

Malaysian Government Choice of Fiscal and Monetary Policies during Covid-19 Pandemic: Preliminary Insight.

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ABSTRACT: This paper presents the discussion on the fiscal and monetary policies, and their relationship to the national economy, social, and transition of low carbon economics which include the discussion on how and to what extent these policies are being implemented with reference to special reference to Malaysian government during the Covid-19 phenomenon, year 2020 to early 2021. Review of the related papers and articles including the academic and non-academic ones revealed that Malaysian government employed both the fiscal and monetary policies in handling the impacts of Covid-19 on its economy, social and environment systems. However, the review also reveals that, up to date, there is no convincing empirical study has been carried out to investigate and measure the extent of the effectiveness and efficiency with regards to its Covid-19 mitigation policies. Future research should be directed to the investigation of the effectiveness of mitigation policies in order to shed light on these unpredicted outcomes.

KEYWORDS: Covid-19, Fiscal and Monetary Policies, Social, Economy, Environment, Malaysia.

I. INTRODUCTION

This paper presents the discussion on the fiscal and monetary policies, and their relationship to the national economy, social, and transition of low carbon economics which include the discussion on how and to what extent these policies are being implemented with reference to special reference to Malaysian government during the Covid-19 phenomenon, year 2020 to early 2021. On top of that, this paper will present the discussion on the different types of tools on each of the abovementioned policies.

Prior to 1930s, especially in the developed countries such as the United States and the United Kingdom and many other western economic powers, the system of economic were more on laisez-faire system, in which the government limited and to some extent did not intervene in the economic system. However, according to [10] with

the advent of major economic depression in 1930s and other significant economic downturn challenges post the World War II such as the fall of world oil price in 1980s [2], the government believed that they have to intervene through their fiscal and monetary policies which compose of their spending, tax cuts and well-designed monetary system to mitigate the impact of the 1930's world economic depression on the economic and public and social well-being. On top of that, many scholars (i.e. [17]; [18]; [20]; [9]; [10]; [21]) also argue that the rapid expansion in modern economic growth and greater use of natural resources have at the same time promoted the ecological damage and environmental constraints which in turn have made the pressure on environmental friendly economic activities to be observed is intensifying [21], despite the fact it is still a world economic dilemma which have drawn more interest to be further researched [10].

With regards to effect of Covid-19 Pandemic, Malaysia like majority of other nations has badly been affected by the pandemic which has seen the Malaysian government is forced to implement various necessary measures to mitigate the impacts especially on the economic and social activities of the people of the nation. The decision of the Malaysian government to implement the strict Movement Order Control (MCO) in March 2020 and followed by few others after that with some adjustments in terms of its applied rules and procedures have indeed affected the public and private sectors, industries, business communities, and ordinary people daily life activities which in turn have affected the economy and social systems of the nation. Up to date, although there are not many empirical studies related to this pandemic and its direct impact on the economy and social of systems in Malaysia, but few early published academic and non-academic papers revealed that Malaysia is indeed badly significantly affected by this pandemic (i.e. [1]; [16]; [11]; [8]). For example, [11] clearly highlighted that a total of 170,084 hotel room bookings during the period 11

January 2020 until 16 March 2020 had been cancelled, which caused a loss of revenue amounting to RM68,190,364. The loss was directly attributable to the outbreak of COVID-19. This is shown in the Table 1 below:

Table 1: Covid-19 impact on Hotel industry

Ranking	State	Room cancellations	Losses due to room cancellations (RM)
1	Kuala Lumpur	55050	21,021,381
2	Selangor	32282	11,550,685
3	Pulau Pinang	17751	8,598,006
4	Selangor	22509	7,212,048
5	Negeri Sembilan	13534	6,608,508
6	Johor	18405	5,038,478
7	Kedah	5219	3,291,538
8	Perak	2403	1,022,288
9	Malaka	4874	490,499
10	Perang	180	144,626
11	Sarawak	76	22,525
Total		170,865	68,190,364

Source: Malaysian Hotel Association - 2020

On the same case, as compared to the paper by [11], the paper by [7] focused on the impact on Covid-19 on the employees attached to the industries. According to this study, the pandemic has indeed significantly affected the hotel industry's employees especially through the salary cut, forced to have unpaid leave, and even laid off at the worse. The view of this study is in line with [11] which argued that Covid-19 has significantly badly affected the hotel and aviation industry both in industries' financial losses and employees' salary cut, unpaid leave and lay off. Table 2 below indicates the situation of affected employees in the industry:

Table 2: Covid-19 and Employees of Hotel Industry

State	Total Employees	Pay cut	% of employees	Unpaid leave	% of employees	Lay off	% of employees
Johor	3,215	108	3	202	6	72	2
Kedah	892	0	0	30	12	0	0
Langkawi	4,314	340	8	902	21	92	2
Kelantan	560	76	14	157	28	0	0
Kuala Lumpur	17,826	2,880	16	3,641	20	542	3
Malaka	1,872	65	3	191	10	85	5
Negeri Sembilan	1,452	0	0	379	12	339	9
Perang	1,464	0	0	359	10	231	16
Perak	5,549	240	4	450	8	84	2
Sabah	1,654	91	6	595	36	245	15
Selangor	4,934	895	18	1,075	22	377	4
Sarawak	3,488	175	5	258	7	92	3
Selangor	7,981	154	2	1,812	23	239	3
Terengganu	1,298	32	4	101	8	55	4
Total	86,289	5,854	9	9,773	17	2,841	4

Source: www.thestar.com.my, (2020)

With regards to the impact of Covid-19 on the tourism, aviation and hospitality industries, there are also few other related studies that basically provide the issues as highlighted by [11] and [7] which includes the papers by Khan and [8] as well.

II. DISCUSSION

This sub-topic elaborates the basic concept of the fiscal policies and monetary policies that could be selected and implemented by any government especially during the turbulence time

of economy and social system. On top of that, the tools belong to each of these policies are also discussed. To put in context, this part also presents the initial approach undertaken by the government of Malaysia with regards to Covid-19 pandemic phenomenon.

The concepts

Fiscal policy can be conceived as how the federal government or the public sector, through its members of parliament and other elected parties influence the economy through its spending and taxation which is mainly meant for influencing the level and growth of aggregate demand, employment and output (see for example [10]; [9]; [21]). Conceptually in contrast but in nexus, Monetary policy encompasses the utilisation of various approaches with the aim of regulating the value, supply and cost of money in consistent with the projected level of economic activities ([9]; [21]).

With regards to Fiscal policy, basically there are two types of fiscal policies that typically employed by the government namely Expansionary and Contractionary. Both are dealing with the balance between the usage of two main fiscal policy tools, the spending tool and the taxation tool [3]. Expansionary fiscal policy is the most popular type used by the government. It works through either the government will be spending more or by reducing income through tax cuts, or the combination of both. The main idea behind this type of policy is ensure that the consumers have more money to spend and therefore will create more demand that eventually will lead to the positive economic growth of the country. In contrast, contractionary fiscal policy is in which the government will spend less, or will increase tax collection as revenue, or the combination of both. This type of fiscal policy is rarely used [3], and the main idea is to reduce the consumption level in order to control rapid economic growth [9] and to slow down the inflation rate.

The Tools

As mentioned beforehand, the first tool in fiscal policy is the spending behaviour of the central government which includes subsidies, public work projects, public service salaries and welfare programs [3]. According to [2], vast majority of relevant prior empirical researches demonstrated that government spending is the most effective and rapid way of boosting the economic growth of the nation during the depressed economic conditions particularly in the developed and strong economy countries. This approach

particularly evident at the present time of year 2020 where for example Malaysia, Singapore and Japan had just announced the stimulus package worth over a trillion of cash in the form of fiscal policy to boost up economic growth which is highly negatively impacted by the Corona Virus pandemic.

The second tool in fiscal policy is the use of taxation policy by the government to boost up aggregate economy. In general, the economist and the scholars (i.e. [2]; [9]) believe that by adjusting the tax system, in particular the deduction in tax rate and preference tax allocation will eventually lead to growth in public spending, innovation, investment and savings. This in return will boost up the aggregate economic of the nation, and vice versa.

With respect to the monetary policy, the major tool that usually to be employed by the government to intervene in the aggregate economic is to ensure the supply or amount of money at one particular point of time is under control. There are many ways or tools of doing this but the major preferred tool [3] is by lowering or raising the interest rates, exchange and inflation rates, and external reserve [4]. Through the monetary policy, the demand and supply of the money is being controlled by the federal government through central bank procedures. For example, when the interest rate is lowered, the cost of borrowing will be lowered as well, then the potential for industry and business players to borrow money will increase and vice versa. As [4] argued based on Pakistan's case, this will lead and influence the microeconomic activities that eventually affect the aggregate economic growth.

The Mitigations Approach by the Malaysian Government

As highlighted by [16], one of the first few measures with respect to the national level policies at the outset of the pandemic was to declare and channel an initial fund amounting RM1 million to the Malaysian Ministry of Health (MOH) for funding the RM100 to each person affected by the MCO, and also to equip the frontliners (i.e the MOH staff including medical doctors, nurses and other government servants directly involved such as policemen and other enforcement officers for MCO). On top of that, the Malaysian Inland Revenue Board or locally known as LHDN in short form, as the empowered government agency to collect tax, was allowing the tax deduction for cash donated and any purchases for goods to be supplied for the affected citizens. At the same time, [16] also highlighted that the some big Malaysian based

private sector companies were also had joined hands with the Malaysian government to raise funds for the general use in mitigating the Covid-19 impacts on Malaysia. Clearly at this point of time of the outset of Covid-19, the Malaysian government had indeed employed the fiscal and monetary policies through the fiscal and monetary tools at the same time.

Few days after the first initiative, the Malaysian government announced the RM600 million allocation to MOH in which RM 500 million would be utilized to buy ventilators and personal protective equipment (PPE) and another RM 100 million would be used to appoint 2000 nurses on a contract basis [19]. Further, On March 27, 2020, when announcing the RM250 billion PRIHATIN Package to support micro, small, and medium-sized enterprises struggling to retain their employees, the Prime Minister announced an additional budget of RM1billion to cater for medical needs, such as the purchase of equipment and services to overcome COVID-19. The PRIHATIN Package has been one of the beneficial initiatives announced by the government, followed by drastic measures of a 6-month moratorium offered by BNM to reduce the financial impact [16]. Up to date, the government of Malaysia has announced many economic stimulus packages and social illness mitigation approaches in order to combat the negative impacts of Covid-19.

The Expected Effects on the Economy, Social and Environmental Factors.

This-subtopic elaborates the theoretical expected outcomes of the government's fiscal and monetary policies on economy, social and environment. Later, to put these into context, the Malaysian experience will also be discussed.

The Effects on Economy

With regards to the implementation, [9] argued that Fiscal and Monetary Policies are employed across the globe i.e. in Romania [5], in Nigeria ([2]; [9]), in China ([21]), in Thailand ([10]) among others. The main idea is to employ and implement these policies through where the central governments directs the path of economy towards sustainable growth, ensure stable price and attract foreign investment through the creation of conducive business atmosphere. Vast majority of these studies support the argument that the polices have a significant impacts towards the growth of aggregate economic through many affected micro variables.

[10]for example, the empirical findings on Nigeria case demonstrated that both policies (fiscal

and monetary) have a direct positive impact on the economic growth. He further argues that both policies' impact towards the economic growth is much depending on the variables and uniqueness of each of the country.

In specific for monetary policy, the studies by [12] of Cambodia, and by [4] on Pakistan clearly demonstrated that by lowering the interest rate will affect the money supply, gross capital, foreign investment and other macroeconomics variables. In the end, these studies support the hypothesis that monetary policy in the form of interest rate tool will significantly and positively affect the aggregate economic growth.

Review on the most recent articles related to the Malaysian government mitigation plans and actions outcomes related to its fiscal and monetary policies, up to date that there were no comprehensive deterministic findings of empirical studies showing to what extent the achievement of the Malaysian government in improving the economy situation of the nations. As argued by [8], to this date no one can be sure what is our future state of economy recovery. One thing for sure is that the Malaysian economies are badly affected but yet still in the process of recovery and containment.

The Effects on the Social

Among many of the social elements and its nexus to the fiscal and monetary policies being studied, the employment and productivity rates (i.e. [15]), social health (i.e. [14]) are the most carried out by the scholars. According to [15], prior relevant studies suggest that there is a trade-off effect between the fiscal policy and the unemployment and productivity rates which believes that the initiative to subsidize the employment will lead to the higher financing by the rich which in turn will lead to lower investment, and eventually will lower the employment and productivity. However, empirical findings by [15] demonstrated otherwise. He found that with subsidized employment, the labour related competition will lead to labour efficiency which in turn will increase the employment and productivity rates.

With respect to social health, [14] argue that there is a strong demand among the stakeholders especially the tax payers that the fiscal policy in particular the tax policy to be linked effectively to the purpose they serve. This to make tax is acceptable to the public which eventually will make the tax has the potential to promote health.

With regards to social such health, education and others the review of papers or articles written and reported about the achievement of Malaysia revealed that no empirical studies so far have been carried out about this. Vast majority of the papers and articles reviewed (i.e. [8]) only highlighted on the propositions on how to further be intensified the existing mitigations plans and implementations with respect to the social element system of the nation, Malaysia.

The Effects on the Environment

[21] argued that based on the different perspectives which include the externality theory and the public goods theory, it is the Western economists that among the firsts to theoretically propose in using fiscal policies in the environmental protection. also believe that Based on the empirical findings by the Western scholars show that fiscal policies have played an important role in the practice of environmental pollution control ([10]; [21]). The global growth in aggregate economic, the advent of technology and huge energy consumption in production and the awareness of the impacts of these towards environment have triggered the demand for further studies on this matter ([17]; [18]; [20]).

Vast majority of the relevant studies suggest that there is a significant relationship between fiscal and monetary policies on environment, or in particular the low carbon economy. [10] for example argued that the creation of high income society through the balanced policies has promoted the awareness and demand of clean environment which in turn mitigate low carbon emission problem. [10] however suggested that their argument is yet to be further supported by more future related studies.

With regards to Malaysian experience, up to date, the review of papers or articles written and reported about the achievement of Malaysia with respect to the effectiveness of its fiscal and monetary policies in combating Covid-19 impacts on environment revealed that no empirical studies so far have been carried out about this.

III. CONCLUSION

This paper presents the discussion on the fiscal and monetary policies, and their relationship to the national economy, social, and transition of low carbon economics which include the discussion on how and to what extent these policies are being implemented with reference to special reference to Malaysian government during the Covid-19 phenomenon, year 2020 to early 2021. The central governments, through their balanced

fiscal and monetary policies and tools are able to influence the aggregate economic growth, social elements including employment, education and health among others, and the environmental issues of carbon in particular. However, as suggested by the scholars, [10] and [21]) for example, more relevant further studies will complement the hypotheses on the effect of fiscal policies on economic, social and environment such as low carbon economy.

IV. RECOMMENDATION

Up to date, with regards to the Malaysian government achievement in handling the impacts of Covid-19 pandemic on its economy, social and environment through mitigations plans and implementations both under the policies of fiscal and monetary is yet to be known. The authors propose that future research and reviews to be focused on how effective and efficient the fiscal and monetary policies implemented by the governmentlike Malaysia in mitigating the impact of Covid-19 pandemic on its economy, social and environment, .

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