Covid fallout may call for bolder measures

The government has been doing a great deal to combat the pandemic and its effects, economic and social.

According to Asian Development Bank figures, Malaysia's Covid-19 packages amount to 44% of GDP, far exceeding similar expenditure by Singapore (30%), Thailand (21%) or Indonesia (11%).

These figures have to be read carefully, taking into account the size of the different countries, the extent of infectivity and their population sizes.

Quite clearly, Singapore, for its small geographical area and population, is spending a considerable amount.

Criticism of Malaysia's effort has been quick, scathing, and not at all times fully warranted. It has been said that Malaysia is "not doing enough".

If "doing enough" is measured against what the advanced countries have been doing, then we have not. Japan, as of December 2020, had spent the monetary equivalent of 67% of GDP on packages to handle Covid-19, while Germany (55%) and Finland (54%) have been generous, too.

But these are not fair comparisons. Malaysia is not a developed economy and it does not have the kind of fiscal space that some of these countries have. There are bound to be limits to what Malaysia can do and has done.

A question of effectiveness

Malaysia appears to have done all the right things in providing the required assistance, and fares well, in terms of its level of development relative to many countries in the region, in its handling of the economic dimension.

The government's resolve in this respect may not have been adequately highlighted amidst the political noise.

An important question comes up: how effective were the measures and did they reach their target groups to the extent intended?

As we ponder, other questions may arise. The increasing number of people tested positive for Covid-19 has been rising dramatically and so have the deaths, although the numbers will surely fall as the rate of vaccination increases.

But could the health crises have been avoided? Could the deaths, the numbers hospitalised in ICUs have been smaller? What if the Covid numbers remain what they are? Or if they rise, what then?

Dampening the doubts

These scenarios have to be confronted and corresponding solutions proposed as part of the country's scenario planning exercise.

The doubt and anxiety that are in circulation have to be countered objectively. A robust economy cannot be built on flagging expectations.

A survey conducted by the Department of Statistics Malaysia, involving more than 4,000 companies, 83% of which are small or micro-sized, has revealed that 68% of the companies had no sales or revenue during the movement control order (MCO). It also found that 53% would be able to survive for only 1-2 months if they give their employees full-time or half paid leave.

Two surveys were conducted by the entrepreneur development and cooperatives ministry. These surveys reveal that 90% of micro, small, medium and informal enterprises would be risking business closure if the MCO continues to be imposed. The micro-enterprises and informal enterprises are at greater risk of closure.

Don't fiddle with tax system

Closures and the loss of jobs will require greater support from the government. This will place demands on the government's ability to raise debt, especially since tax revenue will be declining. At a time like this, it may not be appropriate to reconfigure the tax system.

The prevailing uncertainty may make it difficult, for instance, to make a return to the GST. This may also not be the right time to introduce other taxes.

There are estimates that seem to indicate that the Covid-19 numbers may fall at a faster rate in mid-September. But that will not be the dawn of bright things because the non-performing loans will only come to be recognised after the loan moratorium period is over, perhaps running into 2022.

Rating agencies may take a firm view of Malaysia's fiscal position. Fitch, for example, forecasts that debt may reach 78% of GDP in 2021, although that may be based on a more pessimistic scenario. Policymakers may, understandably, feel some reluctance in facing a downgrade since that will raise the cost of borrowing.

A season for innovative thinking

There is possibly no option aside from providing support till the numbers decline. It will also be necessary to help companies get on their feet as the Covid situation approaches normalisation. Again, this will require government expenditure and a willingness to raise debt.

It may be useful to use other instruments to support fiscal policies. A less stringent view can be taken on the requirements for collateral. Loan assessments can be made more flexible, taking into account post-pandemic recovery plans. That aside, the threshold for bankruptcy can be lowered.

This will be the season for innovative thinking on fiscal policy measures. Doubtlessly, there are many challenges. The government has displayed a firm commitment to relieve the rakyat of their difficulties, but bolder measures may be necessary.

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