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The Measures to Overcome the Impact of Covid-19 On Malaysia Economy

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ABSTRACT

The outbreak of Novel Coronavirus infection (COVID-19) has enormous economic consequences. It happened in the Wuhan city of China and rapidly spread across the world. Malaysia has suffered enormous economic losses. Extended lockdowns, flight disruptions and other measures taken to contain the infection, and releasing stimulus packages have caused considerable downturn in the economic growth. A genesis of the pandemic origin and transmission is necessary not only to mitigate the prevailing situation but also preventing a repeat of such an event in the future. The coronavirus outbreak is a wake-up call for insulating the society and economy, especially the most vulnerable sectors. Although the outbreak happened in December 2019, it continues to inflict health hazards and economic meltdown. The local bourse has plunged and the losses in the capital markets will have a significant impact on the psychographics of the general populace. As this phenomenon escalates, the financial structure of banks and firms would be rendered unstable, and the impact of this was a severe contraction in the economy and a high unemployment rate, also vulnerability of the tourism sector to pandemics is due to obvious reasons; people avoid visiting places in the grip of pandemic and tourism destinations close their doors to arrivals from the virus-affected countries. There is a need for international mechanisms for regulating the factors that lead to origin of the pandemic and applying available means for containing it should that happen. This paper highlights the causes of the pandemic to effectively link its consequences for Malaysia economic while also discussing the need to support its revival. An important measure emphasized in in this paper as a revival strategy is building resilience in the natural capital. This systems approach is necessary in dealing with the post-COVID-19 scenario and in better preparedness for any future economic hazards.

Keywords: COVID-19, Malaysia economy

1. Introduction

The acute respiratory outbreaks crisis or known as Novel Coronavirus (Covid-19) has affecting billion of people and spread worldwide to more than 200 countries, including Europe, America, Middle East, and Asia (WHO, 2020). However, every now and then a catastrophic outbreak does happen, and not many have reached the level of seriousness as the Novel Coronavirus COVID-19. What started as a viral flu outbreak, has now become a global pandemic. Not only are people suffering from this tragedy also the negative impacts have been executed to the global economy, industries, corporations. Meanwhile, Congressional Research Service (2020) reported that as of March 2020, the crisis had trimmed the global economic growth by 0.5 percent to 1.5 percent. Causing a severe economic impact on the global supply chain, bankruptcies, plummeting stock markets, and unemployment. Overall, it is destroying the world’s economies one of them being Malaysia’s economy. After undertaking, extensive research, here is my opinion of how Malaysia's economy is being terribly affected in terms of its multiple key sectors, exchange rate, stock market, and the actions undertaken by the government to minimize economic losses.

There are a variety of Malaysia’s key sectors are now in distress due to COVID-19. Some of these sectors include Malaysia’s manufacturing sector which, aside from getting hit with material disruptions due to the MCO, is facing a crisis in the manufacturing of commodities such as oil and gas by the global crude oil crisis which has caused oil prices to plummet this year.

Another sector is tourism which is expected to be hit the hardest. Travelers will be forced to postpone their trips and cancel hotel bookings as well as flight plans, which is a huge loss for Malaysia since it was ranked the 3rd most popular Asian travel destination in 2018. Therefore, this will lower the Gross Domestic Product (GDP) as fewer goods and services can be produced in the country. Additionally, the increase in unemployment due to the retrenchment of employees by some companies will reduce the net income and thus, GDP as well.

COVID-19 will also have a huge impact on the value of ringgit in Malaysia as a result of investors who are panic selling to avoid trading in the current volatile market. The fall of tourism in Malaysia and the decline in global crude oil prices will reduce the demand for ringgit, causing its value to drop. As for Malaysia’s stock exchange, Bursa Malaysia had sunk to its lowest in the last 10 years, falling by a staggering 20.52% since the start of 2020, as of March 27, 2020. This is mostly due to panic sellers selling their shares in fear of the rising volatility stock markets will face due to the pandemic. Airline stocks in particular, which are part of the tourism sector, have been hit hard with AirAsia falling by around 63% and Malaysia airlines by around 39% as of March 27, 2020.

2. The impact of COVID-19 on the Malaysia economy

Malaysia economic has been adversely affected by COVID-19 and the subsequent mobility restrictions implemented to flatten the curve of the pandemic. The health and human toll of the crisis on Malaysia has been severe, with 35,425 confirmed cases and 271 deaths as of November 4, 2020, and Malaysia suffering from economic hardship and diminished prospects. Nevertheless, Malaysia has performed better in mitigating the impacts of the crisis than many other countries, due to the government’s swift action in implementing mobility restrictions and other measures.

While the government's handling of the health crisis was rather impressive when compared with that of other countries, the economic response was quite weak in comparison. The government spent too little too late, and the impact of this was a severe contraction in the economy and a high unemployment rate—worse than the height of the 1997–98 Asian financial and the 2008–09 global financial crisis. Despite spending nearly RM 45 billion in direct fiscal stimulus, the unemployment rate jumped from 3.3 percent in 2019 to 5.5 percent in May and further increased to 4.9 percent in June 2020, which is the worst in 30 years. The economic contraction of 17 percent in 2020:Q2 was the steepest the country has ever experienced. The lockdown and the accompanying economic shock were estimated to cost the country RM 2.4 billion a day, with the cumulative loss of RM 63 billion as of 1 May 2020. The pandemic hit the Malaysian economy quite badly, even in Q1 where GDP growth in Q1 grew marginally at 0.7 percent. Although the lockdown only started in the last two weeks of March, all sectors registered contractions, except services (+3.1 percent) and manufacturing (+1.5 percent). The severe impact of the crisis was visible in the second quarter, when the economy contracted at a record −17.1 percent, with all sectors shrinking with the exception of plantations, due to the higher volume of palm oil exports.

The tourism sector, which contributed about 15.2 percent to GDP in 2018, was the biggest loser (DOSM 2019), with a total loss of around RM 45 billion in the first half of 2020 (Bernama 2020c). (2020) suggested that the impact of COVID-19 is high at the macro (policy and government), mess (organisational), and micro (employees) (Hamawandy et al., 2021).
Construction sectors also got hit badly, with the biggest contraction in output as construction sites nationwide were forced to close. This sector contracted by 7.9 percent in 2020:Q1 and −44.5 percent in 2020:Q2 (DOSM 2020a).

The closure of businesses as well as the economic uncertainty have resulted in the sharp decline of consumer spending as well as net investments. Malaysia's economy, driven by private consumption, contracted. Because of the fall in spending—mainly in restaurants and hotels, recreational services and culture, and transport—private consumption declined by 18.5 percent in Q2, from a growth of 6.7 percent in Q1 (DOSM 2020a). The net investment or gross fixed capital formation also declined by −28.9 percent (Q2) from −4.6 percent (Q1).

Firms faced challenging times. In March, the Small and Medium Enterprises (SME) Association reported that about 82 percent of SMEs predicted a deficit for 2020 (Annuar 2020). A survey by the Department of Statistics Malaysia in April revealed that more than two in three companies in Malaysia reported having zero revenue during the MCO period and many firms will have to retrench or give unpaid leave to their employees as more than one in two (54.3 percent) companies can survive for only one to two months if they provide full/half paid leave to their staff (DOSM 2020b). The loss of income by businesses, especially the SMEs, translated to higher unemployment rates. Data from the Department of Statistics Malaysia revealed the severity of the MCO on jobs, whereby the unemployment rate in March jumped to 3.9 percent, which is the highest recorded in ten years (Chung 2020).

The unemployment rate jumped again in May, at 5.3 percent—which is the highest ever in the last 30 years. It improved in June at 4.9 percent, but this figure remains the highest in three decades. Youth unemployment, which was at 11 percent as of the end of last year, increased to 13.1 percent in June due to the weakening of the labor market. Underemployment, which is equally a challenge, also spiked (Cheng 2020).

The nation was confronted with a serious catastrophe brought about by the unadulterated commotion would be, to determine if conventional macroeconomics strategies would have a strategic fit with the economy. With regards to the Malaysian experience, COVID19 exhibited negative macroeconomic impacts, however this case is subjective, as this position places accentuation on institutional reforms and transformation with regards to legal aspects, principles, procedures and the institutions that oversees the economy. Controls are the fundamental mechanism towards organizational efficiency.

The local bourse has plunged and the losses in the capital markets will have a significant impact on the psychographics of the general populace. As this phenomenon escalates, the financial structure of banks and firms would be rendered unstable. The weak stock exchange will have a domino effect on the economy, leading to high unemployment and compounding occupational conditions. This preceding effect would have a reciprocal effect on government revenues and stifle capital injections towards marginalized communities. Among effects of COVID-19 on;

2.1 Diminishing demand

On a rudimentary level, the pandemic will have genuine ramifications on financial matters and trigger an international crisis that would debilitate global development. As a result, income discrepancies in developing markets, particularly in Malaysia, would diminish foreign capital inflows. The diminishing demand in the developed nations will have an acute impact on the Malaysian economy, leading to a recession. Economies that rely on primary industries will be defenseless against global competitive and comparative onslaughts.

It can likewise be seen that there are a formal and causal connections between government, financial institutions, businesses and individuals, which are essential in driving the economy forward. With these strong connections, it will be simpler to support a more open monetary framework that would empower global capital streams. Then again, this will potentially result in higher debts as it empowers government officials to engage financially with specific firms. Firms with more grounded political associations would benefit from this condition, which diminishes governments' procedural and distributive justice towards the fair provision of resources. This leads to unstable and negative macroeconomic results.

2.2 Operational efficiency

Firms with higher financial obligations would normally perform poorly as opposed to firms with a better financial standing. In any case, the politically associated firms have an advantage to influence the market. Furthermore, operational efficiency is vital for firms towards leveraging investments, expansion and productivity. In any case, it is difficult to separate the degree to which corporations would lose its competitive advantage. Financial and corporate reforms could provide a significant leveraging effect for the market.

This crisis could vigorously affect specific segments of the industry and recuperation would significantly diminish market confidence. The burden of this crisis would be significantly felt in the dining and hospitality industry, due to fears of cross contamination. The aviation industry has also been significantly affected due to strict immigration measures. The industry is projected to lose RM13 billion this year. The GDP of numerous nations particularly Malaysia which relies heavily upon the tourism industry would have a significant impact. Other than these, the entertainment, recreation, wellness and oil and gas related industries (upstream and downstream) which are significant growth drivers, will be also negatively impacted. Malaysia has been downgraded by Fitch Ratings from ‘A-‘to ‘BBB+’ with a stable outlook amidst the impact of the Covid-19 crisis that has weakened Malaysia’s key credit metrics. The domestic spread of the coronavirus, combined with weak investment and low tourism receipts have reduced economic activity. This would result in government’s debt to jump from 65.2 .

3. Measures to overcome the economic downturn due to COVID-19

In Malaysia, the massive and ongoing outbreaks of this virus have become a serious threat with profound consequences for the economy and financial markets as a whole. The financial market is predicted to collapse, with the chance of a new global recession (Majid, 2020). The sudden enforcement of the MCO by the government put various sectors of the economy in jeopardy. According to AmBank Group chief economist Anthony Dess, direct damage caused by the virus can be seen in the tourism and travel industries, manufacturing, construction, mining, and agriculture, with many workers being laid off and others being placed on unpaid leave (Murugiah, 2020).

The Prime Minister of Malaysia Tan Seri Muhyiddin Yassin has particularly stated that the nation's tourism industry has been crippled, with an estimated loss of RM 3.37 billion in the first 2 months of the year (Dzulkifly, 2020). The forced closure of small businesses, mainly the small and medium-sized enterprises (SMEs) and services, could probably lead to permanent shutdowns and many losing their jobs, as well as individuals going bankrupt (Cheng, 2020). The impact of COVID-19 on the world economy as a whole has been devastating. According to The Organization for Economic Co-operation and Development (OECD), the COVID-19 pandemic has led to social distress around the world, as well as huge economic disruption (OECD, 2020). The massive spread of the virus has affected the stock markets, and the enforcement of the MCO, lockdown, and travel restrictions have significantly disrupted business activities in various sectors, affecting people's income and causing economic chaos in the country. To minimize the economic impact of this pandemic, Malaysia has taken several actions to recover the economy. Initially, at the end of February 2020, the former Prime Minister of Malaysia, Tun Dr. Mahathir Mohamad announced a RM 20.0 billion financial stimulus package intended to mitigate the impact of COVID-19 based on three major strategies, namely (1) lessen the effect of COVID-19, (2) people-based economic growth, and (3) encourage quality investments (The Star, 2020d).

3.1 Lessen the effect of COVID-19

This strategy aimed to stimulate the travel industry, easing cash flow and providing support to affected individuals. Among the approaches by the-then government was to ease the financial burden of the hospitality industry, giving discounts amounting to 15% off electricity bills for travel companies, airlines, hotels, shopping malls, and exhibition and convention centers, a 6% service tax exemption for hotels from March to August 2020, Human Resource Development Fund (HRDF) levies exemption for hotels and companies engaged in travel, reorganizing of monthly payments of income tax for the vacation industry and rental premises, landing and parking rebates by Malaysia Airport Holdings Berhad (MAHB), and giving RM 600 one-off payments to taxi drivers, tourist bus drivers, tourist guides, and registered trishaw drivers. As a form of gratitude and appreciation, frontliners are entitled to monthly critical allowances, for instance RM 400 for medical staff and RM 200 paid monthly to immigration and other related frontliners, to be paid until this contagion ends.

3.2 People-based economy growth

Through this strategy, the minimum contribution to the Employment Provident Fund (EPF) was reduced from 11% to 7% effective from April 1, 2020 until December 31, 2020. In addition, an extra RM 100 has been paid to all the Household Living Aid recipients and RM 50 will be given in the form of e-cash. In brief, Household Living Aid is aid given by the Malaysian government to certain categories of receivers who qualify according to a set of criteria that was announced by the government. Furthermore, an allocation of RM 40 million has been provided to SMEs involved in food production and agriculture, RM 1000 grants have been allocated to 10,000 e-commerce entrepreneurs, and RM 20 million has been given to Malaysian Digital Economy Corporation so that rural internet centers (Pusat Internet Desa) can be transformed into e-commerce hubs. Apart from this, the strategy has also focused on reducing the cost of living and improving infrastructure, specifically in rural areas.

3.3 Encouraging quality investments

This strategy involves the exemption of import duty and sales tax for 3 years for the purchase of machinery and equipment (imported and local) for port operations starting from April 1, 2020. Bank Negara Malaysia (BNM) is offering a SME Automation and Digitalization Facility of RM 300 million with an interest cost of 3.75%. Another initiative under this strategy is to encourage private investment and partnerships between the public and private sectors. For instance, the Ministry of Energy, Science, Technology, Environment and Climate Change will open bids for a 1400 MW solar power generator in 2020. After the recent change in Malaysian government, an Economic Action Council was established to address various economic issues (Bernama, 2020f). This council has revisited and revised the stimulus package announced by the previous Prime Minister, Tun Dr. Mahathir Mohamed, announcing several initiatives aimed mainly at easing the monetary problems due to rising cases of COVID-19 and the implementation of the MCO by the government. Among the major initiatives announced are the following (Bernama, 2020g):

- RM 500 monthly withdrawal from the Employees Provident Fund is allowed for members aged 55 years for 12 months beginning April 1, 2020;
- RM 130 million allocation for all of the 13 state governments to tackle issues related to COVID-19, such as providing assistance to small business owners and hawkers, helping COVID-19 patients and families, as well as front liners
- The National Higher Education Fund (PTPTN) loan repayment will be postponed until September 30, 2020;
- RM 600 million allocation for the MoH.

Additionally, BNM has also taken some drastic measures to reduce the financial impact caused by COVID-19 jointly with the government. On March 24, 2020, BNM offered a moratorium or postponement of payment for all bank loans except for credit card debts. According to the Deputy

Governor of BNM, Jessica Chew, the initiative was taken by considering the financial constraints of borrowers (Annuar, 2020).

Table 1: The PRIHATIN Rakyat Economic Stimulus Package (PRIHATIN Package).

PRIHATIN Package	Beneficiary
RM 1 billion fund allocation to the Ministry of Health for medical equipment purchases and to pay for services, in addition to RM 500 million announced earlier.	Ministry of Health
RM 600 allowance for healthcare personnel and RM 200 allowance to frontliners such as police, immigration, and customs personnel.	Healthcare personnel and frontliners such as police, immigration, and customs personnel
RM 10 billion allocation to fund B40 and M40 families under the National Caring Aid (Bantuan Prihatin Nasional), including: • RM 1600 one-off payment to 4 million households earning below RM 4000; • RM 1000 one-off payment to 1.1 million households earning between RM 4001 and RM 8000; • RM 800 one-off payment for unmarried persons aged ≥21 years earning less than RM 2000; • RM 500 one-off payment for 4000 singles aged ≥21 years earning between RM 2000 and RM 4000.	Malaysian citizens
15–50% electricity bill discount beginning on April 1, 2020 for 6 months.	
Free internet from all telcos from April 1, 2020 until the end of the MCO.	
People Housing Projects (PPR) and public housing residents are exempted from paying rent for 6 months.	
The government allows pre-retirement withdrawal from the Private Retirement Scheme (PRS) of up to RM 1500 without tax penalties.	
Wage subsidy program for workers who earn RM 4000 or less for 3 months.	
RM 500 one-off payment for civil servants including contract staff (grade 56 and lower).	Civil servants
RM 200 one-off payment for all students at higher learning institutions.	Students at higher learning institutions
RM 500 one-off payment for e-hailing drivers.	E-hailing drivers
RM 250 one-off payment for government pensioners.	Government pensioners
Buildings belonging to the government, such as convenience stores, day-care centres, and school canteens will be exempted from rental payment.	Business owners
RM 25 million allocation in collaboration with NGOs to provide food and shelter for senior citizens, Orang Asli, and the disabled.	Senior citizens, Orang Asli, and individuals with disabilities
National Health Protection Scheme (MySalam) and COVID-19 quarantine patients are entitled to receive RM 50 per day for 14 days.	COVID-19 patients
An allocation of RM 400 million to upgrade the broadband network.	Telco companies
Cleaning and catering contract workers at schools, public universities and training institutions, and government agencies will be paid a salary and their terms of service will be extended for another month by taking into account the MCO period.	Contract workers (cleaning and food services)
Insurance and takaful sectors will provide a special RM 8 million fund to bolster COVID-19 testing. Each policyholder can go for a screening test worth up to RM 300 in private hospitals and laboratories.	Insurance policy holders
TEKUN National, an agency under the Ministry of Entrepreneurial and Cooperative Development and People's Trust Council (MARA), an agency under the Rural Development Ministry, along with other government agencies, will offer a moratorium to small and medium-sized enterprises beginning April 1, 2020.	Small and medium-sized enterprises (SMEs)
Similar to PTPTN loan repayment deferment, the repayment of the Skills Development Fund Corporation (PTPK) loan is also extended from April 1, 2020 to September 30, 2020.	PTPK loan holders
RM 1 billion allocation for the Food Security Fund.	Food security fund

RM, Malaysian ringgit; MCO, Movement Control Order; NGO, non-governmental organization; PTPTN, National Higher Education Fund.

On March 27, 2020, the Prime Minister Tan Sri Muhyiddin Yassin announced a new package as part of continuous efforts to reduce the effects of COVID-19. This package is worth RM 250 billion and has been designed to safeguard the people's welfare, support businesses including SMEs, and strengthen the economy (Yassin, 2020). The PRIHATIN Rakyat Economic Stimulus Package (PRIHATIN Package) is an addition to two economic stimulus packages announced earlier, as mentioned above. Table 3 lists the support and assistance announced under PRIHATIN.

4. Growth expansion in all economic sectors

All economic sectors are projected to record positive growth in 2021. The improving growth trajectory will be supported by stronger external demand, especially in digital products and services as the world continues to adapt to the "new normal". In addition, the gradual resumption in economic activities as businesses adapt to the COVID-19 Standard Operating Procedures (SOPs), and nationwide vaccinations are also expected to provide broad impetus to growth. Nonetheless, the pace of recovery across industries will vary depending on its exposure to the COVID-19 outbreak and operational restrictions arising from the containment measures.

Most industries are only expected to record positive growth beginning second quarter of the year given the imposition of MCO 2.0 in the first quarter.

Table 2: Real GDP by kind of economic activity

	2020*p*	2020*p*	2021*f*	2020*p*	2021*f*
	% of GDP	Annual change (%)		Contribution to growth (ppt)1	
Services	57.7	-5.5	6.6	-3.2	3.8
Manufacturing	23.0	-2.6	8.8	-0.6	2.0
Mining and quarrying	6.8	-10.0	3.1	-0.7	0.2
Agriculture	7.4	-2.2	4.2	-0.2	0.3
Construction	4.0	-19.4	13.4	-o.9	0.5
Real Gross Domestic Product (GDP)	**100.01**	**-5.6**	**6,0 ~ 7.5**	**-5.6**	**6.0 ~ 7.5**

'Table 2 may not necessarily add up due to rounding and exclusion of import duties component
p Preliminary, *f* Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The *services* sector is expected to register a growth recovery in 2021. The information and communication, as well as finance and insurance sub-sectors are poised to lead the recovery as demand for digital solutions, especially in e-commerce and e-payment continues to accelerate. Nonetheless, the re-imposition of the MCO 2.0 in the early part of the year will weigh on activities in the wholesale and retail sub-sector. Additionally, the closure of Malaysia's international borders will continue to affect tourism-related industries (e.g. food and beverage, accommodation and air travel). The *manufacturing* sector is expected to record robust growth as the COVID-19 pandemic accelerates the structural shifts towards digitalization, spurring demand for telecommunications, cloud computing and medical device products. Malaysia's E&E cluster will stand to benefit as it is well integrated in these global value chains. Growth in the primary-related cluster is also expected to benefit from increased production of refined petroleum and petrochemical from the large petrochemical facilities in Johor.

On the domestic-front, production in the construction-related manufacturing clusters are also expected to be supported by the pick-up in construction of large infrastructure projects. Growth in the consumer-related *manufacturing* cluster is also expected to improve, in tandem with the recovery in consumption activity, as most major consumer industries and their supply chain are expected to operate, while observing the SOPs. Additionally, the Government's extension of tax exemptions for car sales will likely boost support for car production. Growth in the *agriculture* sector is expected to expand, primarily due to a recovery in oil palm production. Slightly higher-than-average rainfall in the beginning of the year due to the La Nina phenomenon is expected to

improve oil palm yields particularly towards the later part of the year. Meanwhile, higher natural rubber prices will support increased tapping activities, while continued growth in household spending will support a strong expansion in livestock production. Activities in the *mining* sector are projected to recover, despite planned maintenance closures in the first half of the year following the continuation of voluntary supply adjustments by PETRONAS. The offsetting support to growth is expected to materialize in the second half of the year as the operationalization of new gas fields along with the ramp-up of the PFLNG2 facility in East Malaysia will lead to higher production of natural gas. Growth in the *construction* sector is also expected to rebound, driven by resumption of activities across all subsectors. In the civil engineering subsector, growth is expected to recover in line with the ramp up of construction activity in large infrastructure projects. Meanwhile, launches of affordable housing projects in the previous years will continue to provide support for activity in the residential subsector. Growth in the special trade subsector is expected to strengthen further with support from solar power projects, *Jalin an Digital Negara* (JENDELA), small-scale projects under the 2021 Budget and *PEMERKASA* measures, as well as end-works from the completion of large projects. However, completion of large commercial projects is expected to weigh on growth in the non-residential subsector.

5. Export growth to rebound in 2021

Malaysia's export growth is expected to rebound to 8.2% in 2021 (2020: -1.4%), following two consecutive years of contraction. The expansion will be driven primarily by the improvement in external demand, especially from Malaysia's key export partners, such as the US and PR China. Malaysia's exports will also benefit from firm global demand for E&E products, and higher commodity prices and production. Manufactured exports are expected to expand by 8.4% in 2021 (2020: 0.8%), supported by broad-based improvement across both the E&E and non-E&E segments. Capacity expansion and commencement of new E&E production facilities will enable firms to benefit from the stronger global demand for semiconductors. In the non-E&E sector, export growth will be supported by selected segments. These include rubber-related products such as gloves and Personal Protective Equipment (PPE). In addition, exports of construction-related products, namely iron and steel and manufactures of metals will be supported by the recovery in investment activity in PR China. Commodities exports are projected to rebound (3.3%; 2020: -12.5%), driven by both higher commodity prices and production. Mineral exports are expected to recover due to higher prices of crude oil and natural gas. The expected operationalization of new gas fields in the second half of 2021 will also support natural gas export volumes.

5.1 Import growth to recover

Gross imports are projected to rebound to 9.1% in 2021 (2020: -6.3%), driven mainly by a turnaround in intermediate imports in line with higher manufactured exports. Capital import growth is also expected to rebound driven mainly by higher investment in the manufacturing sector as well as the implementation of large-scale infrastructure projects. Consumption imports will be driven primarily by demand for imported food and beverages.

5.2 Current account to remain in surplus

The current account balance is projected to remain in surplus, albeit lower at 2.5 – 3.5% of GDP in 2021 (2020: 4.4% of GDP). The goods surplus is expected to increase in 2021 as goods exports are expected to outpace the recovery in imports and benefit from higher commodity prices.

Services exports is expected to remain subdued, due mainly to lower travel receipts as international border restrictions are expected to remain in place. Payments for professional and technical services are expected to rise as investment activity recovers. As a result, the services deficit is expected to widen in 2021. The income account is projected to record a wider deficit, attributable to the higher FDI income payment accrued to foreign investors in Malaysia as manufacturing activity improves. The higher FDI income payment is expected to outpace the increase in income accrued to Malaysian firms investing abroad, also secondary income account is expected to register a larger deficit. This reflects the increase in outward remittances by foreign
workers as economic activity improves and the large base effect from the settlement received related to a wholly-owned subsidiary of the Minister of Finance (Incorporated) in third quarter of 2020.

Table 3: External Trade

	2015-2019 Average	2020p	2021f
	Annual change (%)		

Gross exports	**5.6**	-1.4	8.2
of which:			
Manufactured	7.6	0.8	8.4
Agriculture	-0.6	8.7	-1.2
Mining	-3.1	-29.6	8.9
	4.7	**-6.3**	**9.1**
Gross imports			
of which:	1.2	-9.8	4.6
Capital goods	3.1	-9.5	12.2
Intermediate goods	8.4	-0.3	6.9
Consumption goods			
Trade balance (RM billion	109.5	184.8	192.2

p Preliminary, *f* Forecast
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

6. Conclusion

This study provides a brief background regarding the outbreak of the communicable disease, known as COVID-19, and examines the impact of the mentioned disease on the economic of Malaysia. Our research has denoted that the outbreak of COVID-19 has hugely and adversely impacted Malaysia's economic. In addition, the number of tourists has declined due to the Malaysian government imposing travel restrictions and bans, also the financial structure of banks and firms would be rendered unstable, and the impact of this was a severe contraction in the economy and a high unemployment rate. All economic sectors and the services sector are projected to record positive growth and Export growth to rebound in 2021.

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