniques, i.e., economic stimulus packages adopted are working properly; however, some improvements are required as these techniques are inadequate to manage the transmission capability and virulence of COVID-19. Thus, more attention is required for the revival of economic activities. This study helps to obtain an insight into the effects of economic packages and how effective these packages have been in managing the spread of the COVID-19 virus and mitigating the economic recession. It also provides an understanding of how these packages will help flatten the pandemic curve in the future. This study provides information on the current COVID-19 situation in Malaysia. It also offers information on the policies and methods used by the government to solve economic and public health issues. Further, this study lays out guidelines for policymakers and government officials for the development of more effective strategies for economic recovery and public health initiatives.

**KEYWORDS:** COVID-19, Economic policy, Malaysia, Pandemic.

## **INTRODUCTION**

### **Global condition**

In December 2019, a mysterious disease with the symptoms of pneumonia started spreading in Wuhan, China. Within a month, this highly contagious and communicable disease had crossed the national border and started creating panic throughout the world. By early 2020, it was found that this disease is caused by a new type of virus belonging to the SARS virus family. The World Health Organization (WHO) named it the 'novel coronavirus' or 'COVID-19' and declared it as a pandemic on 11 March 2020 (MacIntyre, 2020). The rapid transmission of the disease caused almost every country to go under a lockdown during the first or second quarter of 2020. The lockdowns brought not only healthcare loss but also economic and societal loss to the affected countries. Today, almost the whole world is facing challenges caused by COVID-19 on healthcare, social, societal, and economic aspects. Malaysia, like many other countries, also suffers severely as a result of this pandemic (WHO, 2020).

### **The scenario in Malaysia**

The first known case of COVID-19 in Malaysia was reported on 24 January 2020, and the number of cases began climbing rapidly in February and March 2020. The prime minister of Malaysia announced a lockdown, known as the Movement Control Order (MCO), on 16 March 2020 to control the spread of the disease. The Malaysian population were required to stay at home during the MCO period, except for those working in essential services sectors. Since Malaysia recorded the highest number of COVID-19 cases among the Association of Southeast Asian Nations (ASEAN) countries, the government had implemented the MCO strictly to control the rising cases while at the same attempting to mitigate the adverse economic impact of the lockdown. The lockdown helped to control the spread of COVID-19, but it also disrupted the economic activities in the country. Table 1 below shows a summary of the MCO phases implemented by the Malaysian government during the first half of 2020.

According to a report of by the United Nations Children's Fund (UNICEF, 2020), Malaysia has lower policy stringency that can be a great hurdle in obtaining the desired results. The report also revealed that in comparison to other countries, policy stringency in Malaysia remained low during

the initial COVID-19 strategizing. Therefore, the country recorded a hike in the number of COVID-19 cases between March and mid-April, followed by a decrease that reached a steady state in June (where stringency was reduced) (UNICEF, 2020).

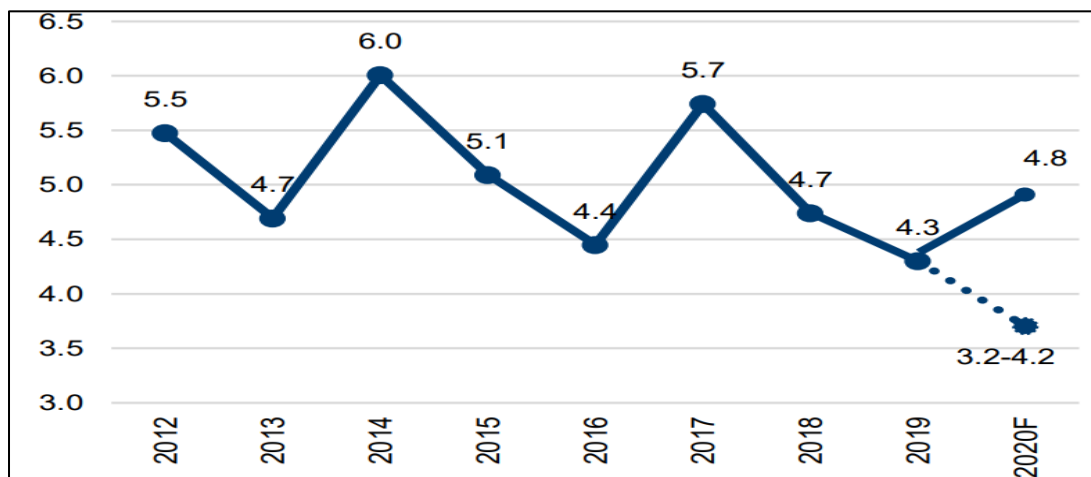
**Table 1:** Summary of the implementation of the Movement Control Order (MCO) in Malaysia

Stage	Year 2020	Status
Time Zero	1 January	Beginning of the year 2020
January	2 January – 24 January	The COVID-19 pandemic began to massively spread in China.
After 1 <sup>st</sup> case	25 January – 26 February	The first case was detected on 24 January 2020. The WHO country office in Malaysia has been working closely with the Ministry of Health to respond to this outbreak.
2 <sup>nd</sup> wave	27 February – 17 March	The sudden spike in the confirmed cases was linked to the largest cluster, Tablighi Jamaat religious gathering in Sri Petaling, Kuala Lumpur, in late February and early March, causing the society to panic about the pandemic.
1 <sup>st</sup> MCO	18 March – 31 March	On 16 March 2020, the Prime Minister announced the “Movement Control Order” to combat the spread of disease.
2 <sup>nd</sup> MCO	1 April – 14 April	The Prime Minister announced an extension of MCO as the number of cases increased rapidly despite strict measures taken, such as the prohibition of mass movements, gatherings and interstate travelling.
3 <sup>rd</sup> MCO	15 April – 30 April	On 10 April 2020, the Prime Minister announced a second extension of MCO as the number of cases was expected to reach its peak in mid-April.
CMCO	1 May – 29 May	On 4 May 2020, the Conditional MCO ensued, allowing certain industries to reopen under strict Standard Operating Procedures.

The impact of COVID-19 on the Malaysian economy is devastating, such that many businesses and markets in Malaysia collapsed, leading to an economic recession (Chia, Liew, & Rowland, 2020). Many Malaysians lost their jobs and businesses, resulting in a high unemployment rate (Bakar & Rosbi, 2020). The key sectors of the Malaysian economy, such as e-commerce, technology, and business travel, are adversely affected by the pandemic. Apart from domestic issues, the Malaysian market also suffers because of the dependence on Chinese production and manufacturing (Hasanat et al., 2020). Graph 1 below depicts the Malaysian government’s growth projection for the country for the period of 2012–2020. The graph shows that this COVID-19 pandemic period is the first time that the country’s GDP shows negative growth, at –4.2 per cent.

Further, Graph 1 shows that the Malaysian government has revised the 2020 GDP growth target to 3.2–4.2 per cent from the initial target of 4.8 per cent (2019: 4.3 per cent). It is suggested that the prediction of a slowdown to 4.0 per cent in 2020 is in line with the delay in global economic recovery caused by the COVID-19 pandemic, which is affecting the services and manufacturing sectors. Another factor that could weigh on economic growth is political uncertainty that is expected to dampen the sentiments of investors and consumers.

In February 2020, YAB Tun Dr Mahathir Mohamad, as Malaysia's interim prime minister at that time, announced the first economic stimulus package to boost the savings, employment, and development of the country. The RM20 billion economic stimulus package was also intended to recover the economic losses caused by COVID-19 in the first quarter of 2020 and to add about 1.4 percentage points to the GDP growth in 2020. Later, the package was extended into different phases, and to-date, four stimulus packages have been released by the Malaysian government.

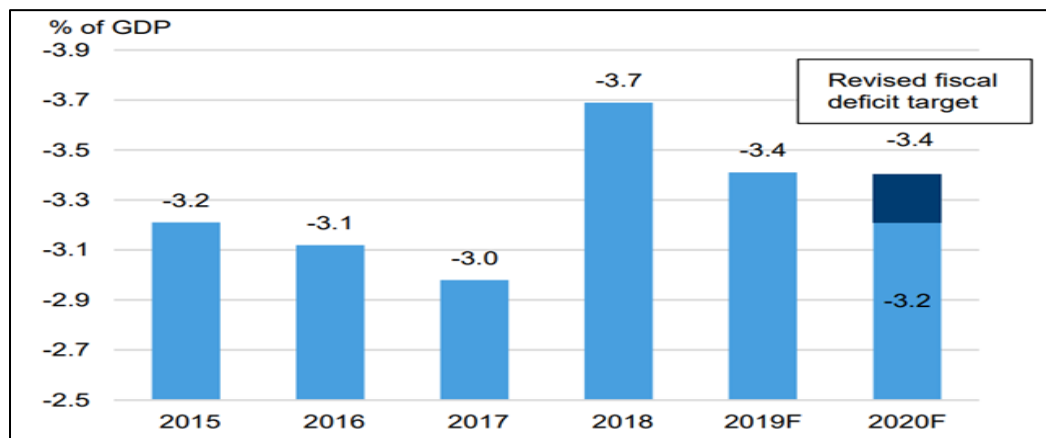


**Graph 1: GDP growth projection for 2020**

**Source:** Central Bank of Malaysia, Ministry of Finance Malaysia

Further, Graph 2 below depicts the fiscal deficit target and fiscal situation of the government, incorporating the modified form of stimulus package revenue and expenditure. The graph shows that for 2020, the government has raised the fiscal deficit to  $-3.4\%$ , which is higher than the previous deficit of  $-3.2\%$  of GDP. The Malaysian government uses economic stimulus packages to maintain the economic growth and stability of the country. These packages enable the

government to make changes by applying direct and indirect taxation based on the performance of the economy. Furthermore, if the whole amount of RM20 billion is injected properly, it will help to balance the demand and supply of the country and also to strengthen the economy. The stimulus packages are given to specific industries that are directly affected by COVID-19, such as hotels, airlines, travel agencies and tourism-dependent retail industry.



**Graph 2: Fiscal deficit target**

Source: Ministry of Finance Malaysia

## MALAYSIAN ECONOMIC STIMULUS PACKAGES

Economic stimulus packages are not new to Malaysia, as the Malaysian government has issued several packages in the past. An economic stimulus package is a type of tax rebate or incentive given by the government to stimulate the country's economy during a crisis. Some well-known economic stimulation packages by the Malaysian government were released during 1997/1998, 2001, and 2020 to mitigate economic losses and revive economic activities. The Malaysian government issued its first economic stimulus package, worth 7 billion, during the fiscal year of 1997/1998 to boost the development of the country. The package was provided to different sectors, such as Dana Pengurusan Harta (RM2.2 billion), infrastructure and public amenities (RM1.5 billion), education (RM1.0 billion), cyber view (RM650 million), agriculture (RM350 million), poverty eradication (RM300 million), health (RM300 million), rural development (RM200

million), housing (RM200 million), and industrial development (RM200 million). The second stimulus package was issued in 2001, amounting to RM3 billion in March and RM4.3 billion in September, to initiate new projects. Other sectors that received the distribution included 200 schools (RM2 billion), four universities (RM1.6 billion), 6,600 housing units (RM1.5 billion), and oil palm and rubber plantations (RM0.6 billion). The third stimulus package was issued in 2020 to mitigate the impacts brought by COVID-19.

As the impacts of COVID-19 continue to be felt in over 210 countries worldwide, disrupting how people live, interact, relate, and conduct their daily business, and also causing unprecedented blows on the economy, the hope of many people is now pegged on how their governments react. In the same vein, Malaysia has also seen huge healthcare and economic losses due to the COVID-19 pandemic (Lee, Jais, & Chan, 2020). Therefore, the Malaysian government has launched its third economic stimulus package to cover the losses, explicitly to: a) sustain confidence and economic activity and (b) preserve economic infrastructure so that economic recovery can be rapidly accompanied by successful control of the virus. This stimulus package was not released at once but divided into different phases and released accordingly. The first phase started from 27 February 2020, and it was announced by the interim Prime Minister Mahathir Mohamad in order to minimise the impact of COVID-19 on the economy and society. The economic stimulus packages released by the Malaysian government during the COVID-19 pandemic are described below.

### **First Economic Stimulus Package**

In response to COVID-19, the first economic stimulus package was released on 27 February 2020, themed “Bolstering Confidence, Stimulating Growth and Protecting Jobs”. This package was intended to control the movement of people by shutting down factories, closing cities, and imposing restrictions on travelling to and from other countries in order to control the spread of COVID-19. Since China is Malaysia’s largest trading partner and the majority of products whether raw material, semi-complete or ready to use products are sourced directly from China, the Malaysian economy was affected by the lockdown and restrictions imposed by the government. Moreover, Malaysia is a tourism-based country and millions of international tourists visit Malaysia every year; the travel restrictions caused the tourism industry to incur huge losses, resulting in economic losses to the country. Therefore, the first economic stimulus package was intended to

help people and the business community as their businesses, such as hotels, shopping centres, travel agencies, and airlines, were closed since the outbreak of COVID-19.

### **Second Economic Stimulus Package**

On 27 March 2020, the Malaysian government announced a second economic stimulus package worth RM230 billion to further address the adverse impact of COVID-19 on businesses and individuals. Of the amount, RM128 billion was allocated for the welfare of Malaysians, RM100 billion was to support their businesses, and the remaining RM2 billion was allocated to support the economy. This pandemic has pushed the nation to explore other avenues for growth and enhance its competitive edge, especially in the digital arena. Approximately 20.5 per cent of the total funding was devoted to supporting the above and improving the heavily affected sectors such as tourism and entertainment, as well as encouraging acquisitions of local goods. The tourism sector and an investment fund were allocated with RM1.8 billion and RM1.2 billion, respectively, for digitisation.

### **Third Economic Stimulus Package**

After the successful implementation of the first and second stimulus packages, the Malaysian government had announced the third package on 6 April 2020 amounting to USD2.3 billion. This package was designed mainly to support SMEs and limit economic retrenchment in the country. Other targets were to fight against COVID-19 and to normalise activities through a partial lifting of the lockdown by utilising USD59.6 billion. Further, RM280 billion (USD63 billion) was to be utilised for alleviating the economic risks arising from the COVID-19 pandemic.

### **Fourth Economic Stimulus Package**

The fourth economic stimulus package, amounting to RM35 billion (USD8.1 billion), was announced by the Malaysian government on 9 June 2020. This package was named “Pelan Jana Semula Ekonomi Negara (PENJANA)” with the core purpose of providing economic support to the business sector. The volume of this package was bigger than previously announced packages, bringing the total value of the country’s stimulus packages to over RM290 billion (USD67 billion). PENJANA was planned to provide some protection in terms of new tax incentives, financial assistance to small and medium-sized businesses (SMEs), and job protection initiatives.

Through PENJANA, RM2.4 billion was planned to be spent on tax relief and remission of late-tax penalties, while an additional RM2 billion was for qualifying SMEs. Further, 27.5% of the overall funding was allocated for large micro-enterprises and SMEs that faced major losses due to COVID-19. It also helped them in entrepreneurship enhancement, digitalisation, and increasing productivity and operational sustainability, thus enabling them to regain customer confidence and productivity enhancement.

### **Fifth Economic Stimulus Package**

On 23 September 2020, the Malaysian government announced the RM10 billion Prihatin Supplementary Initiative Package (Kita Prihatin), in line with the government's effort to boost economic recovery. This additional package includes the RM7 billion Bantuan Prihatin Nasional (BPN) 2.0, Wage Subsidy Programme 2.0 worth RM2.4 billion, and Prihatin Special Grant (GKP) worth RM600 million. The Kita Prihatin package targets four main groups, namely:

- the bottom 40% income group (B40) who are married and single.
- the middle 40% income group (M40) who are married and single.
- local workers in various fields.
- SMEs.

In conclusion, this study provides information on the current COVID-19 situation in Malaysia. It also offers information on the policies and methods used by the government to solve economic and public health issues. Further, this study lays out guidelines for policymakers and government officials for the development of more effective strategies for economic recovery and public health initiatives.

### **CONCLUSION**

Hazards always bring shocks and damages to communities, either directly or indirectly, and these damages can be physical, social, or economic. Similarly, the COVID-19 pandemic has brought economic consequences through direct and indirect losses. A rigorous and continuous social distancing strategy is crucial to slow down and control this pandemic. Similarly, the isolation and strict supervision of COVID-19 patients, which seems daunting in the long run, is mandatory. According to Wilder-Smith, Chiew, and Lee (2020), these are the only vigorous mitigation



strategies that are currently working. This issue is much more than just a medical issue, as it also requires a collaborative effort from “social scientists, epidemiologists, engineering specialists, psychologists and social workers” (Nacoti et al., 2020). Therefore, it is crucial to rethink and redesign the mitigation strategies in order to handle this crisis effectively. Moreover, strict implementation of movement control rule across the board is necessary to get control over the pandemic. Borders should be strictly monitored to prevent illegal movements that can pose a challenge in controlling the pandemic.

To mitigate the damage to the Malaysian economy caused by COVID-19, the Malaysian government has introduced several economic stimulus packages as immediate and intermediate interventions. Under these packages, different grants and subsidies, voucher systems and domestic promotions, drastic repo rate reductions, direct lending, tax waivers and reductions, social security payments, delayed rent and utility payments, loan guarantees, debt moratoriums and other debt repayment arrangements were provided.

The purpose of these stimulus packages is to speed up economic recovery. As per previous investigations by economists, a strong economic policy and its proper implementation are needed for economic recovery. Sometimes, organisations somehow manage to restart their process despite the slow economic activities. In such a situation, without government intervention such as tax subsidy and financial aid, it is challenging for them to keep afloat. In some cases, employees start leaving the organisations at once, creating a revenue shortage that slows down the economy and disturbs the people’s prosperity. However, the above strategies can only work well in the short term and under favourable circumstances, for example, when adaptability and cost issues remain the same throughout the country. Further, people’s willingness to address this issue is also necessary for the success of these strategies. Following the history of pandemics and the nature of COVID-19, which is a mutated virus, the possibility of a similar outbreak occurring in the future cannot be undermined. Therefore, a solid long-term strategy is required to better deal with any pandemic.

This study suggests that despite the commendable effort by the Malaysian government to minimise the impact of COVID-19 on the economy, much more still needs to be done to bring the economy back to the previous level. This study review suggests that government initiatives have worked

well in terms of short-term planning; nevertheless, long-term planning is necessary to obtain the desired results. In this regard, the Malaysian government should take certain steps to transform the economy into new directions, including exploring new growth sectors, increasing productivity, and training the workforce to deal with future challenges. With this, a resilient society should be cultivated to deal with future challenges. Such activities would also help in achieving the Shared Prosperity agenda. Further, an economic stimulus package is a great opportunity to start the process. Therefore, it is crucial to align short-term planning with long-term planning to deal with the impacts of COVID-19 on the economy and to fight the looming recession. Moreover, there is a dire need to redefine the economic system along with its accountability and continuity after COVID-19. This is how the target policies may be computed and weighted against both the short-term and long-term impacts on the economy, both at local and global levels.

Further, COVID-19 has taught an important lesson to every nation that nothing is more important than an effective healthcare system and planning. Malaysia is also taking a step to prepare the country for the future. Besides, COVID-19 has threatened the mental health of Malaysians, especially those working on the front line such as healthcare professionals and law enforcing agencies. Small and medium-sized (SME) businesses are at the verge of closing down, which is a threat to the economy as 98.5% of all business establishments in Malaysia are SMEs. While COVID-19 has caused a global crisis, Malaysia has somehow managed quite well in terms of the disease spread by implementing the Movement Control Order (MCO). Nevertheless, there is still a need to strictly monitor the standard operating procedures (SOPs) to ensure compliance. The importance of social distancing is undeniable, but lockdowns can be detrimental to the national economy. For better results, effective coordination between the government, policymakers, local healthcare workers, and law enforcing agencies is necessary in order to deal with the situation caused by COVID-19 more effectively.

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