

## Extend aid till pandemic abates

**THE** impact of Covid-19 has been bad across the world, including Malaysia. The government forecasts the scourge to shave as much as 1.2 per cent off our growth rate and slow it down to 3.7 per cent — a historic low for this century.

A similar situation appertains for global growth. As it continues to disrupt global supply chains, and inventories dry up, the disease will cause a two per cent dent in global growth. The World Bank predicts global growth at 2.5 per cent this year. And there is a high risk that rich countries may slip into a recession should Covid-19 persist.

Many industries, from travel and hospitality to commodities, have been impacted. Global stock markets have posted falls by as much as 20 per cent — the biggest since the 2008 global financial crisis.

With oil prices plunging to as low as US\$30, or by half from their recent highs, oil-related securities, too, have seen their values trimmed by as much as two-thirds. If this continues, government revenue will fall by about RM9 billion. Combined with the RM20 billion stimulus package, the decline in oil revenues will widen the budget deficit to 3.5 per cent.

The tourism industry, comprising some 15 per cent of the economy, is particularly affected. The industry has seen a four per cent, or RM3 billion, decline in revenues, largely due to the halving of Chinese tourists. More bad news is in store as Malaysia restricts tourist arrivals from countries most affected by the virus, such as China and Denmark.

Social-distancing strategies that discourage congregating in crowded places have resulted in shopping and food malls experiencing a massive decline in footfall. The biggest damage comes from the fall in private demand, both consumption and investment, following a drop in consumer confidence and household spending.

In a circular economy, a fall in output results in a corresponding fall in income. This real fall in wealth, coupled with the perception of wealth erosion from the massive stock-price declines, will make citizens tighten their expenditure. The falling demand will cause businesses to roll back their investments, resulting in a further round of wage losses and falling consumption.

Here are three strategies to contain the damage.

**ONE**, the government should stimulate the economy through increases in capital expenditure.



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To enhance national capacity so that the country can grow aggressively, the government should restart stalled infrastructure projects. Greener transportation could also be pursued. Research and development (R&D) should be intensified, especially in green technologies.

Malaysia lags in its R&D budget. Developed countries, such as South Korea and the United States, spend five times more than us. The government should also spend more on buildings and equipment maintenance. For example, some government buildings can be spruced up with a fresh coat of paint.

Landscaping of cities and planting of trees will breathe renewed life to the Visit Malaysia 2020 campaign. Public services, especially at the local level, could be improved with additional expenditure. The public healthcare system, which is being overwhelmed by the crisis, would need to be better resourced. Technical, vocational education and training, too, should be intensified;

**TWO**, Malaysia records the largest number of infections among Asean countries, therefore, the duration of the stimulus package should be extended till year-end when the pandemic is expected to end. Care should be taken to ensure companies have enough liquidity to maintain operations and keep staff on their payrolls. Banks have not seized up. As such, they should relax their credit rules to help companies facing a cash crunch; and,

**THREE**, interest-rate cuts cannot possibly remedy supply-chain disruptions. However, they can soothe stock and bond markets, and boost consumption and investment. It is an opportune moment for a further cut in the benchmark interest rate. More so, as inflation is trending low and supply-chain disruption has not stoked inflation as feared.

These measures should offer a handle on the blight. Once the virus is contained, we should be able to witness a bounce back of sorts.

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