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Covid-19 still the nemesis of economic growth in 2021

KUALA LUMPUR, Dec 8 (Bernama) — It's the same old, same old, 2021 brought mutated challenges, just like in 2020, with Covid-19 dominating headlines, keeping lives and livelihoods on the edge, and putting economic upswing on a bumpy road.

While Malaysia thought it was about to see green shoots of recovery at the end of 2020, the tenacious virus, which emerged from time to time, ranging from the Delta variant to Lambda and the latest — Omicron — suggested the other way round.

<u>The Return of MCOs</u>

In less than two weeks into 2021, the then Prime Minister Tan Sri Muhyiddin Yassin announced fresh nationwide movement restrictions to curb the soaring number of Covid-19 cases after Malaysia recorded 2,232 new cases and four deaths on that day, bringing the total number of cases to 138,224 and 555 deaths since the beginning of the pandemic last year.

The movement restrictions, dubbed as the movement control order (MCO) 2.0, was re-introduced in Melaka, Johor, Penang, Selangor, Sabah and the federal territories of Kuala Lumpur, Putrajaya, and Labuan from January 13 to 26, 2021.

The MCO 2.0 came with movement curbs between states and districts; limiting travel 10 km away from one's home and only five essential economic sectors — manufacturing, construction, services (including supermarkets, banks and health services), trade and distribution and plantations — were allowed to operate, had once again, sent a fresh jolt to the economy.

With daily cases exceeding 4,000 cases, 37,396 active cases and 1,700 fatalities reported as at May 10, Malaysia was facing the third wave of the pandemic, and the then prime minister announced on May 10 that the country had to enforce nationwide restrictions known as the MCO 3.0 from May 12 to June 7, 2021.

Subsequently, a 14-day total lockdown was implemented beginning June 1 and extended for another two weeks until June 28, as daily new cases were still averaging over 5,000.

To nurse the wounded economy, Muhyiddin on June 15, unveiled a four-phase National Recovery Plan (NRP), which aimed to bring life back to normal by the end of this year.

The NRP is a four-phase exit strategy from the Covid-19 crisis and transition of the MCO phases in stages.

On August 15, the government started to ease the restrictions and allowed more business sectors to resume operations under Phase One of the NRP, applicable for those who have been fully-vaccinated.

<u>GDP Continued to be Ravaged by MCOs</u>

No thanks to the on-and-off MCOs being carried out throughout the first three quarters of the year, the economic effect was reflected in gross domestic product (GDP) which contracted 0.5 per cent year-on-year (y-o-y) in the first quarter of 2021 (Q1 2021) from 0.7 per cent y-o-y growth in Q1 2020.

According to the **Department of Statistics Malaysia (DoSM)**, the Q2 2021 GDP grew 16.1 per cent y-o-y, attributable to the low base recorded in Q2 2020 (-17.1 per cent y-o-y).

As for Q3 2021, the country's economy contracted 4.5 per cent y-o-y compared with a decline of 2.6 per cent y-o-y due to the reimposition of the nationwide containment measures during the period.

Although the contraction and impact of the MCOs in 2021 was not as severe as the second quarter of 2020, which saw the country's GDP plunged 17.1 per cent, it nevertheless forced the authorities to adjust the economic growth forecast.

Banking on vaccination rollouts, Bank Negara Malaysia (BNM) had initially predicted a growth of 6.0-7.5 per cent for 2021, but in August, it was revised to between 3.0-4.0 per cent for the year.

BNM governor Datuk Nor Shamsiah Yunus had said the revision in the annual growth forecast was made after taking into account the reimposition of nationwide containment measures.

She said the 3.0-4.0 per cent growth target was achievable as containment measures were progressively relaxed and economic activity would subsequently pick up.

In terms of inflation, BNM had in November, assured that the country would not face stagflation despite rising global inflation.

According to the central bank, Malaysia's headline inflation averaged 2.3 per cent as at November 12 and was projected to average between 2.0 per cent and 3.0 per cent for 2021, while underlying inflation, as measured by core inflation, is expected to average below 1.0 per cent for the year.

The BNM has been maintaining the Overnight Policy Rate (OPR) at 1.75 per cent since July 7, 2020, and Moody's Analytics expects the benchmark interest rate to remain unchanged before the central bank pulls the trigger on a rate hike in the second half of 2022, as Malaysia's economic outlook is looking brighter going into the new year.

Meanwhile, Malaysia saw its trade set another record high of RM202.6 billon, or up 26.5 per cent, y-o-y in October, breaching the RM200 billion mark for the first time.

The DOSM data showed October's exports surged 25.5 per cent y-o-y to RM114.4 billion, imports increased 27.9 per cent y-o-y to RM88.2 billion while trade surplus rose 17.9 per cent y-o-y to RM26.3 billion.

Year-to-October exports grew 25 per cent y-o-y to RM1 trillion, the fastest growth since 1998, according to Ambank Research.

As for foreign direct investment (FDI), the DOSM data show Malaysia continued to record an inflow of RM12.8 billion in Q3 2021 from RM8.2 billion in Q2 2021, while direct investment abroad (DIA) turned around to a net inflow of RM4.7 billion from a net outflow of RM4.0 billion in the previous quarter.

Stimulus Packages , 12MP to Spur Post-pandemic Growth

Winding back the clock to early 2021, the government introduced four stimulus packages totalling RM225 billion, with a fiscal injection of RM25 billion, in a bid to continue assisting the people and businesses to get through the financial difficulties affected by the extended MCOs.

The four stimulus packages were namely, the RM15 billion Malaysian Economic and Rakyat Protection Assistance Package (Permail), the RM20 billion Strategic Programme to Empower the People and Economy (Pemerkasa), the RM40 billion Strategic Programme to Empower the People and Economy Plus (Pemerkasa Plus), and the RM150 billion National People's Well-Being and Economic Recovery Package (Pemulih).

Meanwhile, 2021 also marks the first year of the 12th Malaysia Plan (12MP) 2021-2025, of which RM400 billion is allocated under the five-year national roadmap, an increase of 61 per cent compared to the actual expenditure of RM248.5 billion for the 11th MP.

Unveiled by Prime Minister Datuk Seri Ismail Sabri Yaakob on September 27, the 12MP comes with three themes, four catalytic policy enablers and 14 game changers to provide a strong foundation for Malaysia's future.

Ismail Sabri, who is also UMNO vice-president, was appointed as Malaysia's ninth Prime Minister on August 20 to replace Bersatu president Muhyiddin who resigned on August 16 after losing the majority support in Parliament.

On August 27, Ismail Sabri announced the list of his 'results-oriented' Cabinet line-up involving 31 ministers, including 13 experienced ministers under the previous government that included Senior Minister cum International Trade and Industry Minister Datuk Seri Mohamed Azmin Ali, Minister in the Prime Minister's Department (Economy) Mustapa Mohamed, and Finance Minister Tengku Zafrul Tengku Abdul Aziz.

Debt Ceiling, Budget 2022 to Boost Recovery

As Malaysia continues to face an unabated wave of Covid-19, the Dewan Rakyat, had on October 11, approved the motion to increase the statutory debt limit to 65 per cent of GDP from 60 per cent previously.

Tengku Zafrul, who tabled two Bills, namely the National Trust Fund (Amendment) 2021 Bill and the Temporary Measures for Government Financing [Coronavirus Disease 2019 (Covid-19)] (Amendment) Bill 2021 in October, said the first motion was aimed to fund the four aid and stimulus packages — Permai, Pemerkasa, Pemerkasa Plus and Pemulih — which required an additional allocation of RM27 billion.

He said the second one was to increase the ceiling cap for the Covid-19 Fund (KWC-19) from RM65 billion to RM110 billion.

Tengku Zafrul was reported as saying in July that Malaysia's fiscal deficit was expected to go up to between 6.5 and 7.0 per cent of GDP in 2021 from the 6.0 per cent targeted earlier, after factoring in the recent stimulus packages announced by the government.

To pull Malaysia out of the economic doldrums, the country, had on October 29, unveiled the largest ever Budget 2022 of RM332.10 billion, surpassing Budget 2021 of RM322.54 billion, the bulk of which is channelled into healthcare and education.

Under Budget 2022, a one-off Cukai Makmur (Prosperity Tax) was introduced in which companies with earnings above the RM100 million mark for the year of assessment 2022 would be taxed at a rate of 33 per cent, instead of the blanket 24 per cent rate previously.

Foreign sourced income received in Malaysia would also be taxed beginning Jan 1, 2022 under the budget.

On Budget 2022's impact on the sovereign ratings, Maybank Kim Eng fixed income research head Winson Phoon expects Fitch to keep its BBB+/Stable outlook and Moody's to maintain its A3/Stable outlook on Malaysia. But the only risk is S&P, which has a A-/Negative outlook on Malaysia.

"The key question is whether Malaysia's medium-term fiscal consolidation is sufficiently big or fast enough to avoid a rating downgrade, which I think is going to be a close call," he said this in a webinar on November 3.

<u>Omicron — the Uninvited Visitor</u>
When Malaysia was striving to restore its economic growth, the unexpected emergence of the new B.1.1.529 variant, or better known as Omicron, paved another speed bump along the recovery road.

On November 30, Senior Defence Minister Datuk Seri Hishammuddin Tun Hussein announced that Malaysia had to put on hold its transition to the endemic phase of Covid-19 due to uncertainties brought about by the Omicron variant.

However, Ambank Research continued to keep its 2021 full-year GDP growth projection at about 3.5 per cent, with the upside of 4.0 per cent in the best case scenario.

"Looking ahead, the improvement in the manufacturing sector will remain underpinned by the reopening of economies, highly performing electric & electronics, glove-maker, petroleum and chemicals subgroup, robust external demand, and elevated commodity prices.

"We are still on the lookout for factors that pose significant threat to the recovery progress, which if materialise, could pull the economy back to recession," the research house chief economist and head of research Dr Anthony Dass and economist Muhamad Farid Anas Johari said in a note recently.

The Ministry of Finance expects the GDP to expand between 3.0 and 4.0 per cent in 2021 and between 5.5 and 6.5 per cent in 2022, supported by a significant improvement in global trade, stabilised commodity prices, containment of the pandemic, and gradual improvement in consumer and business sentiments.

It said after considering revenue growth and expenditure requirement, the fiscal deficit is expected to moderate to 6.0 per cent of GDP in 2022.

— Bernama

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