Malaysian Institute of Economic Research

PRESS STATEMENT

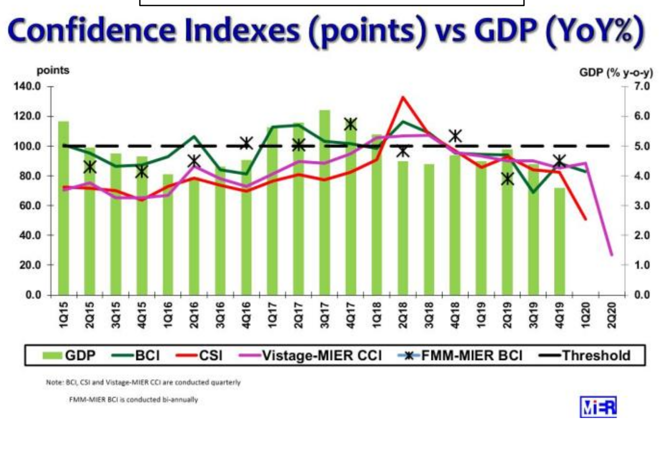
NATIONAL ECONOMIC OUTLOOK 2020-2021

(Released on 23rd April 2020)

MIER is pleased to announce the findings of our outlook on the Malaysian economy for 2020 and 2021.

From its inception MIER has been monitoring market sentiments through three quarterly surveys to produce reports on a Consumer Sentiments Index (CSI), FMM-MIER Business Conditions Survey (1Q2020 survey not analysed yet) and the Vistage-MIER CEO Confidence Survey. These three trends are reproduced in Diagram 1, which are matched against the trend in GDP growth rates, showing market sentiments in the first quarter of 2020 are pointing south.

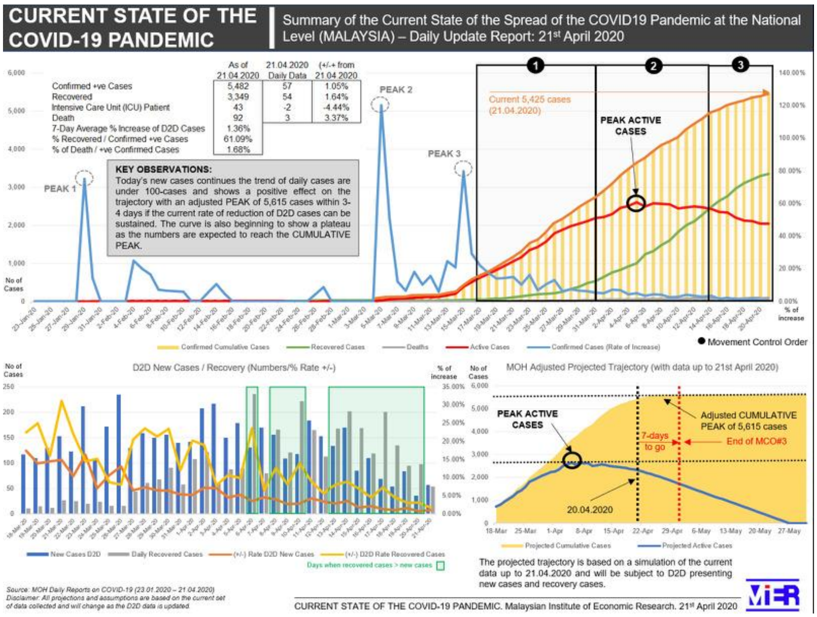
Diagram 1: Market



Our analysis assumes world oil price will linger around USD35 per barrel for the second half of 2020 and remain there for the whole of 2021. A figure for oil price falling between USD20 to USD30 will lead to a drop of

GDP growth rate from the baseline by as much as 1%. The fall in world oil price alone may result in government revenue loss by RM11 billion and consequently private and public consumption fall by as much as RM55 billion.

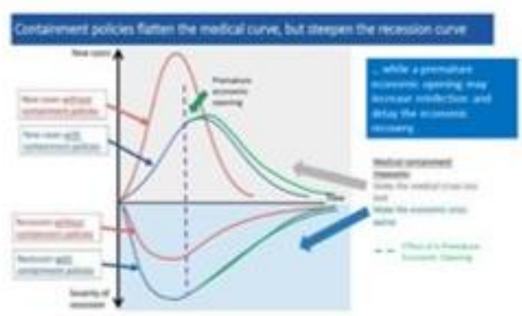
Diagram 2



As to the Covid-19 trajectory, if the current plateauing of new cases are maintained until 28th April, Malaysia may soon reach the peak of the accumulated total cases and presage the beginning of the flattening of the Covid-19 curve, signaling positive results from the MCO lockdown strategy (see Diagram 2). The question for policy makers is when to begin to ease the lockdown restrictions.

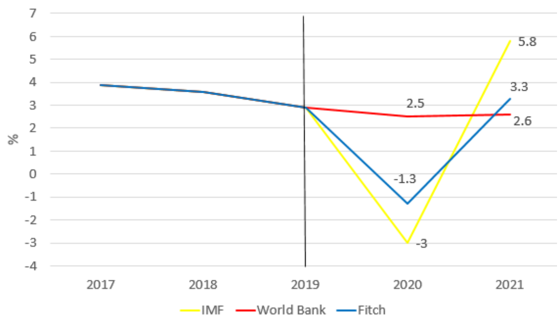
It is known that the longer the containment policy (lockdown) is maintained by the Malaysian government beyond 28th April, the deeper will be the recession in 2020. We had previously estimated that any extension of MCO by two weeks from 14th April could lead to economic contraction by 2% of GDP growth. On the other hand, a premature economic opening (without the strictest of containment protocols), may lead to the risk of reinfectivity (see Diagram 3). This is not an easy trade-off for the government.

Diagram 3: The Tradeoff



We also presume the MCO-3 will be gradually lifted after it ends on April 28th, but with strict measures such as the six requirements stipulated by WHO, the gradual economic opening over the ensuing six months will cushion the recessionary impact that many authorities including the IMF, World Bank and Fitch, to name a few, expect this year (see Diagram 4).

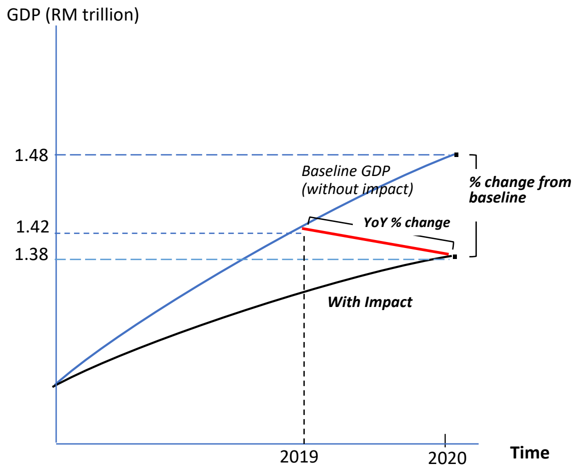
Diagram 4: Global GDP Growth Forecast



Under our Best-Case scenario (most optimistic), we project economic activities including trade and investment to fully rebound by the 3rd quarter of 2020 and further strengthens through 2021.

For the Worst-Case scenario, production and trade may not fully recover (about 96-98% capacity) by the 4th quarter of 2020 and into the first quarter of 2021 as well. For both scenarios, we take into account the Government's PRIHATIN total stimulus package of RM260 billion, with the supposition that only 20% of the non-fiscal injection (RM225b) will be realized into new capital formation across the economy. As the economy plummets under MCO1-3, we further assume a disequilibrium in the Malaysian labor market for 2020 and 2021.

Diagram 5



The interpretation of MIER's CGE modelling results is shown in Diagram 5. Economic impact of the Covid-19 pandemic, or of the Stimulus Package, or what we are currently undertaking the impact of the MIER Crouching Tiger Initiative, may be represented for any year, say 2020, by being calculated as a change from a baseline for that year, or as the change from the previous year, as shown in the diagram.

Under the Best Case scenario, Malaysian real GDP in 2020 is likely to grow by 3.8% relative to 2019 or-0.29% from the 2020 Baseline. This is in line with both Bank Negara and World Bank expectations for Malaysia in 2020. In contrast, under the MIER Worst-Case scenario real GDP is projected to contract by 1% relative to 2019 and-4.9%, relative to 2020 baseline.

For both scenarios, the PRIHATIN stimulus is likely to cushion the decline in GDP by as much as RM50 billion or 3.6% of projected Best-Case scenario GDP in 2020.

Under the Best-Case scenario, the PRIHATIN package and near full recovery is expected to prevent job losses markedly by 1.05 million (from 1.08 million to 28,600 workers). Meanwhile for worst-case scenario, job losses is projected to decline from 2.41 million to 1.46 million (or 955,266 jobs being protected).

For 2021, the Malaysian GDP is projected to grow further by 4.3% and 5.2% for Best-Case and Worst-Case, respectively. In real value terms this is 8.23 % and 4.1% higher, respectively, than the 2019 levels.

With new capital-technology injection and productivity increases, there is scope for a larger GDP growth in 2021 should the Covid-19 pandemic subsides in Malaysia and world-wide, particularly within Malaysia's main trading regions. MIER has in the pipeline through its Crouching Tiger Initiative a number of bankable investment bids on various industries, ranging from food security, 5G technology, electric cars, financial services, manufacturing and physical infrastructure development. To illustrate, we simulated an implementation of food security projects with capex at RM87 billion and 5G technology adoption (RM15 billion capex), coupled with 0.5% increases in technical efficiency among skilled labor and intermediate inputs. Results show Malaysian GDP under Best-Case scenario may rise markedly to 5.38%.

In terms of unemployment, MIER first released its forecasting for the impact of Covid-19 on the labour market with the CGE model on 24th March. If Malaysia's real GDP shrinks about 6.9 per cent relative to the 2020 baseline, the number of job losses (presumably mainly non-salaried jobs) could be 2.4 million, 67% of which are unskilled workers.

MIER updated this forecasting in April by taking into consideration the stimulus package launched by Malaysian government, then the number of job losses becomes 1.46 million under Worst-Case scenario and 28,590 for the Best-Case. Affected jobs are presumably mainly non-salaried and 67% unskilled workers.
